SUPPLEMENT TO THE OFFICIAL STATEMENT

OF THE STATE OF CONNECTICUT

Dated April 26, 2002

$100,000,000 Taxable General Obligation Bonds (2002 Series A and B)

This Supplement updates certain information in **Part II** of the April 26, 2002 Official Statement. The information in this Supplement is subject to change without notice, and investors should not assume that there has been no change in the affairs of the State since the date of this Supplement.

STATE GENERAL FUND

Part II is supplemented by adding the following to the end of the subsection which begins on page II-3 entitled ***Fiscal Year 2001-2002 Operations Update***:

The Office of Policy and Management, in a report to the Comptroller dated April 29, 2002, has projected an increase in the deficit for 2001-2002 fiscal year from the $514.6 million noted in **Part II** to the Official Statement, to an estimated deficit of $666.4 million at this time. This most recent estimate is based on the Governor's allotment rescissions and related lapses, legislative changes enacted in the November Special Session and the 2002 Regular Session of the General Assembly, and adjusting those recommendations by Substitute House Bill No. 5022 as reported out by the Appropriations Committee. This latest forecast primarily reflects a continued decline in personal income tax and corporate tax revenues from earlier estimates. These numbers may have to be revised downward again based on receipts expected to be processed during the balance of the fiscal year. As noted in **Part II**, the balance in the Budget Reserve Fund is currently $594.7 million.

The Office of Policy and Management anticipates as of April 29, 2002, based primarily on a reduction in anticipated revenues for the 2002-2003 fiscal year, that there is now an estimated $470 million budget gap for the 2002-2003 fiscal year in the amounts anticipated under ***Governor's Proposed Mid-Term Budget Adjustments*** for fiscal year 2002-2003 and as outlined in **Appendix III-E** to **Part II** of the Official Statement.

The General Assembly is in session and is deliberating the budget adjustments for the 2001-2002 and 2002-2003 fiscal years.

The above projections are only estimates and no assurances can be given that subsequent estimates or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2001-2002 operations of the General Fund or changes to the budget adjustments proposed for fiscal year 2002-2003.

April 29, 2002

NEW ISSUE (See **RATINGS** herein)

$100,000,000
State of Connecticut
Taxable General Obligation Bonds
(Auction Bonds)

$47,000,000 Taxable General Obligation Bonds (2002 Series A)
$53,000,000 Taxable General Obligation Bonds (2002 Series B)

Dated: **Date of Delivery** Price: **100%** Due: **May 1, 2012**

The Bonds will be general obligations of the State of Connecticut (the "State") and the full faith and credit of the State will be pledged for the payment of the principal of and interest on the Bonds as the same become due. See **THE BONDS - Nature of Obligation** herein. Interest on the Bonds will be payable at the applicable Auction Rate established pursuant to the **Auction Procedures** as described herein unless converted to a Fixed Rate. **The Bonds are subject to optional redemption, mandatory sinking fund redemption and mandatory tender for purchase prior to maturity as more fully described herein.**

The Bonds are issuable only as fully registered bonds, without interest coupons, in denominations of $25,000 or any integral multiple thereof for the Bonds which bear interest at the Auction Rate as described herein, and of $5,000 or any integral multiple thereof for the Bonds which bear interest at the Fixed Rate as described herein. When issued, the Bonds will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form. Purchasers will not receive certificates representing their interest in the Bonds. So long as Cede & Co. is the registered owner, as nominee of DTC, reference herein to the Bondowner or owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. See **THE BONDS – Book-Entry-Only System** herein. Principal of and interest on the Bonds will be paid directly to DTC by State Street Bank and Trust Company of Connecticut, N.A., as Paying Agent, at its corporate trust office in Hartford, Connecticut, so long as DTC or its nominee, Cede & Co., is the Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

(See inside front cover for mandatory sinking fund redemption schedules.)

In the opinion of Bond Counsel, under existing law interest on the Bonds is included in gross income for federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended.

In the opinion of Bond Counsel, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

Payment of principal of and interest on the Bonds will be insured in accordance with the terms of a financial guaranty insurance policy to be issued simultaneously with the delivery of the Bonds by Financial Guaranty Insurance Company. See "**Bond Insurance**" and "**Appendix I-E**" herein.

FGIC **Financial Guaranty Insurance Company**

The Bonds are offered when, as and if issued and received by the Underwriter, subject to approval as to legality by Bond Counsel and certain other conditions. Certain legal matters will be passed upon for the State by its Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Underwriter's Counsel. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about May 1, 2002.

Honorable Denise L. Nappier
Treasurer of the State of Connecticut

MORGAN STANLEY

Dated: April 26, 2002

$100,000,000
State of Connecticut
Taxable General Obligation Bonds
(Auction Bonds)

$47,000,000 Taxable General Obligation Bonds (2002 Series A) due May 1, 2012

The Auction Rate for the Series A Bonds will initially be determined on or prior to the delivery date. Interest will accrue from the delivery date and initially will be payable on May 30, 2002. Thereafter the Series A Bonds will bear interest for successive 35-day Auction Periods at the Auction Rate established pursuant to the Auction Procedures and payable on each Interest Payment Date, as described herein. The Auction Periods may be changed as provided herein. The interest on the Bonds may be converted to a Fixed Rate to maturity as described herein.

The Series A Bonds are subject to mandatory sinking fund redemption in the following amounts on May 1 of the following years or the prior Interest Payment Date if May 1 is not an Interest Payment Date.

May 1,	Amount	May 1,	Amount
2005	$5,875,000	2009	$5,875,000
2006	$5,875,000	2010	$5,875,000
2007	$5,875,000	2011	$5,875,000
2008	$5,875,000	2012	$5,875,000 (final maturity)

$53,000,000 Taxable General Obligation Bonds (2002 Series B) due May 1, 2012

The Auction Rate for the Series B Bonds will initially be determined on or prior to the delivery date. Interest will accrue from the delivery date and initially will be payable on June 6, 2002. Thereafter the Series B Bonds will bear interest for successive 35-day Auction Periods at the Auction Rate established pursuant to the Auction Procedures and payable on each Interest Payment Date, as described herein. The Auction Periods may be changed as provided herein. The interest on the Bonds may be converted to a Fixed Rate to maturity as described herein.

The Series B Bonds are subject to mandatory sinking fund redemption in the following amounts on May 1 of the following years or the prior Interest Payment Date if May 1 is not an Interest Payment Date.

May 1,	Amount	May 1,	Amount
2005	$6,625,000	2009	$6,625,000
2006	$6,625,000	2010	$6,625,000
2007	$6,625,000	2011	$6,625,000
2008	$6,625,000	2012	$6,625,000 (final maturity)

The Interest Payment Date for the Auction Bonds will generally be the Business Day immediately following the last day of the prior Auction Period.

This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof. Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. All quotations from and summaries and explanations of provisions of laws of the State contained in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof. All references to the Bonds and the resolutions and proceedings of the State Bond Commission relating thereto are qualified in their entirety by reference to the definitive forms of the Bonds and such resolutions. This Official Statement is submitted only in connection with the sale of the Bonds by the State and may not be reproduced or used in whole or in part for any other purpose, except as specifically authorized by the State. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
STATE OF CONNECTICUT
Taxable General Obligation Bonds

(Auction Bonds)

$47,000,000 Taxable General Obligation Bonds (2002 Series A)
$53,000,000 Taxable General Obligation Bonds (2002 Series B)

INTRODUCTION

This Official Statement, including the cover and inside cover pages, this Introduction, Part I, Part II and Part III and the Appendices thereto, of the State of Connecticut (the "State") is provided for the purpose of presenting certain information relating to the State in connection with the sale of $47,000,000 aggregate principal amount of its Taxable General Obligation Bonds (2002 Series A) (the "Series A Bonds") and $53,000,000 aggregate principal amount of its Taxable General Obligation Bonds (2002 Series B) (the "Series B Bonds") (the Series A Bonds and the Series B Bonds are referred to collectively as the "Bonds").

Part I of this Official Statement, including the cover and inside cover pages and the Appendices thereto, contains information relating to the Bonds. Part II of this Official Statement contains information which supplements as of its date certain information contained in the most recent Annual Information Statement of the State. Part III of this Official Statement, including the Appendices thereto, is the most recent Annual Information Statement of the State and contains certain information about the State as of its date. The cover page, inside cover page, this Introduction, and Parts I, II and III and the Appendices thereto should be read collectively and in their entirety.

PART I
INFORMATION CONCERNING THE BONDS

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PART I
INFORMATION CONCERNING THE BONDS

STATE OF CONNECTICUT
Taxable General Obligation Bonds

(Auction Bonds)

$47,000,000 Taxable General Obligation Bonds (2002 Series A)
$53,000,000 Taxable General Obligation Bonds (2002 Series B)

THE BONDS

Description of the Bonds

The State of Connecticut (the "State") is issuing $100,000,000 Taxable General Obligation Bonds (the "Bonds"). The Bonds consist of $47,000,000 Taxable General Obligation Bonds (2002 Series A) (the "Series A Bonds") comprised of the following issues:

$16,200,000 Taxable General Obligation Bonds (2002 Series A-1)
$15,450,000 Taxable General Obligation Bonds (2002 Series A-2)
$15,350,000 Taxable General Obligation Bonds (2002 Series A-3)

and $53,000,000 Taxable General Obligation Bonds (2002 Series B) (the "Series B Bonds") comprised of the following issues:

$53,000,000 Taxable General Obligation Bonds (2002 Series B-1)

The Series A Bonds are comprised of an aggregate principal amount of $47,000,000 maturing on May 1, 2012. The Series B Bonds are comprised of an aggregate principal amount of $53,000,000 maturing on May 1, 2012.

The Bonds will be dated the date of delivery, and will bear interest at the Auction Rate payable on each Interest Payment Date, until maturity or earlier redemption or earlier mandatory tender for purchase, as described below under **Additional Information Related to Auction Bonds**.

The Bonds are issuable only as fully registered bonds, without interest coupons, in denominations of $25,000 or any integral multiple thereof while bearing interest at the Auction Rate, and in denominations of $5,000 or any integral multiple thereof after the conversion to a Fixed Rate.

The Bonds will be general obligation bonds of the State and the full faith and credit of the State will be pledged for the payment of the principal of and interest on the Bonds as the same become due. The Bonds will be issued pursuant to the State general obligation bond procedure act (Section 3-20 of the General Statutes of Connecticut, as amended), resolutions adopted by the State Bond Commission, and other proceedings related thereto, including a Certificate of Determination of the Treasurer. See **Nature of Obligation** herein.

Principal of and interest on the Bonds will be paid directly to The Depository Trust Company ("DTC") by State Street Bank and Trust Company of Connecticut, N.A., as Paying Agent, so long as DTC or its nominee, Cede & Co., is the Bondowner. See **Book-Entry-Only System** herein.

The Series A Bonds are being issued for various projects and purposes and are authorized by the bond acts listed in **Appendix I-A**. Bonds of each series will mature on May 1 in the years and in the principal amounts set forth in the following table:

$47,000,000 Series A Bonds

Maturity	Series			Total
May 1,	2002 A-1	2002 A-2	2002 A-3	2002 Series A
2012	$16,200,000	$15,450,000	$15,350,000	$47,000,000

The Series B Bonds are being issued for various projects and purposes and are authorized by the bond acts listed in **Appendix I-A**. Bonds of each series will mature on May 1 in the years and in the principal amounts set forth in the following table:

$53,000,000 Series B Bonds

Maturity	Series	Total
May 1,	2002 B-1	2002 Series B
2012	$53,000,000	$53,000,000

Additional Information Related to Auction Bonds

Set forth under this caption is information pertaining to Auction Bonds, which includes any Bonds that have not been converted to Bonds bearing interest at a Fixed Rate to maturity. The following contains certain information pertaining to the Auction Procedures and certain other matters. It does not purport to be complete and is qualified in its entirety by reference to the **Definitions and Summary of Certain Provisions of the Bonds and Auction Procedures** and related matters set forth in **Appendix I-D**, the Auction Agent Agreement and the Broker-Dealer Agreement.

Interest. Auction Bonds will bear interest for each Auction Period at the Auction Rate. The initial Auction Rate for the Bonds will be determined prior to the delivery of the Bonds and will be in effect from the date of issuance of the Bonds to and including May 29, 2002 for Series A Bonds and to and including June 5, 2002 for Series B Bonds. Thereafter, the Auction Rate applicable to the Auction Bonds will equal the Auction Rate determined for each Series for each Auction Period in accordance with the Auction Procedures as described in **Appendix I-D** hereto.

After the Initial Period, each Auction Period will be 35 days unless changed as provided in the Auction Procedures. The Auction Periods may be for 7 days, 28 days or 35 days. Each Auction Period generally begins on a Thursday (or the day following the last day of the prior Auction Period) and ends on a Wednesday (or if such day is not immediately followed by a Business Day, the day immediately preceding the next Business Day). The Interest Payment Date for Auction Bonds is the Business Day immediately following the expiration of each Auction Period. Interest for each Auction Period will be computed on the basis of a 360-day year for the number of days actually elapsed.

Notwithstanding the foregoing provisions, (i) if the Auction Agent shall have failed to calculate or timely provide the Auction Rate for any Auction Period, the Auction Rate for such Auction Period shall be the No Auction Rate determined for such Auction Period; (ii) if a failure to pay principal or interest on any Bond when due shall have occurred, the Auction Rate for the Auction Period during which such failure shall have occurred and each Auction Period thereafter commencing prior to the date on which such failure shall have ceased to be continuing shall be the Default Rate for such Auction Period; (iii) in the event of a failed conversion to a Fixed Rate or a failed tender and change to a tax-exempt rate, the Auction Bonds will continue as Auction Bonds with the same Auction Period and bear interest at the Maximum Auction Rate for the next Auction Period; and (iv) in no event shall the Auction Rate exceed the Maximum Auction Rate or be less than the Minimum Auction Rate.

Auction Agent. The State and the Paying Agent will enter into the Auction Agent Agreement initially with The Bank of New York pursuant to which The Bank of New York, acting as agent for the Paying Agent, shall perform the duties of Auction Agent. The Auction Agent Agreement will provide, among other things, that the Auction Agent will determine the Auction Rate for each Auction in accordance with the Auction Procedures.

Auction Date. An Auction to determine the interest rate with respect to each Series of the Auction Bonds for the next succeeding Auction Period will be held on the Business Day next preceding the Interest Payment Date for the preceding Auction Period for the respective Series. The first Auction for the Series A Bonds will take place on May 29, 2002. The first Auction for the Series B Bonds will take place on June 5, 2002.

Orders by Existing Owners and Potential Owners. The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in **Appendix I-D**, as are the particulars with regard to the determination of the Auction Rate and the allocation of Auction Bonds.

Amendment of Auction Procedures. The provisions of the Bonds concerning the Auction Procedures, including without limitation the definitions of Auction Rate, Default Rate, Maximum Auction Rate, Minimum Auction Rate, Index, Auction Multiple and No Auction Rate, may be amended by obtaining the consent of the beneficial owners of all Auction Bonds affected by such amendment. If on the first Auction Date occurring at least 20 days after the date on which the Auction Agent mailed notice to the beneficial owners of the Auction Bonds affected by such amendment, Sufficient Clearing Bids have been received or all of the Auction Bonds affected by such amendment are subject to Submitted Hold Orders, the proposed amendment shall be deemed to have been consented to by the beneficial owners of all Auction Bonds affected by such amendment.

Changes to the Auction Period and the Auction Date do not require the amendment of the Auction Procedures or any consents.

Conversion of Auction Bonds to Fixed Rate. The State may direct that all or a portion of the Auction Bonds be converted to bear interest at a Fixed Rate by written notice to the Paying Agent and the Auction Agent at least 20 days before the proposed Conversion Date; provided that the aggregate principal amount of any Series not so converted is a multiple of $25,000. The Conversion Date must be an Interest Payment Date. Not later than 15 days prior to the date of conversion of all or a portion of the Auction Bonds to a Fixed Rate the Paying Agent shall give notice of the conversion to a Fixed Rate to all owners of Auction Bonds selected to be converted and the Auction Agent shall give a similar notice to the Broker-Dealers all as described in **Appendix I-D**. On the Conversion Date applicable to the Auction Bonds to be converted, the Auction Bonds to be converted shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, subject to and in accordance with the Bonds; provided, however, that in the event of a failed conversion to a Fixed Rate, the Auction Bonds will not be subject to mandatory tender, will be returned to their owners and will bear interest at the Maximum Auction Rate for Taxable Bonds for the next Auction Period.

If the notices referred to above have been given, the conversion to a Fixed Rate shall occur and the implementation of the Auction Procedures shall be terminated with respect to the Auction Bonds selected for conversion, subject to the conditions provided for in the Bonds, there being no such termination if any of such conditions are not satisfied.

After the Conversion Date interest will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable to the registered owner as of the close of business on the fifteenth day of April and October in each year or the preceding business day if such fifteenth day is not a business day.

Mandatory Tender for Purchase of Auction Bonds.

Mandatory Tender Upon Conversion. On the Conversion Date for any Auction Bonds selected for conversion to a Fixed Rate, all such Auction Bonds then outstanding shall be subject to mandatory tender for purchase at a purchase price equal to the principal amount of the Auction Bonds, plus accrued interest.

Mandatory Tender Upon Tax Exemption Determination. On any date designated by the State which is an Interest Payment Date and a date on which Auction Bonds would be eligible to be redeemed at the option of the State, upon at least 20 days prior written notice from the State to the Paying Agent, the Auction Agent and the Broker-Dealers that the State has received a ruling from the Internal Revenue Service or an opinion of nationally recognized bond counsel that the interest on all or any portion of the Series B Bonds may be excluded from gross income for federal income purposes, all or any portion of such Series B Bonds then Outstanding may be selected by the State for and shall be subject to mandatory tender for purchase on such designated date, at a purchase price equal to the principal amount of such Series B Bonds, plus accrued interest to the tender date. Such mandatory tender is subject to the remarketing of the Series B Bonds by or on behalf of the State for amounts sufficient to pay the purchase price on all Series B Bonds which are subject to tender and the delivery of an opinion of nationally recognized bond counsel that the interest on the remarketed Series B Bonds is excluded from gross income for federal income tax purposes. In the event such conditions are not satisfied, the Series B Bonds will not be subject to mandatory tender, will be returned to their owners and will bear interest at the Maximum Auction Rate for the next Auction Period.

Auction Bonds to be tendered for purchase are required to be delivered by the owners thereof to the Paying Agent (together with necessary assignments and endorsements) on or prior to the tender date applicable to such Auction Bonds.

Any Auction Bonds, or portions thereof that are not delivered as required by the Bonds (the "Untendered Auction Bonds"), for which monies have been irrevocably deposited in trust with the Paying Agent, shall be deemed to have been delivered for purchase to the Paying Agent, and the owners of such Untendered Auction Bonds shall not be entitled to any benefits of the Bonds other than the payment of the purchase price, and interest shall cease to accrue on such Untendered Auction Bonds as of the tender date.

Each registered owner and Beneficial Owner of any of the Bonds, by acceptance of such bond, shall be deemed to have agreed, upon receipt of the notice referred to above, to sell such bond to the Paying Agent on the applicable mandatory tender date for the purchase price described above, subject to revocation of such mandatory tender as provided above.

Special Considerations for Purchasers of Auction Bonds. The ability of any holder of Auction Bonds to sell such Auction Bonds in any Auction is directly contingent upon the Auction Agent's receipt of Sufficient Clearing Bids. If Sufficient Clearing Bids are not received, Submitted Orders will be accepted or rejected as summarized in **Appendix I-D** under the heading ***"Allocation of Auction Bonds."***

The Bond provisions concerning the Auction Procedures and related definitions may be amended by obtaining the consent of the beneficial owners of all Auction Bonds affected by such amendment. The consent of the beneficial owners affected by such amendment may be deemed to have been given under certain circumstances. See ***"Amendment of Auction Procedures"*** in **Appendix I-D.**

The Bonds provide that the Auction Agent may resign from its duties as Auction Agent by giving at least 45 days' notice to each Broker-Dealer, the Paying Agent and the State Representative. The Bonds provide that the Auction Agent may be removed at any time upon the written direction of the State Representative. As a condition to the effectiveness of such resignation or removal , a replacement Auction Agent must be in place. If the Auction Agent does not receive its fee, it may resign if such fee is not paid within 30 days after notice to the Broker-Dealers, Paying Agent and State Representative, and such a resignation does *not* require that a replacement Auction

Agent be in place. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon five Business Days' notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on the Auction Bonds will be the Maximum Auction Rate.

The beneficial owner of any Auction Bonds may sell, transfer or dispose of Auction Bonds only pursuant to a Bid or Sell Order placed in an Auction or through a Broker-Dealer who advises the Auction Agent of such transfer. See ***"DTC Required During Auction Rate Mode; Limitations on Transfers"*** in **Appendix I-D.**

The Broker-Dealer Agreements will provide that a Broker-Dealer may submit Orders in Auctions for its own account. If a Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders in that it would have knowledge of Orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers (if any) in that Auction. In the Broker-Dealer Agreements, Broker-Dealers will agree to handle customer orders in accordance with their duties under applicable securities laws and rules.

Morgan Stanley & Co. Incorporated, the initial Broker-Dealer, has advised the State that it intends initially to make a market for the Auction Bonds between Auctions; however, no Broker-Dealer will be obligated to make such markets, and no assurance can be given that secondary markets therefor will develop.

Optional Redemption

Auction Bonds. Prior to conversion to a Fixed Rate the Auction Bonds are subject to optional redemption prior to maturity at the election of the Treasurer, in whole or in part on any Interest Payment Date and in such amounts and such order of maturity (but by lot within a maturity) as the Treasurer may determine, at a redemption price equal to 100% of the principal amount of Bonds being redeemed together with accrued and unpaid interest to the date fixed for redemption but without premium, provided that the aggregate principal amount of any Series not so optionally redeemed is a multiple of $25,000.

Fixed Rate Bonds. After conversion of any Bonds to a Fixed Rate the Bonds may be subject to optional redemption prior to maturity, at the election of the Treasurer, at any time, in whole or in part. The redeemed Bonds may be in such amounts and in such order of maturity and in such Series and bearing such interest rates (but by lot among bonds bearing the same interest rate within a maturity of a Series) as the Treasurer may determine, at a redemption price of par, together with interest accrued and unpaid to the redemption date, plus any premium and subject to any limitations on such redemptions all as determined by the Treasurer at the time of the conversion of the Bonds to a Fixed Rate.

Sinking Fund Redemption

The Series A Bonds and the Series B Bonds maturing on May 1, 2012 are subject to mandatory sinking fund redemption in part by lot at a redemption price equal to one hundred percent (100%) of the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date specified for redemption, on May 1 (or the prior Interest Payment Date if May 1 is not an Interest Payment Date) in each of the years set forth in the following table, in the principal amount specified in each of such years:

Year	Series A Bonds Sinking Fund Payment	Year	Series B Bonds Sinking Fund Payment
2005	$5,875,000	2005	$6,625,000
2006	$5,875,000	2006	$6,625,000
2007	$5,875,000	2007	$6,625,000
2008	$5,875,000	2008	$6,625,000
2009	$5,875,000	2009	$6,625,000
2010	$5,875,000	2010	$6,625,000
2011	$5,875,000	2011	$6,625,000
2012	$5,875,000 (final maturity)	2012	$6,625,000 (final maturity)

The State, at its option, may credit against any mandatory sinking fund redemption term bonds of the maturity then subject to redemption which have been purchased and cancelled by the State or which have been redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

Notice of Redemption

Notice of redemption shall be mailed not less than fifteen (15) days in the case of Auction Bonds and not less than thirty (30) days in the case of Fixed Rate Bonds, nor more than sixty (60) days prior to the redemption date to the registered owner of such Bond at such Bondowner's address as it appears on the registration books of the State, and also to the Auction Agent and the Broker-Dealers in the case of Auction Bonds. So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, all notices of redemption will be sent only to DTC.

Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered bond certificate will be issued for each maturity of each issue of the Bonds, in the aggregate principal amount of such maturity of each issue, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all the Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the State or the Paying Agent, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State or the Paying Agent. Under such circumstances, in the event that successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC. The State takes no responsibility for the accuracy thereof.

Nature of Obligation

Each Bond when duly issued and paid for will constitute a contract between the State and the owner thereof.

The State general obligation bond procedure act pursuant to which the Bonds are issued provides that the Bonds shall be general obligations of the State and that the full faith and credit of the State are pledged for the payment of the principal of and interest on said Bonds as the same become due. Such act further provides that, as part of the contract of the State with the owners of said Bonds, appropriation of all amounts necessary for the punctual payment of such principal and interest is made, and the Treasurer shall pay such principal and interest as the same become due.

The doctrine of governmental immunity (the right of a state not to be sued without its consent) applies to the State but legislation gives jurisdiction to the Connecticut courts to enter judgment against the State founded upon any express contract between the State and the purchasers and subsequent owners and transferees of bonds and notes issued by the State, including the Bonds, reserving to the State all legal defenses except governmental immunity.

In the opinion of Bond Counsel, the above provisions impose a clear legal duty on the Treasurer to pay principal of and interest on the Bonds when due and, in the event of failure by the State to make such payment when due, a bondowner may sue the Treasurer to compel such payment from any monies available.

For the payment of principal of or interest on the Bonds, the State, acting through the General Assembly, has the power to levy ad valorem taxes on all taxable property in the State without limitation as to rate or amount. The State does not presently levy such a tax.

The State has never defaulted in the punctual payment of principal or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments.

Sources and Uses of Bond Proceeds

Proceeds of the Bonds are to be applied as follows:

	Series A	Series B
Sources:		
Par Amount of Bonds	$47,000,000.00	$53,000,000.00
Plus: Other Funds	334,331.15	375,332.61
Total Sources...	$47,334,331.15	$53,375,332.61
Uses:		
Money Available to State	$47,000,000.00	$53,000,000.00
Underwriter's Fee	274,368.56	307,715.22
Bond Insurance...	59,962.59	67,617.39
Total Uses...	$47,334,331.15	$53,375,332.61

BOND INSURANCE

The State has received a commitment from Financial Guaranty Insurance Company (the "Bond Insurer") for a financial guaranty insurance policy with respect to the Bonds (the "Policy"). Under the Policy, a specimen copy of which is included as **Appendix I-E** hereto, the Bond Insurer guarantees the payment of the principal or mandatory sinking fund installments of, and interest on, the Bonds on the regularly scheduled due dates for the payment thereof. The Policy is non-cancelable, and the premiums will be fully paid upon delivery of the Bonds. For information concerning the Bond Insurer and a specimen copy of the Policy, see **Appendix I-E** hereto.

LEGALITY FOR INVESTMENT

Under existing State law, the Bonds are legal investments for the State and for municipalities, regional school districts, fire districts, and any municipal corporation or authority authorized to issue bonds, notes or other obligations, State chartered or organized insurance companies, bank and trust companies, savings banks, savings and loan associations and credit unions, as well as executors, administrators, trustees and certain other fiduciaries. Subject to any contrary provisions in any agreement with noteholders or bondholders or other contract, the Bonds also are legal investments for virtually all public authorities in the State.

The Bonds may be accepted by the Comptroller as a substitution for amounts paid as retainage under any State contract or subcontract.

RATINGS

Upon the issuance of the Bonds, the State anticipates that Moody's Investors Service, Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. and Fitch Ratings will assign their municipal bond ratings of Aaa, AAA and AAA, respectively, to the Bonds with the understanding that, upon delivery of the Bonds, the bond insurance policy will be issued by Financial Guaranty Insurance Company. Each such rating reflects only the views of the respective rating agency, and an explanation of the significance of such rating may be obtained from such rating agency. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by such rating agency if in the judgment of such rating agency circumstances so warrant. A downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Bonds.

TAX STATUS OF THE BONDS

Federal Income Taxes

In the opinion of Bond Counsel, under existing law, interest on the Bonds is included in the gross income of the owners thereof for federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended (the "Code").

State Taxes

In the opinion of Bond Counsel, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

Interest on the Bonds is included in gross income for purposes of the Connecticut corporation business tax.

Owners of the Bonds should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the Bonds and the disposition thereof, including the extent to which gains and losses from the sale or exchange of Bonds held as capital assets reduce and increase, respectively, amounts taken into account in computing the Connecticut income tax on individuals, trusts and estates and the net Connecticut minimum tax on such taxpayers who are also required to pay the federal alternative minimum tax.

Certain Federal Tax Information

The following is a discussion of certain United States federal income and withholding tax matters under existing statutes. It does not purport to deal with all aspects of federal taxation that may be relevant to a particular owner of a Bond.

Interest payments made with respect to Bonds held by a nonresident alien individual, foreign corporation, or other non-United States person ("foreign person") generally will not be subject to United States withholding tax so long as the withholding agent receives a qualifying statement from the Beneficial Owner of the Bonds or from an organization described in Section 871(h)(5)(B) of the Code that the Beneficial Owner is a foreign person. If, however, a particular Beneficial Owner who is a foreign person is subject to United States withholding tax, for example in the event such person fails to provide the required statement, then interest payments made with respect to that person's Bonds generally would be subject to United States withholding tax at the rate of 30%. The 30% rate may be reduced or eliminated under a bilateral income tax treaty between the United States and the country of the Beneficial Owner. United States withholding tax will not apply (although United States federal income tax may be due with respect to the interest received) if the interest is effectively connected with the foreign person's conduct of a trade or business within the United States and the withholding agent has received the required form to claim such exemption. If the foreign person is a foreign corporation, it may be subject to a branch profits tax of 30% of its earnings and profits from such an effectively connected trade or business, including interest on the Bonds.

The Code requires the payor of interest on the Bonds to provide information to the Internal Revenue Service with respect to such payments. Such amounts will ordinarily not be subject to "backup" withholding of United States federal income tax. However, withholding at a rate of 31% may be required by reason of the events specified by Section 3406 of the Code and the regulations promulgated thereunder, which include failure of the payee to furnish the payee's correct taxpayer identification number to the payor or issuance of notification by the Internal Revenue Service that such amounts are subject to withholding because of under reporting of interest or dividend income by the payee.

General

The discussion above does not purport to deal with all aspects of federal or state or local taxation that may be relevant to a particular owner of a Bond. Prospective owners of the Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal, state and local tax consequences of owning and disposing of the Bonds.

CONTINUING DISCLOSURE AGREEMENT

The General Statutes of Connecticut give the State the specific authority to enter into continuing disclosure agreements in accordance with the requirements of Securities and Exchange Commission Rule 15c2-12 (the "Rule"). The State will enter into a Continuing Disclosure Agreement with respect to the Bonds for the benefit of the beneficial owners of the Bonds, substantially in the form attached as **Appendix I-C** to this Official Statement (the "Continuing Disclosure Agreement"), pursuant to which the State will agree to provide or cause to be provided, in accordance with the requirements of the Rule: (i) certain annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the Bonds, and (iii) timely notice of a failure by the State to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement. The Underwriter's obligation to purchase the Bonds shall be conditioned upon receiving, at or prior to the delivery of the Bonds, an executed copy of the Continuing Disclosure Agreement. The State has never defaulted in its obligation to provide annual financial information pursuant to a Continuing Disclosure Agreement executed by the State in connection with the sale of any other general obligation bonds.

DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS

State Treasurer's Certificate

Upon delivery of the Bonds, the State shall furnish a certificate of the Treasurer, dated the date of delivery of the Bonds, stating that the Official Statement, as of its date, did not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and that there has been no material adverse change (other than in the ordinary course of the operations of the State) in the financial condition of the State from that set forth in or contemplated by the Official Statement. In providing such certificate, the Treasurer will state that she has not undertaken independently to verify information obtained or derived from various publications of agencies of the Federal government and presented in **Appendix III-B** to this Official Statement under the caption **STATE ECONOMY** or information in **Appendix I-E**.

Absence of Litigation

Upon delivery of the Bonds, the State shall furnish a certificate of the Attorney General of the State, dated the date of delivery of the Bonds, to the effect that there is no controversy or litigation of any nature pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale thereof or the application of monies to the payment of the Bonds. In addition, such certificate shall state that, except as disclosed in this Official Statement, there is no controversy or litigation of any nature now pending by or against the State which, in the opinion of the Attorney General, will be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially adversely affect its financial condition or the power of the State to levy, collect and enforce the collection of taxes or other revenues for the payment of its bonds.

Approving Opinions of Bond Counsel, Opinions of Disclosure Counsel and Underwriter's Counsel

The State Treasurer, with the approval of the Attorney General of the State of Connecticut, has appointed the following firms to serve as Bond Counsel with respect to the Series A Bonds, and delivery of the Series A Bonds will be subject to the approving opinions of Bond Counsel as follows:

(a) Day, Berry & Howard LLP with respect to the $16,200,000 Taxable General Obligation Bonds (2002 Series A-1);
(b) Levy & Droney, P.C. with respect to the $15,450,000 Taxable General Obligation Bonds (2002 Series A-2);
(c) Pullman & Comley LLC with respect to the $15,350,000 Taxable General Obligation Bonds (2002 Series A-3);

The State Treasurer, with the approval of the Attorney General of the State of Connecticut, has appointed the following firm to serve as Bond Counsel with respect to the Series B Bonds, and delivery of the Series B Bonds will be subject to the approving opinion of Bond Counsel as follows:

(a) Robinson & Cole LLP with respect to the $53,000,000 Taxable General Obligation Bonds (2002 Series B-1);

The opinion of each Bond Counsel with respect to the series of the Bonds indicated above will be substantially in the form included as **Appendix I-B** to this Official Statement. Certain Bond Counsel have served as underwriter's counsel in connection with other State bond issues.

Certain legal matters will be passed upon for the State by its Disclosure Counsel, Day, Berry & Howard LLP of Hartford, Connecticut.

Certain legal matters will be passed upon for the Underwriter by its co-counsel, Squire, Sanders & Dempsey L.L.P. of New York, New York and Lewis & Munday, a Professional Corporation, of Boston, Massachusetts. Both Squire, Sanders & Dempsey L.L.P. and Lewis & Munday have previously served as Bond Counsel in connection with other State bond issues.

FINANCIAL ADVISOR

The State has appointed P.G. Corbin & Company, Inc. to serve as financial advisor to assist the State in the issuance of the Bonds.

UNDERWRITING

The aggregate initial offering price of the Bonds to the public is $100,000,000. The Underwriter will agree, subject to certain conditions precedent to closing, to purchase the Bonds from the State at an aggregate purchase price of $100,000,000, and receive an underwriting fee of $582,083.78. The Underwriter will be obligated to purchase all the Bonds, if any such Bonds are purchased.

The Underwriter has entered into a Broker-Dealer Agreement pertaining to the Auction Bonds. The Broker-Dealers may receive fees pursuant to the Broker-Dealer Agreements which aggregate approximately $250,000 a year.

ADDITIONAL INFORMATION

It is the present policy of the State to make available, upon request from the Office of the State Treasurer, copies of this Official Statement or parts hereof and subsequent official statements or parts thereof relating to the issuance of its general obligation bonds.

Additional information may be obtained upon request from the Office of the State Treasurer, Denise L. Nappier, Attn: Catherine S. Boone, Assistant Treasurer, 55 Elm Street, Hartford, Connecticut 06106, (860) 702-3127.

STATE OF CONNECTICUT

Dated at Hartford, Connecticut
this 26th day of April, 2002

/s/ Denise L. Nappier
Denise L. Nappier
State Treasurer

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Appendix I-A

TABLE OF STATUTORY AUTHORIZATIONS

Each series of Bonds includes the following authorizations which have been consolidated for purposes of sale:

A. $16,200,000.00 Taxable General Obligation Bonds (2002 Series A-1)

1.	$	2,400,000.00	Housing Development and Rehabilitation Bonds (1995 Act, Sections 8 to 11, Series F) authorized by Sections 8 through 11 of Special Act No. 95-20 of the General Assembly of the State of Connecticut, January 1995 Session, as amended.
2.	$	142,981.00	Housing Development and Rehabilitation Bonds (1996 Act, Sections 28 to 31, Series F) authorized by Sections 28 through 31 of Special Act No. 95-20 of the General Assembly of the State of Connecticut, June 1995 Session, as amended.
3.	$	2,920,000.00	Housing Development and Rehabilitation Bonds (1997 Act, Sections 8 to 11, Series B) authorized by Sections 8 through 11 of Special Act No. 97-1 of the General Assembly of the State of Connecticut, June 1997 Session, as amended.
4.	$	5,477,019.00	Housing Development and Rehabilitation Bonds (1997 Act, Sections 27 to 30, Series A) authorized by Sections 27 through 30 of Special Act No. 97-1 of the General Assembly of the State of Connecticut, June 1997 Session, as amended.
5.	$	270,000.00	General State Purposes Bonds (1996 Act, Section 3(a), Series B) authorized by Sections 1 through 7 and more particularly subsection 3(a) of Special Act No. 96-250 of the General Assembly of the State of Connecticut, February 1996 Session, as amended.
6.	$	4,990,000.00	Connecticut Innovations Fund Bonds (Series B) authorized by Section 32-41o of the General Statutes of the State of Connecticut, revisions of 1958, as amended.

B. $15,450,000.00 Taxable General Obligation Bonds (2002 Series A-2)

1.	$	994,580.36	General State Purposes Bonds (2001 Special Session Act, Sections 8 through 15, Series A) authorized by Sections 8 through 15 of Special Act No. 01-2 of the General Assembly of the State of Connecticut, June 2001 Special Session, as amended.
2.	$	1,980.05	General State Purposes Bonds (1995 Act, Sections 32 through 37 Grants, Series I) authorized by Sections 32 through 37 of Special Act No. 95-20 of the General Assembly of the State of Connecticut, January 1995 Session, as amended.
3.	$	203,439.59	General State Purposes Bonds (June 5, 1997 Special Session Act, Sections 12 through 19 Grants, Series G) authorized by Sections 12 through 19 of Special Act No. 97-1 of the General Assembly of the State of Connecticut, June 5, 1997 Special Session, as amended.
4.	$	1,000,000.00	General State Purposes Bonds (1999 Act, Sections 12 through 19 Grants, Series E) authorized by Sections 12 through 19 of Public Act No. 99-242 of the General Assembly of the State of Connecticut, January 1999 Session, as amended.

5. $ 13,250,000.00 General State Purposes Bonds (1999 Act, Sections 31 to 38 Grants, Series C) authorized by Sections 31 through 38 of Public Act No. 99-242 of the General Assembly of the State of Connecticut, January 1999 Session, as amended.

C. $15,350,000.00 Taxable General Obligation Bonds (2002 Series A-3)

1. $ 15,350,000.00 Economic Development and Manufacturing Assistance Bonds (1990 Act, Section 33, Series S) authorized by Section 33 of Public Act No. 90-270 of the General Assembly of the State of Connecticut, as amended.

D. $53,000,000.00 Taxable General Obligation Bonds (2002 Series B-1)

1. $ 53,000,000.00 General State Purposes Bonds (2001 Act, Sections 11 through 13, Series A) authorized by Sections 11 through 13 of Public Act No. 01-7 of the General Assembly of the State of Connecticut, June 2001 Special Session, as amended.

Appendix I-B

FORM OF BOND COUNSEL OPINION

The opinion of each Bond Counsel with respect to the series of the Bonds for which such firm has been appointed to serve as Bond Counsel will be dated the date of original issuance of the Bonds and will be substantially in the following form:

Honorable Denise L. Nappier
Treasurer, State of Connecticut
Hartford, Connecticut

We have examined a record of proceedings relative to the issuance of $__________ Taxable General Obligation Bonds (2002 Series [A][B]-) of the State of Connecticut (the "Bonds"). The Bonds are issued contemporaneously with other taxable general obligation bonds of the State of Connecticut in the aggregate principal amount of $100,000,000.

The Bonds are dated as of the date hereof, mature on May 1 in the year, in the principal amount and bear interest from their dated date, payable on each Interest Payment Date until maturity or earlier redemption or earlier mandatory tender for purchase, at the Auction Rate in effect from time to time until converted to a Fixed Rate, as follows and as provided in the Bonds:

Year	Prinicipal Amount

The Bonds are payable as to principal and redemption price, if any at the office of State Street Bank and Trust Company of Connecticut, N.A., in Hartford, Connecticut. Interest on the Bonds is payable to the person in whose name such bond is registered as of the Record Date, by check mailed to such registered owner at such owner's address as shown on the registration books kept by the State or its designated agent. The Bonds are subject to redemption and mandatory tender for purchase prior to maturity as therein provided.

The Bonds are comprised of the following issue[s] of bonds which were authorized by the following statutory provision[s and have been consolidated as a single issue]:

[HERE LIST COMPONENT BOND ISSUES WITH STATUTORY AUTHORIZATIONS]

The Bonds are issued under and pursuant to proceedings taken in accordance with Section 3-20 of the General Statutes of Connecticut, Revision of 1958, as amended, resolutions adopted by the State Bond Commission including a resolution adopted on January 25, 2002 and proceedings taken in conformity therewith, including a Certificate of Determination executed by the State Treasurer and filed with the Secretary of the State Bond Commission and a Tax Regulatory Agreement.

The Bonds are issuable in the form of registered bonds without coupons in denominations of $25,000 or any integral multiple of $25,000 for Bonds which bear interest at the Auction Rate and of $5,000 or any integral multiple of $5,000 for Bonds which bear interest at the Fixed Rate, not exceeding the aggregate principal amount of Bonds maturing in any year. The Bonds are originally registered in the name of Cede & Co., as nominee of The Depository Trust Company, for the purpose of effecting a book-entry system for the ownership and transfer of the Bonds.

As to questions of fact material to our opinion we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement and certain matters which are the subject of a supplemental opinion provided by us to the State).

We are of the opinion that the Bonds, when duly certified by State Street Bank and Trust Company of Connecticut, N.A., will be valid and legally binding general obligations of the State of Connecticut for the payment of the principal of and interest on which the full faith and credit of the State are pledged, and that the State, acting through the General Assembly, has the power to levy ad valorem taxes upon all taxable property within the State without limitation as to rate or amount to pay the principal and interest thereof.

We are of the opinion that, under existing law, interest on the Bonds is included in gross income for federal income tax purposes pursuant to the Internal Revenue Code of 1986, as amended.

We are further of the opinion that, under existing statutes, interest on the Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

We express no opinion regarding other federal or state tax consequences of the ownership of or receipt or accrual of interest on the Bonds.

Respectfully yours,

Appendix I-C

FORM OF CONTINUING DISCLOSURE AGREEMENT

In accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the State will agree, pursuant to a Continuing Disclosure Agreement for the Bonds to be executed by the State substantially in the following form, to provide, or cause to be provided, (i) certain annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the Bonds and (iii) timely notice of a failure by the State to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement for the Bonds.

Continuing Disclosure Agreement

This Continuing Disclosure Agreement ("Agreement") is made as of the ___ day of May, 2002 by the State of Connecticut (the "State") acting by its undersigned officer, duly authorized, in connection with the issuance of $47,000,000 Taxable General Obligation Bonds (2002 Series A) and $53,000,000 Taxable General Obligation Bonds (2002 Series B) dated the date of delivery (the "Bonds"), for the benefit of the beneficial owners from time to time of the Bonds.

Section 1. Definitions. For purposes of this Agreement, the following capitalized terms shall have the following meanings:

"Final Official Statement" means the official statement of the State dated April 26, 2002 prepared in connection with the Bonds.

"MSRB" means the Municipal Securities Rulemaking Board established under the Securities Exchange Act of 1934 as amended, or any successor thereto.

"NRMSIR" means any nationally recognized municipal securities information repository recognized by the SEC from time to time. As of the date of this Agreement the NRMSIRs are:

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, NJ 08558
(609) 279-3225
Fax: (609) 279-5962
Email: munis@bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
(201) 346-0701
Fax: (201) 947-0107
Email: nrmsir@dpcdata.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, NY 10038
(212) 771-6999
Fax: (212) 771-7391
Email: NRMSIR@FTID.com

Standard & Poor's J.J. Kenny Repository
55 Water Street - 45th Floor
New York, NY 10041
(212) 438-4595
Fax: (212) 438-3975
Email: nrmsir_repository@sandp.com

"Rule" means rule 15c2-12 under the Securities Exchange Act of 1934, as of the date of this Agreement.

"SEC" means the Securities and Exchange Commission of the United States, or any successor thereto. "SID" means any state information depository established or designated by the State of Connecticut and recognized by the SEC from time to time. As of the date of this Agreement, no SID has been established or designated by the State of Connecticut.

Section 2. Annual Financial Information.

(a) The State agrees to provide or cause to be provided to each NRMSIR and any SID, in accordance with the provisions of the Rule and of this Agreement, annual financial information and operating data (commencing with information and data for the fiscal year ending June 30, 2002) as follows:

(i) Financial statements of the State's general fund, special revenue funds, debt service funds, capital projects funds, enterprise funds, internal service funds and trust and agency (fiduciary) funds and the general long-term debt account group for the prior fiscal year, which statements shall be prepared in accordance with generally accepted accounting principles or mandated state statutory principles as in effect from time to time. As of the date of this Agreement, the State is required to prepare financial statements of its various funds and accounts on a budgeted basis (i.e., on the basis of the modified cash method of accounting as described in Part III to the Final Official Statement, under the caption **FINANCIAL PROCEDURES - Accounting Procedures)**. As of the date of this Agreement, the State also prepares its financial statements in accordance with generally accepted accounting principles but is not required to do so. The financial statements will be audited.

(ii) To the extent not included in the financial statements described in (i) above, the financial information and operating data within the meaning of the Rule described below (with references to the Final Official Statement); provided, however, that references to the Final Official Statement for the Bonds as a means of identifying such financial information and operating data shall not prevent the State from reorganizing such material in subsequent official statements or annual information reports:

1. Until such time as the State's only method of presenting its financial statements is substantially in accordance with generally accepted accounting principles ("GAAP"):

   a. General Fund - Summary of General Fund Operating Results - Budgetary (Modified Cash) Basis (for most recent fiscal year) (See Table 2 and Appendices III-D-6 and III-D-7).

   b. General Fund - Summary of Operating Results - Budgetary (Modified Cash) Basis vs. GAAP Basis (for most recent fiscal year) (See Table 3).

   c. General Fund - Unreserved Fund Balance - Budgetary (Modified Cash) Basis as of the end of the most recent fiscal year) (See Table 4 and Appendices III-D-4 and III-D-5).

d. General Fund - Unreserved Fund Balance - Budgetary (Modified Cash) Basis vs. GAAP Basis (as of the end of the most recent fiscal year) (See Table 5).

2. Statutory Debt Limit (as of end of most recent fiscal year or a later date) (See Table 7).

3. Direct General Obligation Debt - Outstanding Principal Amount (as of end of most recent fiscal year or a later date) (See Table 8).

4. Summary of Principal, Mandatory Sinking Fund Payments and Interest on Long-Term Direct General Obligation Debt (as of end of most recent fiscal year or a later date) (See Table 10).

5. Outstanding Long-Term Direct General Obligation Debt (as of end of most recent fiscal year) (See Table 11).

6. Authorized But Unissued Long-Term Direct General Obligation Debt (as of end of most recent fiscal year or a later date) (See Table 12).

7. Statutory Bond Authorizations and Reductions (for recent fiscal years, if any legislative action) (See Table 13).

8. Bond Authorizations with Limited or Contingent Liability (as of end of most recent fiscal year or a later date) (See Table 16).

9. Funding status of the State Employees' Retirement Fund and the Teacher's Retirement Fund.

(b) The financial statements and other financial information and operating data described above will be provided on or before the date eight months after the close of the fiscal year for which such information is being provided. The State's fiscal year currently ends on June 30.

(c) Annual financial information and operating data may be provided in whole or in part by cross-reference to other documents previously provided to each NRMSIR, any SID, or the SEC. If the document to be cross-referenced is a final official statement, it must be available from the MSRB. All or a portion of the financial information and operating data may be provided in the form of a comprehensive annual financial report or an annual information statement of the State.

(d) The State reserves the right (i) to provide financial statements which are not audited if no longer required by law, (ii) to modify from time to time the format of the presentation of such information or data, and (iii) to modify the accounting principles it follows to the extent required by law, by changes in generally accepted accounting principles, or by changes in mandated state statutory principles as in effect from time to time; provided that the State agrees that the exercise of any such right will be done in a manner consistent with the Rule.

Section 3. Material Events.

The State agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) any SID, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(a) principal and interest payment delinquencies;
(b) non-payment related defaults;
(c) unscheduled draws on debt service reserves reflecting financial difficulties;
(d) unscheduled draws on credit enhancements reflecting financial difficulties;
(e) substitution of credit or liquidity providers, or their failure to perform;
(f) adverse tax opinions or events affecting the tax-exempt status of the Bonds;

(g) modifications to rights of holders of the Bonds;
(h) Bond calls;
(i) Bond defeasances;
(j) release, substitution, or sale of property securing repayment of the Bonds; and
(k) rating changes.

Section 4. Notice of Failure to Provide Annual Financial Information.

The State agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) any SID, notice of any failure by the State to provide annual financial information as set forth in Section 2(a) hereof on or before the date set forth in Section 2(b) hereof.

Section 5. Use of Agents.

Annual financial information and operating data and notices to be provided pursuant to this Agreement may be provided by the State or by any agents which may be employed by the State for such purpose from time to time.

Section 6. Termination.

The obligations of the State under this Agreement shall terminate upon the earlier of (i) payment or legal defeasance, at maturity or otherwise, of all of the Bonds, or (ii) such time as the State ceases to be an obligated person with respect to the Bonds within the meaning of the Rule.

Section 7. Enforcement.

The State acknowledges that its undertakings set forth in this Agreement are intended to be for the benefit of, and enforceable by, the beneficial owners from time to time of the Bonds. In the event the State shall fail to perform its duties hereunder, the State shall have the option to cure such failure within a reasonable time (but not exceeding 30 days with respect to the undertakings set forth in Section 2 of this Agreement or five business days with respect to the undertakings set forth in Sections 3 and 4 of this Agreement) from the time the State's Assistant Treasurer for Debt Management, or a successor, receives written notice from any beneficial owner of the Bonds of such failure. The present address of the Assistant Treasurer for Debt Management is 55 Elm Street, 6th Floor, Hartford, Connecticut 06106.

In the event the State does not cure such failure within the time specified above, the beneficial owner of any Bonds shall be entitled only to the remedy of specific performance. The State expressly acknowledges and the beneficial owners are hereby deemed to expressly agree that no monetary damages shall arise or be payable hereunder nor shall any failure to comply with this Agreement constitute an event of default with respect to the Bonds.

Section 8. Miscellaneous.

(a) The State shall have no obligation to provide any information, data or notices other than as set forth in this Agreement; provided however, nothing in this Agreement shall be construed as prohibiting the State from providing such additional information, data or notices from time to time as it deems appropriate in connection with the Bonds. If the State elects to provide any such additional information, data or notices, the State shall have no obligation under this Agreement to update or continue to provide further additional information, data or notices of the type so provided.

(b) This Agreement shall be governed by the laws of the State of Connecticut.

(c) Notwithstanding any other provision of this Agreement, the State may amend this Agreement, and any provision of this Agreement may be waived, if (i) such amendment or waiver is made in connection with a change of circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of the State, (ii) the Agreement as so amended or waived would have complied with the requirements of the Rule as of the date of the Agreement, taking into account any amendments or interpretations of the Rule as well as any changes in circumstances, and (iii) such amendment or waiver is supported by either an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially adversely affect the beneficial owners of the Bonds or an approving vote by the holders of not less than 60% of the aggregate principal amount of the Bonds then outstanding. A copy of any such amendment or waiver will be filed in a timely manner with (i) each NRMSIR or the MSRB and (ii) any SID. The annual financial information provided on the first date following adoption of any such amendment or waiver will explain, in narrative form, the reasons for the amendment or waiver.

(d) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but such counterparts shall together constitute but one and the same instrument.

STATE OF CONNECTICUT

By ______________________________________

Denise L. Nappier
Treasurer

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Appendix I-D

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE BONDS AND AUCTION PROCEDURES

The following is a summary of certain provisions of the Bonds and the Auction Procedures applicable thereto. The summary is not to be regarded as a full statement of the terms of the Bonds and, accordingly, is qualified by reference thereto and is subject to the full text thereof.

See also **Additional Information Related to Auction Bonds** in the Official Statement for a description of certain other provisions relating to the Auction Bonds.

As used in this Appendix, the $47,000,000 Taxable General Obligation Bonds (2002 Series A) and $53,000,000 Taxable General Obligation Bonds (2002 Series B) are generally referred to collectively as the Auction Bonds.

Pursuant to the Bonds, the Paying Agent and the State are entitled to treat the registered owner of each Auction Bond (including Cede & Co. or any other nominee of DTC as to any such Auction Bond registered in the name thereof) as the owner of such Auction Bond, for all purposes. Neither the Paying Agent nor the State shall have any duty or responsibility to recognize the beneficial ownership interest of a Beneficial Owner who has acquired such an interest in an Auction Bond registered in the name of Cede & Co. or any other nominee of DTC. The procedures established by DTC, the Auction Agent and the Broker-Dealers for trading, exchanging and registering beneficial ownership interests in any Auction Bond shall be implemented by such persons consistent with the terms of the relevant agreements. The Bonds provide that it is intended that, to the extent consistent with such agreements, the rights granted to the Beneficial Owners of the Auction Bond therein relating to the Auction Procedures and certain other provisions may be exercised by Beneficial Owners of the Auction Bond. To that extent, each reference in this Appendix to the purchase, sale or holding of an Auction Bond shall refer to beneficial ownership interests in an Auction Bond, unless the context clearly requires otherwise.

DEFINITIONS

"Agent Member" means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agent" means the auction agent acting pursuant to the Bonds, initially The Bank of New York, or any successor thereto, or substitute therefor appointed by the State.

"Auction Agent Agreement" means the Auction Agent Agreement, dated as of May 1, 2002, among the State, the Paying Agent and the Auction Agent, as amended and supplemented from time to time, and any other agreement entered into by the State, the Paying Agent and the Auction Agent in lieu of the original Auction Agent Agreement and all amendments thereto.

"Auction Bonds" means any Bonds bearing interest at an Auction Rate.

"Auction Date" means with respect to any Series of Auction Bonds, the Business Day next preceding each applicable Interest Payment Date for such Series of Auction Bonds (whether or not an Auction shall be conducted on such date); except that the last Auction Date shall be the earlier of (i) the Business Day next preceding the applicable Interest Payment Date next preceding the applicable Conversion Date for such

Auction Bonds and (ii) the Business Day next preceding the applicable Interest Payment Date next preceding the applicable Maturity Date for such Auction Bonds. The first Auction Date for the Series A Bonds will be May 29, 2002 and the first Auction Date for the Series B Bonds will be June 5, 2002.

"Auction Multiple" means, as of any Auction Date, the Percentage of Index (in effect on such Auction Date) determined as set forth below, based on the Prevailing Rating of the Auction Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

Prevailing Rating	**Percentage of Index for Taxable Bonds**	**Percentage of Index for Tax-Exempt Bonds**
AAA/AAA/Aaa	175%	125%
AA/AA/Aa	200	150
A/A/A	225	175
BBB/BBB/Baa	250	200
Below BBB/BBB/Baa	275	225

"Auction Period" means with respect to a Series of Auction Bonds (i) with respect to Auction Bonds in a 7-day Auction Period, a period of generally 7 days, (ii) with respect to Auction Bonds in a 28-day Auction Period, a period of generally 28 days, and (iii) with respect to Auction Bonds in a 35-day Auction Period, a period of generally 35 days. Each Auction Period generally shall begin on a Thursday (or, if later, the day following the last day of the prior Auction Period) and end on a Wednesday (or, if such day is not immediately followed by a Business Day, the day immediately preceding the next Business Day).

"Auction Procedures" means the procedures set forth in this Appendix.

"Auction Rate" means with respect to each Series of Auction Bonds, the interest rate to be borne by such Auction Bonds for each Auction Period (i) if Sufficient Clearing Bids exist, the Winning Bid Rate; or if all of such Auction Bonds are the subject of Submitted Hold Orders, the Minimum Auction Rate with respect to such Auction Bonds, and (ii) if Sufficient Clearing Bids do not exist, the Maximum Auction Rate with respect to such Auction Bonds.

"Authorized Denominations" means $25,000 or any integral multiple thereof for the Bonds which bear interest at the Auction Rate, and $5,000 or any integral multiple thereof for the Bonds which bear interest at a Fixed Rate.

"Available Bonds" means, with respect to each Series of the Auction Bonds, on each applicable Auction Date, the aggregate principal amount of such Auction Bonds that are not the subject of Submitted Hold Orders.

"Beneficial Owner" of Auction Bonds means an Existing Owner.

"Bid" shall have the meaning set forth below under "***Orders by Existing Owners and Potential Owners***."

"Bidder" means each Existing Owner and Potential Owner who places an Order as set forth below under "***Orders by Existing Owners and Potential Owners***."

"Bond Insurer" means Financial Guaranty Insurance Company.

"Bonds" means any of the State of Connecticut Taxable General Obligation Bonds, 2002 Series A or 2002 Series B, in the original principal amounts of $47,000,000 and $53,000,000, respectively.

"Broker-Dealer" means any entity permitted by law to perform the functions required of a Broker-Dealer as set forth in these Auction Procedures (a) that is an Agent Member, (b) that has been selected by the State, (c) that has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, and (d) that is either a member of the National Association of Securities Dealers, Inc. or registered as a dealer of municipal securities under the Securities Exchange Act of 1934, as amended.

"Broker-Dealer Agreement" means each agreement between a Broker-Dealer and the Auction Agent substantially in the form of Exhibit A to the Auction Agent Agreement pursuant to which a Broker-Dealer, among other things, agrees to participate in Auctions in accordance with the terms of the Bonds.

"Business Day" means any day other than (a) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city or cities in which the offices of the Paying Agent and the Auction Agent are located are authorized by law or executive order to close or (b) a day on which the State or the New York Stock Exchange is closed.

"Code" means the Internal Revenue Code of 1986, as amended.

"Conversion" means the conversion of the interest rate on any of the Bonds from an Auction Rate to a Fixed Rate as described in the Section of the Auction Procedures entitled ***"Conversion to Fixed Rate."***

"Conversion Date" means for any Bond the date upon which the Fixed Rate becomes effective in respect of such Bond in accordance with the provisions described in the Section of the Auction Procedures entitled ***"Conversion to Fixed Rate."***

"Converted Bond" means a Bond the interest rate on which has been converted to a Fixed Rate.

"Default Rate" means in respect of any applicable Auction Period, a per annum rate equal to (x) three hundred fifty percent (350%) of the Index for those Auction Bonds which are Taxable Bonds and (y) two hundred fifty percent (250%) of the Index for those Auction Bonds which are Tax-Exempt Bonds, in either case determined on the Auction Date next preceding the first day of such Auction Period; but never to exceed the Maximum Rate.

"Delivery Date" means the date of initial delivery of the Bonds.

"Direct Participant" means the member of, or the participant in, DTC that will act on behalf of a Bidder.

"DTC" means The Depository Trust Company, New York, New York, its successors and their assigns or any other substitute Securities Depository.

"Existing Owner" means, for purposes of each Auction, a person who is listed as the beneficial owner of Bonds in the records of the Auction Agent.

"Fitch" means Fitch Ratings, a rating agency, its successors and assigns, and, for the purposes of the Auction Procedures, if such rating agency shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the State Representative by notice to the Paying Agent, the Auction Agent and the Broker-Dealers; provided, however, that such notice shall not be effective unless accompanied by a consent of a majority of the Broker-Dealers.

"Fixed Rate" means for or on any Bond the fixed rate of interest thereon determined in accordance with the provisions of the Bonds to be effective on the Conversion Date therefor.

"Hold Order" shall have the meaning set forth below under "***Orders by Existing Owners and Potential Owners***."

"Index" means on any date of determination, the One-Month LIBOR Rate on such date. "One-Month LIBOR Rate" means the London interbank offered rate ("LIBOR") for deposits in U.S. dollars having a maturity of one month commencing on such determination date reported by Bloomberg Financial Markets as of 9:00 a.m., New York City time, on such determination date. If such rate is not reported by Bloomberg Financial Markets, the rate will be determined based on the rate which appears on Telerate Page 3750. If such rate is not reported by Bloomberg Financial Markets and does not appear on Telerate Page 3750, such rate will be determined based upon the publication determined by the Broker-Dealer, or if there is more than one Broker-Dealer by the Market Agent) to be most comparable.

"Initial Period" means the period from the Delivery Date to and including (i) May 29, 2002 with respect to the Series A Bonds and (ii) June 5, 2002 with respect to the Series B Bonds.

"Interest Payment Date" means for Bonds which bear interest at a Fixed Rate, May 1 and November 1; and for any Series of Bonds which bear interest at an Auction Rate, the Business Day immediately following the last day of the prior Auction Period.

"Market Agent" means a Broker-Dealer designated by the State Representative as the Market Agent in the event that there shall be more than one Broker-Dealer.

"Maturity Date" means the final maturity date specified in any Bond.

"Maximum Auction Rate" means, as of any applicable Auction Date, the product of the Index multiplied by the Auction Multiple; but never to exceed the lesser of (x) 14%, or (y) 10% for any Bonds which bear interest which is not includable in gross income under Section 103 of the Code, or (z) the maximum rate permitted by applicable law.

"Minimum Auction Rate" means, as of any applicable Auction Date, (x) 90% of the Index in effect on such Auction Date, or (y) 55% of the Index in effect on such Auction Date for any Bonds which bear interest which is not includable in gross income under Section 103 of the Code; but in no event shall the Minimum Auction Rate exceed the Maximum Auction Rate.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, for the purposes of the Auction Procedures, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the State Representative by notice to the Paying Agent, the Auction Agent and the Broker-Dealers; provided, however, that such notice shall not be effective unless accompanied by a consent of a majority of the Broker-Dealers.

"No Auction Rate" means, as of any applicable Auction Date, the rate determined by multiplying the applicable Percentage of Index set forth below, based on the Prevailing Rating of the applicable Auction Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date, by the Index:

Prevailing Rating	Percentage of Index for Taxable Bonds	Percentage of Index for Tax Exempt Bonds
AAA/AAA/Aaa	100%	65%
AA/AA/Aa	110	70
A/A/A	125	85
Below A/A/A	150	100

provided, however, in no event shall the No Auction Rate exceed the Maximum Auction Rate.

"Order" means a Hold Order, Bid or Sell Order set forth below under "***Orders by Existing Owners and Potential Owners***."

"Outstanding" means all Bonds which have been duly authenticated and delivered by the Paying Agent, except:

(a) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) Bonds for the payment or redemption of which cash or government obligations shall have been theretofore deposited with the Paying Agent (whether upon or prior to the maturity or redemption date of any such Bonds); provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Paying Agent shall have been made therefor, or waiver of such notice satisfactory in form to the Paying Agent shall have been filed with the Paying Agent; and

(c) Bonds in lieu of which others have been authenticated and delivered.

"Paying Agent" means the bank or banks, if any, designated pursuant to the Bonds to receive and disburse the principal of and interest and premium, if any, on the Bonds, initially State Street Bank and Trust Company of Connecticut, N.A., its successor and assigns.

"Paying Agent Agreement" shall mean the Paying Agent Agreement, dated as of May 1, 2002, by and between the State and the Paying Agent, and all amendments thereto.

"Potential Owner" means any person, including any Existing Owner, who may be interested in acquiring the beneficial ownership of Auction Bonds or, in the case of an Existing Owner thereof, the beneficial ownership of an additional principal amount of Auction Bonds.

"Prevailing Rating" means, (i) when such term is used in the definition of the No Auction Rate, (a) AAA/AAA/Aaa, if the applicable Auction Bonds shall have a rating of AAA or better by S&P and Fitch and a rating of Aaa or better by Moody's, (b) if not AAA/AAA/Aaa, AA/AA/Aa if the applicable Auction Bonds shall have a rating of AA- or better by S&P and Fitch and a rating of Aa3 or better by Moody's, (c) if not AAA/AAA/Aaa or AA/AA/Aa, A/A/A if the applicable Auction Bonds shall have a rating of A- or better by S&P and Fitch and a rating of A3 or better by Moody's, and (d) if not AAA/AAA/Aaa, AA/AA/Aa or A/A/A, then below A/A/A, whether or not the applicable Auction Bonds are rated by any Rating Service, and (ii) when such term is used in the definition of the Auction Multiple, (a) AAA/AAA/Aaa, if the applicable Auction Bonds shall have a rating of AAA or better by S&P and Fitch and a rating of Aaa or better by Moody's, (b) if not AAA/AAA/Aaa, AA/AA/Aa if the applicable Auction Bonds shall have a rating of AA- or better by S&P and Fitch and a rating of Aa3 or better by Moody's, (c) if not AAA/AAA/Aaa or AA/AA/Aa, A/A/A if the applicable Auction Bonds shall have a rating of A- or better by S&P and Fitch and a rating of A3 or better by

Moody's, (d) if not AAA/AAA/Aaa, AA/AA/Aa or A/A/A, BBB/BBB/Baa if the applicable Auction Bonds shall have a rating of BBB- or better by S&P and Fitch and a rating of Baa3 or better by Moody's, and (a) if not AAA/AAA/Aaa, AA/AA/Aa, A/A/A or BBB/BBB/Baa, then below BBB/BBB/Baa, whether or not the applicable Auction Bonds are rated by any Rating Service. For purposes of this definition, S&P's and Fitch's rating categories of "AAA," "AA-," "A-" and "BBB-" and Moody's rating categories of "Aaa," "Aa3," "A3" and "Baa3" shall be deemed to refer to and include the respective rating categories correlative thereto in the event that any such Rating Service shall have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof shall use different rating categories. If the applicable Auction Bonds are not rated by a Rating Service, the requirement of a rating by such Rating Service shall be disregarded. If the ratings for the applicable Auction Bonds are split between two of the foregoing categories, the lower rating shall determine the Prevailing Rating.

"Purchase Date" means, with respect to a Bond, each day that such Bond is subject to mandatory purchase, provided, however, that the date of the stated maturity of the Bonds will not be a Purchase Date.

"Purchase Price" means, for any Bond tendered or deemed tendered for purchase pursuant to the terms thereof, an amount equal to 100% of the principal amount of such Bond, plus accrued interest, if any, thereon from the most recent interest payment date therefor to the Purchase Date; provided, however, if the date of purchase is an Interest Payment Date for the applicable Auction Bond, then the Purchase Price shall not include accrued and unpaid interest, which shall be paid to the Owner of record as of the applicable Record Date.

"Rating Agency" means Moody's or S&P or Fitch and their respective successors and assigns.

"Record Date" means, as the case may be, (a) with respect to any period during which Bonds bear interest at the Auction Rate, the second Business Day preceding each Interest Payment Date and (b) with respect to any period during which the Bonds bear the Fixed Rate, the fifteenth day of April and October, or the prior business day if such fifteenth day is not a business day.

"Remarketing Agent" means a broker-dealer designated by the State Representative as the Remarketing Agent to underwrite or obtain bids for the Bonds at Fixed Rates pursuant to a Conversion.

"Securities Depository" means DTC or any other securities depository selected by the State which agrees to follow the procedures required to be followed by such securities depository in connection with the Auction Bonds.

"Sell Order" shall have the meaning set forth below under "***Orders by Existing Owners and Potential Owners***."

"Series" or "Series of Bonds" means either the Series A Bonds or the Series B Bonds.

"Series A Bonds" means the portion of the Bonds designated as Series A Bonds.

"Series B Bonds" means the portion of the Bonds designated as Series B Bonds.

"Standard & Poor's" or "S&P" means Standard & Poor's Ratings Service, a division of McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns and, for purposes of the Auction Procedures, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, *"Standard & Poor's"* and *"S&P"* shall be deemed to refer to any other nationally recognized securities rating agency designated by the State Representative by notice to the Paying Agent, the Auction Agent and the Broker-Dealers; provided, however, that such notice shall not be effective unless accompanied by a consent of a majority of the Broker-Dealers.

"State" means the State of Connecticut.

"State Representative" means the Treasurer of the State or any successor officer of the State.

"Submission Deadline" means 1:00 p.m. (New York City time) on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

"Submitted Bid" shall have the meaning set forth below under "***Determination of Auction Rate***."

"Submitted Hold Order" shall have the meaning set forth below under "***Determination of Auction Rate***."

"Submitted Order" shall have the meaning set forth below under "***Determination of Auction Rate***."

"Submitted Sell Order" shall have the meaning set forth below under "***Determination of Auction Rate***."

"Sufficient Clearing Bids" means an Auction for which thc aggregate principal amount of the applicable Series of Auction Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Auction Rate is not less than the aggregate principal amount of the applicable Series of Auction Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Auction Rate.

"Taxable Bonds" means the Bonds other than any Tax-Exempt Bonds.

"Tax-Exempt Bonds" means those Series B Bonds which have been tendered and remarketed as tax-exempt bonds pursuant to the terms of the Series B Bonds based upon an opinion of nationally recognized bond counsel to the effect that the interest on such Series B Bonds is not included in gross income for federal income tax purposes.

"Winning Bid Rate" means, if an Auction with Sufficient Clearing Bids exists, the lowest rate specified in any Submitted Bid for the applicable Auction Bonds which if selected by the Auction Agent as the Auction Rate would cause the aggregate principal amount of the applicable Auction Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of the applicable Available Bonds.

AUCTION PROCEDURES

Auction Rate

The Bonds shall initially be issued as Bonds bearing interest at a rate fixed for the Initial Period and thereafter at an Auction Rate. Any Bond bearing interest for the Initial Period or at an Auction Rate shall be an Auction Bond. The rate of interest on Auction Bonds for each Auction Period, to but not including any Conversion Date related to such Auction Bonds, shall be the Auction Rate for such Bonds. Interest on Auction Bonds shall be computed on the basis of actual days in an interest period over 360. After the Conversion Date, interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months.

Auction Agent

(a) The State and the Paying Agent will enter into an Auction Agreement with an Auction Agent which will provide, among other things, that the Auction Agent will perform the duties of the Auction Agent in accordance with the Auction Procedures for the purpose of determining the Auction Rate. The Bank of New York, New York, New York, is hereby appointed as initial Auction Agent to serve as agent for the Paying Agent in connection with Auctions. The Paying Agent is hereby directed by the State to enter into the initial Auction Agreement with The Bank of New York, as the initial Auction Agent. Any substitute Auction Agent shall be (i) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, New York, or such other location as approved by the Paying Agent in writing and having a combined capital stock or surplus of at least $50,000,000, or (ii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least $50,000,000, and, in either case, authorized by law to perform all the duties imposed upon it hereunder and under the Auction Agreement. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Bonds by giving at least 45 days' notice to the Paying Agent, the Broker-Dealers and the State Representative. The Auction Agent may be removed at any time by the Paying Agent upon the written direction of the State Representative. Neither resignation nor removal of the Auction Agent pursuant to the preceding two sentences shall be effective until and unless a substitute Auction Agent has been appointed and has accepted such appointment. Notwithstanding the foregoing, the Auction Agent may terminate the Auction Agreement if, within 30 days after notifying the Broker-Dealers, the Paying Agent and the State Representative in writing that it has not received payment of any Auction Agent fee due it in accordance with the terms of the Auction Agreement, the payment of such fee is not the subject of dispute and the Auction Agent has not received such payment.

(b) If the Auction Agent shall resign or be removed or be dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Paying Agent at the direction of an individual designated in writing by the State Representative for such purpose (after receipt of a certificate from the State Representative confirming that any proposed substitute Auction Agent meets the requirements of subsection (a) above), shall use its best efforts to appoint a substitute Auction Agent.

(c) The Auction Agent is acting as agent for the Paying Agent in connection with Auctions. In the absence of bad faith or negligence on its part, the Auction Agent shall not be liable for any action taken, suffered or omitted or any error of judgment made by it in the performance of its duties under the Auction Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts necessary to make such judgment.

Broker-Dealers

(a) The Auction Agent shall enter into a Broker-Dealer Agreement with Morgan Stanley & Co. Incorporated, the initial Broker-Dealer. The State Representative may, from time to time, approve one or more additional persons to serve as Broker-Dealers under Broker-Dealer Agreements and shall be responsible for providing such Broker-Dealer Agreements to the Paying Agent and the Auction Agent, provided, however, that while Morgan Stanley & Co. Incorporated is serving as Broker-Dealer, it shall have the right to consent to the approval of any additional Broker-Dealers, which consent shall not be unreasonably withheld. In the event that the State Representative shall approve more than one Broker-Dealer, the State Representative also shall designate one Broker-Dealer to serve as Market Agent.

(b) Any Broker-Dealer may be removed at any time, at the request of the State Representative upon five Business Days' notice with the consent of the Paying Agent, which shall not be unreasonably withheld.

(c) Any Broker-Dealer may resign upon five Business Days' notice to the Auction Agent, the State and the Paying Agent, provided that, the Broker-Dealer may resign immediately if it determines, in its reasonable judgment, that it would be unadvisable to attempt to auction the Bonds if any of the following events should occur: (a) legislation shall be enacted, or actively considered for enactment, or a decision by a court of competent jurisdiction of the United States shall hereafter be rendered, or a ruling or regulation by the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall hereafter be made, the effect of which is that the Bonds are not exempt from the registration, qualification or other similar requirements of the Securities Act of 1933, as amended and as then in effect, and the Securities Exchange Act of 1934, as amended and as then in effect, (b) a stop order, ruling or regulation by the Securities and Exchange Commission shall be issued or made, the effect of which is that the issuance, offering or sale of the Bonds, or of obligations of the general character of the Bonds, is in violation of any provision of the Securities Act of 1933, as amended and as then in effect, the Securities Exchange Act of 1934, as amended and as then in effect, or the Trust Indenture Act of 1939, as amended and as then in effect, (c) there shall have occurred any outbreak or escalation of hostilities or other national or international calamity or crisis which impacts the financial markets of the United States, (d) there shall be in force a general suspension of trading on the New York Stock Exchange or the fixing of maximum or minimum prices for securities on said Exchange, (e) any state "blue sky" or securities commission shall have withheld registration, exemption or clearance of the offering of the Bonds, (f) a general banking moratorium shall have been declared by federal or State of New York authorities or a major financial crisis shall have occurred, or (g) the Prevailing Rating decreases below A/A/A.

Auction Dates

An Auction to determine the interest rate with respect to a Series of the Auction Bonds for the next succeeding Auction Period will be held on each Auction Date.

DTC Required During Auction Rate Mode; Limitations on Transfer

Except as otherwise provided herein, the Auction Bonds accruing interest at an Auction Rate shall be registered in the name of DTC or its nominee and ownership thereof shall be maintained in book-entry-only form by DTC for the account of the Agent Members thereof.

If at any time DTC notifies the State or the Paying Agent that it is unwilling or unable to continue as registered owner of Auction Bonds or if at any time DTC shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation, and a successor to DTC is not appointed by the State, within 90 days after the State receives notice or becomes aware of such condition, as the case may be, the State shall execute and the Paying Agent shall authenticate and deliver certificates representing the Auction Bonds. Auction Bonds issued as described herein shall be registered in such names and authorized denominations as DTC, pursuant to instructions from the Agent Members or otherwise, shall instruct the State and the Paying Agent. The Paying Agent shall deliver the Auction Bonds to the persons in whose names such Auction Bonds are so registered on the Business Day immediately preceding the first day of an Auction Period.

So long as the ownership of the Auction Bonds is maintained in book-entry-only form by DTC, an Existing Owner may sell, transfer or otherwise dispose of Auction Bonds only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Owner, its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer.

Auction Period — General

The Auction Bonds shall accrue interest at the Auction Rate determined as set forth below. Except for the initial Auction Period, which commences on the date of original issuance of the Auction Bonds, and as otherwise provided in the Bonds for any other Auction Period, the Auction Rate shall be the rate of interest per annum that results from implementation of the Auction Procedures.

On each Auction Date, the Auction Agent shall determine the Maximum Auction Rate. As of the Delivery Date the Prevailing Rating of the Auction Bonds is "AAA/AAA/Aaa" and the Auction Multiple is 175%. Thereafter, if there shall have been a change in the Prevailing Rating of the Auction Bonds, the State Representative shall supply to the Auction Agent by facsimile transmission, prior to 9:00 a.m. New York City time on the first Auction Date following such change, the new Prevailing Rating of the Auction Bonds and the applicable Auction Multiple. The Auction Agent may conclusively rely upon such information so obtained and shall be entitled to assume that there has been no change in the Prevailing Rating of the Auction Bonds and the Auction Multiple unless and until it has been so notified by the State Representative to the contrary.

Each reference in the Auction Procedures to the purchase, sale or holding of Auction Bonds shall refer to beneficial ownership interests in Auction Bonds, unless the context clearly requires otherwise.

The Auction Agent shall maintain a list of Existing Owners. The Auction Agent may rely upon, as evidence of the identities of the Existing Owners, a list of the initial Existing Owners provided by the Broker-Dealer, the results of Auctions, notices from the Securities Depository regarding the results of mandatory tenders and redemptions, and notices from any Existing Owner, the Agent Member of any Existing Owner or the Broker-Dealer of any Existing Owner with respect to such Existing Owner's transfer of Bonds to another person only if (a) such transfer is pursuant to an Auction or (b) the Auction Agent has been notified in writing (i) by such Existing Owner or its Agent Member or Broker-Dealer of such transfer or (ii) by a Broker-Dealer of any person that purchased or sold such Auction Bonds in an Auction of the failure of such Auction Bonds to be transferred as a result of the Auction. The Auction Agent will not be required to accept any notice delivered after 3:00 p.m., New York City time, on the Business Day next preceding Auction Date.

Orders by Existing Owners and Potential Owners

(a) Subject to the provisions described above under "***Auction Period — General***," Auctions shall be conducted on each Auction Date in the manner described under this heading and in the remainder of this Appendix. Prior to the Submission Deadline on each Auction Date:

(i) Each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of Auction Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold without regard to the Auction Rate for the next succeeding Auction Period;

(B) the principal amount of Auction Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding applicable Auction Period if the rate determined by the Auction Procedures for such applicable Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell if the Auction Rate for the next succeeding Auction Period shall be less than the rate per annum specified by such Existing Owner); and

(C) the principal amount of Auction Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to sell without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the applicable Auction Bonds, the Broker-Dealer shall contact Potential

Owners, including Persons that are Existing Owners, to determine the principal amount of applicable Auction Bonds, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding applicable Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in clause (i) or clause (ii) above is hereinafter referred to as an "Order" and each Existing Owner and Potential Owner placing an Order is hereinafter referred to as a "Bidder"; an Order containing the information referred to in clause (i)(A) above is hereinafter referred to as a "Hold Order," an Order containing the information referred to in clause (i)(B) or clause (ii) above is hereinafter referred to as a "Bid" and an Order containing the information referred to in clause (i)(C) above is hereinafter referred to as a "Sell Order."

(b) (i) Subject to the provisions of "***Submission of Orders by Broker-Dealers to Auction Agent***" below, a Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of Auction Bonds specified in such Bid if the Auction Rate determined pursuant to the Auction Procedures on such Auction Date shall be less than the interest rate specified therein; or

(B) such principal amount or a lesser principal amount of Auction Bonds to be determined as set forth below under "***Allocation of Auction Bonds***" if the Auction Rate determined pursuant to the Auction Procedures on such Auction Date shall be equal to the interest rate specified therein; or

(C) such principal amount or a lesser principal amount of Auction Bonds to be determined as set forth below under "***Allocation of Auction Bonds***" if such specified rate shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.

(ii) Subject to the provisions set forth below under "***Submission of Orders by Broker-Dealers to Auction Agent,***" a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal *amount* of Auction Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Auction Bonds as set forth below under "***Allocation of Auction Bonds***" if Sufficient Clearing Bids do not exist.

(iii) Subject to the provisions described below in "***Submission of Orders by Broker-Dealers to Auction Agent***", a Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of Auction Bonds specified in such Bid if the Auction Rate determined on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Auction Bonds as set forth below under "***Allocation of Auction Bonds***" if the Auction Rate determined on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies Auction Bonds to be held, purchased or sold in a principal amount which is not equal to the Authorized Denomination for Auction Bonds or an integral multiple thereof shall be rounded down to the nearest amount that is equal to the Authorized Denomination for Auction Bonds, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount**;**

(ii) any portion of an Order of an Existing Owner which relates to an Auction Bond which has been called for redemption on or prior to the applicable Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) no portion of an Auction Bond which has been called for redemption on or prior to the applicable Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction; and

(iv) the Auction Procedures shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Paying Agent of the occurrence of a payment default by the State and the Bond Insurer and shall resume two Business Days after the date on which the Auction Agent receives notice from the Paying Agent that such default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

(v) Any Bid submitted by an Existing Owner or Potential Owner specifying a rate lower than the Minimum Auction Rate shall be treated as a Bid specifying the Minimum Auction Rate.

Submission of Orders by Broker-Dealers to Auction Agent

(a) Each Broker-Dealer shall submit in writing or by such other method as shall be reasonably acceptable to the Auction Agent, including such electronic communication acceptable to the parties, to the Auction Agent, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

(i) The name of the Bidder placing such Order;

(ii) The aggregate principal amount of Auction Bonds that are subject to such Order;

(iii) To the extent that such Bidder is an Existing Owner:

(A) the principal amount of Auction Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of Auction Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of Auction Bonds, if any, subject to any Sell Order placed by such Existing Owner; and

(iv) To the extent such Bidder is a Potential Owner, the rate specified in such Potential Owner's Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%.

(c) If an Order or Orders covering all Auction Bonds held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Auction Bonds of such Series held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a change from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of Auction Bonds to be changed held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Auction Bonds to be changed held by such Existing Owner not subject to Orders submitted to the Auction Agent. Neither the State, the Paying Agent nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(d) If any Existing Owner submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Auction Bonds held by such Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

(i) All Hold Orders shall be considered valid, but only up to and including the principal amount of Auction Bonds held by such Existing Owner, and, if the aggregate principal amount of Auction Bonds subject to such Hold Orders exceeds the aggregate principal amount of Auction Bonds held by such Existing Owner, the aggregate principal amount of Auction Bonds subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Auction Bonds held by such Existing Owner;

(ii) (A) any Bid shall be considered valid up to and including the excess of the principal amount of Auction Bonds held by such Existing Owner over the aggregate principal amount of Auction Bonds subject to any Hold Orders referred to in clause (i) above;

(B) subject to clause (i) above, if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the aggregate principal amount of Auction Bonds subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess, and the principal amount of Auction Bonds subject to each Bid with the same rate shall be reduced pro rata to cover the principal amount of Auction Bonds equal to such excess;

(C) subject to clause (i) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(D) in any such event, the aggregate principal amount of Auction Bonds, if any, subject to Bids not valid under this paragraph (d) shall be treated as the subject of a Bid by a Potential Owner at the rate therein specified; and

(iii) All Sell Orders shall be considered valid up to and including the excess of the principal amount of Auction Bonds held by such Existing Owner over the aggregate principal amount of Auction Bonds subject to valid Hold Orders referred to in clause (i) and valid Bids referred to in clause (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of Auction Bonds specified therein.

(f) Neither the State, the Paying Agent nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(g) Any Order submitted in an Auction by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Auction Date shall be irrevocable.

Determination of Auction Rate

(a) Not later than 9:30 a.m., New York City time, on each Auction Date for Auction Bonds, the Auction Agent shall advise the State, the Broker-Dealers and the Paying Agent by telephone or other electronic communication acceptable to the parties of the applicable Minimum Auction Rate, the applicable Maximum Auction Rate and the applicable Index for the applicable Auction Bonds.

(b) Promptly after the Submission Deadline on each Auction Date for Auction Bonds, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order" and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the applicable Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to the preceding paragraph, the Auction Agent shall advise the Paying Agent by telephone (promptly confirmed in writing), telex or facsimile transmission or other electronic communication acceptable to the parties of the applicable Auction Rate for the next succeeding Auction Period and the Paying Agent shall promptly notify the Securities Depository of such Auction Rate.

(d) In the event the Auction Agent fails to calculate, or for any reason fails to timely provide, the Auction Rate for any Auction Period, the Auction Rate for such Auction Period, with respect to the Auction Bonds, shall be the No Auction Rate; provided, however, that if the Auction Procedures are suspended due to the failure to pay the principal of or interest on any Bond of a Series, the Auction Rate for the next succeeding Auction Period shall be the Default Rate.

(e) If the Auction Bonds are not rated or are no longer maintained in book-entry form by the Securities Depository, then the Auction Rate shall be the Maximum Auction Rate.

Allocation of Auction Bonds

(a) In the event of Sufficient Clearing Bids for Auction Bonds, subject to the further provisions below, Submitted Orders for the applicable Auction Bonds shall be accepted or rejected as follows in the following order of priority:

> (i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Bonds that are the subject of such Submitted Hold Order;
>
> (ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Auction Bonds that are the subject of such Submitted Sell Order or Submitted Bid;
>
> (iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of Auction Bonds obtained by multiplying (A) the aggregate principal amount of Auction Bonds which are not the subject of Submitted Hold Orders described above or of Submitted Bids described above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Auction Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Outstanding Auction Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Auction Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Bonds that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of Auction Bonds obtained by multiplying (A) the aggregate principal amount of applicable Outstanding Auction Bonds which are not the subject of Submitted Hold Orders described above or Submitted Bids described above by (B) a fraction the numerator of which shall be the principal amount of Auction Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Auction Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for Auction Bonds, subject to the further provisions below, Submitted Orders for Auction Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Auction Rate with respect to the applicable Auction Bonds shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Auction Rate with respect to the applicable Auction Bonds, shall be accepted, thus requiring each such Potential Owner to purchase the Auction Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Auction Rate with respect to the applicable Auction Bonds shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of Auction Bonds obtained by multiplying (A) the aggregate principal amount of Auction Bonds subject to accepted Submitted Bids described above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Auction Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Outstanding Auction Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Auction Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Auction Rate with respect to the applicable Auction Bonds shall be rejected.

(c) If, as a result of the procedures described above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of Auction Bonds which is not an integral multiple of the Authorized Denomination for Auction Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of Auction Bonds to be purchased or sold by an Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of Auction Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of the Authorized Denomination for the Auction Bonds, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Auction Bonds on such Auction Date.

Notice of Auction Rate

(a) On each Auction Date, the Auction Agent shall notify, by telephone or other telecommunication device or other electronic communication acceptable to the parties or in writing, each Broker-Dealer that participated in the Auction held on such Auction Date of the following with respect to Auction Bonds for which an Auction was held on such Auction Date:

(i) the Auction Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the principal amount of Auction Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the principal amount of Auction Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the Auction Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of Auction Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker Dealer) and the principal amount of Auction Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding applicable Auction Date.

(b) On each applicable Auction Date, with respect to Auction Bonds for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the applicable Auction Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding applicable Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of such Auction Bonds to be purchased pursuant to such Bid (including, with respect to such Auction Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Auction Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of such Auction Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

Index

(a) If for any reason on any Auction Date the Index shall not be determined as hereinabove provided in the Definitions, the Index shall be the Index for the applicable Auction Period ending on such Auction Date.

(b) The determination of the Index as provided herein shall be conclusive and binding upon the State, the Paying Agent, the Broker-Dealers, the Auction Agent and the registered owners and Beneficial Owners of the Auction Bonds.

Payment Default Notices

The Paying Agent shall determine not later than 12:00 noon (New York City time) on the Business Day next succeeding an Interest Payment Date, whether a payment default has occurred. If a payment default has occurred, the Paying Agent shall, not later than 12:15 p.m. (New York City time) on such Business Day, send a notice to the Auction Agent by telecopy or similar means that the payment default has occurred and that, unless the payment default is cured, the next Auction will not be held and the Auction Rate for the next succeeding Interest Period will be the Default Rate, and, if such payment default is cured, the Paying Agent shall immediately send a notice to the Auction Agent by telecopy or similar means that the payment default has been cured and specifying the next Interest Payment Date and the next Auction Date.

Changes in Auction Periods or Auction Dates

(a) Changes in Auction Period.

(i) The State Representative may from time to time on any Interest Payment Date, change the length of the Auction Period with respect to any of the Series of Auction Bonds among 7-day, 28-day and 35-day Auction Periods. The State Representative shall initiate the change in the length of the Auction Period by giving written notice to the Bond Insurer, the Auction Agent, thc Broker-Dealers and the Securities Depository that the Auction Period for the Auction Bonds specified in such notice shall change if the conditions described herein are satisfied and the proposed effective date of the change at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) The change in length of the Auction Period for Auction Bonds shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Auction Bonds for which there is to be a change in the length of the Auction Period except to the extent such Existing Owner submits an Order with respect to such Auction Bonds. If the condition referred to above is not met, the applicable Auction Rate for the next applicable Auction Period shall be determined pursuant to the Auction Procedures and shall be the Maximum Auction Rate and the Auction Period shall be a 7-day Auction Period.

(iii) On the change date for Auction Bonds from one Auction Period to another Auction Period, any Auction Bonds which are not the subject of a specific Hold Order or Bid shall be deemed to be subject to a Sell Order.

(b) Changes in Auction Date.

(i) The Auction Agent, with the written consent of the State Representative, may specify an Auction Date for Auction Bonds different from the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date." The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Paying Agent, the State, the Broker-Dealers and the Securities Depository.

Amendment of Auction Procedures

The provisions of the Bonds concerning the Auction Procedures, including without limitation the definitions applicable thereto, including without limitation, the definitions of Auction Rate, Default Rate, Maximum Auction Rate, Minimum Auction Rate, Index, Auction Multiple and No Auction Rate may be amended by obtaining the consent of the Beneficial Owners of all Auction Bonds affected by such amendment. If on the first Auction Date occurring at least 20 days after the date on which the Auction Agent mailed notice to the Beneficial Owners of the Auction Bonds affected by such amendment, Sufficient Clearing Bids have been received or all of the Auction Bonds affected by such amendment are subject to Submitted Hold Orders, the proposed amendment shall be deemed to have been consented to by the Beneficial Owners of all Auction Bonds affected by such amendment. Any such consent or deemed consent by a Beneficial Owner shall be conclusive and binding upon such Beneficial Owner and all future Beneficial Owners thereof. As a condition precedent to any amendment referred to in this paragraph, there shall be delivered to the Paying Agent an opinion of nationally recognized bond counsel to the effect that such amendment will not adversely affect the validity of the Bonds, and, if the interest on the Bonds is then excluded from gross income pursuant to Section 103 of the Code, an opinion of nationally recognized bond counsel to the effect that such amendment will not adversely affect the tax exemption of interest on the Bonds.

Paying Agent and the State Representative Not Responsible for Auction Agent and Broker-Dealers

Neither the Paying Agent nor the State Representative shall be liable or responsible for the actions of or failure to act by the Auction Agent or any Broker-Dealer under the Bonds or under the Auction Agreement or any Broker-Dealer Agreement except as provided in any such Agreement. The Paying Agent and the State may conclusively rely upon any information required to be furnished by the Auction Agent or any Broker-Dealer without undertaking any independent review or investigation of the truth or accuracy of such information.

Conversion to Fixed Rate

The Paying Agent shall, at the request of the State, permanently fix the interest rate on any Bond selected by the State at a rate per annum (the "Fixed Rate"), determined as hereinafter provided, to become effective on any Business Day which is an Interest Payment Date and on which such Bond is callable, at the direction of the State Representative at the par amount thereof plus accrued interest (the "Conversion Date" for such Bond) selected by the State Representative on the following terms and conditions:

(a) Not later than 20 days prior to the Conversion Date, the State Representative shall select the particular Bonds to be converted on the Conversion Date and shall send written notice to the Paying Agent and the Auction Agent to implement such Conversion. Such Bonds so selected shall be exchanged on the Conversion Date for new Bonds bearing the Fixed Rates thereon, payable on the date hereinafter provided, and maturing in the amounts and on the dates provided in the original Bonds.

(b) The Bonds converted to a Fixed Rate shall be dated the Conversion Date.

(c) Each Bond converted to a Fixed Rate shall bear interest at a Fixed Rate, which shall be, in each case, the lesser of 15 percent per annum or the lowest rate of interest per annum which, in the judgment of the Remarketing Agent exercised at any time prior to 12:00 noon (New York City time) on the day preceding the Conversion Date for such Bond, will enable such Bond to be sold at 100% of the principal amount thereof on the Conversion Date therefor pursuant to irrevocable bids or bids for such Bond which shall be acceptable to the State Representative. Such interest shall accrue from the Conversion Date and shall be payable on May 1 and November 1 of each year, beginning with the May 1 or November 1 following such Conversion Date, to the registered owner as of the applicable Record Date.

(d) Any Bond converted to a Fixed Rate shall be redeemable prior to its Maturity Date at the request of the State Representative in whole or in part in Authorized Denominations on any date at a redemption price equal to the principal amount being redeemed and accrued interest, if any, thereon to the date of redemption, plus any premium and subject to any limitations on such optional redemptions all as shall be specified by the State Representative in the certificate of determination referred to in paragraph (e) below.

(e) No Bond shall be converted to a Fixed Rate unless prior thereto the State Representative shall have filed with the Secretary of the State Bond Commission as provided in Section 3-20 of the Connecticut General Statutes, Revision of 1958, a certificate of determination setting forth the Fixed Rate, redemption provisions and other details of the Converted Bonds.

(f) Not less than 15 days prior to each Conversion Date, the Paying Agent shall give written or telegraphic notice to the registered owner of each Bond to become a Converted Bond on such Conversion Date, and the Auction Agent shall give written or telegraphic notice to the Broker-Dealers, in each case that such Bond will be converted on the Conversion Date (which shall be specified), subject to satisfaction of the conditions referred to in the succeeding paragraph (h) and to no prior revocation of the option to convert as described in the succeeding paragraph (g), and that on such Conversion Date, such Bond must be tendered for purchase as described herein.

(g) Such notice shall be deemed revocable and shall be revoked by the Paying Agent at the direction of the State Representative by giving written or telegraphic notice of revocation to the Paying Agent at any time prior to the close of business on the Business Day preceding the Conversion Date.

(h) With respect to Conversions of Bonds to a Fixed Rate, if the notice provided for in the preceding paragraph (f) of the Conversion of any Bond to a Converted Bond on any Conversion Date has not been revoked, such Conversion shall become effective on such Conversion Date provided that (i) there is in effect a bond purchase agreement between the State and a nationally recognized financial institution or dealer (which may be the Remarketing Agent) providing for the purchase by such institution or dealer on such Conversion Date, subject to customary closing conditions, of all Bonds to become Converted Bonds on such Conversion Date when such Bonds are tendered for purchase pursuant to the succeeding provisions of this Section and the Paying Agent is notified of such agreement, (ii) the Fixed Rate has been determined and all Bonds then being converted to a Fixed Rate are purchased pursuant to the aforementioned bond purchase agreement, and (iii) if the interest on the Bonds to be converted is excluded from gross income pursuant to Section 103 of the Code, there shall be delivered an opinion of nationally recognized bond counsel to the effect that such Conversion will not adversely affect the tax exemption of interest on the Bonds. In the event all Bonds converted to a Fixed Rate are not purchased pursuant to the aforementioned bond purchase agreement, such Conversion shall not become effective and the notice specified in the foregoing paragraph (f) shall be deemed not to have been given. If the Bonds are not so converted to a Fixed Rate on any Conversion Date therefor, such Bonds shall bear interest in accordance with the provisions pertaining to failed Conversions of Auction Bonds pursuant to the following Section hereof entitled "*Failed Conversions*."

In connection with the Conversion of any Bonds on a Conversion Date, the following provisions shall also apply:

(i) With respect to Bonds converted to a Fixed Rate, the Paying Agent shall note on each Converted Bond the Fixed Rate therefor and any optional redemption provisions.

(ii) The Paying Agent may, at the request of the purchaser named in the bond purchase agreement referred to in paragraph (h) above, add to any such Bond or Bonds any legend deemed by the Paying Agent to be necessary or appropriate to distinguish such Bonds from other Bonds, whether or not such other Bonds have been converted to a Fixed Rate, and may also take such action as the Paying Agent deems necessary or appropriate to apply for new "CUSIP" numbers for such Bonds in order to achieve such distinction.

Each registered owner and Beneficial Owner of a Bond, by acceptance of such Bond, shall be deemed to have agreed, upon receipt of the notice referred to in the preceding paragraph (f), to sell such Bond to the Paying Agent on such Conversion Date at the Purchase Price, subject to notice of revocation of the Conversion or the failure of any condition of such Conversion. On the Conversion Date for any Auction Bond selected for Conversion to a Fixed Rate, all such Auction Bonds then outstanding shall be subject to mandatory tender for purchase at the Purchase Price. Auction Bonds to be tendered for purchase are required to be delivered by the registered owners and Beneficial Owners thereof to the Paying Agent (together with necessary assignments and endorsements) on or prior to the Conversion Date applicable to such Auction Bond. Any Auction Bond, or portions thereof that are not so delivered (the "Untendered Auction Bond"), for which moneys have been irrevocably deposited in trust with the Paying Agent, shall be deemed to have been delivered for purchase to the Paying Agent, and the registered owners and Beneficial Owners of such Untendered Auction Bonds shall not be entitled to any benefits of the Bonds other than the payment of the Purchase Price, and interest shall cease to accrue on such Untendered Auction Bonds as of the Conversion Date.

Failed Conversions

In the event of failure to establish a Fixed Rate, the Auction Bond will continue as Auction Bonds with the same Auction Period, the interest rate on the Auction Bonds effective on the failed Conversion Date shall be the Maximum Auction Rate and Auctions shall be resumed beginning on the Auction Date immediately following the failed Conversion Date.

Failed Change to Tax-Exempt Rate

The Series B Bonds provide that upon notice from the State to the Paying Agent, the Auction Agent and the Broker-Dealers that the State has received a ruling from the Internal Revenue Service or an opinion of nationally recognized bond counsel that the interest on all or any portion of the Series B Bonds may be excluded from gross income for federal income tax purposes, all or any portion of such Series B Bonds then Outstanding may be selected by the State for and shall be subject to mandatory tender for purchase on a designated date, at a Purchase Price equal to the principal amount of such Auction Bonds, plus accrued interest to the tender date. The tender date shall be an Interest Payment Date and a date on which Auction Bonds would be eligible to be redeemed at the option of the State. Such mandatory tender is subject to the remarketing of the Series B Bonds by or on behalf of the State for amounts sufficient to pay the Purchase Price on all Series B Bonds subject to tender and the delivery of an opinion of nationally recognized bond counsel that the interest on the remarketed Series B Bonds is excluded from gross income for federal income tax purposes. In the event all Series B Bonds selected for tender are not remarketed for amounts sufficient to pay the Purchase Price on all Series B Bonds subject to tender or if there shall fail to be delivered an opinion of nationally recognized bond counsel to the effect that the interest on the remarketed bonds is excluded from gross income for federal income tax purposes, the tender shall not be effective. In such event the Series B Bonds which were subject to tender will be returned to the owners thereof and will continue as Auction Bonds, the interest on which is included in gross income for federal income tax purposes, with the same Auction Period, the interest on the Auction Bonds effective on the failed tender date shall be the Maximum Auction Rate, and Auctions shall be resumed beginning on the Auction Date immediately following the failed tender date.

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INFORMATION CONCERNING BOND INSURANCE AND SPECIMEN POLICY

The information contained in this **Appendix I-E** has been furnished by Financial Guaranty Insurance Company for use in this Official Statement. The State takes no responsibility for the accuracy thereof.

Bond Insurance

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Bonds (the "Issuer"). Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the Paying Agent of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancelable and the premium will be fully paid at the time of delivery of the Bonds. The Policy covers failure to pay principal or accreted value (if applicable) of the Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds. Reference should be made to the description of the Issuer for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of December 31, 2001, the total capital and surplus of Financial Guaranty was approximately $1.002 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principals and generally accepted accounting principals. Copies of such financial statements may be obtained by writing to Financial Guaranty at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone number: (212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York, 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

SPECIMEN INSURANCE POLICY

A specimen bond insurance policy follows as **Exhibit A** to this **Appendix I-E**.

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

SPECIMEN

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

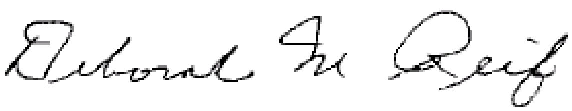
A GE Capital Company

FGIC

Municipal Bond
New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

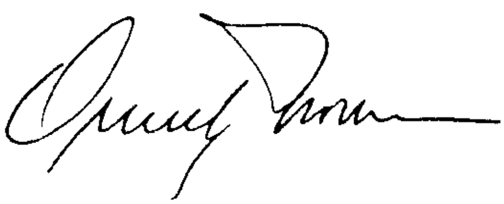
In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.



President

Effective Date: **Authorized Representative**

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.



Authorized Officer

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Mandatory Connecticut State Amendatory Endorsement

To Financial Guaranty Insurance Company
Insurance Policy

Policy Number: **Control Number:** 0010001

SPECIMEN

The insurance provided by this Policy is not covered by the Connecticut Insurance Guaranty Association (Connecticut Insurance Code, Title 38a, Chapter 704a, Part I).

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

Financial Guaranty Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

Mandatory Connecticut State Amendatory Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

Notwithstanding the terms and conditions of this Policy, it is further understood that there shall be no acceleration of payment due under such Policy unless such acceleration is at the sole option of Financial Guaranty.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

PART II

INFORMATION SUPPLEMENT

OF THE STATE OF CONNECTICUT

April 26, 2002

The Annual Information Statement of the State of Connecticut (the "State"), dated October 30, 2001, as modified February 27, 2002 appears in this Official Statement as **Part III** and contains information through October 30, 2001. The State expects to provide an updating Information Supplement from time to time in the future, which will appear in this location as Part II of future Official Statements of the State.

This Information Supplement updates certain information in the October 30, 2001 Annual Information Statement through April 26, 2002. The information in this **Part II** and **Part III** is subject to change without notice, and investors should not assume that there has been no change in the affairs of the State since the date of this **Part II**.

FORMER TREASURER

On September 23, 1999 former State Treasurer Paul J. Silvester pleaded guilty in Federal District Court of Connecticut to charges of racketeering, bribery and money laundering. The guilty pleas related to solicitations, for himself and others, of bribes and rewards in return for directing investments of State pension funds. The office of the United States Attorney for Connecticut has stated that the investigation by his office is continuing. Representatives of the Internal Revenue Service and the Securities and Exchange Commission are also investigating. The Office of the Treasurer is cooperating with all investigations. In April 2000 former Assistant Treasurer George M. Gomes pleaded guilty to a mail fraud charge related to the matters under investigation. In response to concerns about the activities of the former Treasurer, Treasurer Denise L. Nappier proposed, and the General Assembly passed, legislation under Public Act No. 00-43 which requires additional oversight by the Investment Advisory Council over pension fund investments and increases public disclosure by firms providing investment services to the Treasurer's office.

STATE GENERAL FUND

Page III-25. The following information is added following the caption ***Fiscal Year 2001-2002 Operations***:

The adopted budget for the 2001-2002 fiscal year anticipated General Fund revenues of $11,894.1 million and General Fund expenditures of $11,894.0 million resulting in a projected surplus of $0.1 million. Per Section 3-115 of the Connecticut General Statutes, the State's fiscal position is reported monthly by the Comptroller. This report compares the revenues already received and the expenditures already made to estimated revenues to be collected and estimated expenditures to be made during the balance of the fiscal year. **Appendix III-E** to **Part III** showed estimated revenues and expenditures for the 2001-2002 fiscal year as of September 30, 2001. This report estimated 2001-2002 fiscal year General Fund revenues of $11,651.7 million, General Fund expenditures of $11,953.4 million, and an estimated deficit of $301.7 million, as a result of a decrease in estimated revenue and an increase in certain expenditures.

Per Section 4-85 of the Connecticut General Statutes, whenever the cumulative monthly financial statement issued by the Comptroller indicates a projected General Fund deficit greater than one percent of the total General Fund appropriations, the Governor is required within thirty days to file a report with the joint standing committees of the General Assembly on appropriations and on finance, revenue and bonding. The report shall include a plan which the Governor shall implement to modify agency allotments to the extent necessary to prevent a deficit. Should such plan result in a reduction of more than five percent of total appropriations, approval of the General Assembly would be required.

As part of the plan to address the budget shortfall, the Governor called a Special Session of the Connecticut General Assembly in November 2001. The Special Session adopted legislation which contained $35.3 million General Fund operating budget reductions for fiscal year 2001-2002 and $129.0 million in expenditure reductions that had been appropriated from the fiscal year 2000-2001 surplus. It was anticipated that legislation would be adopted in the regular February 2002 Session that would transfer the reductions in appropriations from the 2000-2001 surplus to the resources of the General Fund. These actions, together with various allotment modifications imposed by the Governor, while not fully eliminating the budget shortfall, reduced deficit projections at that time to below 1% of General Fund expenditures.

The legislation also authorized $51.6 million in additional general obligation bonds to finance some of the reductions in expenditures from the 2000-01 surplus.

Governor's Proposed Midterm Budget Adjustments

Per Section 4-71 of the Connecticut General Statutes, the Governor is required to submit a status report to the General Assembly on the biennial budget enacted in the previous year. The status report shall include any recommendations for adjustments and revisions to the enacted budget.

On February 6, 2002, the Governor submitted to the General Assembly a status report including detailed projections of expenditures and revenues and proposed Midterm Budget Adjustments for the 2001-2002 and 2002-2003 fiscal years. The General Assembly convened on February 6, 2002 to consider the Governor's proposed Midterm Budget Adjustments and is scheduled to adjourn on May 8, 2002.

The Governor's proposed Midterm Budget Adjustments for fiscal year 2001-2002 anticipated General Fund expenditures of $11,818.4 million, General Fund revenues of $11,695.8 million and an estimated General Fund deficit of $122.6 million. The Governor's proposed Midterm Budget Adjustments anticipated that this remaining deficit would be met with a transfer from the Budget Reserve Fund pursuant to Section 4-30a of the Connecticut General Statutes.

The Governor's proposed Midterm Budget Adjustments for fiscal year 2002-2003 anticipate a reduction of $43.6 million in General Fund expenditures from $12,431.4 million to $12,387.8 million, a reduction in General Fund revenues from $12,432.0 million to $12,388.2 million, and an estimated General Fund surplus of $0.4 million.

The Governor's proposed Midterm Budget Adjustments for fiscal years 2001-2002 and for fiscal year 2002-2003 are outlined in **Appendix III-E** to this **Part II**.

Pursuant to Article XXVIII of the Amendments to the Constitution of the State of Connecticut and Section 2-33a of the Connecticut General Statutes, the Governor's proposed Midterm Budget Adjustments would result in a fiscal 2002-2003 budget that remains within the limits imposed by the expenditure cap. For fiscal 2002-2003, permitted growth in capped expenditures is estimated at 6.20%. The proposed Midterm Budget Adjustments would result in a fiscal 2002-2003 budget that is $94.4 million below the expenditure cap.

The Governor's proposed Midterm Budget Adjustments also propose an increase in general obligation bond authorizations of $127.0 million for the 2002-2003 fiscal year and the reduction or cancellation of existing bond authorizations of $169.6 million for the 2002-2003 fiscal year, for a net reduction in existing general obligation bond authorizations for 2002-2003 of $12.6 million.

Explanation of Proposed Revenue and Expenditure Adjustments for Fiscal Year 2001-2002 and Fiscal Year 2002-2003

For fiscal year 2001-2002, the Governor proposed a total of $269.3 million in revenue enhancements as part of the Midterm Budget Adjustments. These include the following modifications: 1) a 61 cents increase in the cigarette tax from $0.50 cents per pack to $1.11 per pack effective April 1, 2002 resulting in $42.5 million in additional anticipated revenue in fiscal year 2001-2002 from cigarette and sales taxes, 2) conversion of an HMO tax credit under the insurance premiums tax to an appropriation which will yield the State an additional $14 million in anticipated revenue in fiscal year 2001-2002, 3) greater use of the remaining fiscal year 2000-2001 surplus which will yield the General Fund an additional $77 million in fiscal year 2001-2002, and 4) incorporation of $135.8 million from the fiscal year 2000-2001 surplus that was previously enacted by the legislature in the November Special Session.

For fiscal year 2002-2003, the most significant revenue enhancements are as follows: 1) $129.3 million from the annualization of the cigarette tax increase mentioned above, 2) deferral of certain previously enacted tax decreases totaling $21.3 million, 3) a one-time transfer of resources from various quasi-public agencies of the State totaling $100 million, 4) a one-time $98 million of proceeds from the sale of stock received as part of the Anthem demutualization, and 5) a one-time $41 million in transfers from tobacco settlement funds previously targeted for other purposes.

Legislation to increase the cigarette tax by 61 cents a pack effective April 1, 2002 and to convert an HMO tax credit to an appropriation have been adopted.

For fiscal year 2001-2002, the Governor's proposal includes $29.5 million in allotment rescissions and related lapses implemented in September, $35.3 million in appropriation reductions enacted in the November Special Session, $28.1 million in additional allotment rescissions and related lapses implemented in December, and additional expenditure requirements which will be met through the transfer of remaining fiscal year 2000-2001 surplus.

For fiscal year 2002-2003, the Governor's proposed Midterm Budget Adjustments propose a net reduction of $43.6 million in General Fund appropriations to the originally enacted budget. The Governor's proposed budget includes an additional $108 million for technical adjustments such as caseload increases in entitlement programs, additional Corrections beds coming on line, and additional workers compensation claims; $204.2 million in expenditure reductions to various programs; and $52.6 million in expenditure expansions to a small number of program areas. Expenditure reductions generally include the continuation of fiscal year 2001-2002 allotment rescissions wherever possible, the scaling back of a number of planned expansions in the enacted budget and level funding a number of program areas that would have otherwise experienced inflationary and caseload growth. Expenditure expansions are proposed primarily in the Department of Social Services to enhance payments to Medicaid providers to insure access to services and to provide more financial stability and access to labor for the state's medical care community; and in the Department of Children and Families as a prerequisite to the successful development of an exit plan for the Consent Decree.

Fiscal Year 2001-2002 Operations Update

Per Section 3-115 of the Connecticut General Statutes, the State's fiscal position is reported monthly by the Comptroller. This report compares the revenues already received and the expenditures already made to estimated revenues to be collected and estimated expenditures to be made during the balance of the fiscal year. **Appendix III-E** to this **Part II** shows estimated revenues and expenditures for the 2001-2002 fiscal year based on information as of February 28, 2002 contained in the Comptroller's report released April 1, 2002. This report estimates 2001-2002 fiscal year General Fund Revenues of $11,381.1 million, the payment of additional expenditures from resources from the surplus for 2000-2001 fiscal year, and a resulting estimated deficit of $244.2 million, as a result of a further decrease in estimated revenue and a further increase in estimated expenditures from the amount anticipated in the Governor's proposed Midterm Budget Adjustments. Projected revenues are less than the revenues projected in the Governor's Midterm Budget Adjustments. These estimates assume that certain legislation will be adopted during the February 2002 regular session and certain other actions will be taken as described above under ***Governor's Midterm Budget Adjustments***.

The projected budget deficit is expected to be met with a transfer from the Budget Reserve Fund pursuant to Section 4-30a of the Connecticut General Statutes.

The Office of Fiscal Analysis of the General Assembly, in a report dated February 8, 2002, had projected revenue shortfalls which exceeded those included in the Governor's Midterm Budget Analysis by $208.8 million for fiscal year 2001-2002 and $156.8 million for fiscal year 2002-2003. The primary reason for the difference is due to different growth rate assumptions.

Tax collections during recent months were lower than earlier projections. The State receives a significant portion of its tax collections in April and May. The revenue projections for the 2001-2002 fiscal year will be impacted by the actual tax collections in April and May. Any reduction in actual revenues would cause an increase in the projected deficit for the 2001-2002 fiscal year.

It is likely that the amount of revenues for the 2002-2003 fiscal year will be less than the amount of revenues anticipated in the Governor's proposed Midterm Budget Adjustments for the 2002-2003 fiscal year. Also, any reduction in actual tax collections during April and May of 2002 below projections could indicate a further reduction in the amount of revenues for the 2002-2003 fiscal year.

The above projections and the information in **Appendix III-E** and in the Comptroller's monthly reports contains only estimates and no assurances can be given that subsequent estimates or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2001-2002 operations of the General Fund.

The Office of Policy and Management, in a report to the Comptroller dated April 22, 2002, has projected an increase in the deficit of the 2001-2002 fiscal year from the $244.2 million noted above to an estimated deficit of $514.6 million, based on information as of March 31, 2002 and assuming the adoption of legislation and the taking of certain actions as described above under ***Governor's Proposed Mid-Term Budget Adjustments***. The increase in the estimated deficit is due to a decrease in projected revenues of $221.4 million and action by the Appropriations Committee of the General Assembly which has not approved the Governor's proposal to transfer approximately $49.0 million to resources available to the General Fund for expenditures of the 2001-2002 fiscal year. The revenue projections may have to be revised downward again based on receipts expected to be processed during the balance of April and in May. The projected budget deficit is expected to be met with a transfer from the Budget Reserve Fund pursuant to Section 4-30a of the Connecticut General Statutes. The Budget Reserve Fund currently has a balance of $594.7 million.

The Office of Policy and Management anticipates, based primarily on a reduction in anticipated revenues for the 2002-2003 fiscal year, that there is an estimated $307 million budget gap for the 2002-2003 fiscal year in the amounts anticipated above under ***Governor's Proposed Mid-Term Budget Adjustments*** for fiscal year 2002-2003 and as outlined in **Appendix III-E** to this **Part II**.

The General Assembly is in session and is deliberating the budget adjustments for the 2001-2002 and 2002-2003 fiscal years.

The information in **Appendix III-E** to **Part II** of the Official Statement does not include the increase in the estimated deficit based on information as of March 31, 2002 which is described above.

The above projections are only estimates and no assurances can be given that subsequent estimates or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2001-2002 operations of the General Fund or changes to the budget adjustments proposed for fiscal year 2002-2003.

OTHER FUNDS, DEBT AND LIABILITIES

Pages III-45, III-47, III-48, III-49 and III-50. The following footnotes with respect to the Bond Authorizations of the Connecticut Health and Educational Facilities Authority, the City of Waterbury and the Connecticut Resources Recovery Authority, for which the State has a contingent obligation under the Special Capital Reserve Fund Program, are revised or added to ***TABLE 16*** on ***Page III-50***.

(b) On or about November 1, 2001, CHEFA redeemed $4.7 million of the Nursing Program Bonds and $5.2 million of the Connecticut State University System Bonds, leaving bonds outstanding in the amounts of $149.3 million and $82.1 million respectively. On or about March 13, 2002 CHEFA sold $76.2 million of the Connecticut State University System Bonds, with an increase in the Minimum Capital Reserve Requirement of $7.0 million.

(d) The General Assembly authorized Waterbury to issue up to $100 million Special Capital Reserve Fund Bonds. The City has issued $45 million bond anticipation notes under this program. It is anticipated that $100 million Special Capital Reserve Fund Bonds will be issued by the City in April 2002 to permanently finance these bond anticipation notes and for other purposes.

(e) Of the $297.5 million of outstanding SCRF or guaranteed debt as of October 15, 2001 of the Connecticut Resources Recovery Authority, approximately $212.7 million pertains to the Mid-Connecticut waste to energy plant in Hartford, Connecticut. Those bonds have a Minimum Capital Reserve Fund Requirement of approximately $26.5 million. In addition to tipping fees under service agreements with participating municipalities, the Authority's bonds are payable from the sale of steam and electricity. Enron Power Marketing, Inc. ("Enron") is the entity which is obligated to pay the Authority a monthly "capacity charge" for the purchase of steam and an additional charge for conversion of steam into electricity. The capacity charge is significantly above current market prices. Enron filed for bankruptcy on December 2, 2001 and has not made its capacity or electricity payments since that time. It is unclear at this time whether Enron will make its other required payments or what steps the Authority may take to generate adequate revenues to pay debt service on its bonds for the Mid-Connecticut facility. In addition to the bankruptcy of Enron, Covanta Mid-Conn., Inc., operator of the steam and electricity production components of the Mid-Connecticut facility, filed for bankruptcy on April 1, 2002. It is unclear at this time what effect this bankruptcy will have on the Mid-Connecticut facility. The State is obligated to maintain the Minimum Capital Reserve for these bonds to the extent the Authority uses monies in the capital reserve fund to pay debt service on the Authority's outstanding bonds. It is unclear at this time whether there will be any need for the State to make payments to maintain the Minimum Capital Reserve Requirement, but the maximum obligation of the State in each year to maintain the reserve fund is limited to approximately $26.5 million. The original budget for the State for the 2001-2002 fiscal year was $11.89 billion. The General Assembly is considering legislation which would authorize a loan by the State to the Connecticut Resources Recovery Authority of up to $115 million to support the repayment of the Authority's debt for the Mid-Connecticut facility and to minimize the amount of tipping fee increases chargeable to the towns which use the Mid-Connecticut facility.

APPENDIX III-E

Appendix III-E to this **Part II** reflects the Governor's proposed Midterm Budget Adjustments for Fiscal Years 2001-02 and 2002-03, and the estimated General Fund revenues and expenditures based on the Comptroller's monthly report released April 1, 2002, which is based on information as of February 28, 2002. ***It does not include the increase in the estimated deficit for fiscal year 2001-2002 or the estimated budget gap for fiscal year 2002-2003. See page II-4 of this Part II above under*** **STATE GENERAL FUND –** ***Fiscal Year 2001-2002 Operations Update.***

GENERAL FUND REVENUES AND EXPENDITURES ADOPTED BIENNIAL BUDGET FOR 2001-02 AND FOR 2002-03, ESTIMATED BUDGET FOR 2001-02 AND GOVERNOR'S PROPOSED MIDTERM BUDGET ADJUSTMENTS FOR 2001-02 AND 2002-03

(In Millions)

	Adopted Budget 2001-02[d]	Governor's Proposed Midterm Budget Adjustments 2001-02[e]	Estimated Budget 2001-02[k]	Adopted Budget 2002-03[d]	Governor's Proposed Midterm Budget Adjustments 2002-03[e]
Revenues					
Taxes					
Personal Income Tax	$ 4,841.4	$ 4,652.0	$ 4,597.0	$ 5,109.9	$ 4,870.9
Sales & Use	3,193.7	3,091.8[f]	3,055.8[f]	3,317.6	3,244.6[f]
Corporation	501.2	431.2	431.2	531.5	463.5
Public Service	189.7	181.4	181.4	199.8	184.0
Inheritance & Estate[a]	210.0	160.0	160.0	166.0	129.0
Insurance Companies	192.0	206.0	206.0	198.3	209.7
Cigarettes	117.0	157.5[f]	157.5[f]	114.1	237.0[f]
Real Estate Conveyance	110.0	110.0	110.0	111.1	105.0
Oil Companies	61.8	42.0	33.1	61.0	51.5
Alcoholic Beverages	41.0	41.0	41.0	41.0	41.9
Admissions, Dues, Cabaret	25.3	25.3	25.3	25.8	26.7
Miscellaneous	36.1	36.1	36.1	35.3	37.9
Total Taxes	$ 9,519.2	$ 9,134.3	$ 9,034.4	$ 9,911.4	$ 9,601.7
Less Refunds	(751.0)	(782.5)	(782.5)	(790.0)	(808.9)
Less R&D Credit Exchange	(14.0)	(16.0)	(18.0)	(14.0)	(20.0)
Net Taxes	$ 8,754.2	$ 8,335.8	$ 8,233.9	$ 9,107.4	$ 8,772.8
Other Revenues					
Transfers- Special Revenues	265.2	279.2	279.2	270.5	273.0
Indian Gaming Payments	360.0	380.0	380.0	370.0	399.0
Licenses, Permits, Fees	128.2	128.2	128.2	124.2	127.5
Sales of Commodities & Services	28.8	28.8	28.8	30.0	30.8
Rents, Fines & Escheats	51.2	51.2	51.2	52.4	68.4
Investment Income	62.7	34.1	34.1	61.2	49.8
Miscellaneous	128.0	115.1	115.1	136.2	118.7
Less Refunds of Payments	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Total Other Revenue	$ 1023.6	$ 1,016.1	$ 1,016.1	$ 1,044.0	$ 1,066.7
Other Sources					
Federal Grants	2,144.3	2,158.8	2,158.8	2,266.6	2,290.7
Transfers from Tobacco Settlement Funds	120.0	120.0	120.0	121.0	137.0
Transfers to Other Funds[b]	(148.0)	(147.7)	(147.7)	(107.0)	(122.0)
Total Other Sources	$ 2,116.3	$ 2,131.1	$ 2,131.1	$ 2,280.6	$ 2,305.7
Total Unrestricted Revenues	$11,894.1	$11,483.0	$11,381.1	$12,432.0	$12,145.2
Restricted Accounts and Federal & Other Grants	750.0	1,443.3[g]	1,627.2[g]	750.0	750.0
Total Revenue	$12,644.1	$12,926.3	$13,008.3	$13,182.0	$12,895.2

	Adopted Budget 2001-02[d]	Governor's Proposed Midterm Budget Adjustments 2001-02[e]	Estimated Budget 2001-02[k]	Adopted Budget 2002-03[d]	Governor's Proposed Midterm Budget Adjustments 2002-03[e]
Appropriations/Expenditures					
Legislative	$ 59.8	$ 57.9	$ 57.9	$ 63.2	$ 63.2
General Government	462.7	446.7	450.1	472.7	465.2
Regulation & Protection	224.7	225.3	223.3	231.7	234.3
Conservation & Development	75.1	70.1	70.1	79.6	73.2
Health & Hospitals	1,213.6	1,203.1	1,204.9	1,267.1	1,260.6
Transportation	35.0	35.0	35.0	35.0	35.0
Human Services	3,494.4	3,524.2	3,546.5	3,659.8	3,696.0
Education, Libraries & Museums	2,772.3	2,760.6	2,758.0	2,897.3	2,826.5
Corrections	1085.5	1,090.3	1,080.4	1,137.7	1,148.4
Judicial	384.1	380.0	379.2	399.4	399.7
Non-Functional					
Debt Service	1031.4	1,000.4	1,000.4	1,060.2	1,039.2
Miscellaneous	1,159.1	1,177.0	1,172.6	1,234.5	1,251.3
Subtotal	$11,997.7	$11,970.6	$11,978.4	$12,538.2	$12,492.7
Unallocated Lapse	(103.9)	(71.9)	(69.1)	(106.9)	(104.9)
Transfers to Fund Additional Appropriations	0.0	(89.5)[h]	(101.8)[h]	0.0	0.0
Net Appropriations/Expenditures	$11,893.9	$11,809.2	$11,807.5	$12,431.4	$12,387.8
Surplus (or Deficit) from Operations	$ 0.1	($ 326.2)	($ 426.4)	$ 0.6	$ ($242.6)
Miscellaneous Adjustments	0.0	(203.6)[i]	(182.2)[j]	0.0	243.0[l]
Balance[c]	$ 0.1	($ 122.6)	($ 244.2)	$ 0.6	$ 0.4

NOTE: Columns may not add due to rounding.

(a) Reflects the combination of the phase-out in the Connecticut Succession Tax pursuant to Public Act No. 95-256, Public Act No. 01-1 of the November Special Session, and changes to the federal estate pick-up tax pursuant to federal law P.L. 107-16.

(b) Transfer to Mashantucket Pequot and Mohegan Fund for Grants to towns.

(c) Per Section 4-30a of the Connecticut General Statutes, any unappropriated surplus, up to five percent of General Fund expenditures, shall be deposited into the Budget Reserve Fund. When in any fiscal year the Comptroller has determined the amount of a deficit applicable with respect to the immediately preceding fiscal year, to the extent necessary, the amount of funds credited to the Budget Reserve Fund shall be deemed to be appropriated for purposes of funding such deficit.

(d) Per Special Act No. 01-1 of the June Special Session.

(e) Per the Governor's proposed Midterm Budget Adjustments submitted February 6, 2002.

(f) Per the Governor's proposed Midterm Budget Adjustments, increase the Cigarette Tax from 50 cents per pack to $1.11 per pack effective April 1, 2002. This proposed change is estimated to yield $42.5 million in fiscal year 2001-02 and $129.3 million in fiscal year 2002-03 in cigarette and sales tax. The General Assembly acted on the Governor's proposal and enacted the change effective April 3, 2002 under Public Act 02-1.

(g) The figure reflected for Restricted Accounts and Federal & Other Grants reflects realized revenues through December 31, 2001 for the Governor's proposed Midterm Budget Adjustments and through February 28, 2002 for the Estimated Budget 2001-02 and does not reflect an estimate for the entire period. Additional revenues may be received with respect to Restricted Accounts and Federal & Other Grants. Expenditures of these grants are not included; the amount of such expenditures is generally the same as the amount of grants received.

(h) Reflects the transfer of resources from the fiscal year 2000-01 surplus as proposed in the Governor's Midterm Budget Adjustments to meet anticipated deficiencies, with adjustments for the Estimated Budget column.

(i) Reflects utilization of $212.8 million of the fiscal year 2000-01 surplus as enacted in Special Act No. 01-1 of the November Special Session and as proposed in the Governor's Midterm Budget Adjustments, and $9.2 million miscellaneous adjustments.

(j) Reflects utilization of $183.8 million of the fiscal year 2000-01 surplus as enacted in Special Act No. 01-1 of the November Special Session and as proposed in the Governor's Midterm Budget Adjustments, $9.4 million deferred expenditures and $11.0 million miscellaneous adjustments.

(k) Per the Comptroller's monthly report for the period ending February 28, 2002, with presentation modifications to certain line items as determined by the Office of Policy and Management.

(l) Per the Governor's proposed Midterm Budget Adjustments, anticipates the transfer of one-time revenue of $100 million from quasi-public agencies, $98 million of proceeds from the sale of stock received as part of the Anthem demutualization, $41 million in transfers from Tobacco Settlement Funds, and $4 million from miscellaneous accounts.

NOTE: The information in **Appendix III-E** contains only projections and no assurances can be given that subsequent projections will not indicate changes in the items of revenue and expenditure and in the final result of the operations of the General Fund. Changes may also occur as the result of legislative action adjusting the budget or taking other actions which impact revenues or expenditures. ***See page II-4 of this Part II (see discussion above under*** **STATE GENERAL FUND –** ***Fiscal Year 2001-2002 Operations Update). The estimated deficit for the 2001-2002 fiscal year has increased from the $244.2 million shown above to $514.6 million. The estimated budget gap for the 2002-2003 fiscal year is $307 million compared to the $0.4 million balance shown above.***

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PART III
ANNUAL INFORMATION STATEMENT
STATE OF CONNECTICUT

OCTOBER 30, 2001

Modified February 27, 2002

This Annual Information Statement of the State of Connecticut (the "State") contains information through October 30, 2001, ***modified February 27, 2002*** to include June 30, 2001 audited financial statements of the State prepared on a GAAP basis and a modified cash basis as **Appendices III-C and III-D**, respectively, to delete June 30, 2000 audited financial statements of the State which previously appeared as **Appendix III-C**, to correct references thereto and to reflect information contained therein, including revisions to **Table 3, Table 5 and Table 6**, and to make minor corrections. For information about the State after October 30, 2001, the State expects to provide an updating Information Supplement from time to time. The reader should refer to the Information Supplement, if any, set forth in this Official Statement immediately preceding this Annual Information Statement. This Annual Information Statement and the Information Supplement that precedes it, if any, and any appendices attached thereto, should be read collectively and in their entirety.

The State expects to revise this Annual Information Statement each year and expects to modify Annual Information Statements each year following the release of the State's audited financial statements. The State expects generally to prepare Information Supplements from time to time for the purpose of updating certain information contained in this Annual Information Statement. Such Information Supplements are expected to include certain interim financial information prepared on a modified cash basis, but are not expected to include interim financial information prepared in accordance with generally accepted accounting principles.

The Annual Information Statement and the most recent Information Supplement, if any, may be obtained, when prepared, by contacting the Office of the State Treasurer, Attn.: Assistant Treasurer for Debt Management, 55 Elm Street, Hartford, Connecticut 06106, (860) 702-3137.

Constitutional Elected Officers

*** Governor**	**John G. Rowland**
Lieutenant Governor	**M. Jodi Rell**
Secretary of the State	**Susan Bysiewicz**
*** Treasurer**	**Denise L. Nappier**
*** Comptroller**	**Nancy S. Wyman**
*** Attorney General**	**Richard Blumenthal**

Executive Branch Officers

*** Secretary of the Office of Policy and Management**	**Marc S. Ryan**
*** Commissioner of Public Works**	**Theodore R. Anson**
Commissioner of Transportation	**James F. Sullivan**

Legislative Branch Officers

President Pro Tempore of the Senate	**Sen. Kevin B. Sullivan**
Speaker of the House of Representatives	**Rep. Moira K. Lyons**
*** Co-chairpersons of the Joint Standing Committee on Finance, Revenue and Bonding**	**Sen. Martin M. Looney** **Rep. Anne B. McDonald**
*** Ranking Minority Members of the Joint Standing Committee on Finance, Revenue and Bonding**	**Sen. William H. Nickerson** **Rep. Richard O. Belden**
Auditors of Public Accounts	**Kevin P. Johnston** **Robert G. Jaekle**

* Denotes member of the State Bond Commission

PART III
OCTOBER 30, 2001
Modified February 27, 2002
ANNUAL INFORMATION STATEMENT OF THE STATE OF CONNECTICUT

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INTRODUCTION

This Annual Information Statement of the State of Connecticut (the "State") contains certain information which a potential investor might consider material in reaching a decision to invest in securities of the State. All quotations from and summaries and explanations of provisions of laws of the State contained in this Annual Information Statement do not purport to be complete and are qualified in their entirety by reference to the official compilation thereof.

The information included in this Annual Information Statement is organized as follows:

The State of Connecticut comprises a brief introductory summary of the governmental organization of the State and the services it provides, as well as a historical overview of the State's economic performance. A more detailed discussion of these topics, including additional information, is contained in **Appendices III-A** and **III-B** to this Annual Information Statement.

Financial Procedures discusses the legal and administrative processes, procedures and policies that generally apply to all State funds.

State General Fund discusses the State's General Fund which is the source of financing for most operating activity of the State. The discussion includes both prospective and historic information on the General Fund. Additional information regarding General Fund activity is included in **Appendices III-C, III-D** and **III-E** to this Annual Information Statement.

State Debt describes the procedures for the authorization of the State to incur debt and the various mechanisms available to the State to undertake borrowings to finance State functions. This section provides both current and historical information about the State's borrowing practices and State indebtedness.

Other Funds, Debt and Liabilities provides an overview of certain activities of the State which are not accounted for in the General Fund. These include the budget and debt of the Special Transportation Fund, certain special revenue funds and debt, contingent liability debt, grant commitments, guaranties and annuities. Certain additional information regarding other funds, debt and liabilities of the State is included in **Appendix III-C** to this Annual Information Statement.

Pension and Retirement Systems describes the major pension and retirement systems of the State. Additional information regarding these systems is included in **Appendix III-C** to this Annual Information Statement.

Litigation comprises a summary of pending legal actions in which the fiscal impact of an adverse decision may not be determined at this time and the Attorney General is unable to opine that a final judgment against the State in such suits would not materially adversely affect the State's financial position.

Appendices III-A through III-E to this Annual Information Statement contain detailed information relating to the information summarized in the Annual Information Statement and should be read in their entirety with the other information contained therein.

This Annual Information Statement will constitute Part III to Official Statements of the State prepared in connection with the offering of certain bonds of the State and should be read in its entirety together with Part I and Part II, if any, of such Official Statement. The Annual Information Statement speaks only as of its date. For more current information, potential investors should read Part II - Information Supplement, if any, or should contact the State directly as described in Part I - Information Concerning the Bonds, under the caption **ADDITIONAL INFORMATION.**

THE STATE OF CONNECTICUT

Governmental Organization and Services

The State Constitution divides the functions and powers of State government into three distinct branches, referred to in the Constitution as "departments". The State government's legislative, executive and judicial functions and powers are vested in the legislative department, the executive department and the judicial department, respectively.

In addition to the State government, a number of other governmental bodies exist in Connecticut. These bodies include: State-wide and regional special purpose authorities, districts and similar bodies, 169 cities and towns, and numerous local special purpose authorities, districts and similar bodies. County government was functionally abolished in Connecticut in 1960. Local governmental functions are generally performed by the 169 cities and towns, or by special purpose authorities, districts and similar bodies located within these cities and towns. In certain instances, regional bodies perform governmental functions that would otherwise be performed at the local level.

Services provided by the State or financed through State appropriations are classified under one of ten major government function headings or are classified as "non-functional". The major function headings are: Human Services; Education, Libraries and Museums; Transportation; Health and Hospitals; Corrections; General Government; Judicial; Regulation and Protection; Conservation and Development; and Legislative. These function headings apply to the General Fund as well as to other funds of the State which are used to account for appropriated moneys. For budgetary purposes, State agencies, boards, commissions and other bodies are each assigned to one of the function headings.

A detailed discussion of the organization of State government, including information on state employees, as well as services provided at the various levels of government in the State, is included as **Appendix III-A** to this Annual Information Statement.

State Economy

Connecticut is a highly developed and urbanized state. It is situated directly between the financial centers of Boston and New York. Connecticut is located on the northeast coast and is the southernmost of the New England States. It is bordered by Long Island Sound, New York, Massachusetts and Rhode Island. More than one-quarter of the total population of the United States and approximately 60% of the Canadian population live within 500 miles of the State. The State's population grew at a rate which exceeded the United States' rate of population growth during the period 1940 to 1970, and slowed substantially during the past three decades. The State has extensive transportation and utility services to support its economy.

Connecticut's economic performance is measured by personal income which has been and is expected to remain among the highest in the nation; gross state product (the market value of all final goods and services produced by labor and property located within the State) which demonstrated stronger output growth than the nation in general during the 1980s, slower growth for a few years in the early 1990s, and steadily increasing growth during the rest of the 1990s; employment which fell during the early 1990s but has risen steadily during the rest of the decade to a level above the high achieved in the late 1980s; and the unemployment rate, which is the lowest in a decade and lower than the regional and national rate.

A detailed summary of economic resources including population information and services, and economic performance indicators, including personal income, gross state product and employment in the State is included as **Appendix III-B** to this Annual Information Statement.

FINANCIAL PROCEDURES

The Budgetary Process

Balanced Budget Requirement. In November 1992, electors approved an amendment to the State Constitution providing that the amount of general budget expenditures authorized for any fiscal year shall not exceed the estimated amount of revenue for such fiscal year. This amendment also provides a framework for a cap on budget expenditures. The General Assembly is precluded from authorizing an increase in general budget expenditures for any fiscal year above the amount of general budget expenditures authorized for the previous fiscal year by a percentage which exceeds the greater of the percentage increase in personal income or the percentage increase in inflation, unless the Governor declares an emergency or the existence of extraordinary circumstances and at least three-fifths of the members of each house of the General Assembly vote to exceed such limit for the purposes of such emergency or extraordinary circumstances. The constitutional limitation on general budget expenditures does not include expenditures for the payment of bonds, notes or other evidences of indebtedness. There is no statutory or constitutional prohibition against bonding for general budget expenditures.

The Supreme Court has ruled that the provisions of the constitutional budget cap require the passage of additional legislation by a three-fifths majority in each house of the General Assembly, which has not yet occurred. In the interim, the General Assembly has been following a provision of the General Statutes, which contains the same budget cap as the constitutional amendment. In addition to the exclusion of debt service from the budget cap, this statute also excludes statutory grants to distressed municipalities, expenditures to implement federal mandates and court orders in the first fiscal year in which such expenditures are authorized, and payments from surplus for certain debt retirement and additional state employee pension contributions.

Biennium Budget. The State's fiscal year begins on July 1 and ends June 30. The General Statutes require that the budgetary process be on a biennium basis. The Governor is required to transmit a budget document in February of each odd-numbered year setting forth the financial program for the ensuing biennium with a separate budget for each of the two fiscal years and a report which sets forth estimated revenues and expenditures for the three fiscal years after the biennium to which the budget document relates. In each even-numbered year, the Governor must prepare a report on the status of the budget enacted in the previous year with any recommendations for adjustments and revisions, and a report, with revisions, if any, which sets forth estimated revenues and expenditures for the three fiscal years after the biennium in progress.

Budget Document. By statute, the budget document consists of four parts. Part I is the Governor's budget message, and contains his program for meeting the expenditure needs of the State as well as financial statements detailing the condition of State debt, the financial position of all major State operating funds, recommended appropriations and State revenues on an actual basis for the last completed fiscal year and on an estimated basis for the fiscal year in progress and the fiscal years to which the budget relates. If a budget deficit or surplus is projected, the Governor will recommend the manner in which the deficit will be met or surplus used. The Governor's recommended appropriations from the General Fund and all special and agency funds comprise Part II of the budget document. Appropriations are set forth for meeting the cost of each major function and program. An accounting of federal funds and recommendations for the capital program are also included. Part III of the budget document consists of drafts of appropriations and revenue bills to carry out the Governor's budget recommendations. In Part IV of the budget, the Governor makes recommendations concerning the State's economy and analyzes the impact on the economy of the proposed spending and revenue programs.

Preparation of the Budget. Formulation of the budget commences with the preparation of estimates of expenditure requirements for each fiscal year of the next biennium by the administrative head of each budgeted agency. These estimates are submitted on or before September 1 of each even-numbered year to the Office of Policy and Management (the "OPM") and to the joint legislative standing committee on appropriations and the committee having cognizance of matters relating to such budgeted agency. In odd-numbered years, each agency submits its recommended adjustments or revisions of such estimates. A detailed statement showing revenue and estimated revenue for the current fiscal year and estimated revenue for the next fiscal year, and in the even-numbered year, for the next biennium, must also be submitted by such agency heads to the OPM on or before September 1 and the joint legislative standing committee on finance on or before November 15. Upon receipt of such agency reports, it is the OPM's practice to prepare a preliminary budget report.

Adoption of the Budget. The budget document, as finally developed by the Governor with the assistance of the OPM, is published and transmitted to the General Assembly in February of each odd-numbered year. A report summarizing recommended adjustments or revisions is submitted by the Governor to the General Assembly in even-numbered years. The Governor or a representative then appears before the appropriate committee of the General Assembly to explain and address questions concerning the budget document or reports. Prior to June 30 of each odd-numbered year, the General Assembly generally enacts one bill making all appropriations for the next two fiscal years and setting forth revenue estimates for those years. Subsequent appropriations or revenue bills are occasionally passed.

Line Item Veto. Under the State Constitution, the Governor has the power to veto any line of any itemized appropriations bill while at the same time approving the remainder of the bill. A statement identifying the items so disapproved and explaining the reasons therefor must be transmitted with the bill to the Secretary of the State and, when in session, the General Assembly. The General Assembly may separately reconsider and repass such disapproved appropriation items by a two-thirds vote of each house.

Financial Controls

Expenditures. The financial control procedures utilized by the State in the expenditure of State funds are described below and may be generally summarized as follows: initially, the legislature appropriates funds for a particular purpose; such funds must then be allotted for such purpose by the Governor; and thereafter such funds are encumbered by the Comptroller upon the request of the responsible State agency. Once this appropriation, allotment and encumbrance procedure (which may be modified as described below) has been completed, State funds are paid by the Treasurer only upon a warrant, draft or order of the Comptroller drawn at the request of the responsible agency. Certain receivables from the federal government or other sources do not require allotment by the Governor.

Governor's Role. Before an appropriation for a budgeted agency becomes available for expenditure the agency must submit to the Governor through the Secretary of the OPM, not less than 20 days before the beginning of the fiscal year for which the appropriation is made, a requisition for the allotment of funds needed for each quarter of the fiscal year. Appropriations for capital outlays may be allotted in any manner the Governor deems advisable. The Governor may reduce the budget allotment request by not more than three percent of the total appropriation from any fund or not more than five percent of any appropriation under certain circumstances. Such allotments are subject to further modification by the Governor throughout the course of the fiscal year if conditions warrant. The Governor is not authorized to reduce allotment requisitions or allotments in force concerning aid to municipalities.

Comptroller's Role. The Comptroller is responsible for keeping an account in connection with each appropriation. No warrant, draft or order may be issued by the Comptroller in excess of the available balance of the applicable account unless the General Assembly has passed a deficiency bill for the purpose or unless such appropriation has been increased by the Governor in the limited circumstances of emergency expenditures or allotment modifications as authorized by statute. The Comptroller is required to issue cumulative monthly financial reports concerning the State General Fund.

Treasurer's Role. Each warrant, draft or order upon the Treasurer must specify the particular appropriation against which it is drawn, and no money may be paid by the Treasurer absent such specification.

The Treasurer is required to honor all warrants, drafts and orders properly drawn by the Comptroller. The Treasurer also has primary responsibility for the investment of State funds and the issuance of debt of the State.

By statute, the Treasurer may not pay compensation, expenses or fees or otherwise enter into contractual arrangements with any firm providing legal services, investment banking services, investment advisory services, underwriting services, financial advisory services or brokerage firm services if such firm, through its political committee or certain managerial level officers or employees, makes or solicits contributions after October 1, 1995 to any committee established by a candidate for nomination or election to the Office of Treasurer of the State. The statute also prohibits the making or solicitation of contributions by such firms. The statute was extended in May 2000 so it applies to contributions to other elected State officials including the Governor and the Attorney General.

Use of Appropriations. No appropriation or part thereof may be used for any purpose other than for the purpose for which it was made, except with respect to certain transfers and revisions of appropriations permitted to be made by the Governor with the concurrence of the Finance Advisory Committee, composed of members of the executive and legislative departments. Civil sanctions may be imposed pursuant to statute upon persons who willfully expend or authorize the expenditure of State funds for any purpose in excess of the amount specifically appropriated for such purpose.

Unexpended Appropriations. All unexpended balances of appropriations for each fiscal year lapse on the last day of such fiscal year and revert to the unappropriated surplus of the fund from which the appropriations were made, except for certain continuing appropriations. Such continuing appropriations include those continued for a one-month period in the case of programs which were not renewed the succeeding year, those continued for the entire succeeding year in the case of highway and other capital construction projects, and limited amounts for certain special programs.

Unappropriated Surplus. The State Constitution provides that any resulting unappropriated surplus shall be used to fund a budget reserve fund, to reduce bonded indebtedness or for any other purpose authorized by at least three-fifths of each house of the General Assembly. The General Statutes provide that the Treasurer shall transfer any unappropriated surplus in the General Fund to a budget reserve fund, unless otherwise directed by law. When the amount in the budget reserve fund in any fiscal year equals 5% of the net General Fund appropriations, no further transfers shall be made by the Treasurer.

As of June 30, 2001, the balance in the budget reserve fund was $564.0 million. After the transfer of $30.7 million from the June 30, 2001 surplus, the balance in the budget reserve fund is $594.7 million. Surplus moneys in excess of amounts transferred to the budget reserve fund have been held or applied to provide for the retirement of outstanding indebtedness or for debt avoidance.

Revenues. The Treasurer superintends the collection and receipt of all taxes and revenues belonging to the State, and is authorized to deposit the same in any qualified public depository as defined by statute. Each State department, institution, board, commission or other State agency and any official or employee thereof that receives any money for revenue of the State must, within 24 hours of its receipt or within seven days of receipt for amounts less than $500, account for and pay the same to the Treasurer or, with the approval of the Treasurer and the Comptroller, deposit the same in an account in a qualified public depository in the name of the State or in the name of the public official as such official. The Treasurer is authorized to make exceptions to the limitations on amounts and timing of payments or deposits of receipts provided the Treasurer files a written statement of such exception with the Comptroller and the Auditors of Public Accounts. Any public official who deposits funds or moneys in an account in the name of the State or in such official's name must submit a list of all such accounts as of the preceding June 30 to the Treasurer and the Comptroller not later than September 1 of each year.

Accounting Procedures

Financial statements of the State are prepared annually on a modified cash basis of accounting for all civil list funds. The Comptroller prepares the statements for submission to the Governor by September 1 of each year, unless extended by State law. The State's Auditors of Public Accounts must audit the books and accounts of the Treasurer and the Comptroller at least annually and have discretion to audit them at more frequent intervals.

At the present time the State is not required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP") and does not prepare GAAP statements on an interim basis. However, since 1988 the State has issued comprehensive annual financial reports in accordance with the guidelines established by the Governmental Accounting Standards Board ("GASB"). These reports include audited annual financial statements prepared in accordance with GAAP. A 1993 statute authorized the OPM to implement the use of GAAP with respect to the preparation of the annual budget effective with the fiscal year commencing July 1, 1995, and provided for the amortization of the GAAP-based deficit commencing with the fiscal year ending June 30, 1997. Subsequent legislation has extended the implementation date to July 1, 2003 and the amortization date to June 30, 2005.

As specifically permitted by statute, the only present modifications from the cash basis in recording revenues under the modified cash method are: (1) the accrual of the sales and use taxes to be received for the calendar quarter ending at the close of such fiscal year as estimated by the Secretary of the OPM; (2) the accrual of cigarette tax revenue received by the Commissioner of Revenue Services no later than the last day of July immediately following the end of such fiscal year; (3) the accrual of alcoholic beverage tax revenue received by the Commissioner of Revenue Services no later than the last day of July immediately following the end of such fiscal year; (4) the accrual of the motor fuels tax revenue and the motor carrier road tax revenue on all fuel sold or used prior to the end of such fiscal year and which tax is received by letter postmarked no later than the last day of July immediately following the end of such fiscal year; (5) the accrual of utility company tax revenue and tax revenue on gross earnings from the sale of petroleum products which is received by letter postmarked no later than the last day of July immediately following the end of such fiscal year; (6) the accrual of corporation business tax revenue which is received by the Department of Revenue Services no later than the last day of July immediately following the end of such fiscal year; (7) the accrual of income tax revenue which is received by the Commissioner of Revenue Services from employers no later than the last day of July immediately following the end of such fiscal year; (8) the accrual of payments received from any Indian tribe, pursuant to a memorandum of understanding, which is received by the Treasurer no later than the last day of July immediately following the end of such fiscal year; and (9) the recording as grants receivable of certain amounts of restricted grants for which the State has the contractual right to be reimbursed by the federal government or other parties.

Expenditures are recorded on a cash basis in the fiscal year in which they are made. Such expenditures are so recorded by the Comptroller when he draws and serves a warrant on the Treasurer. Those instances in which warrants are drawn at the close of a fiscal year can, because of required processing time, result in disbursements made after the beginning of the following fiscal year. Certain appropriations which have not lapsed are reflected in the balance sheet through a reserve for continuing appropriations.

The modified cash basis of accounting used for statutory financial reporting and the modified accrual basis used for GAAP financial reporting are different and, as a result, often produce varying financial results, primarily because of differences in the recognition of revenues and expenditures. For example, for statutory reporting purposes, the State's bi-weekly payroll expenditures are recognized in the fiscal year in which employees are paid, while for GAAP purposes they are recognized in the fiscal year in which the services are performed, resulting in GAAP accrual of expenditures for work performed through June 30 but not paid until the following fiscal year. Similarly, the modified accrual basis used for GAAP financial reporting recognizes additional federal and other grant moneys as revenues which are not so recognized in the modified cash basis of accounting.

The Treasurer is required to submit to the Governor and the Investment Advisory Council, by October 15 of each year, audited financial statements of the State's combined investment funds, and financial statements of the Short Term Investment Fund, the Second Injury Fund, and the Tax Exempt Proceeds Fund.

Investment and Cash Management

Treasurer's Role. The Treasurer has the investment responsibility for all funds of the State and functions as the trustee of all State pension, retirement and trust funds. The Treasurer is authorized to invest or reinvest funds under the control of the Treasurer in United States government or agency obligations, shares or interests in an investment company or trust registered under the Investment Company Act of 1940, whose portfolio is limited to obligations of the United States, its agencies or instrumentalities, or repurchase agreements fully collateralized by such obligations, United States postal service obligations, certificates of deposit, commercial paper, savings accounts and bank acceptances. The Treasurer may also invest funds, excluding civil list funds, in the sale or acquisition of securities or obligations which the Treasurer is authorized to sell or acquire for purposes of any combined investment fund, subject to repurchase agreements with any securities dealer or bank included in the list of primary dealers prepared by the Federal Reserve Bank of New York. The Treasurer is also authorized to invest all or any part of any sinking fund in bonds in which savings banks may legally invest, provided such bonds mature prior to maturity of the bonds of the State which are outstanding. The Treasurer is required to report by October 15 annually to the Governor and the Investment Advisory Council as to the activities of the Office of the Treasurer for the preceding fiscal year.

***Investment Advisory Council*.** All trust fund investments by the Treasurer are reviewed by the Investment Advisory Council, comprised of the Treasurer and the Secretary of the OPM as ex officio members, five members of the public with experience in investment matters, three representatives of the teachers' union and two representatives of the State employees' unions. The Treasurer, with the approval of the Council, adopts an investment policy statement for trust funds. The Governor may direct the Treasurer to change any investments when in the judgment of the Council such action is in the best interest of the State. At the close of each fiscal year a report is submitted to the Governor on the value of all security investments of the State.

***Short Term Investment Fund*.** Cash management and the investment by the Treasurer of all State monies is based on the concept of a common cash pool. The Short Term Investment Fund ("STIF") is a combined investment pool of high quality, short term money market instruments which is the primary investment vehicle for the temporarily surplus cash of all funds of which the Treasurer is custodian and/or trustee, except certain bond funds, State pension funds and selected trust funds. All agencies, instrumentalities and political subdivisions of the State are permitted to invest in STIF. The State is responsible to these governmental entities to manage their deposits and accumulated earnings in a prudent manner. Individual participants in STIF can add or withdraw monies on a daily basis with interest earned from date of deposit to date of withdrawal. The primary investment objectives of STIF are the preservation of principal and the provision of liquidity to meet participants' daily cash flow needs, while seeking to earn competitive yields. STIF is managed in accordance with the investment guidelines established by the Treasurer. These investment guidelines prohibit investment in derivative securities other than floating rate securities which vary in the same direction as individual short term money market indices, and limit the ability to enter into reverse repurchase agreements to amounts not to exceed five percent (5%) of the STIF's net assets at the time of execution. Shares of the Short Term Investment Fund are rated "AAAm" by Standard & Poor's.

***Medium Term Investment Fund*.** A 1997 statute created the Medium-Term Investment Fund. The Treasurer may purchase participation units of the fund for all trusts and other funds for which the Treasurer has investment responsibility. The Treasurer may sell participation units in the Medium-Term Investment Fund to all agencies, authorities, instrumentalities and political subdivisions of the state. Such participation units are legal investments for all agencies, authorities, instrumentalities and political subdivisions of the state. The Treasurer is authorized to invest and reinvest funds of the Medium-Term Investment Fund in obligations of the United States government and its agencies and instrumentalities, certificates of deposit, commercial paper, corporate debt securities, savings accounts and bankers' acceptances, repurchase agreements collateralized by such securities, and investment funds or pools comprised of securities in which the Medium-Term Investment Fund may directly invest. The Treasurer may adopt regulations specifying the terms and conditions of the purchase and sale of participation units, the payment of interest, investment policies, and accounting practices.

Tax Exempt Proceeds Fund. Under the terms of the General Statutes, the Treasurer has facilitated the establishment of the Tax Exempt Proceeds Fund, Inc. ("TEPF"), a diversified, open-end management investment company, registered under the Investment Company Act of 1940, whose investment objectives are to provide its investors with high current interest income exempt from federal income taxes, preservation of capital and maintenance of liquidity. TEPF will only invest in securities that qualify as an investment in "tax-exempt bonds" as defined in Section 150(a)(6) of the Internal Revenue Code of 1986, as amended (the "Code") and amplified in Treasury Department Regulations. Therefore, shareholders of TEPF that are tax-exempt bond issuers are expected to be exempt from the arbitrage rebate provisions of the Code. TEPF seeks to achieve its objectives by investing primarily in a liquid money market portfolio of short-term, high quality, tax-exempt, fixed rate and variable rate obligations issued by states, municipal governments and by public authorities, and in participation interests therein issued by banks, insurance companies or other financial institutions that meet this federal income tax definition. The TEPF seeks to maintain a constant net asset value of $1.00 per share. TEPF's investment policies were developed for the particular federal income tax needs of entities that are issuers of tax-exempt state and local bonds, such as states and municipalities and their authorities, agencies, instrumentalities and subdivisions. All recipients of any grant or loan monies of the State funded from Connecticut tax-exempt bond proceeds must invest such monies in TEPF, unless the Treasurer waives this requirement upon a determination that a waiver will not adversely affect the tax-exempt status of State bonds, notes or other evidences of indebtedness. The State may, from time to time, deposit bond proceeds of the State in TEPF. Reich & Tang Asset Management, LLC acts as investment manager of TEPF and a Board of Directors is responsible for TEPF's overall management and supervision.

Investment of Pension Funds. Seven investment funds serve as the investment medium for the various pension, retirement and trust funds of which the Treasurer is the trustee. They are the Cash Reserve Account, the Mutual Equity Fund, the Mutual Fixed Income Fund, the Commercial Mortgage Fund, the Real Estate Fund, the International Stock Fund and the Private Investment Fund. Such funds acquire units, in varying proportions depending on the investment policies of the funds, in one or more of the funds. By statute no more than 60% of any of the State's trust funds may be invested in common stock and if market fluctuations cause this limit to be exceeded, after six months no more than 65% of the State's trust funds may remain invested in common stock. Other than these limits, the statutes of the State permit investment in securities under the "Prudent Investor" rule. See also **PENSION AND RETIREMENT SYSTEMS** herein.

Investment of Bond Proceeds. Proceeds of bonds are accounted for in various general obligation bond funds. All invested assets of the bond funds are invested in STIF or TEPF. Bond proceeds are expended in accordance with the authorization and allotment procedure of the State Bond Commission and the Governor, respectively. Assets of the bond funds may from time to time be released temporarily to the common cash pool in accordance with the State's overall cash flow needs. Under the State's accounting system, release of the assets of the bond funds to the common cash pool is reflected in the accounts of the bond funds as an uninvested cash balance. That accounting balance can be reduced only when an approved payment for an expenditure is charged to the bond funds. In no case does the release of bond fund assets to the common cash pool alter the timing or the extent of expenditures for the purposes for which the bonds were issued.

Cash Management. It is the practice of the State to treat all civil list funds (including monies in the General Fund, various bond funds, and the Special Transportation Fund) as common cash, with amounts released from the various funds to the common cash pool in accordance with the State's overall cash flow needs. All banks holding major account balances for the State Treasury report these balances daily, enabling the Treasurer to maintain adequate cash to meet anticipated demands and to keep unneeded balances fully invested.

Interest Rate Risk Management. The Treasurer, with the authorization of the State Bond Commission, has the power to enter into reimbursement and similar agreements in connection with liquidity or credit facilities and to pledge the full faith and credit of the State or other collateral to secure the State's payment obligations under any such agreement. The Treasurer, with the authorization of the State Bond Commission, has the power to enter into contracts to place the obligation of the State as represented by bonds or notes of the State, on such interest rate or cashflow basis, including swap agreements and other arrangements to manage interest rate risk. The unsecured long-term obligations of the counter party to any arrangement must be rated the same or higher than the underlying rating of the State on the applicable bonds. The State Bond Commission may authorize the Treasurer to pledge the full faith and credit of the State and any other collateral pledged to secure the applicable bonds to also secure the State's payment obligations under any such contract.

STATE GENERAL FUND

The State finances most of its operations through its General Fund. However, certain State functions, such as the State's transportation budget, are financed through other State funds. See **OTHER FUNDS, DEBT AND LIABILITIES** herein. For budgetary purposes, the State's General Fund is accounted for on a modified cash basis of accounting (the "budgetary-basis"), which differs from generally accepted accounting principles ("GAAP"). For an explanation of the differences between the budgetary-basis and GAAP based accounting, see **FINANCIAL PROCEDURES — Accounting Procedures** herein. The State is not presently required to prepare GAAP financial statements, although it has prepared such statements annually since 1988. GAAP based audited financial statements for all civil list funds of the State for the fiscal year ending June 30, 2001 are included as **Appendix III-C** to this Modified Annual Information Statement. The State gives no assurance that it will continue to prepare GAAP based financial statements in the future. Budgetary-basis financial statements for the General Fund audited for the fiscal years ending June 30, 1997 through June 30, 2001 are included in **Appendix III-D** to this Modified Annual Information Statement. The adopted budgets for the fiscal years ending June 30, 2002 and June 30, 2003, the actual budgetary-basis results for the fiscal year ending June 30, 2001 and the estimated (as of September 30, 2001) budgetary-basis results for the fiscal year ending June 30, 2002 are included as **Appendix III-E** to this Modified Annual Information Statement. Unless otherwise stated, amounts set forth in the discussion which follows under this caption **STATE GENERAL FUND** refer to such amounts as calculated on the budgetary-basis of accounting.

General Fund Revenues

Forecasted, Adopted and Historical Revenues

Procedure For Forecasting Revenues. Revenue forecasting in Connecticut incorporates a blend of econometric modeling and economic advice obtained from an array of expert sources. Some of these major sources include: "Blue Chip Economic Indicators" which is a compilation of the consensus forecast for major national economic indicators from the top 50 economic and financial institutions; DRI-WEFA, a nationally recognized econometric forecasting firm; the Connecticut Economic Conference Board which was created to provide economic advice to the Governor and the General Assembly; and "The Connecticut Economy," a University of Connecticut quarterly review written and edited by widely known State economists.

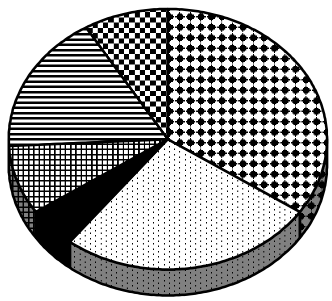
Because of the vast number of variables that can impact the revenue forecast, the State considers forecasting to be a process and not a product. While the economic data from available sources is analyzed and used to anticipate overall direction and trends, the revenue forecast is generated through a consensus interpretation of all available data. Annual revenue estimates from the beginning of each year attempt to account for possible variations in economic activity during the year. Periodic economic data, such as seasonal adjustments to estimated personal income growth, or a monthly drop in employment, are analyzed on an on-going basis. Adjustments are made when the aggregate values of such changes deviate beyond tolerable levels from aggregate and historical estimates. Overall, the process followed in developing Connecticut's revenue forecast is consistent with approaches taken in many other states.

Fiscal 2002 and 2003 Adopted Revenues. General Fund revenues as forecasted at the adoption of the budgets for the fiscal years ending June 30, 2002 and 2003 ("Adopted Revenues") are reflected in **Appendix III-E** to this Modified Annual Information Statement. The State, as of the forecast date, expected to derive over seventy percent of its General Fund revenues from taxes during each of the 2001-02 and 2002-03 fiscal years. Fiscal year 2000-2001 actual revenues, based on information contained in the Comptroller's annual report for the fiscal year ending June 30, 2001, and fiscal year 2001-2002 revenue forecasts based on information contained in the Comptroller's monthly report for the period ending September 30, 2001, are also reflected in **Appendix III-E** to this Modified Annual Information Statement.

General Fund revenues are derived primarily from the collection of State taxes, including the personal income tax, the sales and use tax and the corporation business tax. Miscellaneous fees, receipts, transfers and unrestricted Federal grants account for most of the other General Fund revenue. A summary of anticipated General Fund revenue sources for the fiscal years ending June 30, 2002 and June 30, 2003, as forecasted at the time of adoption of the biennial budget, are set forth below:

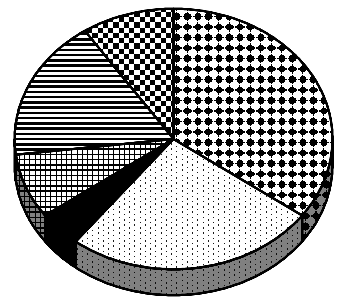
Adopted General Fund Revenues (In Millions)

Adopted Revenues 2001-2002
$11,894.1 [(a)]



Personal Income Tax	$4,841.4	37.8%
Sales and Use Tax	3,193.7	24.9%
Corporate Business Tax	501.2	3.9%
Other Taxes[(b)]	982.9	7.7%
Unrestricted Federal Grants	2,144.3	16.8%
Other Non-Tax Revenues [(c)]	1,144.1	8.9%

Adopted Revenues 2002-2003
$12,432.0 [(a)]



Personal Income Tax	$5,109.9	38.3%
Sales and Use Tax	3,317.6	24.9%
Corporate Business Tax	531.5	4.0%
Other Taxes[(b)]	952.4	7.1%
Unrestricted Federal Grants	2,266.6	17.0%
Other Non-Tax Revenues [(c)]	1,165.5	8.7%

(a) The pie charts reflect the total of the listed tax and revenue amounts of $12,807.6 million for 2001-2002 and $13,343.5 million for 2002-2003 and do not reflect tax refunds and transfers to other funds of $913.5 million for 2001-2002 and $911.5 million for 2002-2003. See **Appendix III-E** for anticipated adjustments to adopted tax revenues.

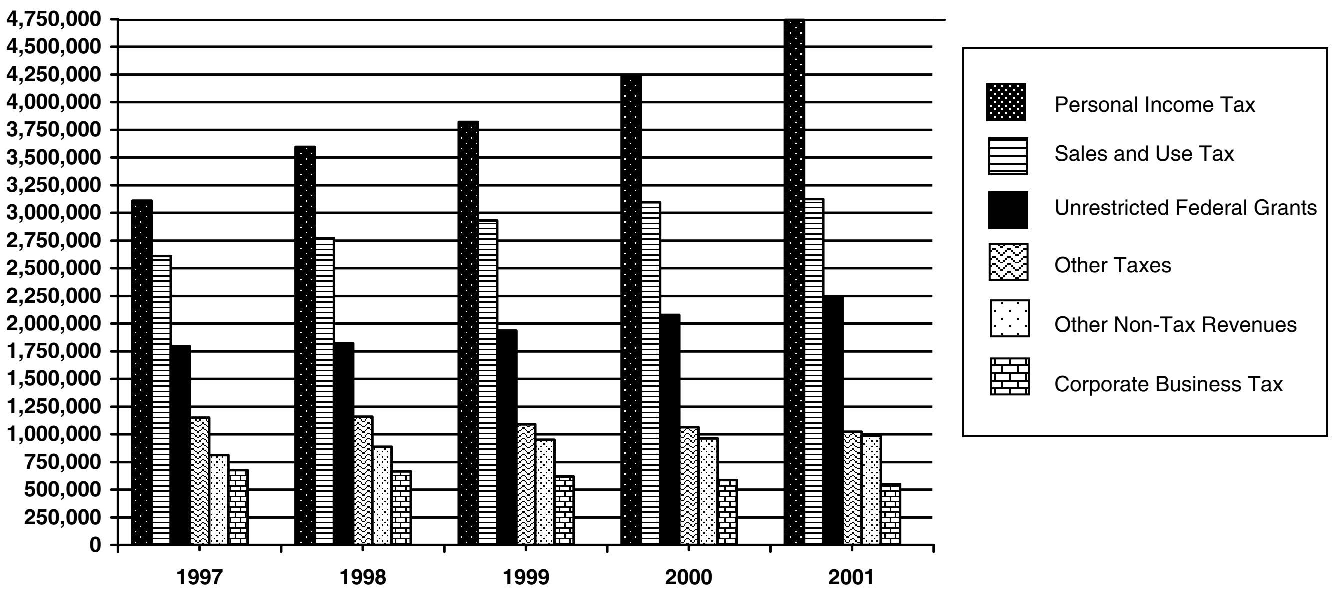
(b) Other taxes are comprised of inheritance and estate taxes, taxes on gross receipts of public service corporations, taxes on net direct premiums of insurance companies, taxes on oil companies, cigarettes and alcoholic beverages, real estate transfers, taxes on admissions and dues and other miscellaneous taxes. See **Appendix III-E**.

(c) Other non-tax revenues are comprised of special revenue transfers, Indian gaming payments, licenses, permits and fees, sales of commodities and services, rents, fines and escheats, investment income, other miscellaneous revenues and designated Tobacco Settlement Revenues. See **Appendix III-E**.

SOURCE: Special Act No. 01-1 of the June Special Session.

Historical General Fund Revenues. Actual General Fund revenues for the fiscal years 1997 through 2001 are set forth in **Appendix III-D** to this Modified Annual Information Statement. A summary of the composition of General Fund gross revenues for the last five fiscal years is illustrated below:

General Fund Revenues[a]
Fiscal Year Ending June 30
(In Thousands)



	1997	1998	1999	2000	2001
Taxes:					
Personal Income Tax	$ 3,110,868	$ 3,596,225	$ 3,820,837	$ 4,238,228	$ 4,744,233
Sales Tax	2,611,456	2,772,109	2,932,191	3,096,780	3,125,078
Corporate Business Tax	677,883	663,672	619,539	587,756	550,509
Other Taxes [b]	1,150,245	1,158,738	1,089,738	1,063,543	1,022,755
Subtotal	7,550,452	8,190,744	8,462,305	8,986,307	9,442,575
Refunds of Taxes	(490,548)	(580,830)	(645,000)	(713,359)	(735,482)
Total Net Taxes	$ 7,059,904	$ 7,609,914	$ 7,817,305	$ 8,272,948	$ 8,707,093
Other Revenue:					
Federal Grants (Unrestricted)	1,795,514	1,824,595	1,938,271	2,078,914	2,237,045
Other Non-Tax Revenues (Unrestricted)[c]	811,658	887,732	950,813	963,784	987,932
Transfers to Other Funds	(85,000)	(180,000)	(90,000)	(180,000)	(85,400)
Transfers from Other Funds	0	0	0	78,000	138,800
Total Other Revenues	$ 2,522,172	$ 2,532,327	$ 2,799,084	$ 2,940,698	$ 3,278,377
Total Revenues	$ 9,582,076	$ 10,142,241	$ 10,616,389	$ 11,213,646	$ 11,985,470

(a) The bar graph reflects the total of the listed tax and revenue amounts and does not reflect the listed adjustments for tax refunds and transfers to or from other funds. See **Appendix III-D** for adjustments to revenues.

(b) Other taxes are comprised of inheritance and estate taxes, taxes on gross receipts of hospitals (until April 1, 2000) and public service corporations, net direct premiums of insurance companies, taxes on oil companies, cigarettes and alcoholic beverages, real estate transfers, taxes on admissions and dues and cabarets and other miscellaneous taxes.

(c) Other non-tax revenues are comprised of special revenue transfers, Indian gaming payments, licenses, permits and fees, sales of commodities and services, rents, fines and escheats, investment income and other miscellaneous revenues.

SOURCE: 1997, 1998, 1999, 2000 and 2001 Annual Reports of the State Comptroller

Components of Revenue

Personal Income Tax. The State imposes a personal income tax on the income of residents of the State (including resident trusts and estates), part-year residents and certain non-residents who have taxable income derived from or connected with sources within Connecticut. The tax imposed is at the maximum rate of 4.5% on Connecticut taxable income. Depending on federal income tax filing status, the taxable year and Connecticut adjusted gross income, personal exemptions are available to taxpayers, ranging from $12,000 to $24,000 in taxable year 2001 with the lower end of the range increasing annually to $15,000 by taxable year 2007 for certain taxpayers. In addition, tax credits ranging from 1% to 75% of a taxpayer's Connecticut tax liability are also available depending upon federal income tax filing status, the taxable year and Connecticut adjusted gross income. Such exemptions and tax credits are phased out at certain higher income levels. Neither the personal exemption nor the tax credit described above is available to trusts or estates. Legislation enacted in 1995 effected a graduated rate structure beginning in tax year 1996. Under this revised structure, the top rate remains at 4.5% with a rate of 3% applicable to taxable income up to certain amounts. Subsequent legislation has increased the amount of taxable income subject to the 3% rate. By tax year 1999 and thereafter, the first $20,000 of taxable income for a joint filer and the first $10,000 of taxable income for a single filer is taxed at the 3% rate. In addition, an income tax credit for property taxes paid has been increased to a maximum of $500 per filer. Taxpayers also are subject to a Connecticut minimum tax based on their liability, if any, for payment of the federal alternative minimum tax.

Sales and Use Taxes. The Sales Tax is imposed, subject to certain limitations, on the gross receipts from certain transactions within the State of persons engaged in business in the State, including (a) sales at retail of tangible personal property, (b) the rendering of certain services, (c) the leasing or rental of tangible personal property, (d) the production, fabrication, processing, printing, or imprinting of tangible personal property to special order or with materials furnished by the consumer, (e) the furnishing, preparation or serving of food, meals, or drinks, and (f) the transfer of occupancy of hotel or lodging house rooms for a period not exceeding thirty consecutive calendar days. The Use Tax is imposed, with certain exceptions, on the consideration paid for certain services or purchases or rentals of tangible personal property used within the State pursuant to a transaction not subject to the Sales Tax. A separate rate of 12% is charged on the occupancy of hotel rooms. The tax rate for the Sales and Use Taxes is 6%. Various exemptions from the Sales and Use Taxes are provided, based on the nature, use or price of the property or services involved or the identity of the purchaser. Tax returns and accompanying payments with respect to revenues from these taxes are generally due monthly on or before the last day of the month next succeeding the taxable month.

Corporation Business Tax. The Corporation Business Tax is imposed on any corporation, joint stock company or association, any dissolved corporation that continues to conduct business, any electric distribution company or fiduciary of any of the foregoing which carries on or has the right to carry on business within the State or owns or leases property or maintains an office within the State or is a general partner in a partnership or a limited partner in a limited partnership, except an investment partnership, that does business, owns or leases property or maintains an office within the State. Certain financial services companies are exempt from this tax. For taxable years commencing on or after January 1, 1999, this exemption extends to domestic insurance companies. The Corporation Business Tax provides for three methods of computation. The taxpayer's liability is the greatest amount computed under any of the three methods.

The first method of computation is a tax measured by the net income of a taxpayer (the "Income-Base Tax"). Net income means federal gross income with limited variations less certain deductions, most of which correspond to the deductions allowed under the Internal Revenue Code of 1986, as amended from time to time. The Income-Base Tax had been levied at the rate of 10.75% in 1996 and was phased down over subsequent years to 7.5% for taxable years commencing on and after January 1, 2000. The second method of computing the Corporation Business Tax is an alternative tax on capital. This alternative tax is determined either as a specific maximum dollar amount or at a flat rate on a defined base, usually related in whole or in part to its capital stock and balance sheet surplus, profit and deficit. The third method of computing the Corporation

Business Tax is the minimum tax which is a flat $250. Corporations must compute their tax liability under all three methods, determine which calculation produces the greatest tax, and pay that amount to the State.

Other Taxes. Other tax revenues are derived from inheritance taxes, taxes on gross receipts of hospitals until April 1, 2000, taxes on public service companies, taxes on net direct premiums of insurance companies, taxes on oil companies, cigarette and alcoholic beverage excise taxes, real estate conveyance taxes, taxes on admissions and dues and other miscellaneous tax sources.

Federal Grants. Federal grants in aid are normally conditioned to some degree, depending upon the particular program being funded, on resources provided by the State. More than 99% of unrestricted federal grant revenue is expenditure driven. The largest federal grants in fiscal 2001 were made for the purposes of providing medical assistance payments to the indigent and temporary assistance to needy families. The State also receives certain restricted federal grants which are not reflected in annual appropriations but which nonetheless are accounted for in the General Fund. In addition, the State receives certain federal grants which are not accounted for in the General Fund but are allocated to the Transportation Fund, various Capital Project Funds and other funds.

Other Non-Tax Revenues. Other non-tax revenues are derived from special revenue transfers; Indian gaming payments; licenses, permits and fees; sales of commodities and services; rents, fines and escheats; investment income; other miscellaneous revenue sources; and designated Tobacco Settlement Revenues.

General Fund Expenditures

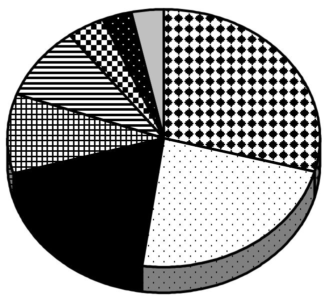
Appropriated and Historical Expenditures

Fiscal 2002 and 2003 Appropriated Expenditures. State expenditures are categorized for budget and appropriation purposes under ten functional headings, with expenditures by agency generally shown as subheadings in the following functional categories, listed in order of magnitude of expenditure for the current budget biennium: Human Services; Education, Libraries and Museums; Non-Functional (debt service and miscellaneous expenditures including fringe benefits); Health and Hospitals; Corrections; General Government; Judicial; Regulation and Protection of Persons and Property; Conservation and Development; and Legislative. State expenditures for Department of Transportation functions are paid from the Transportation Fund, not the General Fund.

Appropriated expenditures included in adopted budgets for fiscal years ending June 30, 2002 and June 30, 2003, actual expenditures for the fiscal year ending June 30, 2001, and estimated expenditures for the fiscal year ending June 30, 2002 based on information contained in the Comptroller's monthly report for the period ending September 30, 2001 are set forth in **Appendix III-E** to this Modified Annual Information Statement. A summary of appropriated General Fund expenditures for the fiscal years ending June 30, 2002 and June 30, 2003 is set forth below.

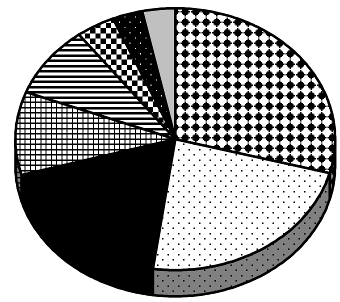
Appropriated General Fund Expenditures (In Millions)

Appropriated Expenditures 2001-2002
$11,893.9 [(a)]



Human Services	$3,494.4	29.1%
Education, Libraries and Museums	2,772.3	23.1%
Non-Functional	2,190.5	18.3%
Health and Hospitals	1,213.6	10.1%
Corrections	1,085.5	9.0%
General Government	462.7	3.9%
Judicial	384.1	3.2%
Other Expenditures[(b)]	394.6	3.3%

Appropriated Expenditures 2002-2003
$12,431.4 [(a)]



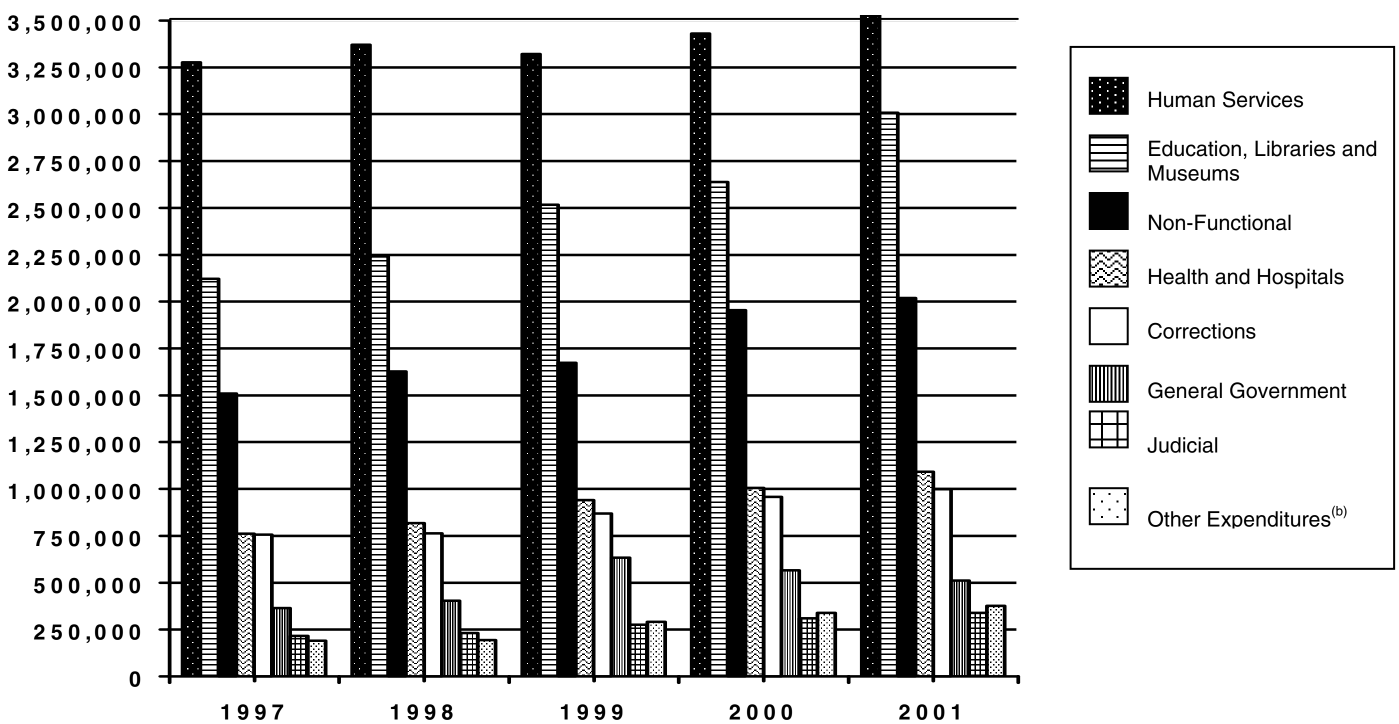
Human Services	$3,659.8	29.2%
Education, Libraries and Museums	2,897.3	23.1%
Non-Functional	2,294.7	18.3%
Health and Hospitals	1,267.1	10.1%
Corrections	1,137.7	9.0%
General Government	472.7	3.8%
Judicial	399.4	3.2%
Other Expenditures[(b)]	409.5	3.3%

(a) The pie charts reflect the total listed expenditures of $11,997.7 for 2001-2002 and $12,538.2 for 2002-2003, and do not reflect adjustments for unallocated lapses of $103.9 for 2001-2002 and $106.9 for 2002-2003. See **Appendix III-E** for anticipated adjustments to appropriated expenditures.

(b) Other expenditures are comprised of appropriations for Regulation and Protection, Conservation and Development, Legislative and Transportation.

SOURCE: Special Act No. 01-1 of the June Special Session.

Historical General Fund Expenditures. Actual General Fund expenditures for the fiscal years 1997 through 2001 are set forth in **Appendix III-D** to this Modified Annual Information Statement. A summary of the composition of General Fund expenditures for last five fiscal years is illustrated below:



General Fund Expenditures By Function[a]
Fiscal Year Ending June 30
(In Thousands)

	1997	1998	1999	2000	2001
Human Services	$ 3,277,044	$ 3,371,318	$ 3,231,095	$ 3,430,561	$ 3,537,462
Education, Libraries and Museums	2,122,230	2,240,437	2,411,479	2,637,518	3,007,391
Non-Functional	1,509,500	1,626,622	1,705,133	1,954,711	2,019,041
Health and Hospitals	762,347	817,777	905,529	1,005,233	1,092,361
Corrections	757,341	762,917	845,239	957,555	999,052
General Government	364,301	404,279	594,847	566,310	511,430
Judicial	217,086	232,340	266,043	309,319	338,568
Other Expenditures[b]	190,127	194,156	291,444	339,697	377,395
Totals	$ 9,199,976	$ 9,649,846	$ 10,250,809	$ 11,200,904	$ 11,882,700

(a) The bar graphs and amounts listed do not reflect expenditure of restricted federal and other grants. See **Appendix III-D** for total expenditures.

(b) Other expenditures are comprised of appropriations for Regulation and Protection, Conservation and Development, Legislative and Transportation.

SOURCE: 1997, 1998, 1999, 2000 and 2001 Annual Reports of the State Comptroller

Components of Expenditures

Human Services. Virtually all of the State expenditures for Human Services are allocated to the Department of Social Services for various programs and services, including Medicaid payments, Temporary Assistance to Families, and General Assistance payments.

Education, Libraries and Museums. Based upon the adopted budget for the 2001-2002 fiscal year, approximately 70% of the State expenditures for Education, Libraries and Museums is allocated to the Department of Education, with the largest share consisting of payments to local governments. The remaining 30% consists of expenditures for higher education (including the University of Connecticut, the Connecticut State University System and Regional Community-Technical Colleges), the Teachers' Retirement Board, the State Library and services for the blind and deaf.

Non-Functional. Non-Functional State expenditures consist of debt service payments, State employee fringe benefit accounts and other miscellaneous appropriations.

Health and Hospitals. State expenditures for Health and Hospitals are allocated primarily for programs and services provided by the State Departments of Public Health, Mental Retardation, and Mental Health and Addiction Services.

Corrections. Appropriations to the State Department of Correction and the Department of Children and Families comprise the largest portion of State expenditures for Corrections. Other expenditures include expenses of the Board of Pardons, the Board of Parole, and the County Sheriffs.

General Government. State expenditures for General Government may be classified into three general categories: executive, financial administration and legal, the largest of which is expenditures for financial administration. Such expenditures are primarily for salaries and other miscellaneous expenses of various State departments.

Judicial. Judicial expenditures are comprised of salaries, expenses and payments for special programs of the Judicial Department and the Public Defender Services Commission.

Regulation and Protection. State expenditures for Regulation and Protection consist primarily of appropriations to the Department of Public Safety for salaries, equipment, training and other services and expenses. Other agencies and programs for which appropriations are made include the Police Officer Standards and Training Council, the Board of Firearms Permit Examiners, the Military Department, the Commission on Fire Prevention and Control, the Department of Consumer Protection, the Department of Labor, the Commission on Human Rights and Opportunities, the Office of Protection and Advocacy for Persons with Disabilities and the Office of the Child Advocate.

Conservation and Development. State expenditures for Conservation and Development fall into three general categories: agriculture; development of historical sites, commerce and industry; and environment, the latter accounting for approximately 55% of all appropriations for Conservation and Development based upon the adopted budget for the 2001-2002 fiscal year.

Legislative. Legislative expenditures are comprised primarily of salaries, equipment and other expenses necessary for Legislative Management and the Auditors of Public Accounts.

Expenditures by Type

General Fund appropriations and the State expenditures to which they relate are divided for both administrative and budgetary purposes among appropriation account categories based on the type of appropriation. Appropriation account types may be grouped conceptually into two broad categories: payments to third parties and costs of State administration. Payments to third parties consist of two major appropriation account types: payments to local governments, and payments to parties other than local governments (which include debt service payments). Such payments to third parties amount to approximately 63% of total General Fund appropriations under the adopted budget for the 2001-2002 fiscal year. Costs of State administration consist of three major appropriation account types: personal services, equipment, and other expenses. These expenditures are used directly to operate the facilities and programs of State agencies and include such items as salaries, wages, pension and other benefits for State employees; utility and fuel costs; food; institutional and office supplies; equipment; rent for office space and other facilities; and other current expenses. Appropriations for costs of State administration represent approximately 37% of all General Fund appropriations under the adopted budget for the 2001-2002 fiscal year.

Appropriations categorized as payments to third parties are generally referred to for budgetary purposes as "fixed charges." Contractually required payments to third parties include debt service payments. Statutorily required payments to third parties include grants to local governments and individual beneficiaries under a wide variety of programs established by statute. The amount of such payments is generally either specifically set forth in the statutes in question or is calculated in accordance with a formula set forth in such statutes. Despite the characterization of these statutorily determined payments to third parties as "fixed charges," the Governor's budgetary recommendations routinely include proposed modifications in the amounts and formulas for calculating the amounts of such appropriations, and such modifications are often, in fact, adopted by the General Assembly. A summary of fixed charges is shown on **Table 1**. This summary includes a breakdown of total fixed charges into payments to local governments and total payments, as well as information as to the most significant types of expenditures in each category.

TABLE 1

Fixed Charges - General Fund
Summarized by Function of Government and Expenditure Category
Including Major Expenditure Items
(In Thousands)

	Fiscal Year 2001[a] (Actual)		Fiscal Year 2002 (Appropriated)		Fiscal Year 2003 (Appropriated)	
	Total Payments	Payments to Local Governments	Total Payments	Payment to Local Governments	Total Payments	Payments to Local Governments
LEGISLATIVE						
Total – Legislative	243	0	256	0	265	0
GENERAL GOVERNMENT						
One Time Surplus Revenue Sharing	31,000	31,000	0	0	0	0
Property Tax Relief Elderly Circuit Breaker	20,562	20,562	21,500	21,500	22,000	22,000
P.I.L.O.T. – New Manufacturing Machinery and Equipment	75,945	75,945	75,000	75,000	75,500	75,500
Undesignated	83,528	35,899	49,246	27,830	49,923	27,946
Total – General Government	211,035	163,406	145,746	124,330	147,423	125,446
REGULATION AND PROTECTION						
Total – Regulation and Protection	424	0	279	0	279	0
CONSERVATION AND DEVELOPMENT						
Total – Conservation and Development	10,774	5,143	12,700	5,143	14,969	5,143

	Fiscal Year 2001[a] (Actual)		Fiscal Year 2002 (Appropriated)		Fiscal Year 2003 (Appropriated)	
	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments	Total Payments	Payment to Local Governments
HEALTH AND HOSPITALS						
Employment Opportunities and Day Services (Department of Mental Retardation)	99,353	0	108,833	0	114,817	0
Community Residential Services (Department of Mental Retardation)	218,254	0	234,192	0	240,757	0
Grants for Substance Abuse Services	19,647	0	20,782	0	21,102	0
Grants for Mental Health Services	73,909	0	76,288	0	77,466	0
Undesignated	52,124	10,190	48,052	10,716	48,526	10,716
Total – Health and Hospitals	463,287	10,190	488,147	10,716	502,668	10,716
TRANSPORTATION						
Total – Transportation	34,857	34,857	35,000	35,000	35,000	35,000
HUMAN SERVICES						
Medicaid	2,331,594	0	2,454,318	0	2,593,271	0
Old Age Assistance	29,823	0	30,325	0	31,779	0
Aid to the Disabled	58,430	0	58,759	0	59,323	0
Temporary Assistance to Families	23,651	0	0	0	0	0
Temporary Assistance to Families – TANF	124,051	0	128,343	0	122,540	0
Connecticut Pharmaceutical Assistance Contract to the Elderly	37,862	0	48,385	0	74,468	0
Medicaid – Disproportionate Share – Mental Health	151,000	0	105,935	0	105,935	0
Connecticut Home Care Program	21,411	0	23,000	0	25,380	0
Child Care Services - TANF/CCDBG	106,642	0	123,617	0	115,475	0
Housing/Homeless Services	19,279	0	25,192	0	25,392	0
Disproportionate Share – Medical Emergency Assistance	205,487	0	85,000	0	85,000	0
State Administered General Assistance	94,066	0	99,052	0	101,442	0
Medicaid Excess Cost	23,522	0	0	0	0	0
Hospital Finance Restructuring Funding	27,404	0	0	0	0	0
Undesignated	83,221	14,595	77,906	5,554	76,974	5,554
Total – Human Services	3,337,443	14,595	3,259,832	5,554	3,416,979	5,554
EDUCATION, LIBRARIES AND MUSEUMS						
School Construction Grants	373,085	373,085	0	0	0	0
Transportation of School Children	45,939	45,939	47,500	47,500	50,000	50,000
Education Equalization Grants	1,384,627	1,384,627	1,459,000	1,459,000	1,515,500	1,515,500
Priority School Districts	20,058	20,058	82,274	82,274	81,622	81,622
Excess Cost – Student Based	58,399	58,399	59,500	59,500	69,000	69,000
Early Reading Success	20,347	20,347	2,236	2,236	2,236	2,236
Magnet Schools	24,841	24,841	33,341	33,341	45,188	45,188
Teachers' Retirement Contributions	214,666	0	204,511	0	214,737	0
Undesignated	216,885	106,487	187,826	78,364	183,604	71,386
Total – Education	2,358,847	2,033,783	2,076,188	1,762,215	2,161,887	1,834,932
CORRECTIONS						
Board and Care for Children – Adoption	30,832	0	38,150	0	40,535	0
Board and Care for Children – Foster	71,381	0	75,060	0	75,604	0
Board and Care for Children – Residential	114,783	0	134,234	0	139,678	0
Undesignated	67,993	0	83,022	0	90,609	0
Total – Corrections	284,989	0	330,466	0	346,426	0
NON FUNCTIONAL						
Debt Service (Including UConn 2000 and CHEFA Day Care Security)	975,875	0	1,031,415	0	1,060,161	0
Reimbursement to Towns for Loss of Taxes on State Property	63,779	63,779	66,059	66,059	63,778	63,778
Reimbursement to Towns for Loss of Taxes on Private Tax-exempt Property	97,163	97,163	100,932	100,932	97,163	97,163
Undesignated	643	0	879	0	880	0
Total – Non Functional	1,137,460	160,942	1,199,285	166,991	1,221,982	160,941
Total – Fixed Charges	7,839,359	2,422,916	7,547,899	2,109,949	7,847,878	2,177,732

(a) Does not include funds carried forward from Fiscal Year 2000 into Fiscal Year 2001. Does include funds carried forward from Fiscal Year 2001 into Fiscal Year 2002.

SOURCE: Office of Policy and Management

Fiscal Year 2000-2001 Operating Results

The adopted budget for the 2000-2001 fiscal year anticipated General Fund revenues of $11,281.3 million and General Fund expenditures of $11,280.8 million resulting in a projected surplus of $0.5 million. **Appendix III-D** and **Appendix III-E** show the results for the 2000-2001 fiscal year per the Comptroller's annual report. This report indicates the 2000-2001 fiscal year General Fund revenues were $11,985.5 million, General Fund expenditures were $11,954.8 million, resulting in an operating surplus of $30.7 million. The operating surplus of $30.7 million has been transferred pursuant to section 4-30a of the Connecticut General Statutes to the state's budget reserve fund.

Prior to the conclusion of the fiscal year, the State was projecting a surplus in excess of $600 million. As part of the adopted biennial budget for the ensuing fiscal years, the legislature appropriated $576.2 million of the fiscal 2000-2001 surplus for purposes such as debt avoidance or measures that are primarily one-time in nature. This resulted in General Fund expenditures for fiscal year 2000-2001 that were significantly higher than originally budgeted. This level of surplus appropriation assured that the State would still be able to make a deposit into the state's budget reserve fund, thereby maintaining the statutorily required 5% balance in the fund.

Adopted Budget Fiscal Years 2001-2002 and 2002-2003

The Governor submitted his proposed budget to the legislature on February 7, 2001. The budget document included a proposed General Fund budget for fiscal year 2001-2002 and fiscal year 2002-2003. Special Act 01-1 of the June Special Session made General Fund appropriations and set forth estimated revenues for the 2001-2002 and 2002-2003 fiscal years, and constitutes the adopted budget.

The adopted budget for fiscal year 2001-2002 anticipated General Fund revenues of $11,894.1 million and General Fund expenditures of $11,894.0 million, with an estimated surplus of $0.1 million. For fiscal year 2002-2003, the adopted budget anticipated General Fund revenues of $12,432.0 million and General Fund expenditures of $12,431.4 million, with a surplus of $0.6 million. The adopted budget was within the expenditure limits prescribed by Article XXVIII of the Amendments to the Constitution of the State of Connecticut in conjunction with Section 2-33a of the General Statutes, $78.2 million below the cap in fiscal year 2001-2002 and $63.0 million below the cap in fiscal year 2002-2003.

The enacted budget makes several changes to the state's tax law. The most significant change is the suspension for a period of two years of the 5.75% sales tax on hospital services. This will reduce revenues by $110 million in fiscal 2001-2002 and by $112 million in fiscal year 2002-2003. The remaining revenue modifications are modest in magnitude.

The enacted budget contains significant expenditure changes in several areas. The most significant change within the budget is the scaling back of the disproportionate share appropriation related to uncompensated care provided by hospitals in the state. This expenditure savings of approximately $107 million was undertaken in conjunction with the tax change referenced above. Also within the Department of Social Services is the annualization of the HUSKY Adult program totaling $28 million in the first year of the biennium and $34 million in the second year of the biennium. The state's largest support for local education is through the Education Cost Sharing (ECS) formula. The budget as passed increases this grant by $127.5 million by the second year of the biennium over the grant entitlement level for fiscal year 2000-2001. Of the $127.5 million increase, $50 million is devoted to phasing out the ECS grant's formula cap. Current law requires the grant formula cap to be eliminated in fiscal year 2004. Of the balance, $10 million will go to non-cap towns as a one-time COLA, with the remaining funding going to expected enrollment growth over the biennium. Due to the projected increase in incarcerated individuals in the state's prison system, the state's Department of Corrections budget is recommended to expand by $52.2 million by fiscal year 2002-2003 over fiscal year 2000-2001. In anticipation of new court house openings, the incorporation of the county sheriffs system within the Judicial Branch and the expansion of the alternative incarceration program, the Judicial

Department will see its expenditures increase by $56.8 million between fiscal year 2000-2001 and fiscal year 2002-2003.

Fiscal Year 2001-2002 Operations

The adopted budget for the 2001-2002 fiscal year anticipated General Fund revenues of $11,894.1 million and General Fund expenditures of $11,894.0 million resulting in a projected surplus of $0.1 million. Per Section 3-115 of the Connecticut General Statutes, the State's fiscal position is reported monthly by the Comptroller. This report compares the revenues already received and the expenditures already made to estimated revenues to be collected and estimated expenditures to be made during the balance of the fiscal year. **Appendix III-E** show estimated revenues and expenditures for the 2001-2002 fiscal year as of September 30, 2001. This report estimates 2001-2002 fiscal year General Fund revenues of $11,651.7 million, General Fund expenditures of $11,953.4 million and an estimated operating deficit of $301.7 million. Estimated revenues have been revised downward by $242.4 million from the enacted budget plan and estimated expenditures have been revised upward by $59.4 million. Revenues have been revised downward primarily due to weakness in the personal income tax, the sales and use tax, and inheritance and estate collections. Expenditures have been revised upward primarily due to deficiencies in various state agencies.

Per Section 4-85 of the Connecticut General Statutes, whenever the cumulative monthly financial statement issued by the Comptroller indicates a projected General Fund deficit greater than one percent of the total General Fund appropriations, the Governor is required within thirty days to file a report with the joint standing committees of the General Assembly on appropriations and on finance, revenue and bonding. The report shall include a plan which the Governor shall implement to modify agency allotments to the extent necessary to prevent a deficit. It is expected that the Governor shall submit such a plan prior to the expiration of the thirty day time period on December 1, 2001. Should such plan result in a reduction of more than five percent of total appropriations, approval of the General Assembly would be required.

The information in **Appendix III-E** and in the Comptroller's monthly reports contain only estimates and no assurances can be given that subsequent estimates or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2001-2002 operations of the General Fund.

General Fund Budget History

Table 2 summarizes the results of operation of the General Fund on the budgetary-basis. Summaries of actual revenues and expenditures on the budgetary (modified cash) basis for the fiscal years 1997 through 2001 are set forth in **Appendix III-D** to this Modified Annual Information Statement.

TABLE 2

General Fund
Summary of Operating Results — Budgetary (Modified Cash) Basis
(In Millions)

	Fiscal Years Ended June 30				
	1997	**1998**	**1999**	**2000**	**2001**
Total General Fund Revenues[a]	$9,582.0	$10,142.2	$10,616.4	$11,213.6	$11,985.5
Net-Appropriations/Expenditures[a] [b]	9,319.4	9,829.3	10,544.6	10,913.2	11,954.8[c]
Operating Surplus/(Deficit)	$ 262.6[d]	$ 312.9[e]	$ 71.8[f]	$ 300.4[g]	$ 30.7[h]

(a) Does not include Restricted Accounts and Federal and Other Grants.
(b) Does not include expenditures for Restricted Accounts and Federal and Other Grants. Includes Amounts Reserved for Prior Year Appropriations Less Appropriations Carried Forward and Other Adjustments. See **Appendix III-D.**
(c) Does not include expenditures which were financed from fiscal year 2000 reserves for debt avoidance.
(d) Pursuant to Special Act No. 97-21, $166.7 million of the operating surplus was reserved for the payment of principal and interest on the Economic Recovery Notes over the 1997-99 biennium, while the remaining $95.9 million of the surplus was reserved for transfer to the Budget Reserve Fund.
(e) $161.7 million of the operating surplus was reserved for transfer to the Budget Reserve Fund while the remaining $151.2 million was reserved for the retirement of bonded debt.
(f) $30.5 million of the operating surplus was reserved for transfer to the Budget Reserve Fund while the remaining $41.3 million was reserved for the retirement of bonded debt.
(g) $34.9 million of the operating surplus was reserved for transfer to the Budget Reserve Fund while the remaining $265.5 million was reserved for debt avoidance.
(h) $30.7 million of the operating surplus was reserved for transfer to the Budget Reserve Fund.

SOURCE: Comptroller's Office

Table 3 shows the reconciliation of the actual operations surplus (deficit) under the budgetary (modified cash) basis to the GAAP basis of accounting. Adopted GAAP based financial statements for fiscal year 2001 are included in **Appendix III-C**.

TABLE 3

General Fund
Summary of Operating Results — Budgetary (Modified Cash) Basis vs. GAAP Basis
(In Millions)

	Fiscal Years Ended June 30				
	1997	**1998**	**1999**	**2000**	**2001**
Modified Cash Basis Operating Surplus/(Deficit)	$ 262.6	$ 312.9	$ 71.8	$ 300.4	$ 30.7
Adjustments:					
Increases (decreases) in revenue accruals:					
Governmental Receivables	31.4	(35.2)	56.3	59.8	80.0[a]
Other Receivables	(3.1)	(35.7)	(21.4)	15.5	(15.1)
(Increases) decreases in expenditure accruals:					
Accounts Payable and Other Liabilities	(38.3)	60.6	(49.7)	(161.5)	(115.8)[a]
Salaries and Fringe Benefits Payable	(29.3)	(6.5)	(33.7)	120.8	(14.1)
Increase (decrease) in Continuing Appropriations	111.0	180.5	294.1	(289.8)	334.0
Reclassification of equity adjustments	(81.5)	(85.8)	(142.5)	(118.1)	(266.5)
GAAP Based Operating Surplus/(Deficit)	$ 252.8	$ 390.8	$ 174.9	$ (72.9)	$ 33.2

(a) In footnote 2 of the General Purpose Financial Statements in Appendix III-C, $92.4 million of governmental revenues have been netted against accounts payable and other liabilities expenditures.

SOURCE: Comptroller's Office

Table 4 sets forth on the budgetary (modified cash) basis the actual cumulative unreserved fund balance (deficit) for the General Fund for the last five fiscal years.

TABLE 4

General Fund
Unreserved Fund Balance — Budgetary (Modified Cash) Basis
(In Millions)

	Fiscal Years Ended June 30				
	1997	**1998**	**1999**	**2000**	**2001**
Operating Surplus/Deficit	$262.6	$312.9	$ 71.8	$300.4	$ 30.7
Fund Transfers and Reserves					
Budget Reserve Fund	95.9	161.7	30.5	34.9	30.7
Economic Recovery Note Debt Retirement	166.7	--	--	--	--
Reserve for Debt Service Appropriation	--	151.2	41.3	--	--
Reserve for Debt Avoidance	--	--	--	265.5	--
Total Transfers/Reserves	262.6	312.9	71.8	300.4	30.7
Unreserved Fund Balance					
Surplus/(deficit)	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0

SOURCE: Comptroller's Office

Table 5 shows the reconciliation of the actual cumulative unreserved Fund balance (deficit) under the modified cash basis to the GAAP basis of accounting for the last five fiscal years.

TABLE 5

Unreserved Fund Balance — Budgetary (Modified Cash) Basis vs. GAAP Basis
(In Millions)

	Fiscal Years Ended June 30				
	1997	**1998**	**1999**	**2000**	**2001**
Unreserved Fund Balance (Deficit)					
Modified Cash Basis	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
GAAP Based Adjustments					
Continuing Appropriations Available for GAAP Liabilities	—	—	141.8	35.0	25.4
Additional Assets					
Taxes Receivable					
Income Tax Accrual Reduction	(122.4)	(149.9)	(170.0)	(151.3)	(194.1)
Eliminate Corporation Accrual	(34.5)	(29.1)	(22.1)	(19.5)	(23.3)
Additional Taxes Receivable	8.9	8.1	5.0	4.0	7.0
Net Increase (Decrease) Taxes	(148.0)	(170.9)	(187.1)	(166.8)	(210.4)
Net Accounts Receivable	33.6	19.4	29.7	76.2	83.8
Federal and Other Grants Receivable[(a)]	368.9	383.4	428.4	435.7	525.8
Due From Other Funds	7.2	13.1	7.9	4.8	7.2
Total Additional Assets	$ 261.7	$ 245.0	$ 278.9	$ 349.9	$ 406.4
Additional Liabilities					
Salaries and Fringe Payable	(235.0)	(240.7)	(279.9)	(158.0)	(173.4)
Accounts Payable—Department of Social Services	(509.3)	(479.4)	(525.7)	(676.7)	(773.3)
Accounts Payable—Trade & Other	(131.0)	(125.4)	(142.1)	(175.6)	(191.2)
Payable to Local Governments	(4.7)	(.1)	-	-	-
Payable to Federal Government	(40.9)	(90.6)	(72.0)	(48.8)	(72.6)
Due to Other Funds	(10.8)	(3.1)	(3.7)	(.8)	(3.1)
Total Additional Liabilities	$(931.7)	$(939.3)	$(1,023.4)	$(1,059.9)	$1,213.6)
Unreserved Fund Balance (Deficit)					
GAAP Basis	$(670.0)	$(694.3)	$ 602.7)	$ (675.0)	$ (781.8)

(a) Primarily reimbursement for additional liabilities accrued to federal grant accounts or programs with federal participation, e.g., Medicaid.

SOURCE: Comptroller's Office

Table 6 sets forth on a GAAP basis the components of the fund balance for the General Fund for the last five fiscal years.

TABLE 6

General Fund Fund Balances-GAAP Basis
(In Millions)

	Fiscal Years Ended June 30				
	1997	**1998**	**1999**	**2000**	**2001**
Reserved:					
Petty Cash	$ 1.0	$ 1.1	$ 1.1	$ 1.0	$ 1.0
Budget Reserve	336.9	498.6	529.1	564.0	594.7
Advances to Other Funds	-	-	-	5.0	6.6
Debt Avoidance	-	-	-	265.5	249.3
Inventories	32.7	34.3	34.3	37.7	36.2
Continuing Appropriations	184.5	372.3	526.4	343.5	687.0
Debt Service	166.7	232.1	131.3	13.2	20.7
Total	721.8	1,138.4	1,222.2	1,229.9	1,595.5
Unreserved:	(670.0)	(694.3)	(602.7)	(675.0)	(781.8)
Total Fund Balance	$ 51.8	$ 444.1	$ 619.5	$ 554.9	$ 813.7

SOURCE: Comptroller's Office

STATE DEBT

Constitutional Provisions

The State has no constitutional limit on its power to issue obligations or incur debt other than it may borrow only for public purposes. There are no reported court decisions relating to State bonded debt other than two cases validating the legislative determination of the public purpose for improving employment opportunities and related activities. The State Constitution has never required a public referendum on the question of incurring debt. Therefore, State statutes govern the authorization and issuance of State debt, including the purpose, amount and nature thereof, the method and manner of the incurrence of such debt, the maturity and terms of repayment thereof, and other related matters.

Types of State Debt

Pursuant to various public and special acts the State has authorized a variety of types of debt. These types fall generally into the following categories: direct general obligation debt, which is payable from the State's General Fund; special tax obligation debt, which is payable from specified taxes and other funds which are maintained outside the State's General Fund; and special obligation and revenue debt, which is payable from specified revenues or other funds which are maintained outside the State's General Fund. In addition, the State has a number of programs under which the State is contingently liable on the debt of certain State quasi-public agencies and political subdivisions. See **OTHER FUNDS, DEBT AND LIABILITIES** for information concerning debt and contingent liabilities on debt other than direct general obligation debt.

State Direct General Obligation Debt

General

Statutory Authorization and Security Provisions. In general, the State issues general obligation bonds pursuant to specific statutory bond acts and Section 3-20 of the General Statutes, the State general obligation bond procedure act. That act provides that such bonds shall be general obligations of the State and that the full faith and credit of the State of Connecticut are pledged for the payment of the principal of and interest on such bonds as the same become due. Such act further provides that, as a part of the contract of the State with the owners of such bonds, appropriation of all amounts necessary for the punctual payment of such principal and interest is made, and the Treasurer shall pay such principal and interest as the same become due.

There are no State Constitutional provisions precluding the exercise of State power by statute to impose any taxes, including taxes on taxable property in the State or on income, in order to pay debt service on bonded debt now or hereafter incurred. The constitutional limit on increases in General Fund expenditures for any fiscal year does not include expenditures for the payment of bonds, notes or other evidences of indebtedness. There are also no constitutional or statutory provisions requiring or precluding the enactment of liens on or pledges of State General Fund revenues or taxes, or the establishment of priorities for payment of debt service on the State's general obligation bonds. There are no express statutory provisions establishing any priorities in favor of general obligation bondholders over other valid claims against the State.

Statutory Debt Limit. Section 3-21 of the General Statutes provides that no bonds, notes or other evidences of indebtedness for borrowed money payable from General Fund tax receipts of the State shall be authorized by the General Assembly or issued except as shall not cause the aggregate amount of (1) the total amount of bonds, notes or other evidences of indebtedness payable from General Fund tax receipts authorized by the General Assembly but which have not been issued and (2) the total amount of such indebtedness which has been issued and remains outstanding, to exceed 1.6 times the total estimated General Fund tax receipts of the State for the fiscal year in which any such authorization will become effective or in which such indebtedness is issued, as estimated for such fiscal year by the joint standing committee of the General Assembly having cognizance of finance, revenue and bonding. However, in computing the aggregate amount of indebtedness at any time, there shall be excluded or deducted revenue anticipation notes having a maturity of one year or less, refunded indebtedness, bond anticipation notes, borrowings payable solely from the revenues of a particular project, the balances of debt retirement funds associated with indebtedness subject to the debt limit as certified by the Treasurer, the amount of federal grants certified by the Secretary of the Office of Policy and Management as receivable to meet the principal of certain indebtedness, all authorized and issued indebtedness to fund any budget deficits of the State for any fiscal year ending on or before June 30, 1991, all authorized debt to fund the Connecticut Development Authority's tax increment bond program, and any indebtedness represented by agreements entered into pursuant to certain provisions of the General Statutes, provided the indebtedness in connection with which such agreements were entered into shall be included in such aggregate amount of indebtedness. For purposes of the debt limit statute, all bonds and notes issued or guaranteed by the State and payable from General Fund tax receipts are counted against the limit, except for the exclusions or deductions described above. In addition, under Public Act No. 95-230, the amount of authorized but unissued debt under that Act for UConn 2000 is limited to the amount permitted to be issued under the cap. See ***Types of Direct General Obligation Debt — UConn 2000 Financing.***

Under the General Statutes, the Treasurer is required to compute the aggregate amount of indebtedness as of January 1 and July 1 each year and to certify the results of such computation to the Governor and the General Assembly. If the aggregate amount of indebtedness reaches 90% of the statutory debt limit, the Governor shall review each bond act for which no bonds, notes or other evidences of indebtedness have been issued, and recommend to the General Assembly priorities for repealing authorizations for remaining projects.

The total tax receipts for the fiscal year beginning July 1, 2001 as last estimated by the General Assembly's joint standing committee on finance, revenue and bonding, and the calculation of the debt limit, the aggregate amount of outstanding debt and of authorized but unissued debt subject to such limit, and the debt incurring margin, all as of October 15, 2001 is described in the following table.

TABLE 7

Statutory Debt Limit
as of October 15, 2001

Total General Fund Tax Receipts	$8,754,200,000	
Multiplier	1.60	
Debt Limit		$14,006,720,000
Outstanding Debt [(a)]	$7,193,405,430	
Guaranteed Debt [(b)]	542,900,147	
Authorized Debt [(c)]	$4,058,766,432	
Total Subject to Debt Limit		$11,795,072,009
Less Debt Retirement Funds [(d)]	$ 124,337,723	
Aggregate Net Debt		$11,670,734,286
Debt Incurring Margin		$ 2,335,985,714

(a) See ***Table 8***. Includes accreted value of capital appreciation bonds. Excludes UCONN 2000 Bonds, tax increment financings and short term revenue anticipation notes.
(b) See **OTHER FUNDS, DEBT AND LIABILITIES – Contingent Liability Debt.** Guarantees for certain outstanding debt of Southeastern Connecticut Water Authority and UCONN 2000 Bonds. Excludes accreted value of UCONN 2000 capital appreciation bonds.
(c) Includes guarantee for UCONN 2000 bonds authorized but unissued under cap for 2001-2002.
(d) Includes Rental Housing Sinking Fund and debt service funds for self-liquidating debt issued to finance facilities at University of Connecticut and Connecticut State University.

SOURCE: State Treasurer's Office

State Bond Commission. The general obligation bond procedure act established the State Bond Commission and empowers it to authorize the issuance of general obligation bonds for purposes and in amounts and subject to other limits established by the legislature in a bond act. The Commission consists of the Governor, the Treasurer, the Comptroller, the Attorney General, the Secretary of the Office of Policy and Management, the Commissioner of the Department of Public Works, and the Co-Chairpersons and Ranking Minority Members of the Joint Standing Committee on Finance, Revenue and Bonding of the General Assembly. The Secretary of the Office of Policy and Management serves as secretary to the Commission.

Subject to satisfaction of certain conditions, the Commission may authorize the issuance of general obligation bonds, by the approving vote of at least a majority of the Commission, upon a finding that such authorization will be in the best interest of the State. Upon authorization, the principal amount of bonds so authorized is deemed an appropriation of such amount for such purpose or project and, subject to allotment thereof by the Governor, contracts may be awarded and obligations incurred with respect to the project or purpose, in amounts not exceeding the authorized principal amount, notwithstanding the fact that the contracts and obligations may at a particular time exceed the amount of the proceeds from the sale of such bonds received by the State up to that time. The Commission also determines the terms and conditions of the bonds authorized or delegates such determination to the Treasurer. The Commission generally meets monthly in formal session.

Types of Direct General Obligation Debt

Bond Acts. Pursuant to various public or special bond acts, the General Assembly empowers the State Bond Commission to authorize bonds for a variety of projects or purposes. Each bond act is usually specific as to its projects or purposes and the amount of bonds to be issued therefor, although each bond act may contain several projects or purposes. Each bond act also usually sets forth a maximum maturity of the bonds.

The types of projects and purposes for which the State has authorized general obligation debt include the following: acquisition, construction, renovation and improvement of buildings and facilities for State departments and agencies, educational institutions, prisons, college and university facilities, library facilities and courthouses, acquisition of development rights to preserve open space and farmland, and the provision of grants and loans to promote economic development within the State. Some bonds authorized for university and college facilities are self-liquidating, and certain fees and charges collected by the college or university are set aside and used to service the debt on these bonds. Bonds are also authorized to fund a wide variety of grant programs. Such grants are made to local governments for local school construction projects or to finance a variety of local government, economic development, highway, bridge and other capital improvement projects. Certain bonds are authorized to finance grants and loans to local housing authorities and developers of affordable housing. Other general obligation debt finances grants and loans to municipalities for design and construction of water pollution control facilities, in addition to loans that are financed under the State's Clean Water revenue bond program.

UConn 2000 Financing. In 1995 the General Assembly enacted Public Act No. 95-230, The University of Connecticut 2000 Act. That act established the University of Connecticut as a separate corporate entity and instrumentality of the State that is empowered to issue bonds and construct the infrastructure improvements contemplated by the act for the University of Connecticut. The estimated costs of the infrastructure improvements set forth in the act total $1,250 million, with $382 million scheduled to be undertaken in fiscal years 1996-1999 (Phase I) and $868 million in fiscal years 2000-2005 (Phase II). The act authorizes the University to borrow money to finance the UConn 2000 projects, to finance cash flow deficits, and to refund such financings. Such borrowings are to be general obligations of the University payable from any revenues or assets of the University and may be secured by pledges of the University's revenues or assets other than mortgages.

The UConn 2000 projects are to be financed by $18 million general obligation bonds of the State and $962 million bonds of the University which are secured by the State's debt service commitment, which is an annual amount for any debt service requirements when due and payable. Under the Act, appropriations of all amounts of the State's debt service commitment are made out of the resources of the State's General Fund and the State Treasurer is obligated to make such payments. For this reason, all general obligation borrowings by the University are treated as part of the State's general obligation debt. The amount of the University's bonds which are secured by the State's debt service commitment is capped for each fiscal year, but any amount not used may be carried forward to future fiscal years. The cap does not apply to bonds issued to finance any special capital reserve fund or other debt service reserve fund, costs of issuance or capitalized interest. The amount of bonds issued by the University and secured by the State's debt service commitment and the amount of bonds which are authorized to be issued in a fiscal year under the cap are counted against the State's debt limit. The aggregate cap for fiscal years 1996-1999 is $382 million, with the remaining cap of $580 million spread over the fiscal years 2000-2005.

The form of master resolution for bonds secured by the State's debt service commitment must be approved by the State Bond Commission, as must any substantive amendment thereto. Each resolution approved by the University to borrow money, including bonds secured by the State's debt service commitment, may be rejected by the Governor within thirty days of submission. All borrowing by the University is to be undertaken by the State Treasurer.

The total amount of University bonds and State general obligation bonds authorized by the Act is $270 million less than the estimated costs of the infrastructure improvements set forth in the Act. This difference is expected to be addressed by capital cost reductions, deferring certain projects to a future date, and by securing additional funding sources, such as private fundraising and special obligation bonds. Special obligation bonds are to be secured by particular revenues of the University pledged therefore, are not subject to the cap on the University's general obligation bonds and are not counted against the State's debt limit.

Special obligation bonds are not secured by the State's debt service commitment, but may be secured by a special capital reserve fund which the State undertakes to restore to its minimum level. See **OTHER FUNDS, DEBT AND LIABILITIES - Contingent Liability Debt - *Special Capital Reserve Funds***. Before issuing special obligation bonds secured by such a special capital reserve fund, the act requires the board of trustees of the University to determine that project revenues, other than those derived from the State's debt service commitment and the State's minimum operating provision, are estimated to be sufficient to pay the debt service on the special obligation bonds, to maintain reserves and to operate the physical infrastructure of the University. The act requires the Treasurer to confirm that such determination is not unreasonable or arbitrary. The University may also issue special obligation bonds which are not secured by such a special capital reserve fund.

Lease Financing. The State has issued certificates of participation for the development of courthouse facilities and an energy facility at a juvenile training school, based upon State rental payments under a lease purchase agreement between the State and the project developer. The State has treated this method of lease financing as general obligation debt. However, the State has entered into other leasing arrangements for the development of courthouse facilities which are not treated as general obligation debt, most often in circumstances where the lease is a standard lease or the State is not a participant in the securitization of rental payments under the lease.

Tax Increment Financing. In 1992 the General Assembly authorized the Connecticut Development Authority to issue tax increment bonds for certain types of economic development projects. Under the program the amount of such bonds that may be issued is limited so that the debt service on the bonds may not exceed the estimated increases in the sales tax and the admissions, cabaret and dues taxes generated by the project and allocated by the Authority for debt service on the bonds. Under the General Statutes, debt service on the bonds is required to be paid from such tax receipts (whether or not the actual tax receipts equal or exceed the estimated amount) and is deemed appropriated from the General Fund. The State has classified such tax increment bonds as general obligation debt. No such tax increment bonds may be issued without the approval of the State Bond Commission and no commitments for new projects under this program may be approved by the Authority on or after July 1, 2005.

In addition to general obligation bonds for Hartford development projects, the legislature created the Capital City Economic Development Authority in 1998 and granted it the power to issue revenue bonds for a convention center in Hartford. The bonds are to be backed by State contractual assistance equal to annual debt service. The bonds must be approved by the State Bond Commission, various other conditions and approvals must be satisfied, and the Authority must determine the extent to which incremental tax revenues to be derived as a result of construction and operation of the project and visitor spending with respect thereto are reasonably expected to offset debt service. The legislation originally authorized tax increment bonds for a sports stadium, but in 1999 the legislature authorized state general obligation bonds for the stadium.

In 1998 the legislature authorized the Connecticut Development Authority to issue up to $120 million in tax increment financing for the Steel Point Project in Bridgeport. The issuance of the bonds is subject to the approval of the State Bond Commission. The legislation also authorizes the State to provide financial assistance to the project, for any two year period, in an aggregate amount exceeding $10 million. The legislation provides that the Authority, and certain State agencies may provide financial assistance to the Steel Point Project in an aggregate amount not to exceed $200 million when combined with funds from the City of

Bridgeport, exclusive of various financing costs and financial assistance from other State agencies and the Federal government.

Certain Short-Term Borrowings. The General Statutes authorize the Treasurer, subject to the approval of the Governor, to borrow such funds, from time to time, as may be necessary, and to issue obligations of the State therefor, which shall be redeemed by the Treasurer whenever, in the opinion of the Treasurer, there are funds in the treasury available for such purpose. The State has established programs of temporary note issuances from time to time to cover periodic cash flow requirements. No temporary notes are outstanding and none have been issued since 1991.

Forms of Debt. In addition to the bonds, notes and lease financings described above, the State Treasurer has the authority to issue refunding bonds, bond anticipation notes, and capital appreciation bonds. The State general obligation bond procedure act provides that the Treasurer may issue temporary notes and any renewals thereof in anticipation of the proceeds from the sale of bonds whenever the State Bond Commission has adopted a resolution authorizing bonds. The Treasurer is also authorized by the State general obligation bond procedure act to issue refunding bonds whenever the Treasurer finds that the sale is in the best interests of the State and that the State reasonably expects to achieve net debt service savings as a result of such refunding. Certain of the State's general obligation bonds have been issued as capital appreciation bonds. Capital appreciation bonds are issued at a deep discount and interest on the bonds is compounded semi-annually and only paid at maturity. For purposes of the State's debt tables, the interest which has accrued on capital appreciation bonds up to the date of the table is added to the principal amount of the State's debt. Pursuant to State statute, accrued interest on UCONN 2000 capital appreciation bonds is excluded from the calculation of the statutory debt limit.

Derivatives. The General Statutes authorize the Treasurer, with the approval of the State Bond Commission, to enter into various agreements in connection with liquidity and credit facilities and swap and other arrangements to manage interest rate risk. See **FINANCIAL PROCEDURES - Investment and Cash Management - *Interest Rate Risk Management*.**

Debt Statement

The following table shows all direct general obligation indebtedness (including the accreted value of capital appreciation bonds as of October 15, 2001) for the payment of the principal and interest on which the State has pledged its full faith and credit or which is otherwise payable from the State's General Fund.

TABLE 8

Direct General Obligation Indebtedness [(a)]
Principal Amount Outstanding Pro-forma as of October 15, 2001
(In Thousands)

General Obligation Bonds	$	7,143,865
UCONN 2000 Bonds		545,536
Lease Financings		49,540
Tax Increment Financings		33,755
Long Term General Obligation Debt Total		7,772,696
Short Term General Obligation Debt Total		-
Gross Direct General Obligation Debt		7,772,696
Deduct:		
University Auxiliary Services [(b)]		48,783
Rental Housing Sinking Fund [(c)]		75,555
Net Direct General Obligation Debt	$	7,648,359

(a) The table does not include refunded bonds for which escrow funds and investments are sufficient to pay all debt service. The table also does not include limited or contingent liabilities of the State or obligations of the State to towns for participation in the construction and alteration of school buildings. See **OTHER FUNDS, DEBT AND LIABILITIES**.

(b) Considered self-liquidating. The proceeds of such bonds have been used to build facilities for the State University System and the University of Connecticut. Student fees, other than tuition, for use of such facilities, are deposited into enterprise funds and are used for the operation of such facilities and for deposit annually into a debt service fund maintained by the Treasurer for payment of the debt service on such bonds.

(c) The State has established a contractual trust fund with the bondholders in which there is a pledged fund balance, the amount of which has been deducted.

SOURCE: State Treasurer's Office

Debt Ratios

The following table sets forth certain ratios relating to the State's gross and net direct general obligation indebtedness:

TABLE 9

Debt Ratios - Long Term General Obligation Debt

	1997	1998	1999	2000	2001
Gross Direct Debt[(a)]	$6,826,826	$6,980,204	$7,176,905	$7,432,891	$7,920,531
Net Direct Debt[(a)]	$6,678,398	$6,864,897	$7,067,276	$7,315,945	$7,795,785
Ratio of Debt to Personal Income [(b)]					
Gross Direct Debt	5.86%	5.63%	5.53%	5.37%	5.73%
Net Direct Debt	5.73%	5.54%	5.44%	5.28%	5.64%
Ratio of Debt to Estimated Full Value[(c)]					
Gross Direct Debt	2.64%	2.65%	2.60%	2.51%	2.50%
Net Direct Debt	2.58%	2.61%	2.56%	2.47%	2.46%
Per Capita Debt[(d)]					
Gross Direct Debt	$2,088	$2,133	$2,187	$2,182	$2,325
Net Direct Debt	$2,042	$2,098	$2,153	$2,148	$2,289

(a) In thousands. Includes gross and net long-term direct general obligation bonded indebtedness as set out in ***Table 11***.
(b) See ***Appendix III-B, Table B-2***. Personal Income: 1997—$116,420 million; 1998—$123,902 million; 1999—$129,780 million; 2000—$138,334 million. 2001 ratio uses 2000 data.
(c) Full value estimated by Office of Policy and Management. Uses final equalized net grand lists: 1995—$258 billion; 1996—$263 billion; 1997 - $276 billion; 1998 - $296 billion; and 1999 – $317 billion. Property is assessed as of October 1 in each year for the tax levy effective the following July 1. The 1997 ratio uses 1995 data; 1998 ratio uses 1996 data; 1999 ratio uses 1997 data; 2000 ratio uses 1998 data; and 2001 ratio uses 1999 data.
(d) See ***Appendix III-B, Table B-1***. State population: 1997—3,269,000; 1998—3,273,000; 1999—3,282,000; 2000—3,406,000. 2001 ratio uses 2000 data.

Debt Service Schedule

The following table sets forth the principal, sinking fund and interest payments required on all outstanding long-term direct general obligation debt of the State, as of October 15, 2001. Although not specifically reflected as a result of combining all outstanding long-term direct debt, the State generally issues general obligation bonds maturing within twenty years. The exceptions include thirty-year Rental Housing Term Bonds and certain other bonds with maturities of less than twenty years where required by statute or in instances where the expected period of usefulness of the project or purpose financed does not warrant a maturity of twenty years.

TABLE 10

Summary of Principal, Mandatory Sinking Fund Payments, and Interest on Long-Term Direct General Obligation Debt[(a)] as of October 15, 2001

Fiscal Year	Principal Payments [(b)]	Sinking Fund Payments [(c)]	Interest Payments [(b)(d)]	Total Debt Service
2001-02	473,968,912	-	316,684,113	790,653,025
2002-03[(b)]	559,977,485	4,445,000	376,959,581	941,382,066
2003-04	563,125,923	-	361,170,915	924,296,838
2004-05	571,211,775	-	348,461,198	919,672,973
2005-06	510,233,875	-	325,176,862	835,410,736
2006-07	501,090,140	-	307,065,092	808,155,232
2007-08	500,970,553	-	288,547,777	789,518,330
2008-09	478,353,493	-	304,990,827	783,344,320
2009-10	458,588,599	-	273,345,455	731,934,055
2010-11	433,400,636	-	190,840,412	624,241,048
2011-12	363,085,834	-	149,472,973	512,558,807
2012-13	314,937,960	-	111,661,744	426,599,703
2013-14	276,205,000	-	81,058,403	357,263,404
2014-15	260,436,365	-	57,725,452	318,161,817
2015-2025	900,839,121	-	124,976,263	1,025,815,580
Totals	$7,166,425,671	$ 4,445,000	$3,618,137,263	$10,789,007,934

(a) Includes long-term general obligation debt as outlined in ***Table 8***. The future principal payments ($7,166,425,671), plus future sinking fund payments ($4,445,000), and existing sinking fund deposits ($75,555,000), plus accreted interest ($526,270,706) on State and UConn 2000 capital appreciation bonds, total the amount of such long-term debt ($7,772,696,000) as shown in ***Table 8***. See footnotes (b) and (c) for further explanation.

(b) Principal payments include aggregate stated initial values of capital appreciation bonds. Interest payments include the difference between the aggregate stated initial values and the aggregate maturity amounts of capital appreciation bonds, including capital appreciation bonds issued pursuant to the College Savings Bond Program and UConn 2000 bonds. Capital appreciation bonds mature in fiscal years 2002-2014.

(c) $80,000,000 Rental Housing Term Bonds become due in 2002. A special Rental Housing Debt Service Fund has been established into which annual mandatory sinking fund payments are made sufficient to produce such $80,000,000 at maturity. The total sinking fund payments that are required to have been made aggregate $75,555,000 and, when added to the total $4,445,000 sinking fund payments that remain to be made through July 1, 2002, equal the total $80,000,000 bonds outstanding. Therefore, the $80,000,000 is not reflected in either the principal payments or total debt service due in fiscal year 2002-2003.

(d) On May 14, 1997, the State issued $100,000,000 General Obligation Variable Rate Demand Bonds of which $99,235,000 remain outstanding. The interest on these securities is estimated herein at a 6.0% average rate. The balance of the Bonds mature in the years 2005-2014.

SOURCE: State Treasurer's Office

Outstanding Long-Term Direct General Obligation Debt

The following table and graph sets forth the total long-term direct general obligation debt outstanding at the end of each of the last ten fiscal years, and the net long-term direct general obligation debt outstanding at the end of each of the last five fiscal years. Net debt excludes bonds that are considered self-liquidating. See ***Table 8.***

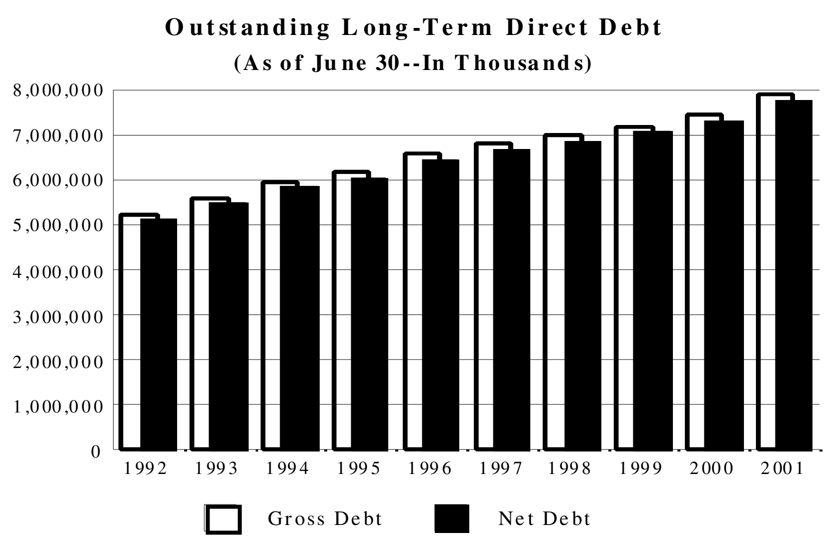
TABLE 11

Outstanding Long-Term Direct General Obligation Debt
(As of June 30-In Thousands)

Fiscal Year	Gross Debt	Net Debt	Fiscal Year	Gross Debt	Net Debt
1992	5,235,879 [a]	5,118,368[a]	1997	6,826,826[f]	6,678,398[f]
1993	5,594,715 [b]	5,479,474[b]	1998	6,981,212[g]	6,865,905[g]
1994	5,962,250 [c]	5,845,233[c]	1999	7,176,905	7,067,276
1995	6,186,518 [d]	6,051,141[d]	2000	7,432,891	7,315,945
1996	$ 6,573,810 [e]	$ 6,428,391[e]	2001	$ 7,920,531	$ 7,795,785

(a) Includes $915,710,000 Economic Recovery Notes.
(b) Includes $705,610,000 Economic Recovery Notes.
(c) Includes $555,610,000 Economic Recovery Notes.
(d) Includes $315,710,000 Economic Recovery Notes.
(e) Includes $236,055,000 Economic Recovery Notes.
(f) Includes $157,055,000 Economic Recovery Notes.
(g) Includes $ 78,055,000 Economic Recovery Notes.

SOURCE: State Treasurer's Office



Future Issuance of Direct General Obligation Debt

Authorized But Unissued Direct General Obligation Debt. The General Assembly has empowered the State Bond Commission to authorize direct obligation bonds pursuant to certain bond acts. The table below shows, as of October 15, 2001, the amount of bonds authorized by bond acts in effect, the amount the State Bond Commission has authorized, the amount of bonds issued pursuant to State Bond Commission authorizations, the balance remaining authorized but unissued and the balance available for authorization. The table shows the same information for UConn 2000 bonds secured by the State's debt service commitment authorized to be issued under the cap through June 30, 2002.

TABLE 12

Authorized but Unissued Direct General Obligation Debt
as of October 15, 2001
(In Thousands)

	State Direct Debt	UCONN 2000 (a)	Tax Increment (b)	Total
Bond Acts in Effect	$ 14,997,985	$ 718,427	$ 162,800	$ 15,879,212
Amount Authorized	12,942,694	718,427	42,800	13,703,922
Amount Issued	11,039,219	618,427	39,330	11,696,976
Authorized but Unissued	1,903,476	100,000	3,470	2,006,946
Available for Authorization	2,055,291	-	120,000	2,175,291

(a) Includes bonds which may be issued under the cap in effect on the date of the table. The amount available for authorization does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest.
(b) The amount of tax increment bonds authorized is based on the amount authorized by the State Bond Commission, since there is no statutory amount of authorization, except for $120 million authorized under Public Act No. 98-179 for the Steel Point Project in Bridgeport.

SOURCE: State Treasurer's Office; Office of Policy and Management

Bond Authorizations and Reductions. The General Assembly authorizes bonds in various public and special acts each year or each biennium. In addition to authorizing bonds for new projects and purposes, the General Assembly reviews prior authorizations and may repeal certain projects and bond authorizations or otherwise reduce prior bond authorizations. The table and graph below list the amount of new authorizations of general obligation debt and the net amount after subtracting prior bond authorizations which have been repealed or reduced.

TABLE 13

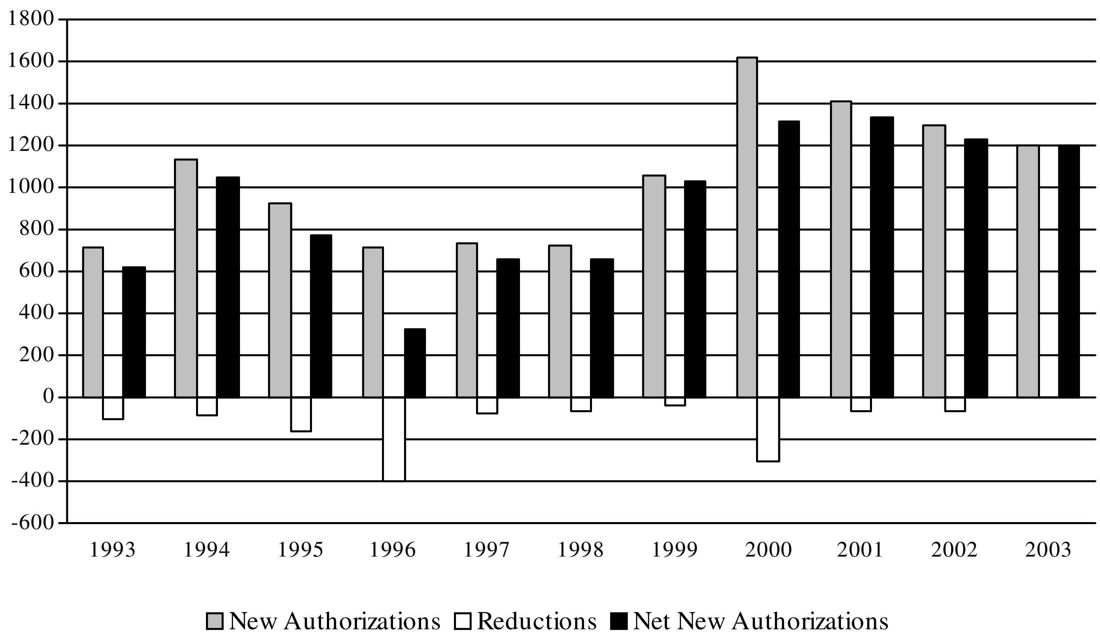
Statutory Bond Authorizations and Reductions[a]
(In Millions)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
New Authorizations	718.8	1,130.0	926.3	718.4	733.1	729.8	1,056.8	1,621.6	1,407.9	1,310.0	1,201.1
Reductions	(102.6)	(84.2)	(159.6)	(396.0)	(74.3)	(66.0)	(31.7)	(308.4)	(70.1)	(79.9)	0.0
Net New Authorizations	616.2	1,045.8	766.7	322.4	658.8	663.8	1,025.1	1,313.2	1,337.8	1,230.1	1,201.1

(a) Does not include lease financings, tax increment or cash flow borrowings. Includes amount for UConn 2000 available under the cap for 1997 through 2003, but does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest. Does not include an additional $150 million in general obligation bonds which take effect after 2003.

SOURCE: Office of Policy and Management

Statutory Bond Authorizations and Reductions
(In Millions)



Purposes of Recent Bond Authorizations. The purposes for which the State issues its general obligation bonds include those described in the next table. The amounts authorized for each of these purposes for recent fiscal years is reflected in the following table, including amounts authorized for UConn 2000. The table does not reflect any statutory reductions of authorized items from prior years, nor are tax increment or cash flow borrowings or lease financings included.

TABLE 14

New Agency Authorizations (Does Not Include Reductions)
(In Thousands)

Purpose	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003
Policy & Management	$ 117,338	$ 116,800	$ 190,960	$ 179,921	$ 226,100	$ 210,600
Comptroller	0	0	0	0	50,000	0
Administrative Services	0	0	0	0	53,000	0
Veterans' Affairs	1,000	500	0	0	0	0
Public Works	29,000	21,000	20,000	20,000	50,900	15,000
Public Safety (POST)	8,500	6,400	6,700	2,300	10,000	0
Motor Vehicles	0	0	0	0	0	0
Military	7,550	1,050	300	1,300	0	0
Agriculture	1,400	3,900	2,250	1,000	3,000	3,000
Environmental Protection	81,500	71,000	137,650	141,150	155,900	106,250
Economic and Community Development:						
Housing	18,000	20,000	5,000	10,500	20,000	10,000
Economic Development	22,200	16,400	40,000	138,500	110,900	51,000
Other	0	148,000	14,000	0	0	0
Ct Innovations Inc	8,000	20,000	0	10,000	10,000	10,000
Historical Commission	150	150	300	300	300	300
Public Health	1,000	0	0	0	12,500	1,000
Mental Retardation	5,365	0	4,000	4,000	2,500	1,500
Mental Health and Addiction Services	16,100	10,300	20,750	21,750	6,000	6,000
Social Services	6,250	6,000	5,000	6,000	3,500	0
Education	195,163	344,200	404,900	482,100	184,300	488,100
State Library	2,500	2,500	2,500	2,500	2,500	2,500
Arts	1,000	1,000	1,000	1,000	1,000	1,000
Regional Community-Technical Colleges	19,520	69,705	77,187	74,855	69,070	66,162
State University	34,142	40,952	85,537	88,352	88,550	95,658
Secretary of State	900	750	0	0	0	0
Legislative Management	0	0	800	0	0	0
Children & Families	5,000	33,000	6,500	14,500	15,000	3,000
Judicial	23,848	11,500	62,000	20,500	56,500	27,500
CPTV	1,200	6,470	2,000	2,000	2,500	2,500
Contingency	0	0	0	0	0	0
Corrections	5,000	0	10,000	35,000	50,000	0
UCONN	19,400	0	2,000	20,000	0	0
UCONN Health	5,593	7,881	4,250	3,400	0	0
UCONN 2000 [(a)]	93,146	64,311	130,000	100,000	100,000	100,000
Hartford Econ Dev Projects	0	33,000	386,000	27,000	26,000	0
Totals	$ 729,765	$1,056,769	$1,621,584	$1,407,928	$1,310,020	$1,201,070

(a) To be issued by University of Connecticut based on cap for the year indicated prior to actual bond issuance. Does not include additional amounts which may exceed cap to finance reserve funds, issuance costs and capitalized interest. Does not include $150 million authorized under the cap for fiscal years 2004 to 2005.

SOURCE: Office of Policy and Management

OTHER FUNDS, DEBT AND LIABILITIES

The State conducts certain of its operations through State funds other than the State General Fund and, pursuant to legislation, may issue debt secured by the special taxes or revenues pledged to certain of such funds. In addition, the State is contingently liable or has limited liability, from the resources of the State's General Fund, for payment of debt service on certain obligations of quasi-public State agencies and municipalities of the State. The State has also made commitments to municipalities to make future grant payments for school construction projects, payable over a period of years. In addition, the State has committed to apply moneys for debt service on loans to finance child care facilities and has certain other contingent liabilities for future payments.

Transportation Fund and Debt

In 1984 the State adopted legislation establishing a transportation infrastructure program and authorizing special tax obligation ("STO") bonds to finance the program. The infrastructure program is a continuous program for planning, construction and improvement of State highways and bridges, projects on the interstate highway system, alternate highway projects in the interstate highway substitution program, waterway facilities, mass transportation and transit facilities, aeronautic facilities (excluding Bradley International Airport), the highway safety program, maintenance garages and administrative facilities of the Department of Transportation, payment of the State's share of the costs of the local bridge program established under the act, and payment of State contributions to the local bridge revolving fund established under the act. The infrastructure program is administered by the Department of Transportation.

The cost of the infrastructure program for State fiscal years 1985-2006, which is to be met from federal, State, and local funds, is currently estimated at $15.6 billion. During fiscal years 1985-2001, $12.2 billion of the total infrastructure program was approved. The remaining $3.4 billion is required for fiscal years 2002-2006. The $3.4 billion is comprised of $863.2 million from the anticipated issuance of new special tax obligation bonds, $64.5 million in anticipated revenues, and $2.5 billion in anticipated federal funds. The State's share of the 1985-2006 infrastructure program costs, estimated at $5.9 billion, is to be funded from transportation related taxes, fees and revenues deposited in the Special Transportation Fund, as described below, and from the proceeds of STO bonds. The portion of State program costs not financed by STO bonds is estimated at $0.6 billion and includes the expenses of the infrastructure program which either are not sufficiently large or do not have a long enough life expectancy to justify the issuance of long-term bonds. Such expenses currently include liquid resurfacing, minor bridge repairs, highway maintenance activities, safety improvements, and other minor transportation improvements.

The State's share of the cost of the infrastructure program for State fiscal years 1985-2006 to be financed by STO bonds is estimated at $5.3 billion. The issuance of such STO bonds has eliminated the need for the authorization of additional general obligation bonds of the State for surface transportation purposes. STO bonds may also be issued for the purpose of refunding general obligation bonds of the State issued for transportation infrastructure purposes.

The State has established a Special Transportation Fund for the purpose of budgeting and accounting for all transportation related taxes, fees and revenues credited to such Fund and securing the STO bonds. STO bonds are payable solely from revenues of the Special Transportation Fund. The aggregate of motor fuel taxes, motor vehicle receipts, motor vehicle related licenses, permits and fees, and portions of the oil companies tax and sales tax on motor vehicles and other transportation related revenue sources, including enacted adjustments to all the foregoing sources, are intended to cover the cost of the State's share of the infrastructure program, including debt service requirements. After providing for debt service requirements, the balance of the receipts from such revenue sources may be applied to the payment of general obligation bonds of the State issued for transportation purposes and for the payment of annually budgeted expenses of the Department of Transportation and the Department of Motor Vehicles.

The following table shows the amount of STO bonds authorized by the General Assembly for the program, the amount issued and the amount outstanding (excluding refunded bonds) as of October 15, 2001. It is anticipated that additional STO bonds will be authorized by the General Assembly annually in an amount necessary to finance and to complete the infrastructure program. Such additional bonds may be issued on an equal rank with the outstanding bonds provided certain pledged revenue coverage requirements of the STO indentures controlling the issuance of such bonds are met. The State expects to continue to offer bonds for this program.

TABLE 15

Special Tax Obligation Bonds
As of October 15, 2001
(In Millions) [(a)]

	New Money	Total
Amount Authorized	$5,097.3[(b)]	
Amount Issued	4,669.7	6,647.6
Amount Outstanding	1,497.0	3,094.1

(a) The amounts under the New Money column include only new money borrowings, and not refundings. The amounts under the Total column include both new money borrowings and refundings.
(b) Includes authorizations effective July 1, 2001 or before.

SOURCE: State Treasurer's Office

Debt service on State direct general obligation bonds for transportation purposes may be paid from resources of the Special Transportation Fund provided there is sufficient funding first to pay all STO debt service. For the year ended June 30, 2001, the Special Transportation Fund paid $29.2 million of State direct general obligation transportation debt service payments. The amount budgeted by the Special Transportation Fund for State direct general obligation transportation debt service payments for fiscal year 2001-02 is $21.1 million.

Over the past decade, the Fund's revenues and expenses have undergone a variety of legislative changes. Legislation passed in 1991 and 1993 called for a phasing in of increases in the gasoline tax up to a rate of 39 cents per gallon in 1997. Legislation passed in 1997, 1998, and 2000 further reduced the gasoline tax to its current rate of 25 cents per gallon.

In 2001, legislation was passed which made changes that will have an impact on the State's Special Transportation Fund. These changes included a number of cost saving measures, the imposition of new fees, and the modification of the State's emission program. Over the next five years, these changes are expected to increase revenues by $32.1 million and reduce expenditures by $22.6 million for an overall positive impact of $54.7 on the Fund's cumulative fund balance by the end of 2006.

In addition, legislation was passed in 2001 which created the Connecticut Transportation Strategy Board. The 15 member board consists of five appointed members from the private sector, five appointed members from each of the five Transportation Investment Areas established in the legislation, and the Commissioners of Transportation, Environmental Protection, Economic and Community Development, and Public Safety, and the Secretary of the Office of Policy and Management. Not later than January 15, 2002, the Board is required to submit to the Governor and the General Assembly an initial strategy and preliminary projections of the cost necessary to implement the strategy over the first ten years. The legislation further requires that the Board shall provide to the Governor and the General Assembly periodic updates or revisions to the strategy and reports on implementing the strategy. Such strategy and all such updates and revisions are subject to approval by the General Assembly. The future impact of this legislative initiative on the Special Transportation Fund cannot be determined at this time.

Other Special Revenue Funds and Debt

Bradley Airport

Bradley International Airport, located in Windsor Locks, Connecticut, is owned by the State and operated by the Bureau of Aviation and Ports in the State's Department of Transportation. The General Assembly has authorized the issuance of revenue bonds for improvements at Bradley International Airport, payable from all or a portion of the revenues generated at the Airport. Legislation passed in 2001 removed a $294 million bond issuance cap for Bradley Airport but retained the requirement for State Bond Commission approval of any new bond issue.

The legislation also established a Bradley Board of Directors to oversee the operation and development of Bradley Airport. The seven-member board includes five appointed members and the Commissioners of Transportation and Economic and Community Development. The Bradley Board is charged with a wide range of duties and responsibilities, including developing an organizational and management structure, approving the annual capital and operating budget, master plan, and community relations policies of the airport, and ensuring customer service standards and performance assessments.

On October 1, 1982 the State issued $100 million Bradley International Airport Revenue Bonds. All of the outstanding maturities of this issue were subsequently refunded. On March 15, 2001, the State issued $213.18 million Bradley International Airport Revenue Bonds, comprised of $194 million General Airport Revenue Bonds to fund a major terminal expansion, and $19.18 million General Airport Revenue Refunding Bonds to refund certain 1992 Bradley bonds. As of October 15, 2001 there were $50.8 million of 1992 Bradley International Airport Revenue Refunding Bonds outstanding.

Additional special obligation bonds to finance self-sustaining special facilities at Bradley International Airport payable solely from the revenues derived from such special facilities were authorized in 1993. In March 2000, the State issued $53.8 million Bradley International Airport Special Obligation Parking Revenue Bonds to finance the construction of a five story parking garage facility at the airport.

Clean Water Fund

The General Assembly authorized the issue of up to $999.4 million revenue bonds for the purpose of funding various State and federally mandated water pollution control and drinking water projects. The revenue bonds are payable solely from the revenues or other receipts, funds or moneys pledged therefor. The proceeds of the revenue bonds are loaned to Connecticut municipalities to finance water pollution control and drinking water improvements, and the loan repayments by the municipalities secure the bonds. The loans are evidenced by interim funding obligations and project loan obligations of the municipalities, pursuant to which the full faith and credit of each such municipality is pledged, or in a few instances revenues of a municipal sewer system are pledged. As of October 15, 2001, $612.3 million revenue bonds (excluding refunded bonds) were outstanding.

Unemployment Compensation

Unemployment compensation benefits are paid in the State from unemployment compensation taxes collected from employers. Monies collected from unemployment compensation taxes are deposited in the State's Unemployment Compensation Fund and transferred at the direction of the Administrator of the State's Unemployment Compensation Program by order of the Comptroller to the Secretary of the Treasury of the United States as trustee of the Federal Unemployment Trust Fund for deposit in the State's Federal Unemployment Trust Fund account. The monies in the State's Federal Unemployment Trust Fund account are transferred back to the State at the request of the State Treasurer as directed by the Administrator in order to pay unemployment benefits. The monies so received are deposited into the State's Unemployment Compensation Fund and are available to be used by the Administrator to be paid out as benefits.

A deficit in the State's Unemployment Compensation Fund as of July 31, 1993 of approximately $759 million was initially funded by borrowings from the Federal Unemployment Compensation Fund. Interest on these federal loans was paid through assessments levied on employers in addition to unemployment compensation taxes. Legislation enacted in 1993 authorized an increase in unemployment taxes to cover future expected unemployment benefits, and authorized a separate annual assessment and the issuance of special obligation bonds to repay the outstanding federal borrowings and expected shortfalls in the Fund through December 1993. The State issued three series of special obligation bonds totaling $1,020.7 million in 1993 to repay the federal borrowings and unemployment benefits and to fund certain reserves. The legislation also provides for a surtax in the form of an assessment to be paid by contributing employers. The bonds are payable solely from such assessments and from funds requisitioned by the State from the State's Federal Unemployment Trust Fund account at the U.S. Treasury. All of the bonds issued under this program were defeased in June 2001. The authority to issue additional bonds so that the total amount of bonds outstanding at any time does not exceed $1,000 million plus amounts for certain reserves and costs of issuance has been reserved by the State if necessary to fund future shortfalls. The State has not incurred any additional federal borrowing since the issuance of the three series of bonds, other than borrowings for cash flow purposes which have been repaid prior to September 30 in each case and which therefore have not been subject to federal interest charges.

Second Injury Fund

The Second Injury Fund is a State-run workers' compensation insurance fund which pays lost wages and medical benefits to qualified injured workers. The State Treasurer is the custodian of the Second Injury Fund, and is responsible for its administration. The State established the Second Injury Fund in 1945 to encourage the hiring of persons with pre-existing physical impairments, such as veterans. Until the July 1, 1995 statutory closure of the Fund to second injury claims, the Fund provided relief to employers when an injured worker, who already had a pre-existing injury or condition, was hurt on the job and the second injury was made worse by the existence of the first injury. Employers transferred liability for workers' compensation claims to the Second Injury Fund after 104 weeks if certain criteria were met.

The Second Injury Fund is financed by assessments levied on Connecticut employers. Insured employers pay a surcharge on the workers' compensation insurance policies based on annual standard premiums. The assessment for self-insured employers is based upon the amount of their workers' compensation loss costs for medical and indemnity benefits incurred in the prior calendar year.

Starting in 1990, the Second Injury Fund's expenses and assessments began to rise dramatically in response to several factors including the ease of transferring claims to the Second Injury Fund, high benefit rates and the absence of a claims management program to reduce and control costs.

In 1995, a Second Injury Fund reform program was implemented with the primary objective of changing the focus of the Fund from a claims processing and paying agency to a claims management agency. In 1995 and 1996, the State enacted legislation to further reform the Second Injury Fund. Those laws include provisions that closed the Second Injury Fund to claims resulting from second injuries occurring on and after July 1, 1995, set a final date of July 1, 1999 for the transfer of these claims to the Second Injury Fund, authorized the issuance of an amount not to exceed $750 million in revenue bonds and notes outstanding at any one time to provide funds for stipulations, and capped the Premium Surcharge Rate at 15% of the Standard Premium for Insured Employers until June 30, 1998.

The Fund maintains on-going statutory and financial responsibilities for uninsured employer claims, certain dependent and survivor death benefits, a pro-rata share of lost time cost in concurrent employment claims, and the cost of reimbursing employers and insurers for cost of living adjustments (COLAs) in certain cases, and claims for totally disabled claimants, in addition to Second Injury claims transferred prior to July 1, 1999.

As of June 30, 2001, the Second Injury Fund had settled approximately 5,519 cases since January 1, 1995 at a cost of $412.1 million and has approximately 4,671 open cases. In addition, certain lawsuits are pending which challenge the exclusion of certain claims from the Second Injury Fund.

The State issued $100 million Second Injury Fund Revenue Bonds in 1996 and an additional $124.1 million in 2000, which have a final maturity of 2015. It originally had a Commercial Paper Dealer Agreement and credit support in place for up to $300 million. That line of credit has now been reduced to $195.4 million. The outstanding amount of notes is $10 million as of October 15, 2001 and is expected to be reduced to zero by the end of the fiscal year. The bonds and notes are payable solely from amounts held in Finance Account of the Second Injury Fund and revenues pledged for their payment pursuant to legislation and the indenture of trust with respect to such bonds and notes, including a special assessment premium surcharge on employers. Based on the Second Injury Fund's experience to date, it is not expected that additional revenue bonds will be issued. The management objective is to pay additional claims and settlements from current income and, if necessary, short term borrowings.

Contingent Liability Debt

The General Assembly has the power to impose limited or contingent liabilities upon the State in such a manner as it may deem appropriate and as may serve a public purpose. This power has been used to support the efforts of quasi-public agencies, municipalities and other authorities formed to carry out essential public and governmental functions by authorizing these entities to issue indebtedness backed, partially or fully, by General Fund resources of the State. Not all entities that are authorized to issue such indebtedness have done so, and the description below of the State's limited or contingent liability is restricted only to specific indebtedness backed by the State.

Special Capital Reserve Funds

The primary vehicle through which the State has undertaken contingent or limited liability is the special capital reserve fund. A special capital reserve fund, if established, provides additional security for bonds issued by the entity authorized to establish such a reserve fund. Subject to exceptions in the legislation authorizing the establishment of a particular special capital reserve fund, monies held in and credited to a special capital reserve fund are intended to be used solely for the payment of the principal of bonds secured by such special capital reserve fund, the purchase of such bonds, the payment of interest on such bonds or the payment of any redemption premium required to be paid when such bonds are redeemed prior to maturity. The special capital reserve fund is frequently funded with bond proceeds to a specified amount (the minimum of which is often the maximum annual principal and interest payments due on the bonds). The State undertakes the obligation to restore a special capital reserve fund to its minimum level. The method for determining such required minimum capital reserve is set out in the legislation authorizing the special capital reserve fund. If the special capital reserve fund should fall below the required minimum capital reserve amount, an official of the authority or municipality which established the special capital reserve fund shall certify to the Secretary of the Office of Policy and Management or the State Treasurer or both the amount necessary to restore such special capital reserve fund to the required minimum capital reserve amount. On or before December 1, annually, there will be deemed to be appropriated from the State's General Fund such amount as specified in the certificate, which amount shall be allotted and paid to the entity that established the special capital reserve fund. On an annual basis, the State's liability under any special capital reserve fund mechanism is limited to its obligation to restore that fund to its minimum capital reserve amount.

Quasi-Public Agencies

The State has established by legislation several quasi-public agencies. These quasi-public agencies are not departments, institutions or agencies of the State. They are, however, bodies politic and corporate that constitute public instrumentalities and political subdivisions of the State and whose exercise of authority granted to them is deemed to be the performance of an essential public and governmental function. These organizations provide a wide range of services that might otherwise be provided directly by the State.

Among the public authorities are: the Connecticut Development Authority, the Connecticut Health and Educational Facilities Authority, the Connecticut Higher Education Supplemental Loan Authority, the Connecticut Housing Finance Authority and the Connecticut Resources Recovery Authority. Each of these public authorities is authorized to issue bonds in its own name to facilitate its activities and each has issued bonds secured by a special capital reserve fund for which the State has limited contingent liability.

Connecticut Development Authority ("CDA"). The CDA was established in 1973 as a successor Authority. In order to discharge its responsibilities and fulfill its purposes, the CDA is authorized to offer various financing programs including The Mortgage Insurance and Loan Program (the "Insurance Fund"), the Umbrella Bond Program, the Self-Sustaining Bond Program, the Connecticut Growth Fund, the Connecticut Works Fund, the Connecticut Works Guarantee Fund, the Connecticut Capital Access, the Connecticut Small Business Reserve Fund, the Environmental Assistance Revolving Loan Fund, the Tax Incremental Financing Program, the High-Technology Infrastructure Fund, created in 2000, and the General Obligation Bond Program. Currently, only certain CDA bonds issued pursuant to the Umbrella Bond Program and the General Obligation Bond Program are further secured by special capital reserve funds.

Under the Umbrella Bond Program the CDA issues bonds to provide loans to private entities for the acquisition of industrial land, buildings, machinery, equipment and pollution control devices. Loan payments from the borrower to the CDA provide funds to service the debt on such bonds. Loans financed under the Umbrella Bond Program are secured by real and/or personal property of the borrower and by the Insurance Fund, which is, in part, State funded and insures payment of the loans. Loans may be insured up to an aggregate outstanding principal amount not to exceed four times the funds available to the Insurance Fund. As of June 30, 2001 the assets in the Insurance Fund totaled $8.2 million and an additional $20.45 million of State bonds have been authorized to fund the Insurance Fund but remain unissued. As of June 30, 2001, loans insured by the Insurance Fund totaled $28.3 million.

Under the General Obligation Bond Program (the "Program"), the CDA issues bonds to finance eligible economic development and information technology projects. Pursuant to an Indenture of Trust between the CDA and Fleet National Bank (formerly Shawmut Bank Connecticut, N.A.), general revenues of the CDA, which are not otherwise pledged, are made available to service the debt of bonds issued under the Program. Although such bonds may also be secured by a special capital reserve fund, to date under the Program only $30.56 million 1993 Series A (Hartford Whalers Project) bonds, of which $19.85 million remain outstanding, have been secured by such a fund.

The Board of Directors of the CDA is comprised of eleven members: the State Treasurer, the Commissioner of Economic and Community Development, the Secretary of the Office of Policy and Management, as ex officio members; four members appointed by the governor and experienced in the field of financial lending or the development of commerce, trade or business; and a member appointed by each of the President Pro Tempore of the State Senate, the minority leader of the State Senate, the Speaker of the State House of Representatives and the minority leader of the State House of Representatives.

Connecticut Health and Educational Facilities Authority ("CHEFA"). CHEFA was established to assist in the financing of facilities for educational or health care purposes, including colleges and universities, secondary schools, nursing homes, hospitals, child care facilities, and any other qualified non-profit institution through the issuance of bonds. Payments from institutions provide funds to service the debt on loans made pursuant to the issuance of bonds by CHEFA. CHEFA is also authorized to issue tax-exempt and taxable revenue bonds secured by one or more special capital reserve funds solely to finance projects for "participating nursing homes" and for housing, student centers, food service facilities and other auxiliary service facilities at public institutions of higher learning, including the Connecticut State University system.

Under CHEFA's nursing home program, loans are secured by mortgages on the nursing homes and pledges of gross receipts. Minimum debt service coverage ratios of 1.25 times annual debt service are required and restrictions are placed on the issuance of additional debt. Participating nursing homes are required to fund a debt service reserve fund in an amount equal to one year's maximum annual debt service and a working capital fund reserve account in an amount equal to 60 days of operating expenses or three year's maximum annual debt service. If a participating nursing home is in default or is likely to become in default under its loan agreement with CHEFA due to the failure to make any payment(s) required, CHEFA may request that the Commissioner of the Department of Social Services withhold any funds in the State's custody that are due and payable to the nursing home via a Medicaid intercept. Funds subject to withholding under this section include federal and state grants, contracts, allocations and appropriations.

The State Treasurer has applied appropriated funds and General Fund Budget Surplus to defease certain bonds for nursing homes in order to avoid any draw on the special capital reserve fund which secures such bonds. Legislation enacted in 1998 provides that no bonds secured by a special capital reserve fund are to be issued by CHEFA in the future for nursing homes, except for refunding bonds under certain circumstances where the debt service on the refunding bonds is less than the aggregate debt service on the refunded bonds.

CHEFA is also allowed to issue revenue bonds to finance facility improvements for the Connecticut State University System (the "System") which are secured by one or more special capital reserve funds. The System has pledged University Student Fees as a source of funds for the payment of debt service on the bonds. In the past, many facilities of the System were financed through self-liquidating general obligation bonds of the State, so implementation of this program should limit the need for the State to issue such bonds in the future.

The Board of Directors of CHEFA is comprised of ten members including the State Treasurer and Secretary of the Office of Policy and Management, both serving ex officio, and eight members appointed by the governor based on their qualifications in the areas of health care, higher education, or public finance.

Connecticut Higher Education Supplemental Loan Authority ("CHESLA"). 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 for higher education in the State to assist qualified students to attend such institutions. CHESLA is authorized to issue bonds the proceeds of which are used to fund education loans to applicants meeting certain eligibility requirements. The repayment 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 Board of Directors of CHESLA is comprised of eight members including the State Treasurer, Secretary of the Office of Policy and Management and the Commissioner of Higher Education, serving ex officio, and five members appointed by the Governor based on their qualifications in the areas of higher education and/or public finance.

Connecticut Housing Finance Authority ("CHFA"). CHFA was established in 1969 to meet the needs of low and moderate income families and persons for decent housing and to encourage and assist the development and construction of multifamily housing by reducing the cost of mortgage financing therefor. CHFA is authorized to issue bonds the proceeds of which are used to fund mortgage loans to applicants meeting certain eligibility requirements including unrestricted statutory income limits in certain urban areas.

The enabling act authorizes CHFA to make or purchase construction and permanent mortgage loans which are guaranteed or insured by the United States of America or any agency or instrumentality thereof, by the Federal Home Loan Mortgage Corporation, by a private mortgage insurance company or the State or the Authority itself without limitation as to amount and to make or purchase mortgage loans not so insured or guaranteed in an aggregate amount not to exceed $750 million. In order to finance these activities CHFA has established a Housing Mortgage Finance Program and has issued its general obligation bonds under a General Bond Resolution pursuant to which CHFA has pledged all revenues which it may receive in connection with the mortgages financed thereunder including its fees and charges therefor and any recoveries of principal therefrom from any source and any monies received from investments. In addition, such General Bond Resolution provides for general covenants such as a covenant to do all things necessary with respect to the operation of such Housing Mortgage Finance Program in order to pay principal of and interest on its bonds and provides for certification as to self-sufficiency in order to issue any additional bonds. Bonds issued under CHFA's General Bond Resolution are further secured by a special capital reserve fund. In addition, while not specifically pledged, CHFA has other funds reserved in respect of mortgages financed under the General Bond Resolution.

CHFA has also established a Special Needs Housing Mortgage Finance Program (formerly known as the Group Home Mortgage Finance Program) and has issued and expects to issue additional Special Needs Housing Mortgage Finance Program Special Obligation Bonds under a separate indenture, which bonds are and will be secured by State appropriations to or on behalf of the residents thereof and further secured by a special capital reserve fund.

The Board of Directors of CHFA is comprised of fifteen members: the Commissioner of Economic and Community Development, the Secretary of the Office of Policy and Management, the Commissioner of Banking and the State Treasurer, serving ex officio; seven members appointed by the Governor; and a member appointed by each of the President Pro Tempore of the State Senate, the minority leader of the State Senate, the Speaker of the State House of Representatives and the minority leader of the State House of Representatives who among them are experienced in all aspects of housing design, development, finance, management and state and municipal finance.

Connecticut Resources Recovery Authority ("CRRA"). CRRA was created in 1973 to assist municipalities in meeting their solid waste disposal and recycling needs. To further its purpose CRRA develops, finances and supervises solid waste management facilities and contracts. CRRA has developed four integrated solid waste systems that serve over 100 municipalities in the State. CRRA bonds may be secured by a special capital reserve fund. CRRA bonds are generally secured by service agreements with participating municipalities under which the municipalities agree to deliver a minimum amount of waste to a specified facility each year or to pay the tipping fee for any amount that does not meet the minimum commitment. These service agreements are generally secured by the municipality's full faith and credit. CRRA bonds are generally additionally secured by revenues from the sale of energy generated by the facility and waste from non-municipal sources.

The Board of Directors of CRRA is comprised of thirteen members: the Secretary of the Office of Policy and Management, the Commissioner of Transportation and the Commissioner of Economic and Community Development, serving ex officio; four members appointed by the Governor of whom two shall be heads of municipalities and two shall be without government office or status with a high-level of experience in municipal or corporate finance or in business and industry; and other appointees made by the heads of the State Legislature.

Assistance to Municipalities

In addition to the limited or contingent liabilities that the State has undertaken in connection with the activities of its quasi-public agencies, the State has undertaken certain limited or contingent liabilities to assist municipalities. The State currently has limited or contingent liabilities outstanding in connection with bonds or other obligations issued by the City of Waterbury and the Southeastern Connecticut Water Authority. The State previously was obligated pursuant to the establishment of a special capital reserve fund to secure certain bonds issued by the City of Bridgeport to fund its past budget deficits; however such bonds were refunded by the City in 1996. The State previously had guaranteed debt service on bonds of the City West Haven, but an irrevocable escrow has been established to pay such bonds. Legislation also authorized distressed municipalities, in certain circumstances and subject to various conditions, to issue deficit funding obligations secured by a special capital reserve fund. There are no such obligations currently outstanding.

The City of Waterbury. In March and June 2001, the State adopted legislation to assist the City of Waterbury in financing its budget deficits (the "Act"). The Act imposed certain financial controls on the City and created a Waterbury Financial Planning and Assistance Board. The Act authorizes the City, subject to approval of the Board and the State Treasurer, to issue bonds for the purpose of funding the City's budget deficits. Payment of the bonds is serviced through the City's taxing authority. The Act requires the City to direct certain of its tax revenues to a trustee through a tax intercept mechanism for the purpose of servicing the debt on its bonds. The Act also provides for the establishment of a special capital reserve fund to further secure up to $100 million bonds be issued by the City to fund its budget deficits. The State is contingently obligated to restore the special capital reserve fund to its required minimum. The City has issued $45 million bond anticipation notes under this program. It is anticipated that the City will issue bonds secured by a special capital reserve fund to permanently finance these bond anticipation notes.

The Board is comprised of the Secretary of the Office of Policy and Management, the State Treasurer, the Mayor of the City, and four members appointed by the Governor, one of whom shall be affiliated with a business located in the City, one of whom shall have expertise in finance, one of whom shall be a resident of the City and one of whom shall be a representative of organized labor. The Board may be terminated when the City meets certain conditions outlined in the Act.

Southeastern Connecticut Water Authority. The Southeastern Connecticut Water Authority was established for the purpose of developing a reliable water supply for southeastern Connecticut. The State Bond Commission is authorized to approve a State guarantee of obligations of the Southeastern Connecticut Water Authority. Amounts borrowed by the Authority are to be repaid by July 1, 2016.

State Treasurer's Role

By statute, CDA, CHEFA, CHFA, CHESLA and CRRA may not owe any money or issue any bonds or notes which are guaranteed by the State of Connecticut or for which there is a special capital reserve fund of any kind which is in any way contributed to or guaranteed by the State until or unless such borrowing or issuance is approved by the State Treasurer or the Deputy State Treasurer. The approval shall be based on documentation provided by the authority that the authority anticipates receiving sufficient revenues to (1) pay the principal of and interest on the bonds and notes issued, (2) establish, increase and maintain any reserves deemed by the authority to be advisable to secure the payment of the principal of and interest on such bonds and notes, (3) pay the cost of maintaining, servicing and properly insuring the purpose for which the proceeds of the bonds and notes have been issued, if applicable, and (4) pay such other costs as may be required.

Similarly, no municipality may issue any obligation for which there is a special capital reserve fund of any kind which is in any way contributed to or guaranteed by the State unless and until such obligation and the agreement establishing the capital reserve fund are approved by the State Treasurer. The State Treasurer's approval shall be based upon factors delineated in the general statutes, including the establishment of a property tax intercept procedure to service the municipality's debt.

Outstanding Contingent Debt

The amount of outstanding debt which is secured by special capital reserve funds or State guarantees as described above is outlined in the following table.

TABLE 16
BOND AUTHORIZATIONS WITH LIMITED OR CONTINGENT LIABILITY
(IN MILLIONS)

	Authorized SCRF or Guaranteed Debt As of 10/15/01	Outstanding SCRF or Guaranteed Debt As of 10/15/01	Minimum Capital Reserve Requirement As of 10/15/01
INDEBTEDNESS SECURED BY SPECIAL CAPITAL RESERVE FUNDS			
Connecticut Development Authority			
Umbrella Bond Program	$300.0	$44.7	$7.68
General Obligation Bond Program	30.6	19.8	2.5
Connecticut Health and Educational Facilities Authority			
Nursing Home Program	(a)	154.2 (b)	15.3
Connecticut State University System	(a)	87.3 (b)	9.6
Connecticut Higher Education Supplemental Loan Authority	170.0	121.8 (c)	8.7 (c)
Connecticut Housing Finance Authority			
Housing Mortgage Finance Program	(a)	3,183.1	279.8
Special Needs Housing Mortgage Finance Program	(a)	19.8	1.5
Connecticut Resources Recovery Authority	725.0	297.5	36.1
University of Connecticut Student Fee			
Revenue Bonds	(a)	31.8	2.1
City of Waterbury Special Capital Reserve Fund Bonds (d)	$-0-	$-0-	$-0-
INDEBTEDNESS GUARANTEED BY STATE			
Southeastern Connecticut Water Authority	15.0	0.7	N/A

(a) No statutory limit.

(b) On or about November 1, 2001, CHEFA will redeem $4.7 million of the Nursing Program Bonds and $5.2 million of the Connecticut State University System Bonds, leaving bonds outstanding in the amounts of $149.3 million and $82.1 million, respectively.

(c) On or about November 15, 2001, it is expected that CHESLA will issue its $25,000,000 Revenue Bonds (CT Family Education Loan Program) 2001 Series A. Approximately $7.9 million of CHESLA's 1990 Series A Bonds will be currently refunded by the 2001 Series A Bonds. On November 15, 2001, the outstanding bonds secured by a special capital reserve fund will be $129.85 million and the Minimum Special Capital Reserve Fund Requirement will be $8.1 million.

(d) The General Assembly authorized Waterbury to issue up to $100 million Special Capital Reserve Fund Bonds. The City has issued $45 million bond anticipation notes under this program. It is anticipated that Special Capital Reserve Fund Bonds will be issued by the City to permanently finance these bond anticipation notes.

School Construction Grant Commitments

The State is obligated to various cities, towns and regional school districts under a grant-in-aid public school building program to fund certain of the costs of construction and alteration of school buildings and to support part of the interest payments on municipal debt issued to fund the State's share of such school building projects. Pursuant to this program, cities, towns and districts are ranked according to their adjusted equalized net grand list per capita and based on such rankings a percentage is assigned which determines the amount of grant money a town or regional school district is eligible to receive for a project or type of project authorized by the legislature and approved by the Commissioner of Education. Grants for construction costs are paid to the cities, towns and districts in installments which correspond to the number and time of principal payments due on municipal bonds, or temporary notes renewed for a third or subsequent year, issued to finance project costs. If a project is fully paid from sources other than borrowing, such grants are paid in five annual installments. Grants in support of interest payments correspond to the number and time of such interest payments. As of June 30, 2001, the State is obligated to various cities, towns and regional districts for $950 million in aggregate installment payments and $327 million in aggregate interest subsidy, for a total of $1,277 million. Funding for these payments may come from future State direct general obligation bond sales. The State legislature and the Commissioner of Education have authorized additional grant commitments to be made under this program which could also be funded by general obligation bonds. The Commissioner estimates that these additional grants may be approximately $47 million for installment payment grants and approximately $22 million for interest subsidy grants.

Legislation enacted in 1997 significantly changed the method of financing the State's share of local school construction projects. For school construction projects approved during the 1997 legislative session and thereafter, the State will no longer participate in the payment of debt service on municipal bonds and therefore will no longer fund the State's share of the cost of interest incurred by the municipalities. The State will bear the costs of its share of construction projects on a progress payment basis during the construction period. Legislation enacted in 1997 and subsequent years approved additional grant commitments for local school construction projects under the new grant program. As of June 30, 2001 the Commissioner estimates that grant payments under this program will be approximately $2,200 million.

The amount of grant commitments authorized for the local school construction program has been increasing significantly in recent years.

The legislature has authorized bonds for both grant programs based on the amount of grants that the Commissioner of Education estimates will be paid during each fiscal year. Since there is generally a lapse of one or more years from the time grant commitments are approved to the time grant payments are required to be made, the amount of unpaid grant commitments will be significantly greater than the amount of bonds authorized to fund the grant commitments.

Child Care Facilities Debt Service Commitments

Legislation enacted in 1997 authorized the Connecticut Health and Educational Facilities Authority to issue bonds and loan the proceeds to various entities to finance child care facilities. The Department of Social Services may enter into commitments to apply monies for each such entity to pay the debt service on the loans in amounts sufficient to cover a portion of the debt service on the Authority's bonds. Any obligation by the Department to make such payments is subject to annual appropriations. The Authority first issued special obligation bonds under this program in 1998. The Authority has approximately $41.62 million bonds outstanding under this program with annual debt service of approximately $3.0 million, of which the Department is committed to pay approximately $2.4 million.

Two other Child Care Facilities programs also authorize the Commissioner of the Department of Social Services to enter into guaranties of loans made to entities to finance the development of child care and child development centers or programs. The Authority is administering this program on behalf of the

Department, and is currently limiting the aggregate amount of guaranties to the balance of monies in the reserve funds for the respective programs.

Other Contingent Liabilities

The Connecticut Lottery Corporation was created in 1996 as a public instrumentality of the State to operate the State's lottery pursuant to the Connecticut Lottery Corporation Act (the "Act"). The State and the Corporation purchase annuities under group contracts with insurance companies which provide payments corresponding to the obligation for payments to lottery prize winners. The State has transferred to the Corporation all annuities purchased by it and the Corporation has assumed responsibility for the collection of revenue generated from the lottery and for the payment of all lottery prizes. Under the Act, the termination of the Corporation shall not affect any outstanding contractual obligation of the Corporation and the State shall succeed to the obligations of the Corporation under any such contract. As of June 30, 2001 the future obligation to lottery prize winners is $765.4 million.

PENSION AND RETIREMENT SYSTEMS

State Employees' Retirement Fund

The State Employees' Retirement Fund is the largest system maintained by the State with approximately 54,867 active members, 1,370 inactive (vested) members and 32,275 retired members as of June 30, 2001. Generally employees hired before July 1, 1984 participate in the Tier I plan, which includes employee contributions; other employees generally participate in the Tier II plan, which is non-contributory and provides somewhat lesser benefits. As of July 1, 2001 approximately 53.8% of the total workforce was covered under the Tier II plan. Employees hired after July 1, 1997 participate in the Tier IIA plan, which requires contributions from its employee members. As of July 1, 2001 approximately 21.6% of the total work force was covered under the Tier IIA Plan.

Since 1971, payments into the fund and investment income generally have been sufficient to fund a full normal cost contribution and to make payments in respect of the unfunded past service liability in amounts which have varied over time due to changes in the statute and union agreements. Payments into the State Employees' Retirement Fund are made from employee contributions, General and Transportation Fund appropriations and grant reimbursements from Federal and other funds.

The most recent actuarial valuation, dated November 14, 2000, indicated that as of June 30, 2000 the State Employees' Retirement Fund had an actuarial accrued liability of $11,512,154,892 and had assets with an actuarial value of $7,196,039,538. This resulted in an unfunded actuarial liability of $4,316,115,354 as of June 30, 2000. On such date, the market value of the fund's investment assets was $8,284,938,346, which amount exceeded the actuarial value by $1,088,898,808. As of June 30, 2001 the market value of the fund's investment assets was $7,785,125,999.

The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 10.59% on investment assets over the past ten years (fiscal year 1991-92 through fiscal year 2000-01) and an annualized net return of 10.94% over the past five years (fiscal year 1996-97 through fiscal year 2000-01).

State contributions to the Retirement Fund, Federal grant programs, employee contributions, investment income, net realized gains and losses, and benefits paid are set forth below for each of the past five fiscal years.

TABLE 17

State Employees' Retirement Fund

	Year Ending June 30				
	1997	**1998**	**1999**	**2000**	**2001**
General Fund Contributions	$228,072,482	$227,610,361	$199,304,785	$212,947,331	$257,806,736
Transportation Fund Contributions	33,469,400	25,740,000	28,419,000	27,636,000	31,321,880
Federal and other (Reimbursements)	87,689,000	81,163,459	87,838,000	102,176,999	86,494,566
Employee Contributions	37,875,580	35,408,824	38,897,333	43,782,742	46,088,785
Total Contributions	$387,106,462	$369,922,644	$354,459,118	$386,543,072	421,711,967
Investment Income[a]	220,849,433	242,206,972	245,642,870	286,587,354	276,494,999
Net Realized Gains (Losses)	(107,532,938)[b]	357,937,509[c]	1,350,241	299,651,658	(2,140,298)
Benefits Paid	450,283,000[d]	550,802,000[d]	572,003,425[d]	596,333,139	619,174,473

(a) Investment Income (exclusive of net realized gains and losses).

(b) The vast majority of net realized losses are attributable to sales in the Fund's real estate portfolio.

(c) Due to the statutory cap on the percentage of equity securities that the Treasurer could hold in the investment portfolio of the various pension funds, the Treasurer was required to rebalance the investment portfolio by selling approximately $1,250 million of appreciated equity securities during the 1998 fiscal year. Such sales resulted in an unusually high amount of realized gains allocable to the Fund for such period.

(d) Includes Benefits Paid and Refunds.

Teacher's Retirement Fund

The Teachers' Retirement Fund, administered by the Teachers' Retirement Board, provides benefits for any teacher, principal, supervisor or superintendent in the public school systems of the State, with certain exceptions. While establishing salary schedules for teachers, municipalities do not provide contributions to the maintenance of the Fund. As of June 30, 2001, there were approximately 53,000 active and former employees with accrued and accruing benefits and approximately 21,679 retired members.

Since 1979, payments into the fund and investment income generally have been sufficient to fund a full normal cost contribution and make payments in varying amounts in respect of the unfunded past service liability. Contributions to the Fund are made by employees and by General Fund appropriations from the State. State contributions to the Fund are made quarterly on the basis of certifications submitted by the Teachers' Retirement Board and are funded with annual appropriations from the General Fund.

The most recent actuarial valuation, dated January 9, 2001, indicated that as of June 30, 2000 the Teachers' Retirement Fund, inclusive of the excess earnings account, had an actuarial accrued liability of $13,361,062,324 and had assets with an actuarial value of $11,169,434,208. This resulted in an unfunded accrued liability of $2,191,628,116 as of June 30, 2000. According to the actuarial report, at June 30, 2000 the market value of the fund's investment assets was $11,940,222,779, which amount exceeded the actuarial value by $770,788,571. As of June 30, 2001 the market value of the fund's investment assets was $11,203,966,581.

The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 10.66% on investment assets over the past ten years (fiscal year 1991-92 through fiscal year 2000-01) and an annualized net return of 11.06% over the past five years (fiscal year 1996-97 through fiscal year 2000-01).

State contributions to the Teachers' Retirement Fund, employee contributions, investment income, net realized gains and losses, and benefits paid are set forth below for each of the past five fiscal years.

TABLE 18

Teachers' Retirement Fund

	Year Ending June 30				
	1997	**1998**	**1999**	**2000**	**2001**
General Fund Contributions	$147,884,700	$179,365,000	$188,334,000	$204,445,443	$214,665,698
Employee Contributions[(a)]	149,349,291	155,242,385	154,682,000	168,207,183	173,884,438
Total Contributions	$297,233,991	$334,607,385	$343,016,000	$372,652,626	$388,550,136
Investment Income[(b)]	310,312,287	337,652,602	347,734,968	410,683,507	399,305,587
Net Realized Gains (Losses)	(156,146,313)[(c)]	510,763,178[(d)]	777,827	461,947,176	(3,335,159)
Benefits Paid	478,327,334	523,035,137	562,962,086	630,885,706	690,674,530

(a) Includes municipal contributions under early retirement incentive programs ($7,062,072 during the 2001 fiscal year); does not include employee contributions to the Teacher's Retirement Health Insurance Fund ($26,109,591 during the 2001 fiscal year).

(b) Investment Income (exclusive of net realized gains and losses).

(c) The vast majority of net realized losses are attributable to sales in the Fund's real estate portfolio.

(d) Due to the statutory cap on the percentage of equity securities that the Treasurer could hold in the investment portfolio of the various pension funds, the Treasurer was required to rebalance the investment portfolio by selling approximately $1,250 million of appreciated equity securities during the 1998 fiscal year. Such sales resulted in an unusually high amount of realized gains allocable to the Fund for such period.

Other Retirement Systems

The other minor retirement systems funded by the State include the Judicial Retirement System, the General Assembly Pension System, the State Attorneys' Retirement Fund and the Public Defenders' Retirement Fund. As of June 30, 2001, there were approximately 237 active members of these plans and approximately 243 retired members.

Unclassified employees of the Connecticut State System of Higher Education and the central office staff of the Department of Higher Education are eligible to participate in the Connecticut Alternate Retirement Program. This program is a defined contribution program, and thus the State has no unfunded liability with respect to the program. All member contributions and State appropriations are held in a separate retirement fund by the Treasurer who may invest and reinvest as much of the fund's assets as are not required for current disbursements, which are comprised primarily of benefit payments. Any employee who elects or has elected to participate in the program may elect to receive a refund of all contributions made by the employee into the state employees retirement system in lieu of receiving any pension benefits under said retirement system.

The State is the administrator of the Connecticut Municipal Employees' Retirement System and the Connecticut Probate Judges and Employees' Retirement System. As the administrator of these systems the State owes a fiduciary obligation to these systems; however, the State has no direct financial liability to pay benefits under these systems.

Social Security and Other Post-Employment Benefits

State employees, except for police and members of a retirement system other than the State Employees' Retirement Fund, whose employment commenced after February 21, 1958, are entitled to Social

Security coverage. Certain employees hired prior to that date have also elected to be covered. Pursuant to a collective bargaining agreement, State Troopers hired on or after May 8, 1984 are entitled to Social Security coverage. As of June 30, 2001, approximately 62,069 State employees were entitled to Social Security coverage. The amount expended by the State for Social Security coverage for fiscal year 2000-01 was $171.5 million. Of this amount, $159.5 million was paid from the General Fund and $12.3 million was paid from the Transportation Fund.

The State provides post-retirement health care and life insurance benefits to all employees who retire from State employment. As of June 30, 2001, a total of 32,225 retirees were eligible to receive such benefits; and, a total of 30,941 retirees and 22,968 retirees, respectively, were actually receiving health care benefits and life insurance benefits. For the fiscal year 2000-01, $174.0 million was expended for such coverage. The State finances the cost of such benefits on a pay-as-you-go basis; as such, the State has not established any fund for the accumulation of assets with which to pay post-retirement health care and life insurance benefits in future years. The State will need to make significant General Fund appropriations for such benefits each fiscal year. For the fiscal year 2001-02, $205.0 million was appropriated.

The State makes a General Fund appropriation to the Teachers' Retirement Fund to cover the portion of retiree health insurance costs which is not funded from the amounts available in the Teachers' Retirement Health Insurance Fund: $3,213,564 was expended for fiscal year 1996-97; $3,500,000 was expended for fiscal year 1997-98; $8,445,295 was expended for fiscal year 1998-99; $8,007,343 was expended for fiscal year 1999-00; $9,440,747 was expended for fiscal year 2000-01; and $11,471,800 has been appropriated for fiscal year 2001-02. No fund has been established for the accumulation of assets with which to pay such benefits in future years; therefore, significant General Fund appropriations will be required for each fiscal year. The increase in the expenditure between fiscal year 1997-98 and fiscal year 1998-99 is largely attributable to legislation which became effective July 1, 1998 which generally requires the State to subsidize the health insurance costs of retired teachers who are not members of the Board's health benefit plan in a manner consistent with its prior practice of subsidizing the health insurance costs of those retired teachers who were members of the Board's health benefit plan. Of the total expenditures for fiscal years 1999-00 and 2000-01 and the total appropriations for fiscal year 2001-02, expenditures of $4,323,636 for fiscal year 1999-00 and $4,454,670 for fiscal year 2000-01 and appropriations of $5,280,000 for fiscal year 2001-02 are attributable to this legislation. Since July 1, 1994, retiree health benefits have been self-insured.

Additional Information

The June 30, 2001 audited financial statements which are included as **Appendix III-C** hereto, and in particular notes 9 through 11 and the required PERS Supplementary Information of the accompanying General Purpose Financial Statements, provide additional information about the foregoing retirement systems and their funding. In addition, paragraph B of note 22 of such financial statements identifies a contingent liability of the State to pay pension liabilities of certain persons who are not employees of the State.

LITIGATION

The State, its officers and employees, are defendants in numerous lawsuits. The ultimate disposition and fiscal consequences of these lawsuits are not presently determinable. The Attorney General's Office has reviewed the status of pending lawsuits and reports that it is the opinion of the Attorney General that such pending litigation will not be finally determined so as to result individually or in aggregate in a final judgment against the State which would materially adversely affect its financial position, except that in the cases described below the fiscal impact of an adverse decision might be significant but is not determinable at this time. The cases described in this section generally do not include any individual case where the fiscal impact of an adverse judgment is expected to be less than $15 million, but adverse judgments in a number of such cases could, in the aggregate and in certain circumstances, have a significant impact.

Sheff v. O'Neill is a Superior Court action brought in 1989 on behalf of black and Hispanic school children in the Hartford school district. The plaintiffs sought a declaratory judgment that the public schools in the greater Hartford metropolitan area are segregated de facto by race and ethnicity and are inherently unequal to their detriment. They also sought injunctive relief against state officials to provide them with an "integrated education." On April 12, 1995, the Superior Court entered judgment for the State. On July 9, 1996, the State Supreme Court reversed the Superior Court judgment and remanded the case with direction to render a declaratory judgment in favor of the plaintiffs. The Court directed the legislature to develop appropriate measures to remedy the racial and ethnic segregation in the Hartford public schools. The Supreme Court also directed the Superior Court to retain jurisdiction of this matter. The 1997 General Assembly enacted P.A. 97-290, An Act Enhancing Educational Choices and Opportunities, in response to the Supreme Court decision. In response to a motion filed by the plaintiffs, the Superior Court in 1998 ordered the State to show cause as to whether there has been compliance with the Supreme Court's ruling. In a Memorandum of Decision issued March 3, 1999, the Superior Court found that the State complied with the 1996 decision of the Supreme Court. The Superior Court noted that the plaintiffs failed to allow the State enough time to take additional steps in its remedial process.

The plaintiffs filed a motion on December 28, 2000 seeking to have the Superior Court, once again, monitor the State's compliance with the State Supreme Court's 1996 decision. A hearing about whether the State is still complying with the Supreme Court's ruling and what order, if any, should issue has been scheduled for April, 2002.

The Connecticut Traumatic Brain Injury Association, Inc. v. Hogan is a Federal District Court civil rights action brought in 1990 on behalf of all persons with retardation or traumatic brain injury who have been, or may be, placed in Norwich, Fairfield Hills or Connecticut Valley Hospitals. The plaintiffs claim that the treatment and training they need is unavailable in state hospitals for the mentally ill and that placement in those hospitals violates their constitutional rights. The plaintiffs seek relief which would require that the plaintiff class members be transferred to community residential settings with appropriate support services. This case has been settled as to all persons with mental retardation by their eventual discharge from Norwich and Fairfield Hills Hospital. The case is still proceeding as to those persons with traumatic brain injury and the class of plaintiffs has been expanded to include persons with acquired brain injury who are in the custody of the Department of Mental Health and Addiction Services. The Court in 1998 expanded the class of plaintiffs to include persons who are or have been in the custody of the Department of Mental Health and Addiction Services at any time during the pendency of the case without reference to a particular facility. The trial in this case took place in March 2001. No decision has been rendered.

Johnson v. Rowland is a Superior Court action brought in 1998 in the name of several public school students and the Connecticut municipalities in which the students reside, seeking a declaratory judgment that the State's current system of financing public education through local property taxes and State payments to municipalities determined under a statutory Education Cost Sharing ("ECS") formula violates the Connecticut Constitution. Additionally, the suit seeks various injunctive orders requiring the State to, among other things, cease implementation of the present system, modify the ECS formula, and fund the ECS formula at the level contemplated in the original 1988 public act which established the ECS. The municipalities have been dismissed from the action for lack of standing. Trial has been scheduled for November, 2002.

Hospital Tax Cases. In 1999 several hospitals appealed to the Superior Court from the Commissioner of Revenue Services' denial of their claims for partial refunds of the hospital tax imposed on a hospital's gross earnings and for partial refunds of sales tax imposed upon patient care services. The hospitals claim that these taxes should not be imposed with regard to charges for tangible property transferred incidental to the provision of patient care services. Refunds are claimed for the last three years. It is anticipated that other hospitals in the State may bring similar suits.

PTI, Inc. v. Philip Morris et al. was filed in the Federal Court for the Central District of California in 1999 against the State of Connecticut and the Attorney General in his official and individual capacities. The plaintiffs re-import and distribute cigarettes that have previously been sold by their manufacturers to foreign markets. The plaintiffs challenge certain provisions of the 1998 Master Settlement Agreement (MSA) entered into by virtually all states and territories to resolve litigation by the respective states against the major domestic tobacco companies. The plaintiffs further challenge certain state statutes, including those banning the sale of re-imported cigarettes, so-called Non Participating Manufacturer statutes, that would decrease the price advantage that re-imported cigarettes enjoy over other cigarettes. The plaintiffs claim that various provisions of the MSA and these state statutes violate the federal constitution, antitrust and civil rights laws. The plaintiffs seek declaratory and injunctive relief, compensatory, special and punitive damages, plus attorneys fees and costs. The court has granted the State's motion to dismiss this case.

Carr v. Wilson-Coker is a Federal District Court action brought in 2000 in which the plaintiffs seek to represent a class of certain Connecticut Medicaid beneficiaries. The plaintiffs claim that the Commissioner of the Department of Social Services fails to provide them with reasonable and adequate access to dental services and to adequately compensate providers of dental services. The plaintiffs seek declaratory and injunctive relief, plus attorneys' fees and costs.

Doe v. State is a Federal District Court action brought in October 2000 on behalf of all juveniles who have been strip searched at the State's juvenile detention centers. The plaintiffs claim that the blanket policy of strip searching all juveniles upon arrival at the detention centers is unconstitutional. A motion for class certification is currently pending. The plaintiffs seek damages, declaratory and injunctive relief, plus attorneys' fees and costs.

Foreman v. State is a Federal District Court action brought in January 2001 challenging the policy and/or practice of strip searching all adult inmates arriving at correctional centers, including temporary surrenders, regardless of whether there is a reasonable suspicion that the person might be carrying weapons or contraband. The complaint purports to be brought on behalf of a class of similarly situated individuals, and seeks damages, declaratory and injunctive relief, plus attorneys' fees and costs..

Association for Retarded Citizens of Connecticut, Inc. v. O'Meara is a Federal District Court action brought in October 2001 alleging that the State of Connecticut's Department of Mental Retardation is in violation of applicable Medicaid law and Title II of the Americans With Disabilites Act, along with other federal law, by maintaining a waiting list for Medicaid services of approximately 1600 Medicaid eligible persons. The suit also alleges that the Department of Mental Retardation's placement of persons in quasi-institutional settings, without first allowing them to choose a more integrated community setting, violates federal law. The case seeks mandatory injunctive relief, attorneys' fees and costs.

While the various cases described in this paragraph involving alleged ***Indian Tribes*** do not specify the monetary damages sought from the State, the cases are mentioned because they claim State land and/or sovereignty over land areas that are part of the State of Connecticut. Several suits have been filed since 1977 in the Federal District Court and the Connecticut Superior Court on behalf of alleged ***Indian Tribes*** in various parts of the State, claiming monetary recovery as well as ownership to land in issue. Some of these suits have been settled or dismissed. The plaintiff group in the remaining suits is the alleged Golden Hill Paugussett Tribe and the lands involved are generally located in Bridgeport, Trumbull and Orange. An additional suit has been filed by the alleged Schaghticoke Indian Tribe claiming privately and town held lands in the Town of Kent. The State is not a party to that action. It is possible that other such land claims could be brought by other Indian groups, who have petitioned the Federal Government for Federal recognition. The State has also challenged the decision of the Federal Department of the Interior which allows the Mashantucket Pequot Tribe to add land holdings of the Tribe outside of its reservation to the land held in trust for its benefit by the Department. The added land was not part of the Tribe's original reservation designated under the Federal Settlement Act with the Tribe. The additional land was purchased by the Tribe. The United States Court of Appeals for the Second Circuit has recently rejected the State's claim that the Federal Settlement Act does not allow the Federal Department of the Interior to take this additional land and add it to the Tribe's reservation land. The parties may seek review of this decision, but, in any event, additional issues remain to be decided in the case and the Second Circuit remanded the case for further proceedings, and the case is presently pending in the United States District Court.

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GOVERNMENTAL ORGANIZATION AND SERVICES

Introduction

The components and structure of State governmental organization are laid out in the State's Constitution and the General Statutes of Connecticut. A number of State-wide and regional authorities and similar bodies are also created or provided for in the General Statutes or by Special Act of the General Assembly. County government was functionally abolished in Connecticut in 1960. Local governmental functions are generally performed by the 169 cities and towns, or by special purpose authorities, districts and similar bodies located within the cities and towns. A number of regional bodies exist to perform governmental functions that would otherwise be performed at the local level. Most of the State's 169 cities and towns were established or incorporated during the 18th and 19th centuries, and many are still governed under charters enacted by the General Assembly by Special Act. The State's Constitution grants home rule powers to cities and towns, within certain limitations. A large number of smaller municipalities lack charters, and the components and structure of these municipalities are determined directly by the General Statutes. The General Statutes also contain a variety of provisions pertaining to the organization and operation of all units of local government, including both those with charters and those without. In addition to the 169 cities and towns that are the basic units of local government in Connecticut, the General Statutes provide procedures for the creation of many types of local special purpose authorities, districts and similar bodies. These include, among others, local housing authorities, regional school districts, and a variety of special tax and service districts.

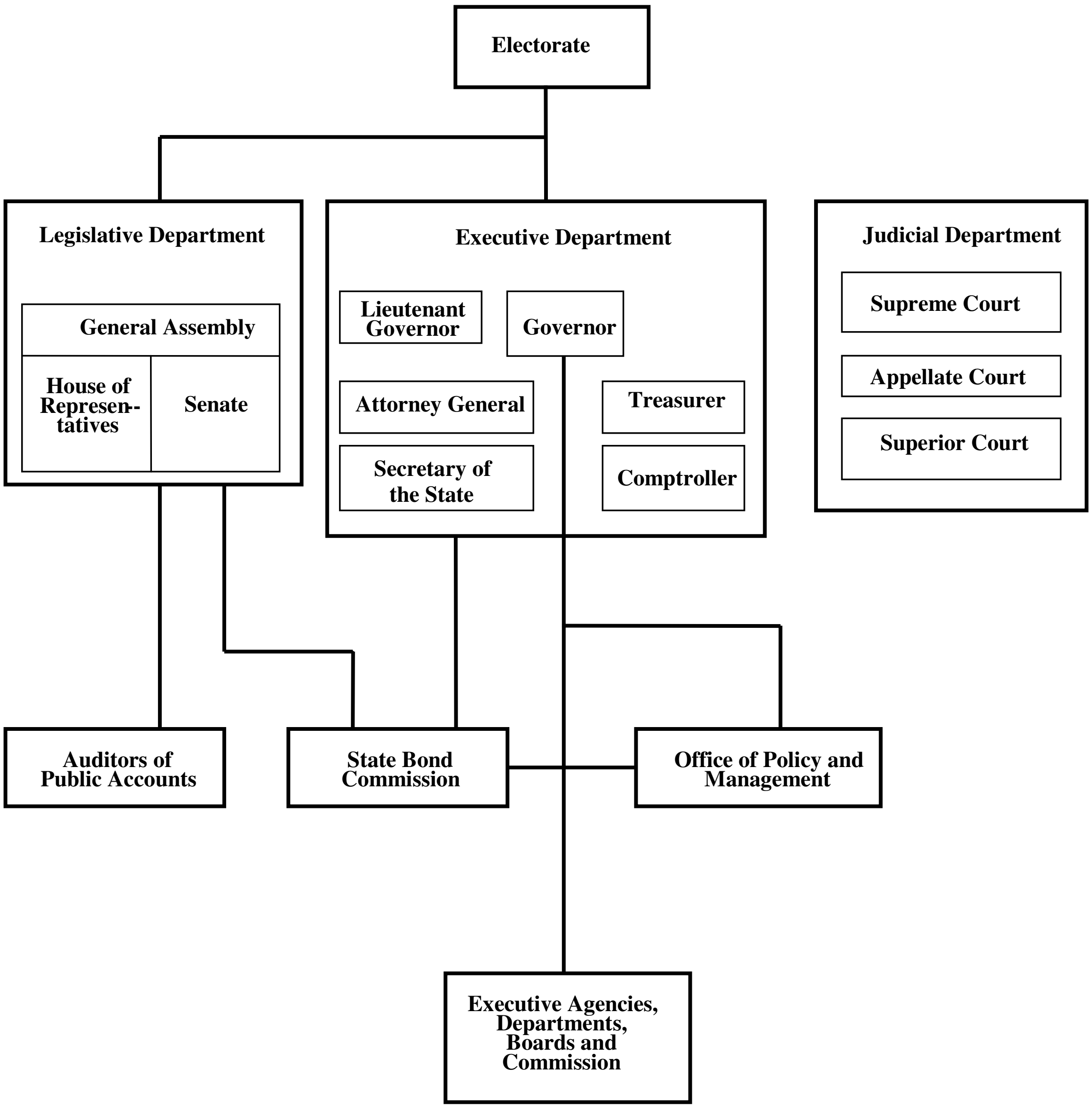
Under Connecticut law, all municipal governmental bodies have only the powers specifically granted to them by the State and the ancillary powers that are necessarily implied by powers explicitly granted. Municipalities which have the power to tax and to issue debt are explicitly denied the power by statute to file petitions to become debtors under Chapter Nine of Title 11 of the Federal Bankruptcy Code without the prior written consent of the Governor.

State Government Organization

Under the State Constitution, the legislative, executive and judicial functions and powers of State government are divided among three distinct branches referred to in the Constitution as "departments": the legislative department, the executive department and the judicial department. The following table shows the structure of the three departments.

TABLE A-1

Structure of State Government



Legislative Department. Legislative power is vested in the General Assembly, composed of the Senate and House of Representatives. Currently the Senate consists of 36 members, each representing a single senatorial district, and the House of Representatives consists of 151 members each representing a single assembly district. Both the number of members and the boundaries of the legislative districts may vary in accordance with the requirements of the State's Constitution. The General Assembly is assisted by a full-time staff. General Assembly employees are included under the legislative function in **Tables A-2** and **A-3** below.

General Assembly members are elected biennially at the general election in November in even numbered years and take office in the January following their election. Elections for the General Assembly were held in November 2000, and the new members took office in January 2001.

A regular session of the General Assembly is held each year. These sessions run from January through June in odd-numbered years and February through May in even-numbered years. The General Assembly reconvenes for special sessions in general only in emergencies or to consider bills or appropriations vetoed by the Governor. Even-year sessions are supposed to be limited to budgetary, revenue and financial matters, bills and resolutions raised by committees of the General Assembly and certified emergencies.

Two Auditors of Public Accounts, who cannot be of the same political party, are appointed by the General Assembly to four-year terms. The State Auditors are required to make an annual audit of the accounts of the Treasurer and the Comptroller and, biennially or as frequently as they deem necessary, to audit the accounts of each officer, department, commission, board and court of the State government authorized to expend State appropriations. The Auditors are required to report unauthorized, illegal, irregular or unsafe handling or expenditure of State funds or any actual or contemplated breakdown in the safeguarding of any resources of the State promptly upon discovery to the Governor, the State Comptroller, the Attorney General and appropriate legislative agencies. Each budgeted agency of the State must keep its accounts in such form and by such methods as to exhibit facts required by the State Auditors. A full-time staff assists the State Auditors. Employees of the State Auditors are included under the legislative function in **Tables A-2** and **A-3** below.

Executive Department. The present Governor, Lieutenant Governor, Secretary of the State, Treasurer, Comptroller and Attorney General, whose offices are mandated by the State's Constitution, were elected at the general election in November 1998 and assumed office in January 1999. Elections for all of these offices are held every four years. The Governor and Lieutenant Governor are elected as a unit.

The supreme executive power of the State is vested in the Governor. The Governor has the constitutional responsibility for ensuring that the laws are faithfully executed, giving the General Assembly information on the state of the government, and recommending to the General Assembly such measures as the Governor may deem expedient. The Governor is empowered to veto bills and line items in appropriations bills, but the General Assembly may reconsider and repass such matters upon a two-thirds vote of each house, whereupon such bills or appropriations become law. Broad appointive and investigative powers are conferred upon the Governor by statute. The Lieutenant Governor serves as President of the Senate and becomes Governor in case of the inability of the Governor to exercise the powers and perform the duties of the office.

The Treasurer is primarily responsible for receiving and disbursing all monies belonging to the State, superintending the collection of State taxes and revenues and the investment of State funds, administering certain State trust funds and managing State property. Subject to the approval of the Governor, the Treasurer is authorized, when necessary, to make temporary borrowings evidenced by State obligations. In addition, the State Bond Commission may delegate to the Treasurer the responsibility for determining the terms and conditions and carrying out the issuance of State debt.

The Secretary of the State administers elections, has custody of all public records and documents, and certifies to the Treasurer and the Comptroller the amount and purpose of each appropriation made by the General Assembly.

The Comptroller's primary duties include adjusting and settling public accounts and demands and prescribing the method of keeping and rendering all public accounts. All warrants and orders for the disbursement of public money are registered with the Comptroller. The Comptroller also has authority to require reports from State agencies upon any matter of property or finance and to inspect all records in any public office, and is responsible for examining the amount of all debts and credits of the State. The Comptroller is required to issue monthly reports on the financial condition of the State, which are prepared on a modified cash basis and are not audited.

The Attorney General has general supervision over all legal matters in which the State is an interested party except those legal matters over which prosecuting officers have discretion. The duties of the office include giving advice and on request rendering legal opinions to the legislative and executive departments as to questions of law. Among the Attorney General's statutory duties concerning State financial matters are membership on the State Bond Commission, the approval of all State contracts or leases and appearing before any committee of the General Assembly to represent the State's best interests when any measure affecting the State Treasury is pending.

In addition to the constitutionally mandated offices, the General Statutes provide for a number of executive branch agencies, departments and commissions, each of which generally has its own agency head appointed by the Governor, in most cases with the advice and consent of one or both houses of the General Assembly. Of these statutorily established offices, the one most directly related to the fiscal operation and condition of the State is the Office of Policy and Management. The Secretary of the Office of Policy and Management is directly responsible to the Governor for policy development in four major areas: budget and financial management, policy development and planning, management and program evaluation, and intergovernmental policy. The Office of Policy and Management has significant responsibility in preparing the State budget, in assisting the Governor in policy development and in representing the State in most collective bargaining negotiations. It is the duty of the Office of Policy and Management to prepare and furnish to the General Assembly and Comptroller financial and accounting statements relating to the State's financial condition and general accounts, and to examine and assist in the organization, management and policies of departments and institutions supported by the State in order to improve their effectiveness. The Secretary of the Office of Policy and Management, like the Comptroller, is empowered to inspect the financial records and to require reports of State agencies.

Employees of the executive department are included in **Tables A-2** and **A-3** below under all function headings except the legislative and judicial functions. A list of the major executive branch agencies, departments and commissions, by function headings, is found in **Table A-5**.

Judicial Department. The State's judicial department consists of three principal trial and appellate courts: the Superior Court, the Appellate Court, and the Supreme Court.

The Superior Court is vested with original trial court jurisdiction over all civil and criminal matters. There are approximately 157 sitting Superior Court judges, each nominated by the Governor and appointed by the General Assembly to eight-year terms.

On July 1, 1983, the Appellate Court was created and the appellate session of the Superior Court was dissolved. The Appellate Court hears appeals from decisions of the Superior Court except for certain matters which are directly appealable to the Supreme Court. There are nine Appellate Court judges nominated by the Governor and appointed by the General Assembly to eight-year terms.

The Connecticut Supreme Court reviews decisions of the Appellate Court and, in certain cases, of the Superior Court. Except in cases where original jurisdiction exists in the Supreme Court, there is no right of review in the Supreme Court unless specifically provided by statute. The Supreme Court consists of seven Justices (one Chief Justice and six Associate Justices) nominated by the Governor and appointed by the General Assembly to eight-year terms.

In addition to the principal trial and appellate courts, there is a Court of Probate in each of 130 probate districts situated throughout the State.

Employees of the judicial department are shown in **Tables A-2** and **A-3** under the judicial function heading.

Quasi-Public Agencies. In addition to the budgeted components of State government provided for in the State's Constitution and the General Statutes, important State-wide governmental functions are performed by quasi-public agencies, authorities and similar bodies created under the General Statutes. A number of these entities receive significant funding from the State, although they are not budgeted agencies of the State. Each of these entities is governed by a board of directors chosen in accordance with its respective enabling statute. These boards generally include legislative appointees, gubernatorial appointees and ex officio directors holding certain executive branch offices.

State Employees

Employment Statistics. Statistics regarding approximate filled permanent full-time positions within budgeted components of State government are shown on the following two tables.

TABLE A-2

State Employees[(a)]
By Function of Government

Function Headings[(b)]	1997[(c)]	1998	1999	2000	2001
Legislative	415	427	438	434	447
General Government	3,960	3,745	3,853	3,910	3,910
Regulation and Protection	4,376	4,200	4,319	4,550	4,592
Conservation and Development	1,410	1,399	1,420	1,463	1,457
Health and Hospitals	8,444	8,280	8,709	8,747	8,635
Transportation	3,790	3,675	3,610	3,643	3,626
Human Services	2,477	2,347	2,391	2,375	2,332
Education, Libraries and Museums	12,990	13,494	14,130	14,357	14,921
Corrections	9,856	9,346	9,454	10,027	9,956
Judicial	2,852	2,971	3,068	3,224	3,342
Totals	50,570	49,884	51,392	52,730	53,218

(a) Table shows approximate filled full-time positions as of June 30 in each of the listed years.
(b) A breakdown of the agencies, boards, commissions and similar bodies included in each of the listed government function headings is shown in **Table A-5**.
(c) The State offered an Early Retirement Incentive Program with a window of April 1 through August 1, 1997. Approximately 1,200 full time employees took advantage of this program through June 30, 1997.

SOURCE: Office of Policy and Management

TABLE A-3
State Employees as of June 30, 2001[a]
By Function of Government and Fund Categories

Function Headings	General Fund	Special Transportation Fund	Other Appropriated Funds	Special Funds – Non-Appropriated	Federal Funds	Private Contributions	TOTALS
Legislative	447						447
General Government	3,097	12	9	436	36	320	3,910
Regulation and Protection	2,177	675	603	175	953	9	4,592
Conservation and Development	734		7	292	304	120	1,457
Health and Hospitals	8,231			79	312	13	8,635
Transportation		3,508		118			3,626
Human Services	1,992		16		310	14	2,332
Education, Libraries and Museums	10,137			4,591	193		14,921
Corrections	9,813			87	56		9,956
Judicial	3,259			12	73		3,342
Totals	39,887	4,195	635	5,790	2,235	476	53,218

(a) Table shows approximate filled full-time positions.

SOURCE: Office of Policy and Management

Collective Bargaining Units and Process. The General Statutes guaranty State employees, other than elected or appointed officials and certain management employees and others with access to confidential information used in collective bargaining, the right to organize and participate in collective bargaining units. There are presently 32 such bargaining units representing State employees.

The General Statutes establish the general parameters of the collective bargaining process with respect to bargaining units representing State employees. At any given point in time, there are generally a number of collective bargaining units with agreements under negotiation. All collective bargaining agreements require approval of the General Assembly. The General Assembly may approve any such agreement as a whole by a majority vote of each house or may reject any such agreement as a whole by a majority vote of either house. An arbitration award may be rejected in whole by a two-thirds vote of either house of the General Assembly upon a determination that there are insufficient funds for full implementation of the award.

The General Statutes deny State employees the right to strike. Questions concerning employment or bargaining practices prohibited by the sections of the General Statutes governing collective bargaining with regard to State employees may generally be brought before the State Board of Labor Relations.

Information regarding employees participating in collective bargaining units and employees not covered by collective bargaining is shown on the following table:

TABLE A-4

Full-Time Work Force[a]
Collective Bargaining Units and
Those Not Covered by Collective Bargaining

Bargaining Unit/Status Group	Percentage of State Employees Represented[b]	Contract Status, if any
Covered by Collective Bargaining		
Administrative Clerical	10.12%	Contract in place through 6/30/2002
Correction Officers	9.31%	Contract in place through 6/30/2001[c]
Maintenance and Service	8.60%	Contract in place through 6/30/2002
Health Care Non-Professionals	8.45%	Contract in place through 6/30/2005
Social and Human Services	7.53%	Contract in place through 6/30/2002
Administrative and Residual	6.16%	Contract in place through 6/30/2003
Engineering, Scientific and Technical	5.04%	Contract in place through 6/30/2001[d]
Health Care Professionals	4.87%	Contract in place through 6/30/2005
University Health Professionals (University of Connecticut Health Center)	3.25%	Contract in place through 6/30/2002
Judicial Employees	2.65%	Contract in place through 6/30/2002
University of Connecticut Faculty	2.42%	Contract in place through 6/30/2002
Connecticut State University Faculty	2.32%	Contract in place through 6/30/2002
University of Connecticut Professional Employee Association	2.28%	Contract in place through 6/30/2005
State Police	2.17%	Contract in place through 6/30/2004
Congress of Connecticut Community Colleges	2.14%	Contract in place through 6/30/2002
Vocational Technical School Teachers	2.00%	Contract in place through 6/30/2003
Education Professionals (Institutions)	1.81%	Contract in place through 6/30/2001[c]
Judicial Professionals	1.80%	Contract in place through 6/30/2002
Protective Services	1.67%	Contract in place through 6/30/2004
Other Bargaining Units (11 units)	3.02%	Varies by Unit
Total Covered by Collective Bargaining	87.61%	
Not Covered by Collective Bargaining		
Auditors of Public Accounts	0.19%	Not Applicable
Other Employees	12.20%	Not Applicable
Total Not Covered by Collective Bargaining	12.39%	
Total Full Time Work Force	100.00%	

(a) PA 97-148 granted collective bargaining rights effective July 1, 1999 to a group of per diem employees (Special Deputy Sheriffs) who are not included here. The group of employees has chosen to bargain collectively and are currently in negotiations after a referendum in November 2000 to determine that the employees will be transferred to the Judicial Branch.
(b) Percentage expressed reflects approximately 53,218 filled full-time positions as of June 30, 2001.
(c) The State and the bargaining unit are currently in arbitration for a successor agreement.
(d) The arbitration award for the successor four year contract has been issued by the arbitrator but has not yet been taken up by the General Assembly.

Source: Office of Policy and Management.

Governmental Services

Services provided by the State or financed by State appropriations are classified under one of ten major government function headings or are classified as "non-functional". These function headings are used for the State's General Fund and for other funds of the State used to account for appropriated moneys. State agencies, boards, commissions and other bodies are each assigned to one of the function headings for budgeting purposes. The following table shows a breakdown of the government function headings according to the major agencies, boards, commissions and other bodies assigned to them.

TABLE A-5
Function of Government Headings[a][b]

Legislative
Legislative Management
Auditors of Public Accounts
Commission on the Status of Women
Commission on Children
Commission on Latino and Puerto Rican Affairs
African-American Affairs Commission

General Government
Governor's Office
Secretary of the State
Lieutenant Governor's Office
State Elections Enforcement Commission
Ethics Commission
Freedom of Information Commission
Judicial Selection Commission
State Properties Review Board
State Treasurer
State Comptroller
Department of Revenue Services
Division of Special Revenue
State Insurance and Risk Management Board
Gaming Policy Board
Office of Policy and Management
Department of Veterans' Affairs
Department of Administrative Services
Department of Information Technology
Department of Public Works
Attorney General
Office of the Claims Commissioner
Division of Criminal Justice
Criminal Justice Commission

Regulation and Protection
Department of Public Safety
Police Officers Standards and Training Council
Board of Firearms Permit Examiners
Department of Motor Vehicles
Military Department
Commission on Fire Prevention and Control
Department of Banking
Department of Insurance
Office of Consumer Counsel
Department of Public Utility Control
Department of Consumer Protection
Office of Managed Care Ombudsman
Department of Labor
Office of Victim Advocate
Commission on Human Rights and Opportunities
Office of Protection and Advocacy for Persons with Disabilities
Office of the Child Advocate
Workers' Compensation Commission

Conservation and Development
Department of Agriculture
Department of Environmental Protection
Council on Environmental Quality
Connecticut Historical Commission
Department of Economic and Community Development
Agricultural Experiment Station

Health and Hospitals
Department of Public Health
Office of Health Care Access
Office of the Medical Examiner
Department of Mental Retardation
Department of Mental Health and Addiction Services
Psychiatric Security Review Board

Transportation
Department of Transportation

Human Services
Department of Social Services
Soldiers', Sailors', and Marines' Fund

Education, Libraries and Museums
Department of Education
Board of Education and Services for the Blind
Commission on the Deaf and Hearing Impaired
State Library
Department of Higher Education
University of Connecticut
University of Connecticut Health Center
Charter Oak College
Teachers' Retirement Board
Regional Community-Technical Colleges
Connecticut State University

Corrections
Department of Correction
Board of Pardons
Board of Parole
Department of Children and Families
Council to Administer Children's Trust Fund
County Sheriffs

Judicial
Judicial Department
Public Defenders Services Commission
State Marshal Commission

(a) In addition to the ten listed government function headings, the State also employs a "non-functional" heading under which are grouped various miscellaneous accounts including debt service and State employee fringe benefit accounts.
(b) Listing of agencies, boards, commissions and similar bodies is as of July 1, 2001.

SOURCE: Office of Policy and Management

In addition to services provided directly by the State, various State-wide and regional quasi-public agencies, authorities and similar bodies also provide services. Such entities principally assist in the financing of various types of facilities and projects. In addition to their own budgetary resources and the proceeds of their borrowings, a number of such entities have received substantial funding from the State, which the entities generally use to provide financial assistance to the general public and the private and nonprofit sectors.

Because Connecticut does not have an intermediate county level of government between State and local government, local entities provide all governmental services not provided by the State and quasi-public agencies. Such services are financed principally from property tax revenues, State funding of various types and federal funding.

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Appendix III-B

STATE ECONOMY

Connecticut is a highly developed and urbanized state. It is situated directly between the financial centers of Boston and New York. Connecticut is located on the northeast coast and is the southernmost of the New England States. It is bordered by Long Island Sound, New York, Massachusetts and Rhode Island. More than one quarter of the total population of the United States and approximately 60% of the Canadian population live within 500 miles of the State.

Economic Resources

Population Characteristics. Connecticut had a population count of 3,405,565 in April 2000. The State's population growth rate, which exceeded the United States' rate of population growth during the period 1940 to 1970, slowed substantially during the past three decades. The following table presents the population trends of Connecticut, New England and the United States since 1940. (Estimated mid-year population figures from 1991 through 1999 have not yet been revised to take the 2000 census into account.)

TABLE B-1

Population
(In Thousands)

	Connecticut		New England		United States	
Calendar Year	Total	% Change	Total	% Change	Total	% Change
1940 Census	1,709	%	8,437	%	132,165	%
1950 Census	2,007	17.4	9,314	10.4	151,326	14.5
1960 Census	2,535	26.3	10,509	12.8	179,323	18.5
1970 Census	3,032	19.6	11,847	12.7	203,302	13.4
1980 Census	3,108	2.5	12,349	4.2	226,542	11.4
1990 Census	3,287	5.8	13,207	6.9	248,710	9.8
2000 Census	3,406	3.6	13,923	5.4	281,422	13.2
1991….	3,289	0.0	13,201	(0.1)	252,153	1.1
1992….	3,275	(0.4)	13,188	(0.1)	255,030	1.1
1993….	3,272	(0.1)	13,216	0.2	257,783	1.1
1994….	3,268	(0.1)	13,243	0.2	260,327	1.0
1995….	3,265	(0.1)	13,283	0.3	262,803	1.0
1996….	3,267	0.1	13,329	0.3	265,229	0.9
1997….	3,269	0.1	13,378	0.4	267,784	1.0
1998….	3,273	0.1	13,429	0.4	270,248	0.9
1999….	3,282	0.3	13,496	0.5	272,691	0.9

Note: 1940-2000, April 1 Census. Figures are for census comparison purposes.
1991-1999, Mid-year estimates.

SOURCE: United States Department of Commerce, Bureau of the Census

The State is highly urbanized with a 2000 population density of 703 persons per square mile, as compared with 80 for the United States as a whole and 222 for the New England region. More than 80% of the population resides within the State's four largest metropolitan areas of Hartford, Waterbury, Bridgeport and New Haven.

Transportation. Connecticut has an extensive network of expressways and major arterial highways which provide easy access to local and regional markets. Bradley International Airport, in Windsor Locks, is well situated for overseas air freight operations and is accessible from all areas of the State and Western Massachusetts.

Railroad freight service is provided to most major towns and cities in the State, and connections are provided with major eastern railroads as well as direct access to Canadian markets. In addition, Connecticut's proximity to the ports of New York and Boston provides it with access to European and South American export markets. The State's harbors at Bridgeport, New Haven and New London can accommodate deep draft vessels.

Connecticut provides financial assistance for all of the urban and rural bus services operating in the State. In addition, the State supports commuter express bus operations, American with Disability Act services, and ridesharing programs. Rail commuter service operates between New Haven and New York City and related points. Also, rail commuter service operates between New London and New Haven.

Connecticut initiated a transportation infrastructure renewal program in 1984 and continues that program today. It has resulted in the restoration and enhancement of the major components of the transportation system and provides for the continued maintenance of these systems.

Utility Services. The power grid that supplies electricity to the entire State is owned and operated by both private and municipal electric companies. Transmission lines connect Connecticut with New York, New England and Canada. These interconnections allow the companies serving Connecticut to meet large or unexpected electric load requirements from resources located outside of Connecticut's boundaries. All electric utilities in the State are members of the New England Power Pool and operate as part of the regional bulk power system. An independent system operator, ISO New England, Inc., operates this regional system.

Legislation passed in 1998 provided for the restructuring of the electric industry in Connecticut. As of July 2000, most consumers in Connecticut can choose an independent electric supplier as their provider of electricity. The electricity is still delivered to the consumer over the wires of the regulated distribution companies (Connecticut Light & Power Company and The United Illuminating Company). Electric suppliers are not subject to rate regulation by the State Department of Public Utility Control (DPUC), but must receive a license issued by the DPUC before commencing service to consumers. In general, Connecticut consumers located in a municipally owned electric service territory are not subject to the 1998 restructuring legislation. These consumers continue to purchase and receive their electrical needs from the municipal electric company.

The restructuring legislation mandated a 10 percent rate reduction (from 1996 levels) subject to specific adjustments during the period of 2000 to 2003. This "standard offer" service is available to all consumers except those that had already entered into special contracts with the electric companies. The legislation also provides a procedure allowing for the recovery of utility's stranded costs, including the issuance of revenue bonds.

Natural gas service is provided to parts of the State through one municipal and three private gas distribution companies, including Yankee Gas Services Company, Connecticut Natural Gas Company, and Southern Connecticut Gas Company. Over the past two years, Energy East Corp. has acquired both Connecticut Natural Gas and Southern Connecticut Gas. Energy East is a New York-based regional utility holding company. Yankee Gas has also been recently acquired by Northeast Utilities.

Since 1996 the DPUC is allowing some competitive market forces to enter the natural gas industry in Connecticut. Commercial and industrial gas consumers can choose non-regulated suppliers for their natural gas requirements. The gas is delivered to the consumer using the local distribution company's mains and pipelines. This competitive market is not yet available to the residential consumer.

In addition to the electric and natural gas industries, telecommunications services are also in the process of being opened to competition. Local exchange telephone service is provided in the State by local exchange carriers (LECs) and competitive local exchange carriers (CLECs). Three LECs currently offer local telephone services in Connecticut. They are The Southern New England Telephone Company (SNET), which has been acquired by SBC Communications, Inc., Woodbury Telephone Company (a wholly-owned subsidiary of SNET) and Verizon New York Inc. Connecticut also has approximately 130 CLECs certified to provide local exchange services including AT&T Communications of New England, Cox Connecticut Telecommunication, LLC and Connecticut Telephone and Communications Systems, Inc.

Connecticut is dependent upon oil, including imported oil, for a portion of its energy requirements. This dependence is greatest in the transportation sector. Connecticut also relies on heating oils in both the residential and commercial sectors, and is reliant on residual oils and diesel fuels for the production of electricity. This petroleum dependence can make Connecticut particularly affected by developments in the oil commodity markets. Events that affect the international or domestic production of oil, the domestic and international refining capabilities, or the transportation of petroleum products within the United States or into the New England region can have an effect on Connecticut's local oil markets.

Economic Performance

Personal Income. Connecticut has a high level of personal income. Historically, the State's average per capita income has been among the highest in the nation. The following table shows total and per capita personal income for Connecticut residents during the period from 1991 to 2000 and compares Connecticut per capita personal income as a percentage of both New England and the United States.

TABLE B-2

Connecticut Personal Income by Place of Residence

Calendar Year	Connecticut		Connecticut Per Capita as % of	
	Total (Millions)	Per Capita[a]	New England	United States
1991	88,344	26,775	115.4	133.6
1992	93,779	28,446	117.0	135.6
1993	96,867	29,309	117.2	136.0
1994	99,788	30,130	116.1	134.8
1995	104,315	31,423	116.1	135.0
1996	109,354	32,814	115.7	135.1
1997	116,420	34,803	116.2	136.9
1998	123,902	37,190	116.7	138.2
1999	129,780	38,506	115.6	138.2
2000	138,334	40,870	114.1	138.8

(a) The Census Bureau has not yet released intercensal population estimates that incorporate the results of the 2000 Decennial Census. BEA converted the April 1, 2000 Census Bureau population counts to a midyear 2000 basis and derived an interim set of population estimates for 1991-99 that are consistent with 1990 and 2000 population data. BEA has developed population estimates and incorporated them into interim state per capita personal income estimates.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The following table indicates the annual growth rate of personal income, on a current and constant dollar basis, of Connecticut, New England and the United States.

TABLE B-3

Annual Growth Rates in Personal Income By Place of Residence

Calendar Year	Conn. (Current)	New England (Current)	U.S. (Current)	Conn. (Constant)	New England (Constant)	U.S. (Constant)
1991	0.5%	1.4%	4.1%	(3.1)%	(2.1)%	0.4%
1992	6.2%	5.0%	6.0%	3.6 %	2.5 %	3.5%
1993	3.3%	3.3%	4.1%	0.9 %	0.9 %	1.6%
1994	3.0%	4.3%	5.0%	0.9 %	2.1 %	2.8%
1995	4.5%	4.9%	5.3%	2.3 %	2.6 %	3.1%
1996	4.8%	5.4%	5.6%	2.8 %	3.4 %	3.6%
1997	6.5%	6.3%	6.0%	4.4 %	4.2 %	3.9%
1998	6.4%	6.8%	7.0%	5.1 %	5.5 %	5.7%
1999	4.7%	6.0%	4.7%	3.3 %	4.5 %	3.3%
2000	6.6%	8.4%	7.0%	4.2 %	6.0 %	4.6%

Note—Constant dollars are adjusted for inflation using the GDP deflator.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The following table indicates the sources of personal income by place of residence for the State and the United States in 2000.

TABLE B-4

Sources of Personal Income By Place of Residence
Calendar 2000
(In Millions)

	Conn.	Percent of Total	U.S.	Percent of Total
Wages in Non-manufacturing	$ 68,302	49.37	$4,007,100	48.17
Property Income (Div., Rents & Int.)	24,568	17.76	1,521,400	18.29
Wages in Manufacturing	17,200	12.33	830,125	9.98
Transfer Payments less Social Insurance Paid	8,879	6.42	711,400	8.55
Other Labor Income	8,432	6.10	534,150	6.42
Proprietor's Income	10,953	7.92	714,950	8.59
Personal Income—Total	$138,334	100.00	$8,319,125	100.00

Note—Columns may not add due to rounding.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

Gross State Product. The State and the region's economic vitality is evidenced in the rate of growth of its Gross State Product. Gross State Product is the market value of all final goods and services produced by labor and property located within the State. The economies of Connecticut and New England were, for much of the 1980s, among the strongest performers in the nation in this category. While the growth rates of both Connecticut and New England slowed in the initial years of the 1990s, the growth rates have steadily increased during the rest of the 1990s. According to the latest available data, in 1997 Connecticut's growth rate outpaced that of New England and the nation, but slowed somewhat in 1998 and 1999.

The following table shows the Gross State Product in current dollars for Connecticut, New England and the United States.

TABLE B-5

Gross State Product
(In Millions of Dollars)

	Connecticut		New England[a]		United States[b]	
Year	**Dollars**	**% Growth**	**Dollars**	**% Growth**	**Dollars**	**% Growth**
1990	98,914	4.1	339,573	1.8	5,706,658	5.5
1991	100,373	1.5	343,923	1.3	5,895,430	3.3
1992	103,794	3.4	357,145	3.8	6,209,096	5.3
1993	107,924	4.0	373,298	4.5	6,513,026	4.9
1994	112,395	4.1	394,406	5.7	6,930,791	6.4
1995	118,645	5.6	416,166	5.5	7,309,516	5.5
1996	124,157	4.6	439,596	5.6	7,715,901	5.6
1997	134,968	8.7	471,336	7.2	8,224,960	6.6
1998	143,191	6.1	504,155	7.0	8,752,363	6.4
1999	151,779	6.0	542,347	7.6	9,308,983	6.4

(a) Sum of the GSP for the States in New England.
(b) Denotes the Gross Domestic Product, which is the total market value of all final goods and services produced in the U.S.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The following table shows the Gross State Product in 1996 chained dollars.

TABLE B-6

Gross State Product
(In Millions of 1996 Chained Dollars)

	Connecticut		New England		United States	
Year	**Dollars**	**% Growth**	**Dollars**	**% Growth**	**Dollars**	**% Growth**
1990	117,268	(0.1)	398,250	(2.2)	6,630,742	1.4
1991	114,555	(2.3)	388,451	(2.5)	6,615,685	(0.2)
1992	114,830	0.2	391,385	0.8	6,774,505	2.4
1993	115,725	0.8	397,470	1.6	6,918,388	2.1
1994	117,489	1.5	410,014	3.2	7,203,002	4.1
1995	120,792	2.8	422,524	3.1	7,433,965	3.2
1996	124,157	2.8	439,596	4.0	7,715,901	3.8
1997	132,620	6.8	463,498	5.4	8,093,396	4.9
1998	138,749	4.6	489,127	5.5	8,507,978	5.1
1999	145,274	4.7	520,092	6.3	8,934,066	5.0

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The table below shows the contribution to Connecticut's Gross State Product of the manufacturing and non-manufacturing sectors in the State's diverse economy. The table shows that, in 1999, Connecticut's output was concentrated in three areas: finance, services and manufacturing, which contributed two-thirds of the State's total output.

TABLE B-7

Gross State Product by Industry in Connecticut (In Millions of Dollars)

Sector	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Manufacturing	19,949	19,901	19,452	18,420	18,983	20,017	21,233	22,998	24,270	25,048
Construction[(a)]	4,131	3,544	3,493	3,594	3,670	3,904	3,929	4,285	4,675	5,067
Agriculture[(b)]	701	660	734	819	802	771	845	874	965	1,038
Utilities[(c)]	6,722	6,803	7,212	7,622	8,026	8,407	8,192	8,315	8,676	9,020
Wholesale Trade	6,574	6,762	7,013	7,008	7,377	7,747	8,136	9,126	9,529	9,750
Retail Trade	8,528	8,361	8,340	8,553	8,835	9,026	9,347	10,100	10,908	12,213
Finance[(d)]	23,814	25,258	26,607	29,173	29,797	32,221	34,073	37,892	40,765	43,623
Services[(e)]	19,148	19,470	20,995	22,488	24,205	25,577	27,063	29,652	31,253	33,389
Government	9,370	9,636	9,948	10,247	10,700	10,975	11,339	11,726	12,150	12,631
Total GSP	98,939	100,395	103,794	107,924	112,395	118,645	124,157	134,968	143,191	151,779

Note—Columns may not add due to rounding.

(a) Includes mining.
(b) Includes forestry and fisheries.
(c) Includes transportation, communications, electric, gas and sanitary services.
(d) Includes finance, insurance and real estate.
(e) Covers a variety of activities, including professional, business and personal services.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

Employment

The following table compares non-agricultural establishment employment for Connecticut, New England and the United States between 1991 and 2000.

TABLE B-8

Non-agricultural Employment[a]
(In Thousands)

	Connecticut		New England		United States	
Calendar Year	Employment	Percent Growth	Employment	Percent Growth	Employment	Percent Growth
1991	1,555.1	(4.22)	6,042.1	(4.99)	108,255	(1.05)
1992	1,526.1	(1.86)	5,995.6	(0.77)	108,590	0.31
1993	1,531.1	0.33	6,079.9	1.41	110,693	1.94
1994	1,543.8	0.83	6,200.7	1.99	114,138	3.11
1995	1,561.8	1.17	6,328.2	2.06	117,190	2.67
1996	1,583.7	1.40	6,432.4	1.65	119,590	2.05
1997	1,612.7	1.83	6,575.5	2.22	122,675	2.58
1998	1,642.9	1.87	6,721.0	2.21	125,845	2.58
1999	1,668.5	1.56	6,853.1	1.97	128,903	2.43
2000	1,693.2	1.48	7,012.4	2.32	131,755	2.21

(a) Non-agricultural employment excludes agricultural workers, proprietors, self-employed individuals, domestic workers, family workers and members of the armed forces.

SOURCE: United States Department of Labor, Bureau of Labor Statistics

Composition of Employment. The following table shows the distribution of non-agricultural employment in Connecticut and the United States in 2000.

TABLE B-9

Connecticut Non-agricultural Employment, 2000
(In Thousands)

	Connecticut		United States	
	Total	%	Total	%
Services[a]	537.1	31.72	40,460	30.71
Trade[b]	365.3	21.57	30,330	23.02
Manufacturing	262.3	15.49	18,470	14.02
Government	242.0	14.29	20,675	15.69
Finance[c]	141.2	8.34	7,563	5.74
Utilities[d]	79.2	4.68	7,017	5.33
Construction[e]	66.1	3.91	7,240	5.49
	1,693.2	100.00	131,755	100.00

(a) Covers a considerable variety of activities, including professional, business and personal services.
(b) Includes wholesale and retail trade.
(c) Includes finance, insurance, and real estate.
(d) Includes transportation, communications, electric, gas and sanitary services.
(e) Includes mining.

SOURCE: United States Department of Labor, Bureau of Labor Statistics.

Recent trends in the State's non-agricultural employment are reflected in the following table:

TABLE B-10

Connecticut Non-agricultural Employment
(Annual Averages In Thousands)

Year	Manufacturing	Trade[(a)]	Services[(b)]	Government	Finance[(c)]	Utilities[(d)]	Construction[(e)]	Total Non-agricultural Employment[(f)]
1991	322.42	339.57	415.83	207.60	147.50	69.98	52.24	1,555.15
1992	305.71	331.33	423.08	207.32	142.34	67.98	48.32	1,526.06
1993	294.15	330.33	438.08	210.68	139.78	69.53	48.54	1,531.08
1994	285.29	335.24	449.84	217.23	135.72	70.46	49.99	1,543.76
1995	279.06	341.07	465.16	220.87	133.04	71.28	51.32	1,561.80
1996	274.79	347.05	480.52	222.85	131.73	73.58	53.15	1,583.67
1997	276.08	351.64	495.11	225.71	132.15	74.96	57.06	1,612.71
1998	276.87	355.73	510.70	227.64	136.49	75.81	59.62	1,642.86
1999	268.29	359.20	526.16	235.13	140.04	77.54	62.10	1,668.46
2000	262.30	365.32	537.12	241.98	141.21	79.24	66.06	1,693.23

(a) Includes wholesale and retail trade.
(b) Covers a considerable variety of activities, including professional, business and personal services.
(c) Includes finance, insurance and real estate.
(d) Includes transportation, communications, electric and gas.
(e) Includes mining.
(f) Totals may not equal sum of individual categories due to rounding.

SOURCE: United States Department of Labor, Bureau of Labor Statistics, Connecticut Labor Department

Manufacturing

Manufacturing has traditionally been of prime economic importance to Connecticut but has declined during the last decade. The following table provides a ten-year historical picture of manufacturing employment in Connecticut, the New England region and the United States.

TABLE B-11

Manufacturing Employment (In Thousands)

Calendar Year	Connecticut Number	Connecticut % Growth	New England Number	New England % Growth	United States Number	United States % Growth
1991	322.4	(5.46)	1,136.8	(6.50)	18,405	(3.53)
1992	305.7	(5.18)	1,094.4	(3.73)	18,108	(1.61)
1993	294.2	(3.76)	1,069.2	(2.30)	18,078	(0.17)
1994	285.3	(3.03)	1,055.3	(1.30)	18,323	1.36
1995	279.1	(2.17)	1,049.1	(0.59)	18,525	1.10
1996	274.8	(1.54)	1,040.4	(0.83)	18,498	(0.15)
1997	276.1	0.47	1,045.6	0.50	18,673	0.95
1998	276.9	0.29	1,046.4	0.08	18,803	0.70
1999	268.3	(3.11)	1,017.4	(2.77)	18,555	(1.32)
2000	262.3	(2.24)	1,010.6	(0.67)	18,470	(0.46)

SOURCE: United States Department of Labor, Bureau of Labor Statistics, Connecticut State Labor Department.

Connecticut has a diverse manufacturing sector, with the construction of transportation equipment (primarily aircraft engines, helicopters and submarines) being the dominant industry. The State is also a leading producer of military and civilian helicopters. Employment in the transportation equipment sector is followed by fabricated metals, nonelectrical machinery, and electrical machinery for the total number employed in 2000.

TABLE B-12

Manufacturing Employment
By Industry
(In Thousands)

Calendar Year	Transportation Equipment	Fabricated Metals	Nonelectrical Machinery	Electrical Machinery	Other[a]	Total Manufacturing Employment
1991	77.93	34.49	39.50	31.09	139.41	322.42
1992	70.53	33.35	37.15	29.11	135.57	305.71
1993	62.92	33.57	36.15	28.06	133.45	294.15
1994	56.87	33.96	35.33	27.68	131.45	285.29
1995	52.68	34.29	35.09	27.73	129.27	279.06
1996	50.61	34.00	34.93	28.26	126.99	274.79
1997	50.12	34.63	34.65	28.80	127.88	276.08
1998	50.29	35.27	34.69	26.87	127.95	276.87
1999	48.25	34.01	33.15	26.87	126.01	268.29
2000	45.27	33.65	32.79	27.04	123.55	262.30

(a) Includes other industries such as wood products, furniture, glass/stone, primary metals and instruments in the durable sector, as well as all industries such as chemicals, paper and plastics in the nondurable sector.

SOURCE: United States Department of Labor, Bureau of Labor Statistics.

During the past ten years, Connecticut's manufacturing employment was at its highest in 1990 at 322,420 workers. Since that year, employment in manufacturing was on a downward trend with only a slight increase in 1997 and 1998. A number of factors, such as heightened foreign competition, a sharp decrease in defense spending, and improved productivity played a significant role in affecting the overall level of manufacturing employment. Total manufacturing jobs in Connecticut rebounded in 1997 and further improved in 1998, but continued to decline to a recent low of 262,300 in 2000. The total number of manufacturing jobs dropped 60,120 and 18.6% for the ten year period since 1991.

Exports. In Connecticut, the export sector of manufacturing has assumed an increasingly important role in overall economic growth. From 1995 to 2000, the State's export of goods grew at an average annual rate of 5.9%. The following table shows the growth in exports of manufacturing products.

TABLE B-13

Exports Originating in Connecticut (In Millions)

	1995	1996	1997	1998	1999	2000	% of 2000 Total	Average % Growth 1995-2000
A. Manufacturing Products								
Chemicals	753.4	679.5	594.5	588.7	570.5	634.3	7.3	(3.0)
Primary Metals	278.4	226.6	390.5	244.5	259.7	313.9	3.6	8.7
Fabricated	301.9	355.7	333.9	291.9	318.5	359.7	4.2	4.2
Nonelectrical	825.0	783.7	994.7	954.1	972.1	1,144.0	13.2	7.5
Electrical	669.9	710.6	747.6	615.1	593.4	778.0	9.0	4.2
Transportation	1,712.5	1,907.0	2,261.2	3,002.1	2,761.9	3,298.2	38.1	14.8
Instrument	667.9	754.6	919.1	940.9	1,008.2	790.7	9.1	4.5
Waste & Scrap	119.0	136.9	152.8	127.4	93.9	94.7	1.1	(3.1)
Others	1,217.1	1,274.9	1,390.1	1,347.6	1,299.5	1,234.9	14.4	0.4
Total	6,545.1	6,829.5	7,784.4	8,112.3	7,877.7	8,648.4	100.0	5.9
% Growth	2.4	4.3	14.0	4.2	(2.9)	9.8		
B. Gross State Product[(a)]	118,645	124,157	134,968	143,191	151,779	163,405[(b)]		
Mfg Exports as a % of GSP	5.5	5.5	5.8	5.7	5.2	5.3		

(a) In millions.
(b) GSP for 2000 is estimated by the Office of Policy and Management and is assumed to grow at the same rate as income derived from wages and salaries, which is estimated by the United States Department of Commerce, Bureau of Economic Analysis.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis
Massachusetts Institute for Social and Economic Research, University of Massachusetts (MISER)

Defense Industry. One important component of the manufacturing sector in Connecticut is defense related business. Approximately one-quarter of the manufacturing establishments and approximately one-quarter of the manufacturing employees are involved in defense related businesses. Nonetheless, this sector's significance in the State's economy has declined considerably. Connecticut has witnessed a marked reduction in the amount of federal spending earmarked for defense related industries in the State. In fiscal 2000, Connecticut received $2,177.5 million of prime contract awards. This accounted for 1.8% of national total awards and ranked seventeenth in total defense dollars awarded and ninth in per capita dollars awarded among the 50 states. In fiscal year 2000, Connecticut had $639 in per capita defense awards, compared to the national average of $439. As measured by a three year moving average of defense contract awards as a percent of Gross State Product, awards to Connecticut based firms has fallen to 1.8% of Gross State Product in fiscal 2000, down from 5.1% of Gross State Product in fiscal year 1991. The reduction in 2000 was primarily due to lower awards for supplies and equipment for naval ships.

Connecticut is a leading producer of aircraft engines and parts, submarines, and helicopters. The largest employers in these industries are United Technologies Corporation, including its Pratt and Whitney Aircraft Division with headquarters in East Hartford, and Sikorsky Aircraft Corporation in Stratford, as well as General Dynamics Corporation's Electric Boat Division in Groton.

The following table provides a historical perspective of defense contract awards for the past ten fiscal years. Defense contracts are awarded in their entirety and multi-year awards are credited in the year they are awarded, thus giving rise to some of the fluctuation.

TABLE B-14

Defense Contract Awards

Federal Fiscal Year	Connecticut Total Contract Award (Thousands)	Connecticut Rank Among States Total Awards	% Change from Prior Year Connecticut	U.S.
1990-91	4,978,594	8th	17.4	2.4
1991-92	3,099,444	11th	(37.7)	(9.5)
1992-93	2,894,638	12th	(6.6)	1.7
1993-94	2,450,069	14th	(15.4)	(3.4)
1994-95	2,718,021	12th	10.9	(1.2)
1995-96	2,638,260	13th	(2.9)	0.4
1996-97	2,535,981	13th	(3.9)	(2.6)
1997-98	3,408,719	9th	34.4	2.7
1998-99	3,169,394	12th	(7.0)	5.0
1999-2000	2,177,462	17th	(31.3)	7.3

SOURCE: United States Department of Defense

Non-manufacturing. Over the past several decades the non-manufacturing sector of the State's economy has risen in economic importance, from just over 50% of total State employment in 1950 to 84.5% by 2000. This trend has decreased the State's dependence on manufacturing.

The table below provides a ten year profile of non-manufacturing employment in Connecticut, New England and the United States.

TABLE B-15

**Non-manufacturing Employment
(In Thousands)**

Calendar	Connecticut		New England		United States	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1991	1,232.7	(3.88)	4,890.2	(4.63)	89,843	(0.54)
1992	1,220.4	(1.00)	4,886.3	(0.08)	90,485	0.71
1993	1,236.9	1.35	4,995.6	2.24	92,620	2.36
1994	1,258.5	1.75	5,129.8	2.69	95,815	3.45
1995	1,282.8	1.93	5,263.6	2.61	98,658	2.97
1996	1,308.9	2.03	5,392.0	2.44	101,095	2.47
1997	1,336.6	2.12	5,529.8	2.56	104,008	2.88
1998	1,366.0	2.20	5,674.7	2.62	107,043	2.92
1999	1,400.2	2.50	5,835.7	2.84	110,343	3.08
2000	1,430.9	2.19	6,001.8	2.85	113,288	2.67

Source: United States Department of Labor, Bureau of Labor Statistics
Connecticut State Labor Department

Services, retail and wholesale trade, state and local government, as well as finance, insurance and real estate (FIRE) collectively comprise approximately 90% of the State's employment in the non-manufacturing sector. Connecticut non-manufacturing employment for 1991, 1998, 1999 and 2000 is shown in the table below. Total non-manufacturing employment has been broken down by industry. Percent changes over the fiscal year and over the decade are also provided.

TABLE B-16

Connecticut Non-manufacturing Employment By Industry (In Thousands)

Industry	Calendar 1991	Calendar 1998	Calendar 1999	Calendar 2000	Percent Change 1999-2000	Percent Change 1991-2000
Construction[(a)]	52.24	59.64	61.12	66.07	6.36	26.47
Transportation	40.94	43.64	44.53	46.38	4.15	13.29
Communications	18.17	18.94	18.75	18.98	1.23	4.46
Utilities	13.30	12.39	12.45	12.68	1.85	(4.66)
Wholesale Trade	65.27	86.54	86.18	87.74	1.81	34.43
Retail Trade	274.30	269.19	273.02	277.59	1.67	1.20
Finance and Real Estate	65.65	67.12	69.72	69.29	(0.62)	5.54
Insurance	81.85	69.37	70.32	71.92	2.28	(12.13)
Services[(b)]	415.83	510.70	526.16	537.12	2.08	29.17
Federal Government	26.18	22.60	22.34	22.44	0.45	(14.29)
State and Local Government	179.00	205.86	214.59	220.73	2.86	23.31
Total Non-manufacturing Employment[(c)]	1,232.73	1,365.99	1,400.18	1,430.94	2.20	16.08

(a) Includes mining.
(b) Covers a considerable variety of activities, including professional and business services.
(c) Totals may not agree with detail due to rounding.

Source: Connecticut State Labor Department

Retail Trade. Personal spending on goods and services generally accounts for two-thirds of the Gross Domestic Product. Approximately half of personal spending is generally done through retail stores. At the State level, retail trade therefore constitutes approximately one third of the State's economic activity, measured as Gross State Product. During the last decade, variations in retail trade closely matched variations in Gross State Product growth, making retail trade an important barometer of economic health.

TABLE B-17

Retail Trade In Connecticut
(In Millions)

		Fiscal Year 1996	Fiscal Year 1997	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	% Of Fiscal Year 2000 Total	Average % Growth Fiscal Year 1996-2000
SIC52	Hardware Stores	1,371	1,436	1,512	2,320	2,418	5.7	16.9
SIC53	General Merchandise	3,618	3,636	3,793	3,742	3,744	8.8	0.9
SIC54	Food Products	6,128	6,127	6,479	6,922	7,139	16.7	3.9
SIC55	Automotive Products	6,935	7,488	7,654	7,963	8,712	20.4	5.9
SIC56	Apparel & Accessory	1,586	1,696	1,896	2,047	2,195	5.1	8.5
SIC57	Furniture & Appliances	3,156	3,724	4,333	4,011	4,299	10.1	8.5
SIC58	Eating & Drinking	2,546	2,685	2,799	2,966	3,148	7.4	5.5
SIC59	Misc. Shopping Stores	7,857	8,579	9,425	9,865	10,975	25.7	8.7
	Total[(a)]	$33,197	$35,371	$37,891	$39,836	$42,630	100.0	6.5
% Change from Previous Year		4.8	6.5	7.1	5.1	7.0		
Durables (SIC 52,55,57)		$11,462	$12,648	$13,499	$14,294	$15,429	36.2%	7.7%
% Change from Previous Year		4.8	10.3	6.7	5.9	7.9		
Non Durables (all other SICs)		$21,735	$22,723	$24,392	$25,542	$27,201	63.8%	5.8%
% Change from Previous Year		4.7	4.5	7.3	4.7	6.5		

(a) Totals may not agree with detail due to rounding.

SOURCE: Connecticut Department of Revenue Services

Unemployment Rates. After enjoying an extraordinary boom during the mid-1980s, Connecticut, as well as the rest of the Northeast, experienced an economic slowdown during the recession of the early 1990s. The unemployment rate in the State rose to a high of 7.6% in 1991, which was above the national average of 6.9%. Since then it has generally been declining and has remained mostly below the national average. It fell to 2.3% in 2000 and is averaging 2.2% for the first six months of 2001, well below the national average of 4.0% and 4.4%, respectively, for the same periods.

The unemployment rate is the proportion of persons in the civilian labor force who do not have jobs but are actively looking for work. Unemployment rates tend to be high during economic slowdowns and low when the economy is expanding. The rate is widely utilized as a proxy for consumer confidence. In general, when the unemployment rate is high consumer spending is lower and vice versa.

The following table compares unemployment rate averages of Connecticut, New England and the United States between 1991 and the first half of 2001. Connecticut's unemployment rate of 2.2% for the first half of 2001 is below the national average of 4.4%.

TABLE B-18

Unemployment Rate

Year	Unemployment Rate		
	Connecticut	New England	United States
1991	6.8	8.0	6.9
1992	7.6	8.0	7.5
1993	6.3	6.8	6.9
1994[a]	5.6	5.9	6.1
1995	5.5	5.4	5.6
1996	5.7	4.8	5.4
1997	5.1	4.4	5.0
1998	3.4	3.5	4.5
1999	3.2	3.3	4.2
2000	2.3	2.8	4.0
2001[b]	2.2	2.9	4.4

(a) Beginning with estimates for January 1994, State and area labor force statistics reflect a number of important changes. These include implementation of a major redesign of the Current Population Survey (CPS); introduction of updated population controls to the CPS; improved regression models for smaller states such as Connecticut; and incorporation of selected 1990 Census data in the geographic redefinition of labor market areas and in local area labor force estimation.

(b) Reflects average for the first six months.

SOURCE: United States Department of Labor, Bureau of Labor Statistics
Connecticut State Labor Department
Federal Reserve Bank of Boston

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APPENDIX III-C

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Statistical Section .... Not Included

NANCY WYMAN
COMPTROLLER

STATE OF CONNECTICUT

OFFICE OF THE STATE COMPTROLLER
55 ELM STREET
HARTFORD, CONNECTICUT 06106-1775

MARK E. OJAKIAN
DEPUTY COMPTROLLER

February 22, 2002

The Honorable Denise L. Nappier
State Treasurer
55 Elm Street
Hartford, CT 06106

Dear Ms. Nappier:

I have reviewed the accompanying general purpose financial statements of the State of Connecticut for the fiscal year ending June 30, 2001. The statements and the Independent Auditors' Report are extracted from the Comprehensive Annual Financial Report of the State of Connecticut which is prepared by my office and have been prepared in conformity with generally accepted accounting principles.

Sincerely,

Nancy Wyman

Nancy Wyman
State Comptroller

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

210 CAPITOL AVENUE

HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

Governor John G. Rowland
Members of the General Assembly

We have audited the accompanying general purpose financial statements of the State of Connecticut as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Special Transportation Fund account within the Transportation Fund, or the Drinking Water Fund-Federal Account within the Environmental Programs Fund, which represent 29 percent and 72 percent, respectively, of the assets and revenues of the Special Revenue Funds; we did not audit the financial statements of the Transportation Special Tax Obligations Fund, which represent 100 percent of the assets and revenues of the Debt Service Funds; we did not audit the financial statements of the Bradley International Airport, the Connecticut Lottery Corporation, or the John Dempsey Hospital Fund, which represent 84 percent and 98 percent, respectively, of the assets and revenues of the Enterprise Funds; we did not audit the financial statements of the Clean Water Fund, which represent four percent and five percent, respectively, of the assets and revenues of the Trust and Agency Funds; we did not audit the financial statements of the Connecticut Housing Finance Authority, the Connecticut Resources Recovery Authority, the Connecticut Development Authority, the Connecticut Health and Educational Facilities Authority, the Connecticut Higher Education Supplemental Loan Authority, the Capital City Economic Development Authority and Connecticut Innovations Incorporated, which represent 100 percent of the assets and revenues of the Component Unit Funds; and, we did not audit the financial statements of the Connecticut State University or the University of Connecticut Foundation, which represent 37 percent and 44 percent, respectively, of the assets and revenues of the Higher Education and University Hospital Funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned funds and accounts, is based solely on the reports of other auditors. All of the aforementioned audits were conducted in accordance with auditing standards generally accepted in the United States of America. In addition, the audits of the Bradley International Airport, Connecticut Resources Recovery Authority, Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, Connecticut Housing Finance Authority, Connecticut Development Authority, Connecticut Lottery Corporation, Connecticut Innovations Incorporated, Clean Water Fund and Drinking Water Fund-Federal Account, were conducted in accordance with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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, except that the audits of certain component units of the State, as described above, were not conducted in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, and based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Connecticut as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds 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 December 31, 2001, on our consideration of the State of Connecticut's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 22 to the financial statements, the State of Connecticut is a defendant in certain legal proceedings. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the State of Connecticut taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general purpose financial statements taken as a whole.

The data in the statistical section listed in the table of contents was not audited by us and, accordingly, we express no opinion thereon.

Kevin P. Johnston

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

December 31, 2001
State Capitol
Hartford, Connecticut

General Purpose Financial Statements

Combined Balance Sheet
All Fund Types, Account Groups, and Discretely Presented Component Units
June 30, 2001
(Expressed in Thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Assets and Other Debits:						
Cash and Cash Equivalents	$ 735,755	$ 553,122	$ -	$ 150,875	$ 68,522	$ 15,432
Investments:						
Equity in Combined Investment Funds	-	-	-	-	-	-
External Investment Pool	-	-	-	-	-	-
Other	50,460	24,123	-	-	568,934	-
Securities Lending Collateral	-	-	-	-	-	-
Receivables:						
Taxes	891,171	37,859	-	-	-	-
Accounts, Net of Allowances	234,018	8,336	-	2,270	45,321	8,569
Tuition	-	-	-	-	-	-
Loans, Net of Allowances	1,636	313,684	-	-	80,006	-
Interest	-	167	5,409	-	20,007	-
Notes Receivable	-	-	-	-	-	-
Federal Grants Receivable	62,074	14,094	-	9,732	1,677	-
Non-Federal Grants Receivable	6,554	8,318	-	-	-	-
Deposits with U.S. Treasury	-	-	-	-	-	-
Due From Other Funds	22,911	25,475	-	13,678	1,061	3,775
Due From Component Units	-	-	-	-	-	-
Due From Primary Government	-	-	-	-	-	-
Advances To Other Funds	4,950	-	-	-	-	-
Receivable From Other Governments	496,585	18,654	-	50,675	-	-
Inventories and Prepaid Items	36,232	13,142	-	-	5,935	5,323
Restricted Assets	-	-	562,131	-	305,320	-
Property, Plant & Equipment	-	-	-	-	249,957	50,208
Other Assets	-	-	-	-	15,924	569
Other Debits:						
Amount Available for Debt Retirement	-	-	-	-	-	-
Amount to be Provided for Debt Retirement	-	-	-	-	-	-
Total Assets and Other Debits	$ 2,542,346	$ 1,016,974	$ 567,540	$ 227,230	$ 1,362,664	$ 83,876
Liabilities, Equity and Other Credits:						
Liabilities:						
Accounts Payable and Accrued Liabilities	$ 1,050,733	$ 55,012	$ -	$ 109,263	$ 150,585	$ 31,623
Due To Other Funds	69,435	5,592	5,409	47,985	14,789	390
Due To Primary Government	-	-	-	-	-	-
Due To Component Units	151	19,209	-	-	-	-
Advances From Other Funds	-	-	-	-	-	4,950
Payable To Other Governments	78,708	-	-	-	-	-
Deferred Revenue	480,893	29,593	7,315	1,547	384	353
Escrow Deposits	-	-	-	-	-	-
Notes and Loans Payable	-	-	-	-	-	-
Securities Lending Obligation	-	-	-	-	-	-
Agency Deposit Liabilities	-	-	-	-	-	-
General Obligation Bonds	-	-	-	-	-	-
Transportation Related Bonds	-	-	-	-	-	-
Expendable Trust Fund Obligations	-	-	-	-	-	-
Revenue Bonds	-	-	-	-	422,026	-
Capital Leases	-	-	-	-	-	-
Claims and Judgements	-	-	-	-	-	-
Compensated Absences	-	-	-	-	6,756	5,428
Net Pension Obligation	-	-	-	-	-	-
Workers Compensation Liability	-	-	-	-	-	-
Liability for Landfill Closure Costs	-	-	-	-	-	-
Amount Held for Institutions	-	-	-	-	-	-
Liability for Escheat Property	48,717	-	-	-	-	-
Malpractice Liability	-	-	-	-	9,551	-
Long-Term Annuities Payable	-	-	-	-	451,339	-
Total Liabilities	1,728,637	109,406	12,724	158,795	1,055,430	42,744
Equity and Other Credits:						
Investment in Fixed Assets	-	-	-	-	-	-
Contributed Capital	-	-	-	-	108,322	1,380
Retained Earnings:						
Reserved	-	-	-	-	30,553	-
Unreserved	-	-	-	-	168,359	39,752
Fund Balances:						
Reserved	1,595,555	382,069	554,816	-	-	-
Unreserved, undesignated	(781,846)	525,499	-	68,435	-	-
Total Equity and Other Credits	813,709	907,568	554,816	68,435	307,234	41,132
Total Liabilities, Equity and Other Credits	$ 2,542,346	$ 1,016,974	$ 567,540	$ 227,230	$ 1,362,664	$ 83,876

The accompanying notes are an integral part of the financial statements.

Fiduciary Fund Types	Account Groups					
Trust and Agency	General Fixed Assets	General Long-Term Debt	Higher Education Funds	Total Primary Government (Memorandum only)	Component Units	Total Reporting Entity (Memorandum only)
$ 240,106	$ -	$ -	$ 431,383	$ 2,195,195	$ 284,450	$ 2,479,645
20,592,619	-	-	591	20,593,210	-	20,593,210
1,416,686	-	-	-	1,416,686	-	1,416,686
110,427	-	-	210,322	964,266	551,101	1,515,367
1,483,679	-		-	1,483,679	-	1,483,679
-	-	-	-	929,030	-	929,030
112,162	-	-	105,525	516,201	14,574	530,775
-	-	-	910	910	-	910
591,469	-	-	30,719	1,017,514	3,208,496	4,226,010
12,660	-	-	-	38,243	36,058	74,301
-	-	-	-	-	222	222
209	-	-	-	87,786	-	87,786
-	-	-	-	14,872	-	14,872
733,670	-	-	-	733,670	-	733,670
46,430	-	-	97,223	210,553	-	210,553
-	-	-	36,215	36,215	-	36,215
-	-	-	-	-	19,360	19,360
-	-	-	-	4,950	-	4,950
3,474	-	-	-	569,388	-	569,388
5,170	-	-	19,099	84,901	95	84,996
505,852	-	-	-	1,373,303	767,333	2,140,636
-	4,060,881	-	2,245,024	6,606,070	260,941	6,867,011
576,417	-	-	8,058	600,968	46,637	647,605
-	-	575,512	-	575,512	-	575,512
-	-	14,227,201	-	14,227,201	-	14,227,201
$ 26,431,030	$ 4,060,881	$ 14,802,713	$ 3,185,069	$ 54,280,323	$ 5,189,267	$ 59,469,590
$ 29,442	$ -	$ -	$ 152,708	$ 1,579,366	$ 77,526	$ 1,656,892
57,636	-	-	9,317	210,553	-	210,553
-	-	-	-	-	36,215	36,215
-	-	-	-	19,360	-	19,360
-	-	-	-	4,950	-	4,950
-	-	-	-	78,708	-	78,708
19,578	-	-	34,024	573,687	5,770	579,457
-	-	-	-	-	127,551	127,551
-	-	-	9,352	9,352	-	9,352
1,483,679	-	-	-	1,483,679	-	1,483,679
722,957	-	-	6,587	729,544	-	729,544
-	-	7,730,235	-	7,730,235	-	7,730,235
-	-	3,100,121	-	3,100,121	-	3,100,121
-	-	248,550	-	248,550	-	248,550
632,373	-	-	294,819	1,349,218	3,591,201	4,940,419
-	-	64,246	-	64,246	-	64,246
-	-	13,110	-	13,110	-	13,110
-	-	308,587	82,970	403,741	-	403,741
-	-	3,011,447	-	3,011,447	-	3,011,447
-	-	326,417	-	326,417	-	326,417
-	-	-	-	-	24,160	24,160
-	-	-	-	-	223,321	223,321
-	-	-	-	48,717	-	48,717
-	-	-	-	9,551	-	9,551
-	-	-	-	451,339	-	451,339
2,945,665	-	14,802,713	589,777	21,445,891	4,085,744	25,531,635
-	4,060,881	-	2,003,194	6,064,075	-	6,064,075
-	-	-	-	109,702	276,306	386,008
-	-	-	-	30,553	593,624	624,177
-	-	-	-	208,111	233,593	441,704
22,396,655	-	-	380,192	25,309,287	-	25,309,287
1,088,710	-	-	211,906	1,112,704	-	1,112,704
23,485,365	4,060,881	-	2,595,292	32,834,432	1,103,523	33,937,955
$ 26,431,030	$ 4,060,881	$ 14,802,713	$ 3,185,069	$ 54,280,323	$ 5,189,267	$ 59,469,590

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds

For The Fiscal Year Ended June 30, 2001

(Expressed in Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Revenues:				
Taxes	$ 8,666,602	$ 529,454	$ -	$ -
Licenses, Permits and Fees	168,868	341,236	-	-
Tobacco Settlement	-	112,535	-	-
Intergovernmental	3,107,955	171,071	-	392,135
Charges for Services	41,608	35,965	-	-
Fines, Forfeits and Rents	44,393	24,538	-	-
Casino Gaming Payments	332,418	-	-	-
Health Insurance Contributions	-	-	-	-
Investment Earnings and Interest on U.S. Deposits	65,329	24,752	30,055	-
Assessments	-	-	-	-
Miscellaneous	246,895	82,902	-	806
Total Revenues	12,674,068	1,322,453	30,055	392,941
Expenditures:				
Current:				
Legislative	71,146	-	-	-
General Government	924,169	253,222	-	-
Regulation and Protection	298,866	255,005	-	-
Conservation and Development	175,155	250,389	-	-
Health and Hospitals	1,479,136	10,421	-	-
Transportation	106,956	494,386	-	-
Human Services	3,835,560	14,548	-	-
Education, Libraries and Museums	2,726,579	136,864	-	-
Health Insurance Payments	-	-	-	-
Corrections	1,242,149	13,362	-	-
Judicial	456,301	11,646	-	-
Capital Projects	-	-	-	720,372
Debt Service:				
Principal Retirement	579,115	24,778	185,630	-
Refunding Escrow Payment	-	-	-	-
Interest and Fiscal Charges	377,926	7,355	164,422	-
Total Expenditures	12,273,058	1,471,976	350,052	720,372
Excess (Deficiency) of Revenues Over Expenditures	401,010	(149,523)	(319,997)	(327,431)
Other Financing Sources (Uses):				
Proceeds from Sale of Bonds and Notes	-	501,210	-	709,151
Non Cash Bond Issues	-	10,399	-	-
Operating Transfers In	391,766	182,737	379,749	-
Operating Transfers Out (includes $7,246 to Component Unit)	(780,125)	(551,346)	(30,321)	(148,883)
Capital Lease Obligations	20,574	14	-	-
Proceeds of Refunding Bonds	-	-	543,890	-
Payment to Refunded Bond Escrow Agent	-	-	(543,289)	-
Total Other Financing Sources (Uses)	(367,785)	143,014	350,029	560,268
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	33,225	(6,509)	30,032	232,837
Fund Balances (deficit) - July 1 (as restated)	781,008	933,555	524,784	(169,986)
Equity Transfer In	6,500	-	-	5,584
Equity Transfer Out	(5,584)	(6,500)		
Equity Transfer to Component Unit	-	(12,337)	-	-
Changes in Reserves for Inventories	(1,440)	(641)	-	-
Fund Balances (deficit) - June 30	$ 813,709	$ 907,568	$ 554,816	$ 68,435

The accompanying notes are an integral part of the financial statements.

Fiduciary Fund Type	
Expendable Trust	Total (Memorandum only)
$ 310,340	$ 9,506,396
-	510,104
-	112,535
11,058	3,682,219
-	77,573
-	68,931
-	332,418
41,942	41,942
72,748	192,884
244,642	244,642
6,003	336,606
686,733	15,106,250
-	71,146
9,860	1,187,251
459,933	1,013,804
-	425,544
-	1,489,557
-	601,342
-	3,850,108
-	2,863,443
39,252	39,252
-	1,255,511
-	467,947
-	720,372
321,695	1,111,218
187,742	187,742
26,809	576,512
1,045,291	15,860,749
(358,558)	(754,499)
144,100	1,354,461
-	10,399
70,930	1,025,182
(56,210)	(1,566,885)
-	20,588
-	543,890
-	(543,289)
158,820	844,346
(199,738)	89,847
1,206,949	3,276,310
-	12,084
	(12,084)
-	(12,337)
-	(2,081)
$ 1,007,211	**$ 3,351,739**

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Non-GAAP Budgetary Basis
General Fund and Budgeted Special Revenue Funds

For the Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	General Fund		
	Budget	Actual	Variance
Revenues:			
Budgeted			
Taxes, Net of Refunds	$ 8,715,300	$ 8,707,093	$ (8,207)
Operating Transfers In	397,000	396,981	(19)
Casino Gaming Payments	332,500	332,418	(82)
Licenses, Permits, and Fees	124,400	124,331	(69)
Other	275,900	273,002	(2,898)
Federal Grants	2,236,900	2,237,045	145
Operating Transfers Out	(85,400)	(85,400)	-
Total Budgeted	**11,996,600**	**11,985,470**	**(11,130)**
Federal and Other Restricted	1,600,773	900,510	(700,263)
Total Revenues	**13,597,373**	**12,885,980**	**(711,393)**
Expenditures:			
Budgeted			
Legislative	66,101	55,406	10,695
General Government	703,284	511,430	191,854
Regulation and Protection	235,885	203,478	32,407
Conservation and Development	141,850	83,654	58,196
Health and Hospitals	1,150,297	1,092,361	57,936
Transportation	83,783	34,857	48,926
Human Services	3,602,324	3,537,462	64,862
Education, Libraries, and Museums	3,207,329	3,007,391	199,938
Corrections	1,022,176	999,052	23,124
Judicial	340,904	338,568	2,336
Non Functional	2,137,452	2,019,041	118,411
Total Budgeted	**12,691,385**	**11,882,700**	**808,685**
Federal and Other Restricted	1,600,773	900,510	700,263
Total Expenditures	**14,292,158**	**12,783,210**	**1,508,948**
Appropriations Lapsed	96,255	-	(96,255)
Excess (Deficiency) of Revenues Over Expenditures	**(598,530)**	**102,770**	**701,300**
Other Financing Sources (Uses):			
Resources for Debt Avoidance	-	265,474	265,474
Prior Year Appropriations Carried Forward	378,431	378,431	-
Appropriations Continued to Fiscal Year 2001-2002	-	(712,430)	(712,430)
Miscellaneous Adjustments	-	(3,585)	(3,585)
Total Other Financing Sources (Uses)	**378,431**	**(72,110)**	**(450,541)**
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	**$ (220,099)**	30,660	**$ 250,759**
Budgetary Fund Balances (deficit) - July 1		1,267,562	
Changes in Reserves		145,992	
Budgetary Fund Balances - June 30		**$ 1,444,214**	

The accompanying notes are an integral part of the financial statements.

Budgeted Special Revenue Funds			(Total Memorandum Only)		
Budget	Actual	Variance	Budget	Actual	Variance
$ 513,500	$ 516,073	$ 2,573	$ 9,228,800	$ 9,223,166	$ (5,634)
82,400	85,400	3,000	479,400	482,381	2,981
-	-	-	332,500	332,418	(82)
326,100	328,052	1,952	450,500	452,383	1,883
105,800	107,075	1,275	381,700	380,077	(1,623)
3,300	3,305	5	2,240,200	2,240,350	150
(3,000)	(3,000)	-	(88,400)	(88,400)	-
1,028,100	**1,036,905**	**8,805**	**13,024,700**	**13,022,375**	**(2,325)**
291,909	92,340	(199,569)	1,892,682	992,850	(899,832)
1,320,009	**1,129,245**	**(190,764)**	**14,917,382**	**14,015,225**	**(902,157)**
-	-	-	66,101	55,406	10,695
2,394	2,280	114	705,678	513,710	191,968
143,232	125,389	17,843	379,117	328,867	50,250
645	618	27	142,495	84,272	58,223
-	-	-	1,150,297	1,092,361	57,936
370,165	327,044	43,121	453,948	361,901	92,047
3,135	2,938	197	3,605,459	3,540,400	65,059
-	-	-	3,207,329	3,007,391	199,938
-	-	-	1,022,176	999,052	23,124
-	-	-	340,904	338,568	2,336
604,106	591,644	12,462	2,741,558	2,610,685	130,873
1,123,677	**1,049,913**	**73,764**	**13,815,062**	**12,932,613**	**882,449**
291,909	92,340	199,569	1,892,682	992,850	899,832
1,415,586	**1,142,253**	**273,333**	**15,707,744**	**13,925,463**	**1,782,281**
12,703	-	(12,703)	108,958	-	(108,958)
(82,874)	**(13,008)**	**69,866**	**(681,404)**	**89,762**	**771,166**
-	-	-	-	265,474	265,474
72,700	72,700	-	451,131	451,131	-
-	(55,243)	(55,243)	-	(767,673)	(767,673)
-	(350)	(350)	-	(3,935)	(3,935)
72,700	**17,107**	**(55,593)**	**451,131**	**(55,003)**	**(506,134)**
$ (10,174)	4,099	**$ 14,273**	**$ (230,273)**	34,759	**$ 265,032**
	444,536			1,712,098	
	(4,833)			141,159	
	$ 443,802			**$ 1,888,016**	

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/Fund Balances All Proprietary Fund Types, Nonexpendable Trust Funds, and Discretely Presented Component Units

For The Fiscal Year Ended June 30, 2001

(Expressed in Thousands)

	Proprietary Fund Types		Fiduciary Fund Type
	Enterprise	Internal Service	Nonexpendable Trust
Operating Revenues:			
Charges for Services	$ 59,065	$ 130,062	$ -
Interest on Loans	642	-	11,638
Investment Earnings	-	264	29,274
Patient Service Revenue	94,359	-	-
Intergovernmental	-	-	35,993
Civic Center Lease Operations	-	-	-
Lottery Sales	839,712	-	-
Miscellaneous	5,640	70	-
Total Operating Revenues	999,418	130,396	76,905
Operating Expenses:			
Cost of Sales and Services	589,318	63,243	-
Administrative	59,628	47,883	2,509
Depreciation and Amortization	16,028	21,566	-
Interest on Debt	4,588	-	28,294
Patient Care	74,705	-	-
Other Program Expenses	5,023	-	1,513
Civic Center Lease Oper. (includes depreciation expense of $1,898)	-	-	-
Solid Waste Operations	-	-	-
Total Operating Expenses	749,290	132,692	32,316
Operating Income (Loss)	250,128	(2,296)	44,589
Nonoperating Revenues (Expenses):			
Interest and Investment Income	54,696	-	-
Interest and Fiscal Charges	(50,180)	-	-
Other	5,123	-	-
Total Nonoperating Income (Expense)	9,639	-	-
Income (Loss) Before Operating Transfers	259,767	(2,296)	44,589
Operating Transfers:			
Operating Transfers In	14,074	-	24,425
Operating Transfers Out	(252,003)	-	(10,933)
Operating Transfers In From Primary Government	-	-	-
Net Income (Loss)	21,838	(2,296)	58,081
Add Items Affecting Contributed Capital:			
Depreciation on Equipment Acquired through Capital Grants	-	-	-
Total Add Back Items	-	-	-
Retained Earnings/Fund Balances-July 1(as restated)	177,074	42,048	504,171
Retained Earnings/Fund Balances - June 30	**$ 198,912**	**$ 39,752**	**$ 562,252**

The accompanying notes are an integral part of the financial statements.

Total Primary Government (Memorandum only)	Proprietary Fund Type Component Units	Total Reporting Entity (Memorandum only)
$ 189,127	$ 164,977	$ 354,104
12,280	219,792	232,072
29,538	-	29,538
94,359	-	94,359
35,993	-	35,993
-	14,649	14,649
839,712	-	839,712
5,710	20,399	26,109
1,206,719	419,817	1,626,536
652,561	-	652,561
110,020	43,810	153,830
37,594	20,901	58,495
32,882	197,115	229,997
74,705	-	74,705
6,536	22,393	28,929
-	17,945	17,945
-	124,624	124,624
914,298	426,788	1,341,086
292,421	(6,971)	285,450
54,696	90,651	145,347
(50,180)	(15,776)	(65,956)
5,123	68,627	73,750
9,639	143,502	153,141
302,060	136,531	438,591
38,499	-	38,499
(262,936)	-	(262,936)
-	7,246	7,246
77,623	143,777	221,400
-	122	122
-	122	122
723,293	683,318	1,406,611
$ 800,916	**$ 827,217**	**$ 1,628,133**

Combined Statement of Cash Flows
All Proprietary Fund Types, Nonexpendable Trust Funds, and Discretely Presented Component Units

For The Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Total Primary Government
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum only)
Cash Flows From Operating Activities:				
Operating Income (Loss)	$ 250,128	$ (2,296)	$ 44,589	$ 292,421
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:				
Amortization and Depreciation	16,028	21,566	-	37,594
Provision for Loan Losses	2,261	-	-	2,261
Investment Income	-	(264)	(29,274)	(29,538)
Interest Expense	4,588	-	28,294	32,882
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	6,150	(2,776)	(15,230)	(11,856)
(Increase) Decrease in Due From Other Funds	(82)	(233)	-	(315)
(Increase) Decrease in Receivable From Other Governments	(636)	-	-	(636)
(Increase) Decrease in Inventories and Prepaid Expenses	(656)	(1,053)	-	(1,709)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	14,318	6,082	(1,401)	18,999
Increase (Decrease) in Due To Other Funds	11,264	122	-	11,386
Issuance of Loans, Notes & Installment Contracts Receivable	-	-	(27,471)	(27,471)
Collection of Loans, Notes & Installment Contracts Receivable	2,209	-	-	2,209
Miscellaneous Operating Activities	459	(1,847)	-	(1,388)
Net Cash Provided by (Used in) Operating Activities	306,031	19,301	(493)	324,839
Cash Flows From Noncapital Financing Activities:				
Contributed Capital	-	-	-	-
Proceeds From Sale of Bonds and Notes	-	-	101,667	101,667
Retirement of Bonds and Notes Payable	(46,800)	-	(24,915)	(71,715)
Interest on Bonds and Notes Payable	(43,314)	-	(27,668)	(70,982)
Transfers From Other Funds	14,074	-	24,425	38,499
Transfers To Other Funds	(252,003)	-	(10,933)	(262,936)
Bond Issuance and/or Redemption Costs	-	-	-	-
Miscellaneous Noncapital Financing Activities-Deletions	-	-	-	-
Net Cash Provided by (Used in) Noncapital Financing Activities	(328,043)	-	62,576	(265,467)
Cash Flows From Capital And Related Financing Activities:				
Purchase of Fixed Assets	(56,600)	(24,562)	-	(81,162)
Proceeds From Sale of Bonds and Notes	213,180	-	-	213,180
Retirement of Bonds and Notes Payable	(6,785)	-	-	(6,785)
Interest on Bonds and Notes Payable	(8,637)	-	-	(8,637)
Capital Contributions or Grants	4,098	-	-	4,098
Miscellaneous Capital and Related Financing Activities-Additions	-	-	-	-
Miscellaneous Capital and Related Financing Activities-Deletions	(21)	-	-	(21)
Net Cash Provided by (Used in) Capital and Related Financing Activities	145,235	(24,562)	-	120,673
Cash Flows From Investing Activities:				
Proceeds From Sales of Investment Securities	52,932	-	-	52,932
Purchase of Investment Securities	(234,381)	-	(93,755)	(328,136)
Interest and Income on Investments	46,315	264	29,072	75,651
Miscellaneous Capital and Related Investing Activities-net	-	-	-	-
Net Cash Provided by (Used in) Investing Activities	(135,134)	264	(64,683)	(199,553)
Increase (Decrease) in Cash	(11,911)	(4,997)	(2,600)	(19,508)
Cash and Cash Equivalents - July 1 (as restated)	168,803	20,429	8,769	198,001
Cash and Cash Equivalents - June 30	$ 156,892	$ 15,432	$ 6,169	$ 178,493
Reconciliation of Cash and Cash Equivalents to Balance Sheet:				
Cash and Cash Equivalents - June 30 (Balance Sheet)	$ 68,522		$ 240,106	
Plus-Cash and Cash Equivalents in Restricted Assets	88,370		-	
Less-Cash and Cash Equivalents in Other Fiduciary Fund Types	-		233,937	
Cash and Cash Equivalents - June 30	$ 156,892	-	$ 6,169	

The accompanying notes are an integral part of the financial statements.

Proprietary Fund Type Component Units	Total Reporting Entity (Memorandum only)
$ (6,971)	$ 285,450
22,799	60,393
8,158	10,419
-	(29,538)
197,948	230,830
14,285	2,429
(554)	(869)
-	(636)
(541)	(2,250)
2,133	21,132
-	11,386
(431,410)	(458,881)
306,687	308,896
68,961	67,573
181,495	506,334
26,307	26,307
526,581	628,248
(202,650)	(274,365)
(198,074)	(269,056)
-	38,499
-	(262,936)
(3,467)	(3,467)
(532,094)	(532,094)
(383,397)	(648,864)
(53,176)	(134,338)
23,084	236,264
(29,443)	(36,228)
(15,542)	(24,179)
-	4,098
58	58
(3,739)	(3,760)
(78,758)	41,915
575,592	628,524
(433,147)	(761,283)
88,760	164,411
6,931	6,931
238,136	38,583
(42,524)	(62,032)
453,648	651,649
$ 411,124	**$ 589,617**
$ 284,450	
126,674	
-	
$ 411,124	

Statement of Plan Net Assets
Pension Trust Funds (Defined Benefit Pension Plans)

June 30, 2001

(Expressed in Thousands)

	State Employees	State Teachers	Judicial
Assets:			
Cash and Cash Equivalents	$ -	$ -	$ -
Receivables:			
Accounts, Net of Allowances	2,339	10,656	11
Interest	344	922	21
Total Receivables	2,683	11,578	32
Investments:			
Equity in Combined Investment Fund	7,785,126	11,203,967	135,740
Total Investments	7,785,126	11,203,967	135,740
Securities Lending Collateral	567,567	802,472	9,497
Due From Other Funds	4,811	-	-
Receivable From Other Governments	-	1,203	-
Total Assets	**$ 8,360,187**	**$ 12,019,220**	**$ 145,269**
Liabilities and Equity:			
Liabilities:			
Accounts Payable and Accrued Liabilities	$ 17	$ -	$ -
Due To Other Funds	1,499	9,662	-
Securities Lending Obligation	567,567	802,472	9,497
Total Liabilities	569,083	812,134	9,497
Fund Balance:			
Reserved for Employees' Pension Benefits	7,791,104	11,207,086	135,772
Total Fund Balance	7,791,104	11,207,086	135,772
Total Liabilities and Fund Balances	**$ 8,360,187**	**$ 12,019,220**	**$ 145,269**

The accompanying notes are an integral part of the financial statements.

Connecticut Municipal Employees	Probate Judges	State's Attorneys'/ Public Defender	Total
$ 201	$ 9	$ 68	$ 278
2,265	6	6	15,283
155	10	-	1,452
2,420	16	6	16,735
1,297,728	66,679	733	20,489,973
1,297,728	66,679	733	20,489,973
90,235	5,201	31	1,475,003
-	-	-	4,811
-	-	-	1,203
$ 1,390,584	**$ 71,905**	**$ 838**	**$ 21,988,003**
$ -	$ -	$ -	$ 17
-	-	-	11,161
90,235	5,201	31	1,475,003
90,235	5,201	31	1,486,181
1,300,349	66,704	807	20,501,822
1,300,349	66,704	807	20,501,822
$ 1,390,584	**$ 71,905**	**$ 838**	**$ 21,988,003**

Statement of Changes in Net Assets
Pension Trust Funds and Investment Trust Fund

For the Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	Pension Trust		
	State Employees	State Teachers	Judicial
Additions:			
Contributions:			
Plan Participants	$ 46,089	$ 169,420	$ 1,148
State	375,623	214,666	9,837
Municipalities	-	3,215	-
Total Contributions	421,712	387,301	10,985
Investment Income	(242,954)	(346,516)	(3,167)
Less: Investment Expenses	(60,163)	(85,951)	(783)
Net Investment Income	(303,117)	(432,467)	(3,950)
Pool's Share Transactions	-	-	-
Operating Transfers In	-	-	-
Miscellaneous	376	-	-
Total Additions	118,971	(45,166)	7,035
Deductions:			
Administrative	340	-	7
Benefit Payments and Refunds	619,174	697,103	12,499
Distributions to Pool Participants	-	-	-
Other Program Expenses	-	-	-
Total Deductions	619,514	697,103	12,506
Net Increase (Decrease) in Net Assets	(500,543)	(742,269)	(5,471)
Net assets held in trust for pension benefits and pool participants:			
July 1, 2000	8,291,647	11,949,355	141,243
June 30, 2001	**$ 7,791,104**	**$ 11,207,086**	**$ 135,772**

The accompanying notes are an integral part of the financial statements.

Pension Trust				
Connecticut Municipal Employees	Probate Judges	State's Attorneys'/ Public Defender	External Investment Pool	Total
$ 9,996	$ 235	$ 37	$ -	$ 226,925
-	-	-	-	600,126
15,527	-	-	-	18,742
25,523	235	37	-	845,793
(38,682)	(1,790)	(13)	98,914	(534,208)
(9,570)	(444)	(4)	(459)	(157,374)
(48,252)	(2,234)	(17)	98,455	(691,582)
-	-	-	329,500	329,500
-	991	-	-	991
-	-	5	-	381
(22,729)	(1,008)	25	427,955	485,083
7	4	-	-	358
53,915	2,060	186	-	1,384,937
-	-	-	98,455	98,455
-	1,009	-	-	1,009
53,922	3,073	186	98,455	1,484,759
(76,651)	(4,081)	(161)	329,500	(999,676)
1,377,000	70,785	968	1,084,580	22,915,578
$ 1,300,349	**$ 66,704**	**$ 807**	**$ 1,414,080**	**$ 21,915,902**

Combined Statement of Changes in Fund Balances
Higher Education Funds

For The Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	Current Funds		Endowment and
	Unrestricted	Restricted	Similar Funds
Revenues and Other Additions:			
Current Funds Revenues and Additions	$ 702,083	$ 192,314	$ -
Private Gifts and Grants	-	-	154
Investment Earnings	-	-	(1,064)
Interest on Loans Receivable	-	-	-
Expended for Plant Facilities	-	-	-
Retirement of Indebtedness	-	-	-
Sale of Bonds	-	-	-
Foundation Revenues	-	-	-
Miscellaneous	-	-	3
Total Revenues and Other Additions	702,083	192,314	(907)
Expenditures and Other Deductions:			
Education and General	1,095,707	176,054	-
Auxiliary Enterprises	124,213	3	-
Patient Care	147,201	1,823	-
Indirect Costs Recovered	-	18,241	-
Loan Cancellations and Write-offs	-	-	-
Interest on Indebtedness	-	-	-
Capital Expenditures	-	-	-
Disposal of Plant Facilities	-	-	-
Depreciation	-	-	-
Administrative Costs	-	-	-
Retirement of Indebtedness	-	-	-
Foundation Expenditures	-	-	-
Other	4,109	300	115
Total Expenditures and Other Deductions	1,371,230	196,421	115
Transfers Among Funds - Additions (Deductions)			
Manadatory:			
Retirement of Indebtedness	(14,275)	-	-
Nonmandatory:			
Transfer From Foundation	10,687	2,662	-
Transfer To Foundation	(3,352)	-	-
Other	(7,628)	292	72
Total Transfers Among Funds	(14,568)	2,954	72
Operating Transfers from the State's Governmental Funds	677,797	-	-
Net Increase (Decrease) in Fund Balances	(5,918)	(1,153)	(950)
Fund Balances (deficit) - July 1 (as restated)	82,133	35,348	9,100
Fund Balances (deficit) - June 30	**$ 76,215**	**$ 34,195**	**$ 8,150**

The accompanying notes are an integral part of the financial statements.

Loan Funds	Plant Funds	Affiliated Organization	Total
$ -	$ -	$ -	$ 894,397
176	1,250	-	1,580
276	10,104	-	9,316
489	-	-	489
-	326,037	-	326,037
-	9,526	-	9,526
-	100,000	-	100,000
-	-	15,096	15,096
369	19,565	-	19,937
1,310	466,482	15,096	1,376,378
-	-	-	1,271,761
-	-	-	124,216
-	-	-	149,024
-	-	-	18,241
61	-	-	61
-	15,736	-	15,736
-	291,441	-	291,441
-	6,769	-	6,769
-	52,577	-	52,577
260	220	-	480
-	9,526	-	9,526
-	-	16,021	16,021
536	6,692	-	11,752
857	382,961	16,021	1,967,605
-	14,275	-	-
-	1,641	3,352	18,342
-	-	(14,990)	(18,342)
430	6,834	-	-
430	22,750	(11,638)	-
-	80,106	-	757,903
883	186,377	(12,563)	166,676
34,297	2,018,346	249,392	2,428,616
$ 35,180	**$ 2,204,723**	**$ 236,829**	**$ 2,595,292**

Combined Statement of Revenues, Expenditures, and Other Changes
Higher Education Funds

For The Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

	Current Funds		
	Unrestricted	Restricted	Total
Revenues and Transfers from Foundation:			
Student Tuition and Fees	$ 309,138	$ -	$ 309,138
Federal Grants and Contracts	25,423	118,615	144,038
State Grants and Contracts	21,091	26,816	47,907
Private Gifts and Grants	3,492	24,830	28,322
Patient Service	120,801	-	120,801
Sales and Services	189,137	-	189,137
Investment Earnings	15,829	1,136	16,965
Miscellaneous	17,172	1,119	18,291
Total Revenues	702,083	172,516	874,599
Transfer from Foundation	10,687	2,662	13,349
Total Revenues and Transfer from Foundation	712,770	175,178	887,948
Expenditures and Mandatory Transfers:			
Education and General:			
Instruction	$ 470,176	$ 9,308	$ 479,484
Research	16,086	92,303	108,389
Public Service	25,074	8,199	33,273
Academic Support	131,054	3,072	134,126
Student Services	97,122	2,547	99,669
Institutional Support	188,883	-	188,883
Scholarship and Fellowships	61,616	60,604	122,220
Plant Operations and Maintenance	105,696	21	105,717
Total Educational and General Expenditures	1,095,707	176,054	1,271,761
Patient Care	147,201	1,823	149,024
Auxiliary Enterprises	124,213	3	124,216
Other Self-Supporting Enterprises	4,109	-	4,109
Mandatory Transfers:			
Retirement of Indebtedness	14,275	-	14,275
Total Expenditures and Mandatory Transfers	1,385,505	177,880	1,563,385
Other Transfers - Additions (Deductions):			
Operating Transfers from the State's Governmental Funds	677,797	-	677,797
Transfer to Foundation	(3,352)	-	(3,352)
Other Non-mandatory Transfers	(7,628)	292	(7,336)
Excess of Restricted Receipts over Transfers to Revenues	-	1,557	1,557
Refunded to Grantors	-	(300)	(300)
Total Other Transfers and Additions (Deductions)	666,817	1,549	668,366
Net Increase (Decrease) in Fund Balances	$ (5,918)	$ (1,153)	$ (7,071)

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows
Affiliated Organization

For The Fiscal Year Ended June 30, 2001
(Expressed in Thousands)

Cash Flows From Operating Activities:	
Change in Fund Balance	$ (12,563)
Adjustments to Reconcile Change in Fund Balance to Net Cash Used in Operating Activities:	
Receipts to Establish or Increae Permanent Endowments	(20,306)
Net Realized and Unrealized Gains on Investments	31,935
Gifts of Marketable Securities	(6,405)
Funds Held in Trust by Others	(2,434)
Loss on Sale of Donated Property and Collections	(1,294)
Depreciation and Other	389
Changes in Assets and Liabilities:	(9)
(Increase) in Pledges and Contributions Receivable, Net	(3,107)
(Increase)/Decrease in Other Assets	1,362
Increase in Accounts Payable and Accrued Expenses	457
Increase in Trusts and Annuities Payable	(214)
Total Adjustments	374
Net Cash Used in Operating Activities	(12,189)
Cash Flows From Investing Activities:	
Purchases of Investments	(91,702)
Sales of Investments	82,733
Net proceeds from sale of Property and Equipment	1,154
Purchases of Property and Equipment	(328)
Net Cash Used in Investing Activities	(8,143)
Cash Flows From Financing Activities:	
Receipts to Establish or Increase Permanent Endowments	20,306
Payments on Long Term Debt	(100)
Net Cash Used in Financing Activities	20,206
Net Decrease in Cash and Cash Equivalents	(126)
Cash and Cash Equivalents - July 1	1,801
Cash and Cash Equivalents - June 1	**$ 1,675**

The accompanying notes are an integral part of the financial statements.

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Notes to the Financial Statements
June 30, 2001

Note 1 Summary of Significant Accounting Policies

a. Basis of Presentation
The accompanying financial statements of the State of Connecticut have been prepared in conformity with generally accepted accounting principles as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB), except for the financial statements of the University of Connecticut Foundation, Incorporated (an affiliated organization). Those statements are prepared according to generally accepted accounting principles as prescribed in pronouncements of the Financial Accounting Standards Board.

b. Financial Reporting Entity
As required by generally accepted accounting principles, the accompanying financial statements include (1) all funds, agencies, boards, commissions, and account groups that comprise the State's legal entity, (2) legally separate organizations for which the State is financially accountable (component units), and (3) a legally separate organization for which the nature and significance of its relationship with the State is such that its exclusion would cause the State's financial statements to be misleading (affiliated organization). Financial accountability exists if (1) the State appoints a voting majority of the organization's governing board, and (2) the State is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State.

Component Units
Component units are reported in the combined financial statements either in a separate column (discrete presentation) or in combination with similar funds of the State (blending presentation).

Discretely Presented Component Units
This column includes legally separate organizations for which the State appoints a voting majority of the organization's governing board and is contingently liable for the organization's debt or provides significant funding for the organization's programs (applies only to the Connecticut Innovations, Incorporated and the Capital City Economic Development Authority). The financial data of the following organizations is included in this column:

Connecticut Development Authority
The Authority is a public instrumentality and political subdivision of the State. It was created to stimulate industrial and commercial development within the State through its Self-Sustaining Bond, Umbrella, and Insurance programs as well as other economic development programs.

Connecticut Housing Finance Authority
The Authority is a public instrumentality and political subdivision of the State. It was created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development, and construction of housing for low and moderate income families and persons throughout the State. The Authority's fiscal year is for the period ending on December 31, 2000.

Connecticut Resources Recovery Authority
The Authority is a public instrumentality and political subdivision of the State. It is responsible for implementing the State Solid Waste Management Plan by determining the location of and constructing solid waste management projects; owning, operating, and maintaining waste management projects; or making provisions for operation and maintenance by contracting with private industry.

Connecticut Higher Education Supplemental Loan Authority
The Authority is a public instrumentality and political subdivision of the State. It was created to assist students, their parents, and institutions of higher education to finance the cost of higher education through its Bond funds.

Connecticut Health and Educational Facilities Authority
The Authority is a public instrumentality and political subdivision of the State. The purpose of the Authority is to assist certain health care institutions, institutions of higher education, and qualified for-profit and not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to programs for these institutions.

Connecticut Innovations, Incorporated
The Authority is a public instrumentality and political subdivision of the State. It was established to stimulate and promote technological innovation and application of technology within Connecticut and encourage the development of new products, innovations, and inventions or markets in Connecticut by providing financial and technical assistance.

Capital City Economic Development Authority
The Authority is a public instrumentality and political subdivision of the State. It was established in 1998 to stimulate new investment in Connecticut, to attract and service large conventions, tradeshows, exhibitions, conferences, and local consumer shows, exhibitions and events, to encourage the diversification of the state economy, to strengthen Hartford's role as the region's major business and industry employment center and seat of government, to encourage residential housing development in downtown Hartford, and to construct, operate, maintain and market a convention center project in Hartford.

Condensed financial information for the major component units is disclosed in Note 20. Complete financial statements of the individual component units can be obtained from their respective administrative offices.

Blended Component Unit
The Connecticut Lottery Corporation was created in July 1996 as a public instrumentality and political subdivision of the State. The purposes of the Corporation are to manage the State's lottery in an entrepreneurial and business-like manner and to provide continuing and increased revenue to

the people of the State through the lottery. The State appoints a voting majority of the Corporation's governing board, and the Corporation provides revenue to the State. In the combined financial statements, the Corporation is included in the Enterprise funds group (Primary Government).

Affiliated Organization

The University of Connecticut Foundation, Incorporated is a nongovernmental nonprofit corporation created exclusively to solicit, receive, and administer gifts and financial resources from private sources for the benefit of all campuses and programs of the University of Connecticut.

The Foundation is not financially accountable to the University. However, the Foundation is included as a component unit because the nature and significance of its relationship to the University are such that exclusion would cause the University's financial statements to be misleading. The Foundation is reported in a separate column in the higher education funds group (Primary Government).

c. Fund Accounting

The financial activities of the State are accounted for in individual funds and account groups.

A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. In the financial statements, individual funds are classified in four fund categories and component units. The four fund categories are governmental funds, proprietary funds, fiduciary funds, and higher education funds.

Account groups are accounting entities used to account for the State's general fixed assets and long-term debt. These account groups are not funds because they do not reflect available financial resources and related liabilities. In the financial statements, the account groups are the general fixed asset account group and the general long-term debt account group.

Because the State of Connecticut has a significant number of legal funds, a functional basis combining presentation was chosen to facilitate the preparation and readability of the Comprehensive Annual Financial Report (CAFR). More detailed information on the legal funds can be found in the Annual Report of the Comptroller – a "modified cash" basis document also produced by the Office of the Comptroller.

Following is a description of the fund categories, account groups, and component units used in the accompanying financial statements.

Governmental Funds

1. General Fund – The General Fund is the general operating fund of the State. It is used to account for all financial resources which are not required to be accounted for in other funds and which are spent for those services normally provided by the State (e.g. health, social assistance, education, correction, etc.).

2. Special Revenue Funds – These funds are used to account for the proceeds of specific revenue sources (other than expendable trusts, major capital projects, and higher education sources) that are legally restricted to expenditures for specified purposes. For example, motor fuel taxes levied to fund Department of Transportation costs.

3. Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of, principal and interest on general long-term bonds and notes.

4. Capital Projects Funds – These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and infrastructure projects (other than those financed by proprietary funds and higher education funds).

Proprietary Funds

1. Enterprise Funds – These funds are used to account for operations that (a) are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

2. Internal Service Funds – These funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the State, or to other governments, on a cost-reimbursement basis.

Fiduciary Funds

Trust and Agency Funds – These funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and other funds. These funds include expendable trust funds, nonexpendable trust funds, pension trust funds, an investment trust fund, and agency funds.

Account Groups

1. General Fixed Asset Account Group – This account group includes all the fixed assets (excluding infrastructure) that are not accounted for in the proprietary and higher education funds.

2. General Long-Term Debt Account Group – This account group includes all long-term obligations that are to be financed from governmental funds. These long-term obligations include the following:

- Unmatured principal on general obligation and transportation related bonds and notes.

- Other non-current liabilities for capital leases, compensated absences, unfunded pension costs, workers' compensation claims, and claims and judgements.

Higher Education Funds
The financial activities of the State's higher education institutions (University of Connecticut, State Universities, and Community-Technical Colleges) and an affiliated organization are accounted for in these funds, which are reported in a separate column in the combined financial statements (Primary Government). The following fund categories and affiliated organization are included:

1. Current Funds – These funds are used to account for resources that will be expended in the near future for operating purposes. Included in the current fund category are unrestricted funds that the governing boards retain full control of, in achieving the institutions' purposes and restricted funds that may be utilized only in accordance with external restrictions.

2. Endowment Funds – These funds account for gifts that are restricted as to principal by the donor.

3. Loan Funds – These funds are used to account for loans to students and for resources available for such purposes.

4. Plant Funds – These funds account for resources that have been or will be used for institutional property acquisition, renewal, and replacement, and resources accumulated for the retirement of debt associated with institutional properties.

5. Agency Funds – These funds are funds held by an institution as custodian or fiscal agent for others such as student organizations, individual students, or faculty members.

6. Affiliated Organization – This column accounts for the financial activities of the University of Connecticut Foundation, Inc., a component unit of the University of Connecticut.

Component Units
The component units include proprietary type organizations that are legally separate from the State but that are considered part of the reporting entity.

d. Basis of Accounting
The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting, which are described as follows:

Governmental Funds and Expendable Trust Funds
These funds are accounted for using a current financial resources measurement focus and a modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and liabilities are normally included on the balance sheet. Fund balance represents a measure of "available spendable resources." Under the modified accrual basis of accounting, revenues are recorded when they are susceptible to accrual (i.e. both measurable and available). The word "available" means that the revenue is collected within the current period or within 60 days of the end of the current period. Expenditures are recorded when the related fund liability is incurred except for principal and interest on general long-term debt which are recorded as expenditures when due.

Major revenue sources that are treated as susceptible to accrual include sales and use taxes, personal income taxes, public service corporation taxes, special fuel taxes, federal grants, and casino gaming payments.

Proprietary Funds, Nonexpendable Trust Funds, Pension Trust Funds, Investment Trust Fund, Component Units, and Affiliated Organization
These funds are accounted for using a flow of economic resources measurement focus and an accrual basis of accounting. Under the flow of economic resources measurement focus, all assets and liabilities are included on the balance sheet. Fund equity (proprietary funds and component units) is segregated into contributed capital and retained earnings components. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred.

According to GASB Statement No. 20, these funds (except for the affiliated organization) must comply with all applicable GASB pronouncements and all applicable pronouncements issued by the Financial Accounting Standards Board (FASB) and its predecessors as follows (provided those pronouncements do not conflict with or contradict GASB pronouncements):

Fund Type	FASB Statements Issued on or Prior to 11/30/89	FASB Statements Issued to Date
Proprietary Funds:		
John Dempsey Hospital		X
Others	X	
Nonexpendable Trust Funds	X	
Pension Trust Funds	X	
Investment Trust Funds	X	
Component Units:		
CT Development Authority		X
CT Housing Finance Authority	X	
CT Resources Recovery Autho	X	
CT Higher Education Supplemental Loan Authority	X	
CT Health & Educational Facilities Authority		X
CT Innovations, Inc.	X	
Capital City, EDA	X	

Agency Funds
These funds are accounted for using a modified accrual basis of accounting. Agency funds are custodial in nature (assets equal liabilities) and do not measure nor report results of operations.

Higher Education Funds

These funds (excluding the affiliated organization) are accounted for using a current financial resources measurement focus and an accrual basis of accounting with the following exceptions:

- All assets and liabilities are included on the balance sheet.
- Depreciation expense related to plant fund fixed assets is not recorded, except for fixed assets reported by the University of Connecticut.
- Revenues and expenditures of an academic term covering more than one fiscal year are reported in the fiscal year in which the program is predominately conducted.

e. Budgeting Process

By statute, the Governor must submit the State budget to the General Assembly in February of every other year. Prior to June 30, the General Assembly enacts the budget through the passage of appropriation acts for the next two fiscal years and sets forth revenue estimates for the same period for the following funds: the General Fund, the Transportation Fund, the Mashantucket Pequot Fund, the Workers' Compensation Administration Fund, the Banking Fund, the Consumer Counsel and Public Utility Control Fund, the Insurance Fund, the Criminal Injuries Fund, the Soldiers, Sailors, and Marines Fund and the Regional Market Operations Fund. Under the State Constitution, the Governor has the power to veto any part of the itemized appropriations bill and to accept the remainder of the bill. However, the General Assembly may separately reconsider and repass the disapproved items by a two-thirds majority vote of both the Senate and the House.

Budgetary control is maintained at the individual appropriation account level by agency as established in authorized appropriation bills and is reported in the Annual Report of the State Comptroller. A separate document is necessary because the level of legal control is more detailed than reflected in the CAFR. Before an agency can utilize funds appropriated for a particular purpose, such funds must be allotted for the specific purpose by the Governor and encumbered by the Comptroller upon request by the agency. Such funds can then be expended by the Treasurer only upon a warrant, draft or order of the Comptroller drawn at the request of the responsible agency. The allotment process maintains expenditure control over special revenue, enterprise, and internal service funds that are not budgeted as part of the annual appropriation act.

The Governor has the power under Connecticut statute to modify budgetary allotment requests for the administration, operation and maintenance of a budgeted agency. However, the modification cannot exceed 3 percent of the fund or 5 percent of the appropriation amount. Modifications beyond those limits, but not in excess of 5 percent of the total funds, require the approval of the Finance Advisory Committee. The Finance Advisory Committee is comprised of the Governor, the Lieutenant Governor, the Treasurer, the Comptroller, two senate members, not of the same political party, and three house members, not more than two of the same political party. Additional reductions of appropriations of more than 5 percent of the total appropriated fund can be made only with the approval of the General Assembly.

All funds, except fiduciary funds, use encumbrance accounting. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditures of the fund are recorded in order to reserve that portion of the applicable appropriation. All encumbrances lapse at year-end and, generally, all appropriations lapse at year-end except for certain continuing appropriations (continuing appropriations are defined as carry forwards of spending authority from one fiscal budget into a subsequent budget). The continuing appropriations include: appropriations continued for a one-month period after year-end which are part of a program that was not renewed the succeeding year; appropriations continued the entire succeeding year, as in the case of highway and other capital construction projects; and appropriations continued for specified amounts for certain special programs. Carry forward appropriations are reported as reservations of the fund balance in the financial statements.

The budget is prepared on a "modified cash" basis of accounting under which revenues are recognized when received, except for certain taxes and Federal and other restricted grant revenues of the General and Transportation funds which are recognized when earned. Tax revenues recognized when earned include the following: sales and use, personal income, corporation, public service corporations, petroleum companies, cigarettes, alcoholic beverages, gasoline, special motor fuel, and motor carrier road. Under the modified cash basis, expenditures are recognized when paid. A comparison of actual results of operations recorded on this basis and the adopted budget is presented in the financial statements for all governmental funds for which a budget is legally adopted.

f. Budgetary vs. GAAP Basis of Accounting

The major differences between the budgetary (legal) and the GAAP (generally accepted accounting principles) basis of accounting are as follows:

1. Revenues are recorded when received in cash except for certain year-end accruals (budgetary basis) as opposed to revenues being recorded when they are susceptible to accrual (GAAP basis) (see Note 1d).

2. Expenditures are recorded when paid in cash (budgetary basis) as opposed to expenditures being recorded when the related fund liability is incurred (GAAP basis) (see Note 1d).

3. For budgetary reporting purposes, continuing appropriations are reported with other financing sources and uses in the determination of the budgetary surplus or deficit to more fully demonstrate compliance with authorized spending for the year. For GAAP purposes, continuing appropriations are excluded from operations and reported as reserved fund balance.

4. Certain special revenue funds are not subject to legal budgets.

Because of the above differences, a reconciliation between the budgetary and GAAP basis is presented in Note 2.

g. Assets and Liabilities

Cash and Cash Equivalents (see Note 4)

In addition to petty cash and bank accounts, this account includes cash equivalents – short-term, highly liquid investments with original maturities of three months or less when purchased. Cash equivalents include investments in the Short-Term Investment Fund ("STIF") and the Tax Exempt Proceeds Fund, Inc. ("TEPF"). TEPF is a short-term, tax-exempt money market fund reported under the Investment Company Act of 1940. Investments in STIF and TEPF are reported at the fund's share price.

Investments (see Note 4)

Equity in Combined Investment Funds is reported at fair value based on the funds' current share price.

The external investment pool is reported at amortized cost.

Other investments are reported at fair value, except for the following investments which are reported at cost or amortized cost:

- Nonparticipating interest-earning investment contracts.
- Money market investments that mature within one year or less at the date of their acquisition.

Fair value is determined based on quoted market prices except for:

- The fair value of State bonds held by the Clean Water Fund (a nonexpendable trust fund) which is estimated using matrix pricing.
- The fair value of equity and debt securities held by the Connecticut Innovations, Incorporated, a component unit. The fair value of these investments is determined by the Valuation Committee of the Corporation, after giving consideration to pertinent information about the companies comprising the investments, including but not limited to recent sales prices of the issuer's securities, sales growth, progress toward business goals, and other operating data.

The State invests in derivatives. STIF and the Combined Investment Funds hold these investments.

Inventories

Inventories are reported at cost. Cost is determined by the first-in first-out (FIFO) method. Inventories in the governmental funds consist of expendable supplies held for consumption whose cost was recorded as an expenditure at the time the individual inventory items were purchased. Reported inventories in these funds are offset by a fund balance reserve to indicate that they are unavailable for appropriation.

Fixed Assets and Depreciation

General fixed assets are reported at historical or estimated historical cost. Donated fixed assets are valued at estimated fair value on the date donated. Infrastructure assets (highways, bridges, etc.) are not capitalized. No depreciation is provided for general fixed assets. Fixed assets in the enterprise and internal service funds are reported at cost. Interest cost incurred during construction at Bradley International Airport is capitalized as part of the assets. Depreciation of these fixed assets is determined using the straight-line method and is based upon the assets' estimated useful lives.

Fixed assets in the higher education funds are reported at cost. No depreciation is recorded on these fixed assets, except for the University of Connecticut's fixed assets. Depreciation of these fixed assets is determined using the straight-line method and is based on the assets' estimated useful lives.

Fixed assets of the component units are reported at cost. Depreciation of these fixed assets is determined using the straight-line method and is based upon the assets' estimated useful lives.

Food Stamps

Food stamps distributed to recipients during the year are recognized as both an expenditure and a revenue in the operating statement.

Securities Lending Transactions (see Note 4)

Assets, liabilities, income, and expenses arising from securities lending transactions of the Combined Investment Funds are allocated ratably to the pension and nonexpendable trust funds based on their equity in the Combined Investment Funds.

Deferred Revenues

This liability account represents revenues considered measurable but not available during the current period. In subsequent periods, when the revenues become available, the liability for deferred revenues is removed from the balance sheet and revenue is recognized.

Capital Appreciation Bonds

Capital appreciation (deep-discount) bonds issued by the State, unlike most bonds, which pay interest semi-annually, do not pay interest until the maturity of the bonds. An investor who purchases a capital appreciation bond at its discounted price and holds it until maturity will receive an amount which equals the initial price plus an amount which has accrued over the life of the bond on a semiannual compounding basis. The net value of the bonds is accreted (the discount reduced), based on this semiannual compounding, over the life of the bonds. This deep-discount debt is reported in the general long-term debt account group at its net or accreted value rather than at face value.

Other Long-term Obligations

The portion of the net pension obligation, workers' compensation claims, capital leases, claims and judgements, and accumulated compensated absences that are expected to be liquidated with available expendable financial resources is reported as an expenditure and a fund liability of the governmental and expendable trust funds that will pay it. The remaining portion that is not expected to be liquidated with available expendable financial resources is reported in the general long-term debt account group. In the proprietary funds, higher education funds, and component units such obligations are recorded as fund liabilities.

Vacation and sick policy is as follows: Employees hired on or before June 30, 1977, and managers regardless of date hired can accumulate up to a maximum of 120 vacation days. Employees hired after that date can accumulate up to a maximum of 60 days. Upon termination or death, the employee is entitled to be paid for the full amount of vacation days owed. No limit is placed on the number of sick days that an employee can accumulate. However, the employee is entitled to payment for accumulated sick time only upon retirement, or after ten years of service upon death, for an amount equal to one-fourth of his/her accrued sick leave up to a maximum payment equivalent to sixty days.

The State recognized a liability to the federal government for excess earnings received from investing certain bond proceeds (rebatable arbitrage). This liability is reported as a liability for claims and judgements.

h. Fund Equity

Contributed Capital

The amount of permanent capital in the enterprise funds, internal service funds, and component units which is contributed by governments and others.

Reserved Retained Earnings

The portion of retained earnings in the enterprise funds and component units which is legally restricted for specific future use.

Reserved Fund Balances

The portion of fund balances in the governmental, fiduciary, and higher education funds which is legally reserved for a specific future use, or which is not available for appropriation or expenditure.

i. Revenues, Expenditures, and Interfund Transactions

Taxes

Taxes are recognized as revenues in the period when the underlying exchange transaction has occurred and the resources are available. (see Note 1d).

Licenses, Permits, and Fees

These items are not susceptible to accrual and are recognized as revenues when the cash is collected.

Intergovernmental

Federal grants (and other aid) are recognized as revenues in the period when all applicable eligibility requirements imposed by the federal government have been met and the resources are available (see Note 1d).

Casino Gaming Payments

Casino gaming payments are recognized as revenues in the period when the underlying exchange transaction has occurred and the resources are available (see Note 1d).

Interest Rate Swap Agreements

The State has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements (see Note 14).

Interfund Transactions

Interfund transactions are recorded as follows:

(1) Transfers, which are from funds that are receiving revenues to funds in which the resources are to be expended, are classified as operating transfers.

(2) Transactions that would be treated as revenues, expenditures or expenses if they involved organizations external to the State are treated similarly by the funds of the State.

(3) Reimbursements from one fund to another are treated as expenditures or expenses of the reimbursing fund and as a reduction of the expenditures or expenses of the reimbursed fund.

(4) Non-recurring or non-routine transfers of equity between funds and capital contributions to proprietary funds are classified as equity transfers.

j. Pension Trust Funds Transactions

Plan member contributions are recognized in the period in which the contributions are due. State contributions are recognized in the period in which the contributions are appropriated. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investment income and related expenses of the Combined Investment Funds (including securities lending transactions) are allocated ratably to these funds based on their equity in the Combined Investment Funds.

k. External Investment Pool

Assets and liabilities of the Short-Term Investment Fund are allocated ratably to the External Investment Pool Fund based on its equity in the Short-Term Investment Fund (see Note 4). Pool income is determined based on distributions made to the pool's participants.

l. Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

m. Total Columns – Memorandum Only

Total columns captioned "Memorandum Only" are presented only to facilitate financial analysis. Data in these columns do not present the financial position, the results of operations or cash flow in conformity with generally accepted accounting principles nor is such data comparable to a consolidation.

Note 2 Budgetary Basis vs. GAAP

The following is a reconciliation of the excess (deficiency) of revenues and other sources over expenditures and other uses as accounted between the budgetary and GAAP basis of accounting (amounts in thousands):

Financial Statements Fund Types	General	Special Revenue
Excess (deficiency) of revenues and other sources over expenditures and other uses (Budgetary basis)	$ 30,660	$ 4,099
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	(27,498)	4,884
(Increases) decreases in expenditure accruals:	-	
Accounts Payable and Other Liabilities	(23,357)	3,054
Salaries and Fringe Benefits Payable	(14,142)	(193)
Increases (decreases) in continuing appropriations	334,000	(17,457)
Reclass of fund balance adjustments to operating expenditures	(964)	(1,532)
Eliminate portion of prior year surplus	(265,474)	-
Excess (deficiency) of revenues and other sources over expenditures and other uses (GAAP basis) - budgeted funds	33,225	(7,145)
To record excess (deficiency) of revenues and other sources over expenditures and other uses for nonbudgeted funds	-	636
Excess (deficiency) of revenues and other sources over expenditures and other uses (GAAP basis)	$ 33,225	$ (6,509)

Note 3 Fund Deficits

The following funds have deficit balances at June 30, 2001, none of which constitutes a violation of statutory provisions (amounts in thousands).

Special Revenue	
Consumer Counsel and Public Utility Control	$ 960
Enterprise	
Other	$ 963

The Consumer Counsel and Public Utility Control Fund deficit has been addressed by Public Act 93-402, subsequently modified by Public Act 99-1 (June special session), which among other things, requires any GAAP deficits for budgeted funds existing as of June 30, 2003 to be amortized in fifteen equal increments beginning with the annual budget for fiscal year 2004-2005.

Note 4 Cash Deposits and Investments

In this note, the State's deposits and investments are classified in categories of "custodial credit risk." This is the risk that the State will not be able to (a) recover deposits if the depository bank fails or (b) recover the value of investments or collateral securities that are in the custody of an outside party if the counterparty to the investment or deposit transaction fails. Classification in category 1 means that the exposure of deposits or investments to potential custodial credit risk is low. The level of potential custodial credit risk is higher for those deposits or investments classified in category 2 and highest for those in category 3.

Cash Deposits (amounts in million)

At June 30, 2001, the reported amount of the State's deposits was $(130.7) for the Primary Government and $9.2 for the Component Units. The corresponding bank balance for such deposits was $126.2 for the Primary Government and $12.3 for the Component Units. Of the bank balance for the Primary Government $28.0 was insured by the Federal Deposit Insurance Corporation or held by the State's agent in the State's name (Category 1), and $98.2 was uninsured and uncollateralized (Category 3). Of the bank balance for the Component Units, $5.2 was insured by the Federal Deposit Insurance Corporation (Category 1), and $7.1 was uninsured and uncollateralized (Category 3).

Category 3 deposits include some deposits that are collateralized as required by state statute. Under the statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to 10 percent, 25 percent, 100 percent, or 120 percent of its public deposits. However, the collateral is held in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank.

Investments

The State Treasurer is the chief fiscal officer of State government and is responsible for the prudent management and investment of monies of State funds and agencies as well as monies of pension and other trust funds. The State Treasurer with the advice of the Investment Advisory Council, whose members include outside investment professionals and pension beneficiaries, establishes investment policies and guidelines. Currently, the State Treasurer manages one Short-Term Investment Fund ("STIF") and seven Combined Investment Funds (the "CIFS"), including one international investment fund.

STIF is a money market investment pool in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans. STIF's investments are reported at amortized cost (which approximates fair value) and are disclosed in the investments schedules.

For financial reporting purposes, STIF is considered to be a mixed investment pool – a pool having external and internal portions. The external portion of STIF (i.e. the portion that belongs to participants which are not part of the State's financial reporting entity) is reported as an investment trust fund in the combined financial statements. The internal portion of STIF (i.e., the portion that belongs to participants that are part of the State's financial reporting entity) is not reported in the combined financial statements. Instead, each fund type's investment in the internal portion of STIF is reported as "cash equivalents" in the combined balance sheet.

The CIFS are open-ended, unitized portfolios in which the State pension and other trust funds are eligible to invest. The State pension and other trust funds own the units of the CIFS. The State Treasurer is also authorized to invest monies of the CIFS in common stock, commercial equity real estate, foreign companies stocks and bonds, commercial and residential mortgages, foreign governments' obligations, mortgage-backed securities, and venture capital partnerships. CIFS' investments are reported at fair value and are disclosed in the investments schedules.

For financial reporting purposes, the CIFS are considered to be internal investment pools and are not reported in the combined financial statements. Instead, each fund type's investment in the CIFS is reported as "equity in combined investment funds" in the combined balance sheet.

Complete financial information about STIF and the CIFS can be obtained from financial statements issued by the State Treasurer.

The following investments schedules disclose the reported amount and fair value of the State's investment in total and by investment type as of June 30, 2001. Further, the reported amounts of these investments are classified according to the following categories of custodial credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the State's name.

The CIFS account for the purchase and sale of investments using "trade date" accounting – investments are increased or decreased on the date the purchase or sales order is made although the investments are not received or delivered until a later date (settlement date). Thus, CIFS' investments schedule was prepared taking into account unsettled sales and purchases of investments. This means that investments under unsettled sales are included in the schedule, because the investments are still subject to custodial credit risk that could result in losses prior to settlement. Conversely, investments under unsettled purchases are excluded from the schedule, because the investments are still in the hands of the dealers.

Investments-Primary Government

Short-Term Investment Fund

(amounts in thousands)

Investment Type	Reported Amount Category 1	Fair Value
Certificates of Deposit-Negotiable	$ 400,002	$ 400,002
Commercial Paper	3,254,336	3,255,571
Corporate Notes	242,681	242,681
Bankers' Acceptances	9,840	9,840
Bank Notes	409,707	410,111
Federal Agency Securities	241,931	242,334
Total Investments	$ 4,558,497	$ 4,560,539

Investments-Primary Government

Combined Investment Funds

(amounts in thousands)

Investment Type	Reported Amount (Fair Value) Category 1	Category 3	Total
Certificates of Deposit-Negotiable	$ -	$ 15,004	$ 15,004
Asset Backed Securities	661,460	-	661,460
U.S. Government and Agency Securities:			-
Not on Securities Loan	1,617,090	-	1,617,090
On Securities Loan for Securities or Letter of Credit Collateral	-	48,250	48,250
Mortgage Backed Securities	663,290	-	663,290
Corporate Debt	2,990,531	1,303,255	4,293,786
Convertible Securities	239,576	-	239,576
U. S. Corporate Stock:			-
Not on Securities Loan	7,758,085	-	7,758,085
On Securities Loan for Securities or Letter of Credit Collateral	-	55,193	55,193
International Equity Securities:			
Not on Securities Loan	1,746,200	-	1,746,200
On Securities Loan for Securities or Letter of Credit Collateral	-	5,226	5,226
Short-term Investments	-	165,519	165,519
Preferred Stock	117,574	-	117,574
	$ 15,793,806	$ 1,592,447	$ 17,386,253
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form.			
Real Estate Investment Trusts			55,179
Mutual Funds			54,701
Limited Liability Corporations			65,908
Trusts			55,147
Limited Partnerships			2,898,994
Annuities			14,895
Securities Held by Brokers-Dealers under Sec. Loans for Cash Collateral:			
U.S. Government and Agency Securities			541,764
U. S. Corporate Stock			209,794
International Equity Securities			527,311
Domestic Fixed Securities			151,423
International Fixed Securities			5,205
			$ 21,966,574

The pension trust funds own approximately 100 percent of the investments that are in categories 1 and 3.

Investments-Primary Government
Other
(amounts in thousands)

Investment Type	Reported Amount Category 1	Category 2	Category 3	Total	Fair Value
Collateralized Investment Agreements	$ 451,032	$ 33,579	$ -	$ 484,611	$ 484,611
State/Municipal Bonds	215,393	-	-	215,393	215,393
U.S. Government & Agency Securities	384,896	154	-	385,050	385,050
Repurchase Agreements	5,683	801	-	6,484	6,484
Common Stock	33,451	1,060	2,002	36,513	36,513
Corporate Bonds	11,274	21,857	-	33,131	33,131
Other	81,201	-	1,035	82,236	82,236
	$ 1,182,930	$ 57,451	$ 3,037	$ 1,243,418	$ 1,243,418
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:					
Annuity Contracts				511,215	511,215
Mutual Funds				115,481	115,481
Guaranteed Investment Contracts				16,679	16,679
Tax Exempt Proceeds Fund				114,591	114,591
Other				14,048	14,048
Total Investments				$ 2,015,432	$ 2,015,432

The Special Assessment fund owns approximately 60 percent of the investments that are in Category No. 2.

Investments-Component Units
(amounts in thousands)

Investment Type	Reported Amount Category 1	Category 2	Category 3	Total	Fair Value
U.S. Government & Agency Securities	$ 221,852	$ 8,696	$ 8,444	$ 238,992	$ 238,721
Common Stock	135,973	-	-	135,973	135,973
Repurchase Agreements	43,408	-	-	43,408	43,408
Collateralized Investment Agreements	2,441	-	26,160	28,601	28,601
Mortgage Backed Securities	330,555	-	-	330,555	330,555
Corporate Bonds	38,333	-	-	38,333	38,333
Other	66,155	-	9,591	75,746	75,746
	$ 838,717	$ 8,696	$ 44,195	891,608	891,337
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:					
Guaranteed Investment Contracts				137,217	137,217
Fidelity Funds				117,922	117,922
Limited Partnerships				5,238	5,238
Other				36,146	36,146
Total Investments				$ 1,188,131	$ 1,187,860

CHFA owns approximately 80 percent and CHESLA owns approximately 75 percent of the investments that are in categories 1 and 3, respectively.

Derivatives

GASB Technical Bulletin Number 94-1 defines derivatives as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. According to this definition, the following State's investments or contracts are considered to be derivatives:

- Short-Term Investment Fund - Adjustable-rate federal agency and bank notes whose interest rates vary directly with short-term money market indices and are reset daily, weekly, monthly, quarterly, or semi-annually.

- Combined Investment Funds - Adjustable–rate securities, asset backed securities, indexed Treasury securities, option contracts, mortgage backed securities (including interest-only strips), and foreign exchange contracts.

The State invests in derivatives to enhance investment returns or as in the case of foreign exchange contracts to facilitate trade settlements and to serve as foreign currency hedges.

The Mutual Fixed Income Fund (a Combined Investment Fund) invests in mortgage backed securities (MBSs), asset backed securities (ABSs), and interest-only strips. MBS's and ABS's are bonds issued by a special purpose trust that collects payments on an underlying collateral pool of mortgages or other loans and remits payments to bondholders. The bonds are structured in a series of classes or tranches, each with a different coupon rate and stated maturity date. Interest payments to the bondholders are made in accordance with the trust indentures and amounts received from borrowers in excess of interest payments and expenses are used to amortize the principal on the bonds. Such principal payments are made to retire the tranches of bonds in order of their stated maturity. Because mortgage prepayments are largely dependent on market interest rates, the ultimate maturity date of the bonds is unpredictable and is sensitive to changes in market interest rates, but is generally prior to the stated maturity date. At June 30, 2001, the fund held MBSs of $608 million and ABSs of $192 million.

Interest-only strips (IOs) are a specialized type of mortgage backed securities. The cash flow on these investments is derived from the interest payments on the underlying mortgage loans. Prepayments on underlying loans curtail these interest payments, reducing the value of the IOs and, as such, these instruments are extremely sensitive to changes in interest rates, which encourage or discourage such prepayments. As of June 30, 2001, the IOs had a value of $7.4 million.

From time to time, the International Stock, Mutual Fixed Income, and Private Investment Funds (Combined Investment Funds) utilize foreign currency contracts to facilitate transactions in foreign securities and to manage the funds currency exposure. Contracts to buy are used to acquire exposure to foreign currencies, while contracts to sell are used to hedge the funds' investments against currency fluctuations. Losses may arise from changes in the value of foreign currencies or failure of the counterparties to perform under the contracts' terms. As of June 30, 2001, the International Stock Fund reported an unrealized gain of $32 million from open forward currency contracts.

Security Lending Transactions

Certain of the Combined Investment Funds are permitted by State statute to lend its securities through a lending agent to authorized broker-dealers and banks for collateral with a simultaneous agreement to return the collateral for the same securities in the future.

During the year, the funds' lending agent lent securities similar to the types on loan at year-end and received cash (United States and foreign currency), U.S. Government securities, sovereign debt rated A or better, convertible bonds, and irrevocable bank letters of credit as collateral. The funds' lending agent did not have the ability to pledge or sell collateral securities delivered absent borrower default. Borrowers were required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102 percent of the market value of the loaned securities; and (2) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105 percent of the market value of the loaned securities. In the event any borrower fails to return the loaned securities or pay distributions thereon, the funds' lending agent is contractually obligated to purchase replacement securities, or return the cash collateral. At year-end, the funds had no credit exposure to the borrowers, because the amounts the funds owed the borrowers exceeded the amounts the borrowers owed the funds.

All securities loans can be terminated on demand by either the funds or the borrowers. Cash collateral is invested by the funds' lending agent, and the average duration of the investments can not exceed (a) 120 days or (b) the average duration of the loans by more than 45 days. At year-end, the average duration of the collateral investments was 38 days; the average duration of the loans was unknown, although it is assumed to remain at one day.

Note 5 Loans

Loans receivable for the primary government and its component units, as of June 30, 2001, consisted of the following (amounts in thousands):

	Primary Government					
	General	Special Revenue	Enterprise	Trust and Agency	Higher Education	Component Units
Mortgage	$ -	$ -	$ -	$ -	$ -	$ 3,034,055
Industrial	-	-	-	-	-	139,950
Housing	-	135,303	82,693	-	-	-
Clean Water	-	49,866	-	572,630	-	-
Education	-	-	-	-	30,719	92,143
Other	1,636	128,515	-	18,839	-	-
Less Allowance for Losses	-	-	2,687	-	-	57,652
Loans Receivable Net	$ 1,636	$ 313,684	$ 80,006	$ 591,469	$ 30,719	$ 3,208,496

The mortgage loan program consists of home, multi-family, and construction loan mortgages made by the Connecticut Housing Finance Authority. Most home loans are insured by the Federal Housing Administration or guaranteed by the Veterans Administration. In addition, some home and multi-family loans are insured or guaranteed by private insurers. Permanent loans earn interest at rates ranging from 0 percent to 13.5 percent and have initial terms of 10 to 40 years. Construction loans earn interest at rates ranging from 0 percent to 9.0 percent. Upon completion of each development, the related permanent mortgage loan, which will generally be provided by the Authority, will be payable over 30 to 40 years at annual interest rates ranging from 0 percent to 9.0 percent.

The Clean Water fund loans funds to qualified municipalities for planning, design, and construction of water quality projects. These loans are payable over a 20 year period at an annual interest rate of 2 percent and are secured by the full faith and credit or revenue pledges of the municipalities, or both.

The industrial loan program consists of loans made by the Connecticut Development Authority to finance the purchase of land, buildings, and equipment by qualified applicants and to finance other economic development programs of the Authority. These loans are collateralized by assets acquired from the proceeds of the related loans and have originating terms of 1 to 25 years and earn interest at rates ranging from 3 percent to 12 percent. As of June 30, 2001, loans in the amount of $28.3 million (including loans of $6.9 million made by other lending institutions) were insured by an insurance fund created by the Authority and by the faith and credit pledged by the State. This insurance fund had net assets of $8.2 million at year-end. Thus, the State is contingently liable in the event of any defaulted loans that could not be paid out of the assets of the insurance fund.

Note 6 Taxes Receivable

Taxes receivable consisted of the following as of June 30, 2001 (amounts in thousands):

	Funds	
	General	Special Revenue
Sales and Use	$ 603,044	$ -
Income Taxes	161,899	-
Corporations	32,356	-
Gasoline and Special Fuel	-	37,885
Various Other	109,391	-
Less:		
Allowance for Uncollectibles	(15,519)	(26)
Taxes Receivable	$ 891,171	$ 37,859

Note 7 Restricted Assets

Restricted assets are defined as resources that are restricted by legal or contractual requirements. As of June 30, 2001, restricted assets for the primary government and its component units were comprised of the following (amounts in thousands):

	Primary Government						Component Units					
		Enterprise			Trust and Agency							
	Debt Service	Bradley Int'l Airport	John Dempsey Hospital	Other	Clean Water Fund	Drinking Water Fund	Connecticut Development Authority	Connecticut Housing Finance Authority (12-31-00)	Connecticut Resources Recovery Authority	Connecticut Higher Education Supplemental Loan Authority	Connecticut Health & Educational Facilities Authority	Total Component Units
Cash & Cash Equivalents	$ 278,650	$ 76,708	$ 9,804	$ 1,858	$ -	$ -	$ 21,477	$ -	$ 102,826	$ -	$ 2,371	$ 126,674
Investments	276,166	195,841	1,028	16,678	462,140	43,712	29,663	334,597	-	9,076	260,386	633,722
Interest Receivable	7,315	863	-	-	-	-	-	1,766	587	-	620	2,973
Other	-	2,540	-	-	-	-	-	-	-	-	3,964	3,964
Total	$ 562,131	$ 275,952	$ 10,832	$ 18,536	$ 462,140	$ 43,712	$ 51,140	$ 336,363	$ 103,413	$ 9,076	$ 267,341	$ 767,333

Note 8 Property, Plant, and Equipment

(1) A summary of changes in general fixed assets is as follows (amounts in thousands):

	Restated Balance 7/1/00	Additions	Retirements	Balance 6/30/01
Land	$ 371,484	$ 19,940	$ 1,683	$ 389,741
Buildings	2,062,263	58,084	25,060	2,095,287
Improvements Other Than Buildings	243,236	35,892	583	278,545
Machinery & Equipment	1,253,910	112,223	261,917	1,104,216
Construction in Progress	278,935	157,464	243,307	193,092
Total	$ 4,209,828	$ 383,603	$ 532,550	$ 4,060,881

(2) Property, plant, and equipment for the primary government and its component units consisted of the following as of June 30, 2001 (amounts in thousands)

	Primary Government			
	Enterprise	Internal Service	Higher Education	Component Units
Land	$ 2,840	$ -	$ 39,047	$ 24,833
Buildings	189,065	-	1,638,016	188,314
Improvements other than Buildings	141,542	95	153,882	236
Machinery & Equipment	56,198	161,648	658,703	224,538
Construction in Progress	33,930	-	214,822	10,314
Subtotal	423,575	161,743	2,704,470	448,235
Less: Accumulated Depreciation	173,618	111,535	459,446	187,294
Total	$ 249,957	$ 50,208	$ 2,245,024	$ 260,941

The following estimated useful lives are used to compute depreciation: Buildings 10-60 years; Land Improvements 2-50 years; Machinery and Equipment 2-21 years.

Note 9 State Retirement Systems

The State sponsors three major public employee retirement systems: the State Employees' Retirement System (SERS) –consisting of Tier I (contributory), Tier II (noncontributory) and Tier IIA (contributory), the Teachers' Retirement System (TRS), and the Judicial Retirement System (JRS).

The State Comptroller's Retirement Division under the direction of the Connecticut State Employees Retirement Division administers SERS and JRS. The Teachers' Retirement Board administers TRS. None of the above mentioned systems issue stand-alone financial reports.

Plan Descriptions, Funding Policy, and Annual Pension Cost and Net Pension Obligation

Membership of each plan consisted of the following at the date of the latest actuarial evaluation:

	SERS 6/30/00	TRS 6/30/00	JRS 6/30/00
Retirees and beneficiaries receiving benefits	32,101	20,724	199
Terminated plan members entitled to but not yet receiving benefits	1,137	-	1
Active plan members	54,616	46,553	209
Total	87,854	67,277	409

State Employees' Retirement System

Plan Description

SERS is a single-employer defined-benefit pension plan covering substantially all of the State full-time employees who are not eligible for another State sponsored retirement plan. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and the State, and other plan provisions are described in Sections 5-152 to 5-192 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Tier I Plan B and Hazardous Duty members are required to contribute 2 percent and 4 percent respectively, of their salary up to the Social Security Taxable Wage Base plus 5 percent above that level; Tier I Plan C members are required to contribute 5 percent of their annual salary; Tier IIA members are required to contribute 2 percent and hazardous duty members are required to contribute 5 percent. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

Teachers Retirement System

Plan Description

TRS is a single-employer defined-benefit pension plan covering any teacher, principal, superintendent or supervisor engaged in service of public schools in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 10-183b to 10-183pp of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. For fiscal year 2001, the annual required contribution (ARC) was $252.5 million; however, the State contributed $214.7 million to the plan, reflecting a reduction of $37.8 million by the legislature to the State's TRS appropriation. Administrative costs of the plan are funded by the State.

Judicial Retirement System

Plan Description

JRS is a single-employer defined-benefit pension plan covering any appointed judge or compensation commissioner in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 51-49 to 51-51 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

Annual Pension Cost, Net Pension Obligation, and Related Information

The State's annual pension cost and net pension obligation to SERS, TRS, and JRS for the current year were as follows (amounts in thousands):

	SERS	TRS	JRS
Annual required contribution	$ 375,623	$ 252,548	$ 9,837
Interest on net pension obligation	160,640	83,867	3
Adjustment to annual required contribution	(96,946)	(49,888)	(1)
Annual pension cost	439,317	286,527	9,839
Contributions made	375,623	214,666	9,837
Increase (decrease) in net pension obligation	63,694	71,861	2
Net pension obligation beginning of year	1,889,886	985,967	37
Net pension obligation end of year	$ 1,953,580	$ 1,057,828	$ 39

Three-year trend information is as follows (amounts in thousands):

	Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
SERS	1999	$ 389,508	81.0%	$ 1,826,719
	2000	405,927	84.4%	1,889,886
	2001	439,317	85.5%	1,953,580
TRS	1999	$ 251,960	74.7%	$ 921,555
	2000	268,857	76.0%	985,967
	2001	286,527	74.9%	1,057,828
JRS	1999	$ 9,284	100%	$ 35
	2000	9,326	100%	37
	2001	9,839	100%	39

Defined Contribution Plan

The State also sponsors the Connecticut Alternate Retirement Program (CARP), a defined contribution plan. CARP is administered by the State Comptroller's Retirement Office under the direction of the Connecticut State Employees Retirement Division. Plan provisions, including contribution requirements of plan members and the State, are described in Section 5-156 of the General Statutes.

Unclassified employees at any of the units of the Connecticut State System of Higher Education are eligible to participate in the plan. Plan members are required to contribute 5 percent of their annual salaries. The State is required to contribute 8 percent of covered salary. During the year, plan members and the State contributed $18.4 million and $29.5 million, respectively.

Note 10 Other Retirement Systems Administered by the State of Connecticut

The State acts solely as the administrator and custodian of the assets or the Connecticut Municipal Employees' Retirement System (CMERS) and the Connecticut Probate Judges and Employees Retirement System (CPJERS). Although these retirement systems are included as pension trust funds in the State's financial statements, the State makes no contribution and has no financial liability other than a fiduciary responsibility.

Plan Descriptions and Contribution Information
Membership of each plan consisted of the following at the date of the latest actuarial valuation:

	CMERS 6/30/00	CPJERS 12/31/00
Retirees and beneficiaries receiving benefits	4,446	229
Terminated plan members entitled to but not receiving benefits	150	26
Active plan members	7,980	367
Total	12,576	622
Number of participating employers	160	1

Connecticut Municipal Employees' Retirement System
Plan Description
CMERS is a cost-sharing multiple-employer defined benefit pension plan that covers fire, police, and other personnel (except teachers) of participating municipalities in the State. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and participating municipalities, and other plan provisions are described in Chapters 7-425 to 7-451 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions
Plan members are required to contribute 2.25 percent to 5.0 percent of their annual salary. Participating municipalities are required to contribute at an actuarial determined rate. The participating municipalities fund administrative costs of the plan.

Connecticut Probate Judges and Employees' Retirement System
Plan Description
CPJERS is a single-employer defined benefit pension plan that covers judges and employees of probate courts in the State. Plan benefits, cost-of-living adjustments, required contributions of plan members and the probate court system, and other plan provisions are described in Chapters 45a-34 to 45a-56 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions
Plan members are required to contribute 1.0 percent to 3.75 percent of their annual salary. The probate court system is required to contribute at an actuarial determined rate. Administrative costs of the plan are funded by the probate court system.

Note 11 Postemployment Benefits

In addition to the pension benefits described in Note 9, the State provides postretirement health care and life insurance benefits, in accordance with State statutes, Sections 5-257(d) and 5-259(a), to all employees who retire from the State.

As of June 30, 2000, 32,101 retirees of the State Employees Retirement System meet those eligibility requirements. When employees retire, the State may pay up to 100 percent of their health care insurance premium cost (including dependent's coverage) based on the plan chosen by the employee. In addition, the State pays 100 percent of the premium cost for a portion of the employees' life insurance, continued after retirement. The amount of life insurance, continued at no cost to the retiree, is determined based on the number of years of service that the retiree has with the State at time of retirement as follows: (a) if the retiree had 25 years or more of service, the amount of insurance will be one-half of the amount of insurance for which the retiree was insured immediately prior to retirement, but the reduced amount cannot be less than $7,500; (b) if the retiree had less than 25 years of service, the amount of insurance will be the proportionate amount that such years of service is to 25, rounded to the nearest $100. The State finances the cost of postretirement health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund. During the year ended June 30, 2001, $174 million was paid in postretirement benefits.

Note 12 Capital and Operating Leases

a. State as Lessor

The State leases building space, land, and equipment to private individuals. The minimum future lease revenues for the next five years and thereafter are as follows (amounts in thousands):

2002	$	30,534
2003		31,004
2004		28,454
2005		22,960
2006		18,008
Thereafter		4,830
Total	$	135,790

Contingent revenues for the year ended June 30, 2001, were $2.6 million.

b. State as Lessee
Obligations under capital leases and operating leases as of June 30, 2001, were $96.9 million for capital leases

and $102.4 million for noncancelable operating leases in excess of one year. The following is a schedule of annual future minimum payments under these obligations along with the present value of the related net minimum capital lease payments discounted at approximately 6 percent as of June 30, 2001 (amounts in thousands):

	Operating Leases	Capital Leases General Long-term
2002	$ 23,459	$ 8,441
2003	21,198	8,170
2004	16,786	6,636
2005	12,764	5,435
2006	7,371	5,359
Thereafter	20,860	62,897
Total future minimum payments	$ 102,438	96,938
Less: Imputed interest		32,692
Present value of net minimum lease payments		$ 64,246

Rental and lease payments for equipment charged to expenditures during the year ended June 30, 2001, totaled $46.3 million.

Note 13 Changes in General Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2001 (amounts in thousands):

General Long-Term Debt Account Group	Balance July 1,2000	Issuances and Other Increases	Retirements and Other Decreases	Increase (Decrease) Accreted Value	Balance June 30,2001
General Obligation Bonds	$ 7,221,893	$ 1,596,305	$ 1,099,513	$ 11,550	$ 7,730,235
Transportation Related Bonds	3,069,525	225,000	195,140	736	3,100,121
Expendable Trust Fund Obligations	610,065	144,100	505,615	-	248,550
Net Pension Obligation	2,875,890	735,683	600,126	-	3,011,447
Compensated Absences	294,091	26,992	12,496	-	308,587
Worker's Compensation	283,600	105,270	62,453	-	326,417
Capital Leases	49,406	20,588	5,748	-	64,246
Claims and Judgements	15,079	7,139	9,108	-	13,110
Total General Long-Term Debt Account Group	$ 14,419,549	$ 2,861,077	$ 2,490,199	$ 12,286	$ 14,802,713

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances-All Governmental Fund Types reflects the net proceeds from the sale of bonds and notes in the amount of $1,908.8 million. This amount includes discounts on the sale of certain bonds and premium and accrued interest received at the time of sale in the amount of $41.1 million.

Included in retirements of general obligation and transportation related bonds are $505.1 million of bonds which were defeased by refunding bonds of $494.5 million.

Additionally, $1,596.3 million of issuances and other increases for general obligation bonds include $100 million of bonds issued by the University of Connecticut and $7.8 million of bonds issued by CHEFA for which the State of Connecticut will pay the principal and interest.

As of June 30, 2001 a liability of $10.6 million for rebatable arbitrage is included in the liability for claims and judgements.

Note 14 Debt

General Obligation Bonds

General Obligation bonds are those bonds that are paid out of the revenues of the General fund and that are supported by the full faith and credit of the State. General obligation bonds outstanding and bonds authorized but unissued at June 30, 2001, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital Improvements	2001-2021	2.95-7.525%	$ 2,244,126	$ 351,465
School Construction	2001-2020	3-9.75%	1,089,332	70,671
Municipal & Other Grants & Loans	2001-2021	3.25-8.5%	1,699,501	624,110
Elderly Housing	2003-2011	7-7.5%	19,905	-
Elimination of Water Pollution	2002-2022	4.5-7.525%	280,790	98,335
General Obligation Refunding	2001-2016	2.4-7%	1,784,798	-
Miscellaneous	2001-2031	3.5-9.5%	99,123	4,837
			7,217,575	$ 1,149,418
Accretion-Various Capital Appreciation Bonds			512,660	
		Total	$ 7,730,235	

Future amounts (in thousands) needed to pay principal and interest on general obligation bonds outstanding at June 30, 2001, were as follows:

Year Ending June 30,	Principal	Interest	Total
2002	$ 621,038	$ 394,746	$ 1,015,784
2003	543,532	370,349	913,881
2004	554,857	357,281	912,138
2005	562,507	344,963	907,470
2006	502,897	322,087	824,984
Thereafter	4,432,744	1,886,363	6,319,107
Total	$ 7,217,575	$ 3,675,789	$ 10,893,364

Transportation Related Bonds

Transportation related bonds include special tax obligation bonds and general obligation bonds that are paid out of revenues pledged or earned in the Transportation Fund. The revenue pledged or earned in the Transportation Fund to pay special tax obligation bonds is transferred to the debt service fund for retirement of principal and interest.

Transportation related bonds outstanding and bonds authorized but unissued at June 30, 2001, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Specific Highways	2012-2017	4.25-5.50%	$ 14,408	$ 3,902
Infrastructure Improvements	2001-2020	2.65-10.0%	3,061,533	455,763
General Obligation Refunding	2004	5.15-9.75%	17,249	-
Other	2005-2013	4.6-7.525%	613	165
			3,093,803	$ 459,830
Accretion-Various Capital Appreciation Bonds			6,318	
		Total	$ 3,100,121	

Future amounts (in thousands) required to pay principal and interest on transportation related bonds outstanding at June 30, 2001, were as follows:

Year Ending June 30,	Principal	Interest	Total
2002	$ 202,860	$ 159,613	$ 362,473
2003	216,010	150,982	366,992
2004	215,810	140,226	356,036
2005	213,799	129,285	343,084
2006	237,240	117,345	354,585
Thereafter	2,008,084	581,397	2,589,481
Total	$ 3,093,803	$ 1,278,848	$ 4,372,651

Demand Bonds

Included in general obligation bonds, there are variable rate demand bonds in the amount of $100 million. The bonds were issued in May 1997 to fund various State programs (e.g. community conservation development, economic development and manufacturing assistance, regional economic development, etc.) and will mature in the year 2014. Starting in the year 2005, the bonds will be subject to mandatory annual redemption in the principal amount of $10 million plus accrued interest (these amounts are included in the debt service schedule). Concerning the issuance of the bonds, the State signed various agreements, including a "Remarketing Agreement" with a broker/dealer firm and a "Standby Bond Purchase Agreement" with a foreign bank.

These bonds bear interest at a weekly rate or at a flexible rate for a flexible rate period, which cannot be longer than 270 days. Initially, all bonds bear interest at the weekly rate. After that, the bonds may be converted from time to time to the flexible rate or weekly rate at the option of the State. The State's remarketing agent determines the weekly or flexible rate and applicable flexible rate period.

Bonds bearing interest at the weekly rate are subject to purchase at the option of the holder at a purchase price equal to principal and accrued interest, if any, on a minimum seven days' notice and delivery to the State's agent. In addition, all bonds are subject to mandatory purchase upon (1) conversion from the weekly rate to the flexible rate or vice versa, (2) the end of each flexible rate period, and (3) expiration or substitution of the Standby Bond Purchase Agreement. The State's remarketing agent is responsible for using its best efforts to remarket bonds properly tendered for purchase.

The Standby Bond Purchase Agreement requires the bank to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus (for bonds bearing interest at the weekly rate) accrued interest up to 35 days at an annual interest rate not to exceed 15 percent; (1) for bonds held for up to 30 days after the purchase date, the Federal funds rate plus .50 percent; (2) for bonds held for more than 30 days but less than 90 days after the purchase date, the Federal funds rate plus 1.00 percent; and (3) for bonds held for more than 90 days after the purchase date, the higher of (a) the base commercial lending rate announced from time to time by the bank, or (b) the federal funds rate plus .50 percent.

The State is required under the Standby Bond Purchase Agreement to pay to the bank a quarterly fee of .065 percent per annum of the available commitment as of each payment date. The available commitment is an amount that the bank is committed to purchase under the agreement. Such amount was initially set in the agreement at $101.4 million and is adjusted from time to time according to provisions in the agreement. If the rating on the bonds were to fall below certain levels, or be withdrawn or suspended, the bank fee could go as high as .135 percent per annum.

The Standby Bond Purchase Agreement expires in the year 2002 and could be extended annually for another year. If certain events of default described in the agreement were to occur, the agreement could be terminated prior to that date.

Expendable Trust Fund Obligations

In July, August, and September 1993, the State issued $1,020.7 million of special assessment revenue bonds. The issuance of these special obligation revenue bonds was for the repayment of loans made by the United States to Connecticut, which were used for the payment of unemployment compensation benefits and assisting the State in meeting a portion of its unemployment compensation benefit obligations. These bonds mature on various dates through 2001 and bear interest rates from 3.1 percent to 5.5 percent and shall be payable solely from revenues and requisitioned funds specifically pledged for their payment. As of June 30, 2001 these bonds have been fully retired with $183.9 million having been retired through a cash defeasance.

In November 1996, the State issued $100 million and in October 2000, $124.1 million of second injury special assessment revenue bonds. The bonds were issued to reduce long-term liabilities of the fund by settling claims on a one-time lump sum basis. The bonds bear fixed interest rates ranging from 4.25 percent to 6.00 percent and mature each year at various amounts through the year 2015, starting on January 1 of 1998. Because the bonds will be paid solely from future assessment revenue of the fund, the State has no contingent obligation either directly or indirectly for the payment of such bonds.

Future amounts (in thousands) needed to pay principal and interest on second injury special assessment revenue bonds were as follows:

Year Ending June 30,	Principal	Interest	Total
2002	$ 5,595	$ 11,978	$ 17,573
2003	13,070	10,157	23,227
2004	13,705	9,492	23,197
2005	14,345	8,845	23,190
2006	15,050	8,134	23,184
Thereafter	143,085	34,973	178,058
Total	$ 204,850	$ 83,579	$ 288,429

Additionally, the bond indenture allows for the periodic issuance of subordinated Bond Anticipation Notes (BANs) in the form of commercial paper. As of June 30, 2001, the fund had $43.7 million in outstanding BANs. The State has entered into a Revolving Credit Agreement that ensures that the BANs can be refinanced on a long-term basis.

Interest Rate Swap Agreements

The State has entered into interest rate swap agreements for the following outstanding debt:

Type	Face Value (000's)	Interest Rate	Maturity Date
Transportation - STO's	$ 168,500	variable	2010
General Obligation	$ 20,000	variable	2012

Based on these agreements, the State pays a fixed interest rate to the counterparty to the swap, and the counterparty pays the State a variable interest rate that is determined by the Agreement. The State continues to make payments to the bondholders, and only the net difference in interest payments is exchanged with the counterparty. By entering into these agreements, the State has in effect exchanged its variable rate liability for a fixed rate obligation.

The agreements call for the following exchange of interest rates:

Counterparty	Face Value (000's)	Interest Rate Assumed by State	Interest Rate Assumed by Counter party
AIG Corp.	$ 101,100	5.75%	65% of 1-month LIBOR* rate
Sumitomo Bank	$ 67,400	5.71%	65% of 1-month LIBOR* rate
Morgan Stanley	$ 20,000	4.33%	CPI(adj semi-annual)

*The primary fixed income index reference rates used in the Euro-markets.

Regarding these agreements, the State is exposed to the market risk relating to the relationship between the variable interest rate on the bonds (which is reset weekly) and the rate that it receives under the swap agreements. As of June 30, 2001, the AIG, Sumitomo, and Morgan Stanley interest rate swaps had unfavorable positions of $8.9 million, $5.8 million, and $0.3 million respectively.

The counterparties guarantee both agreements, and the agreement with AIG Corp. has a collateral agreement, which goes into effect if the credit rating of AIG falls below a defined level.

Revenue Bonds

Revenue bonds are those bonds that are paid out of resources pledged in the enterprise funds, nonexpendable trust funds, higher education funds, and component units.

Revenue bonds outstanding at June 30, 2001, were as follows:

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding
Primary Government:			
Enterprise:			
Bradley Airport	2012-2031	3.25-7.65%	$ 284,395
Rental Housing	2001-2002	5.25-9%	81,820
John Dempsey Hospital	2002-2009	7.125%	1,109
Other	2006-2024	6.125-8%	53,800
Nonexpendable:			
Clean Water Fund	2009-2022	3.45-11.0%	595,350
Drinking Water Fund	2022	4-5.5%	29,615
Higher Education:			
Plant and Affiliated Org.	2001-2029	3.55-8.25%	294,819
Premiums:			
Clean & Drinking Water bonds			7,408
Bradley Airport and Other			902
		Total	$ 1,349,218
Component Units:			
CT Development Authority	2003-2019	4.6-8.75%	$ 96,230
CT Housing Finance Authority (as of 12-31-00)	2001-2042	3.6-9.5%	3,136,575
CT Resources Recovery Authority	2001-2016	3.4-7.7%	259,782
CT Higher Education Supplemental Loan Authority	2001-2021	4-7.5%	121,770
CT Health & Educational Facilities Authority	2001-2004	4.32-14.94%	5,395
Discount on CHFA Bonds sold			(28,551)
		Total	$ 3,591,201

Revenue bonds issued by the component units do not constitute a liability or debt of the State, and the State is only contingently liable for these bonds as discussed in this section.

The following is a description of revenue bonds with restrictive covenants:

Primary Government

Bradley Airport has issued various revenue bonds to finance costs of improvements to the airport. As of June 30, 2001, the following bonds were outstanding:

a) Airport revenue refunding bonds in the amount of $71.2 million. These bonds were issued in October, 1992, to redeem the 1982 revenue bonds, and are secured by and payable solely from the gross operating revenues generated by the State from the operations of the airport and other receipts, funds or monies pledged in the bond indenture.

b) On March 1, 2001 the airport issued Bradley International Airport Revenue Bonds in the amount of $194 million and Bradley International Airport Refunding Bonds in the amount of $19.2 million. Both bond series are secured by and payable solely from the gross operating revenues generated by the state from the operation of the airport and other receipts, funds or monies pledged in the bond indenture.

Bradley Parking Garage Bonds were issued, in 2000, in the amount of $53.8 million. These bonds were issued to build a parking garage at the airport.

In 1994, the State of Connecticut began issuing Clean Water Fund revenue bonds. The proceeds of these bonds are to be used to provide funds to make loans to Connecticut municipalities for use in connection with the financing or refinancing of wastewater treatment projects.

Component Units

Connecticut Development Authority's revenue bonds are issued to finance such projects as the acquisition of land or the construction of buildings, and the purchase and installation of machinery, equipment, and pollution control facilities. The Authority finances these projects through its Self-Sustaining Bond Program and Umbrella Program. Under the Umbrella Program, bonds outstanding at June 30, 2001 were $44.7 million. Assets totaling $46.2 million are pledged under the terms of the bond resolution for the payment of principal and interest on these bonds until such time as it is determined that there are surplus funds as defined in the bond resolution. Bonds issued under the Self-Sustaining Bond Program are discussed in the no-commitment debt section of this note. In addition, the Authority had $51.5 million in general obligation bonds outstanding at year-end. These bonds were issued to finance the lease of an entertainment/sports facility and the purchase of a hockey team.

Connecticut Housing Finance Authority's revenue bonds are issued to finance the purchase, development and construction of housing for low and moderate-income families and persons throughout the State. The Authority has issued bonds under a bond resolution dated 9/27/72 and an indenture dated 9/25/95. As of December 31, 2000, bonds outstanding under the bond resolution and the indenture were $3,116.4 million and $20.2 million, respectively. According to the bond resolution, the following assets of the Authority are pledged for the payment of the bond principal and interest (1) the proceeds from the sale of bonds, (2) all mortgage repayments with respect to long-term mortgage and construction loans financed from the Authority's general fund, and (3) all monies and securities of the Authority's general and capital reserve funds. The capital reserve fund is required to be maintained at an amount at least equal to the amount of principal, sinking fund installments, and interest maturing and becoming due in the next succeeding calendar year ($276.3 million at 12/31/00) on all outstanding bonds. In addition, all assets of the Authority's general and capital reserve funds ($3,839 million) are restricted until such time as they are determined to be "surplus funds." As of December 31, 2000, the Authority has entered into interest rate swap agreements for $284 million of its variable rate bonds. These agreements are similar in nature to agreements discussed in the interest rate swap agreements section of this note.

Connecticut Resources Recovery Authority's revenue bonds are issued to finance the design, development and construction of resources recovery and recycling facilities and landfills throughout the State. These bonds are paid solely from the revenues generated from the operations of the projects and other receipts, accounts and monies pledged in the bond indentures.

Connecticut Higher Education Supplemental Loan Authority's revenue bonds are issued to provide loans to students, their parents, and institutions of higher education to assist in the financing of the cost of higher education. These loans are issued through the Authority's Bond fund. According to the bond resolutions, the Authority internally accounts for each bond issue in separate funds, and additionally, the Bond fund includes individual funds and accounts as defined by each bond resolution.

Connecticut Health and Educational Facilities Authority's revenue bonds are issued to assist certain health care institutions, institutions of higher education, and qualified for-profit and not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to programs for these institutions. Prior to July 1, 1979, the Authority issued general obligation bonds for which the Authority is ultimately responsible for the payment of principal and interest when due. After July 1, 1979, the Authority has issued only special obligation bonds, which are discussed in the no-commitment debt section of this note. At year-end , the Authority had $5.4 million in outstanding general obligation bonds.

Each Authority has established special capital reserve funds which secure all the outstanding bonds of the Authority at year-end (except as discussed below). These funds are usually maintained at an amount equal to next year's bond debt service requirements. The State may be contingently liable to restore any deficiencies that may exist in the funds in any one year in the event that the Authority is unable to do so. For the Connecticut Resources Recovery Authority, the amount of bonds outstanding at year-end that were secured by the special capital reserve funds was $220.3 million. For the Connecticut Health and Educational Facilities Authority, the general obligation bonds outstanding at year-end were not secured by the special capital reserve funds.

Future amounts (in thousands) required to pay principal and interest on revenue bonds outstanding at June 30, 2001 were as follows:

	Primary Government							
Ending	Enterprise Funds		Nonexpendable Trust		Higher Education		Component Units	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2002	$ 4,939	$ 24,561	$ 31,040	$ 30,265	$ 12,975	$ 15,651	$ 133,238	$ 208,884
2003	86,818	21,201	27,050	29,487	14,157	14,946	135,884	201,431
2004	6,340	18,692	36,475	27,963	15,459	14,213	140,589	193,979
2005	10,853	18,162	42,025	26,027	13,973	13,407	137,581	186,042
2006	11,449	17,474	32,125	24,124	14,673	12,712	152,489	177,779
Thereafter	300,725	196,226	456,250	162,940	223,582	123,291	2,919,971	1,860,064
	$ 421,124	$ 296,316	$ 624,965	$ 300,806	$ 294,819	$ 194,220	$ 3,619,752	$ 2,828,179

No-commitment debt

Under the Self-Sustaining Bond program, The Connecticut Development Authority issues revenue bonds to finance such projects as described previously in the component unit section of this note. These bonds were paid solely from payments received from participating companies (or from proceeds of the sale of the specific projects in the event of a default) and do not constitute a debt or liability of the Authority or the State. Thus, the balances are not included in the Authority's financial statements. Total bonds outstanding for the year ended June 30, 2001were $1,153.3 million.

The Connecticut Resources Recovery Authority has issued several bonds to fund the construction of waste processing facilities by independent contractors/ operators. These bonds are payable from a pledge of revenues derived primarily under lease or loan arrangements between the Authority and the operators. Letters of credit secure some of these bonds. The Authority does not become involved in the construction activities or the repayment of the debt (other than the portion allocable to Authority purposes). In the event of a default, neither the authority nor the State guarantees payment of the debt, except for the State contingent liability discussed below. Thus, the assets and liabilities that relate to these bond issues are not included in the Authority's financial statements. Total bonds outstanding at June 30, 2001 were $262.7 million. Of this amount, $71.8 million was secured by a special capital reserve fund.

The Connecticut Health and Educational Facilities Authority has issued special obligation bonds for which the principal and interest are payable solely from the revenues of the institutions. Starting in 1999, the Authority elected to remove these bonds and related restricted assets from its financial statements, except for restricted assets for which the Authority has a fiduciary responsibility. Total special obligation bonds outstanding at June 30, 2001, were $3,895.0 million, of which $241.5 million was secured by special capital reserve funds.

The State may be continently liable for those bonds that are secured by special capital reserve funds as discussed previously in the component units section of this note.

Debt Refundings

During the year, the State issued $504.6 million of general obligation refunding bonds with an average interest rate of 5.34% to advance refund $514.6 million of general obligation bonds with an average interest rate of 5.40%.

The proceeds of the refunding bonds were used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. Thus, the refunded bonds are considered defeased and the liability for those bonds have been removed from the general long-term debt account group.

The State advance refunded these bonds to reduce its total debt service payments over the next fifteen years by $22.9 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of $18.0 million. As of June 30, 2001, $1,942.1 million of outstanding general obligation, special tax obligation, and revenue bonds (including prior year's refundings) are considered defeased.

Note 15 Risk Management

The risk financing and insurance program of the State is managed by the State Insurance and Risk Management Board. The Board is responsible mainly for determining the method by which the State shall insure itself against losses by the purchase of insurance to obtain the broadest coverage at the most reasonable cost, determining whether deductible provisions should be included in the insurance contract, and whenever appropriate determining whether the State shall act as self-insurer. The schedule below lists the risks of loss to which the State is exposed and the ways in which the State finances those risks.

	Risk Financed by	
Risk of Loss	**Purchase of Commercial Insurance**	**Self-Insurance**
Liability (Torts):		
-General (State buildings, parks, or grounds)		X
-Other	X	
Theft of, damage to, or destruction of assets...	X	
Business interruptions...	X	
Errors or omissions:		
-Professional liability	X	
-Medical malpractice (John Dempsey Hospital)...		X
Injuries to employees...		X
Natural disasters...	X	

For the general liability risk, the State is self-insured because it has sovereign immunity. This means that the State cannot be sued for liability without its permission. For other liability risks, the State purchases commercial insurance only if the State can be held liable under a particular statute (e.g. per statue the State can be held liable for injuries suffered by a person on a defective State highway), or if it is required by a contract.

For the risk of theft, of damage to, or destruction of assets (particularly in the automobile fleet), the State insures only leased cars and vehicles valued at more than $100 thousand.

When purchasing commercial insurance the State may retain some of the risk by assuming a deductible or self-insured retention amount in the insurance policy. This amount varies greatly because the State carries a large number of insurance policies covering various risks. The highest deductible or self-insured retention amount assumed by the State is $25 million, which is carried in a railroad liability policy.

For the last three fiscal years, the amount of settlements did not materially exceed insurance coverage.

Most State employees and retirees participate in three health plans. For one of these plans, the State was self-insured in prior years. In fiscal year 2000 the State elected to purchase insurance coverage for this health plan, and liquidated the outstanding health plan liability.

The State records its risk management activities in the General fund, except for activities related to the medical malpractice risk which are recorded in the John Dempsey Hospital fund. At year-end, a liability for unpaid claims is recorded in each fund when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The liability is determined based on the ultimate cost of settling the claims, including an amount for claims that have been incurred but not reported and claim adjustment expenses. The liabilities for medical malpractice and for workers' compensation are actuarially determined. The liability for medical malpractice is reported at its present value, using a discount rate of 5 percent. The portion of the General fund liability considered to be long-term is recorded in the General Long-Term Debt account group. Changes in the claims liability accounts during the last two fiscal years were as follows (amounts in thousands):

	Medical Malpractice	Workers' Compensation	Health Plan
Balance 6-30-99	$ 5,753	$ 280,074	$ 63,873
Incurred claims	2,855	56,894	1,345
Paid claims	(283)	(53,368)	(65,218)
Balance 6-30-00	8,325	283,600	-
Incurred claims	2,026	105,270	-
Paid claims	(800)	(62,453)	-
Balance 6-30-01	$ 9,551	$ 326,417	$ -

Note 16 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2001, were as follows (amounts in thousands):

Fund	Interfund Receivables	Interfund Payables
General	$ 27,861	$ 69,586
Special Revenue:		
Transportation	23,801	1,110
Workers' Compensation	189	161
Banking	-	160
Consumer Counsel & Public Utility Control	-	205
Insurance	75	197
Criminal Injuries	151	-
Mashatucket Pequot & Mohegan	-	-
Regional Market	-	7
Soldiers, Sailors, & Marines	-	541
Employment Security	1,213	953
Grant and Loan Programs	-	19,238
Environmental Programs	36	248
Housing Programs	-	14
Other	10	1,967
	25,475	24,801
Debt Service	-	5,409
Capital Projects:		
State Facilities	13,678	47,043
Infrastructure	-	942
Transportation	-	-
	13,678	47,985
Enterprise:		
Bradley International Airport	-	2,475
Lottery Corporation	-	11,245
John Dempsey	1,061	1,061
Other	-	8
	1,061	14,789
Internal Service:		
Correction Industries	634	4,953
Information & Technology	2,735	294
Administrative Services	406	93
	3,775	5,340
Expendable Trust:		
Employment Security	34,092	5,187
Special Assessment		33,570
Retired Teachers	1,576	
Other	431	-
	36,099	38,757
Nonexpendable Trust:		
Soldiers, Sailors, & Marines	527	-
Other	3	216
	530	216
Pension Trust:		
State Employees	4,811	1,499
State Teachers	-	9,662
	4,811	11,161
Agency:		
Payroll & Fringe Benefit	4,990	-
Receipts & Pending Distribution	-	7,502
	4,990	7,502
Higher Education & University Hospital:		
Current Unrestricted	48,127	7,209
Current Restricted	9	1,530
Loan	-	392
Plant Funds	85,177	10
Endowment	-	-
Agency Funds	125	176
	133,438	9,317
Component Units:		
CT Development Authority	19,307	-
CT Health & Educational Facilities	-	36,215
CT Innovations, Incorporated	53	-
	19,360	36,215
Totals	$ 271,078	$ 271,078

Note 17 Retatement of Fund Balances/Retained Earnings

As of June 30, 2001, the beginning fund balances/retained earnings for the following funds were restated as follows (amounts in thousands):

Fund	Balance 6/30/00 Previously Reported	Fund Reclass	GASB No. 33	Correction of Reported Assets/ Liabilities	Balance 6/30/00 as Restated
General	$ 554,915	$ -	$ 228,712	$ (2,619)	$ 781,008
Special Revenue:					
Enviroment. Prog.	155,261	(1,536)	-	-	153,725
Capital Projects:					
State Facilities	(154,133)	-	-	(39,117)	(193,250)
Enterprise:					
Rental Housing	71,058	-	-	(6,334)	64,724
John Demp. Hosp.					
(9-30-00)	76,118	-	-	(22,432)	53,686
Internal Service:					-
Information/Tech.	16,967	-	-	(61)	16,906
Administrative Svc	20,322	-	-	471	20,793
Expendable:					
Employment Security	842,089	-	77,514	-	919,603
Other	42,329	-	-	(1,819)	40,510
Nonexpendable:					
Drinking Water	-	1,536	-	49	1,585
Other	36,569	-	-	(4,884)	31,685
Higher Education					
Plant	2,117,793	-	-	(99,447)	2,018,346

The restatements were made because of the following reasons:

1. The implementation of GASB Statement No. 33, *"Accounting and Financial Reporting for Nonexchange Transactions"*. This statement requires that (a) taxes and other assessments should be recognized as revenues in the period when the underlying exchange transactions has occurred and the resources are available and (b) grants and other financial aid should be recognized as revenue when all eligibility requirements imposed by the provider have been met and the resources are available.

2. A change in the reporting period used by John Dempsey Hospital from September 30 to June 30 , which was implemented this year. Because the combined financial statements for last year included John Dempsey Hospital's financial statements as of September 30, 1999, the above restatement includes an operating loss of $13,841 for the period September 30, 1999 through September 30, 2000.

3. The recording of accumulated depreciation of $138,186 in the Plant funds of the Health Center (a higher education unit). In prior years, the Health Center did not record depreciation in its Plant funds.

4. The recognition of unexpended bond allotments as an interfund receivable ($38,739) and payable in the Plant funds and in the State Facilities fund, respectively. In prior years, unexpended bond allotments were not recognized in the combined financial statements.

Note 18 Reserved Retained Earnings, Contributed Capital, and Reserved Fund Balances

Reserved Retained Earnings

Bradley International Airport, an enterprise fund, has $28.6 million restricted for debt service requirements and other programs of the airport. The Connecticut Lottery Corporation, an enterprise fund, has $1.9 million restricted for programs of the Corporation. The Connecticut Housing Finance Authority, a component unit, has $571.9 million restricted for debt service requirements and other programs of the Authority. The Connecticut Resources Recovery Authority, a component unit, has $21.5 million restricted for specific purposes.

Contributed Captial

The following is a summary of changes in the contributed capital accounts for the year ended June 30, 2001 (amounts in thousands):

	Primary Government	Component Units	
	Bradley Airport	Connecticut Resources Recovery Authority	Connecticut Innovations, Incorporated
Balance July 1, 2000	$ 103,874	$ 1,713	$ 85,569
Contributions-State	-	-	12,337
Contributions-Other	4,098	-	13,970
Items added back to retained earnings	-	(123)	-
Balance June 30, 2001	$ 107,972	$ 1,590	$ 111,876

Reserved Fund Balances

These balances are comprised as follows (amounts in thousands):

	Fund Type			
Reserved For	General	Special Revenue	Trust and Agency	Higher Education
Petty Cash	$ 1,043	$ -	$ -	$ -
Budget Reserve	594,698	-	-	-
Advances to Other Funds	4,950	-	-	-
Inventories	36,232	13,142	-	-
Continuing Appropriations	687,027	55,243	-	-
Debt Service	20,696	-	-	77,883
Restricted Purposes	249,273	-	-	275,313
Loans	1,636	313,684	-	26,996
Employees' Pension Benefits	-	-	20,501,822	-
Trust Activities	-	-	480,753	-
Pool Participants	-	-	1,414,080	-
	$ 1,595,555	$ 382,069	$ 22,396,655	$ 380,192

Reserved for continuing appropriations represents amounts of unexpended appropriations legally carried forward and available for encumbrances and expenditures in the succeeding year.

Reserved for restricted purposes in the General and Higher Education funds represents amounts restricted for specific purposes by federal grants, restricted revenues, and private gifts and endowments.

Note 19 Segment Information – Enterprise Funds

The State maintains five enterprise funds, which provide financing for State housing programs, airport services, hospital operations, lottery programs, and other services. Segment information for the year ended June 30, 2001, is as follows (amounts in thousands):

	Rental Housing	Bradley Airport	John Dempsey Hospital	CT Lottery Corporation	Other
Operating Revenue	$ 642	$ 41,196	$ 99,999	$ 839,712	$ 17,869
Depreciation and Amortization Expense	1	9,915	4,158	984	970
Operating Income (Loss)	(4,099)	6,593	(2,578)	250,029	183
Operating Transfers In	14,074	-	-	-	-
Operating Transfers Out	-	-	-	252,003	-
Net Non-Operating Revenues (Expenses)	5,917	3,877	-	1,656	(1,811)
Net Income (Loss)	15,892	10,470	(2,578)	(318)	(1,628)
Capital Contributions	-	4,098	-	-	-
Property, Plant & Equipment Additions (Deletions)	-	32,793	3,123	277	20,407
Net Working Capital	162,436	5,223	14,377	444,726	(1,057)
Total Assets	164,550	473,972	92,154	576,649	55,339
Bond and Other Long-Term Liabilities	81,820	285,115	17,384	451,339	54,014
Total Equity	80,616	174,180	51,108	1,943	(613)

Note 20 Condensed Financial Statements – Component Units (amounts in thousands)

Balance Sheets

	Connecticut Development Authority	Connecticut Housing Finance Authority (12-31-00)	Connecticut Resources Recovery Authority	Connecticut Health & Educational Facilities Authority	Other	Total
Assets:						
Current Assets	$ 201,214	$ 3,473,318	$ 99,835	$ 19,012	$ 320,977	$ 4,114,356
Property, Plant, and Equipment	20,262	2,629	237,665	152	233	260,941
Restricted Assets	51,140	336,363	103,413	267,341	9,076	767,333
Other Assets	5,051	26,875	12,665	-	2,046	46,637
Total Assets	$ 277,667	$ 3,839,185	$ 453,578	$ 286,505	$ 332,332	$ 5,189,267
Liabilities and Equity:						
Liabilities:						
Current Liabilities	$ 10,675	$ 27,913	$ 27,583	$ 39,285	$ 14,055	$ 119,511
Revenue Bonds	96,230	3,108,024	259,782	5,395	121,770	3,591,201
Other Liabilities	-	127,551	24,160	223,321	-	375,032
Total Liabilities	106,905	3,263,488	311,525	268,001	135,825	4,085,744
Equity:						
Contributed Capital	162,840	-	1,590	-	111,876	276,306
Retained Earnings	7,922	575,697	140,463	18,504	84,631	827,217
Total Equity	170,762	575,697	142,053	18,504	196,507	1,103,523
Total Liabilities and Equity	$ 277,667	$ 3,839,185	$ 453,578	$ 286,505	$ 332,332	$ 5,189,267

	Connecticut Development Authority	Connecticut Housing Finance Authority (12-31-00)	Connecticut Resources Recovery Authority	Connecticut Health & Educational Facilities Authority	Other	Total
	Statements of Revenues, Expenses, and Changes in Equity					
Operating Revenues	$ 25,570	$ 208,394	$ 171,518	$ 4,014	$ 10,321	$ 419,817
Operating Expenses:						
Depreciation and Amortization	277	3,615	16,710	56	243	20,901
Other	29,152	212,408	137,056	2,646	24,625	405,887
Operating Income (Loss)	(3,859)	(7,629)	17,752	1,312	(14,547)	(6,971)
Nonoperating Revenues (Expenses)	5,421	67,353	58,313	1,007	11,408	143,502
Operating Transfer in from Pri. Govt.	-	-	-	-	7,246	7,246
Net Income (Loss) for the Year	1,562	59,724	76,065	2,319	4,107	143,777
Equity-Beginning	169,200	515,973	65,988	16,185	166,093	933,439
Capital Contributions	-	-	-	-	26,307	26,307
Equity-Ending	$ 170,762	$ 575,697	$ 142,053	$ 18,504	$ 196,507	$ 1,103,523

Note 21 Related Organizations

Related organizations are legally separate organizations that are not financially accountable to the State. However, these organizations are still related to the State as discussed next.

The State appoints a voting majority of the following organizations' governing boards, the Community Economic Development Fund and the Connecticut Student Loan Foundation. The State's accountability for these organizations does not extend beyond making the appointments.

Note 22 Commitments and Contingencies

A. Commitments

At June 30, 2001, the State, including its component units, had the following outstanding commitments:

1) Infrastructure (highways, roads, etc.) and other construction contracts and miscellaneous contracts with various vendors totaling approximately $1,851.4 million of which $993.1 million is expected to be reimbursed by federal grants or other payments.

2) School construction and alteration grants with various towns for $3,148.2 million and interest costs of $326.9 million for a total of $3,475.1 million. Funding for these projects is expected to come from bond sales.

3) Loan commitments, mortgage and grant programs, and loan guarantees total approximately $580.9 million. Funding for these programs is expected to come from bond sales.

B. Contingent Liabilities

The State entered into a contractual agreement with H.N.S. Management Company, Inc. and ATE Management and Service Company, Inc. to manage and operate the bus transportation system for the State. The State shall pay all expenses of the system including all past, present and future pension plan liabilities of the personnel employed by the system and any other fees as agreed upon. When the agreement is terminated the State shall assume or make arrangements for the assumption of all the existing obligations of the management companies including but not limited to all past, present and future pension plan liabilities and obligations.

C. Litigation

The State, its units and employees are parties to numerous legal proceedings, many of which normally occur in government operations. Most of these legal proceedings are not, in the opinion of the Attorney General, likely to have a material adverse impact on the State's financial position.

There are, however, several legal proceedings which, if decided adversely against the State, may require the State to make material future expenditures for expanded services or capital facilities or may impair future revenue sources. It is neither possible to determine the outcome of these proceedings nor to estimate the possible effects adverse decisions may have on the future expenditures or revenue sources of the State.

Note 23 Subsequent Events

In September, $708.3 million of special tax obligation bonds for transportation infrastructure programs were issued. These consisted of $135 million of serial bonds, $40 million of term bonds, and $533.3 million of refunding serial bonds maturing on various dates through 2021 and bearing interest rates of 2% to 5.375%.

In November, $832.4 million of general obligation bonds were issued which included $432.8 million of refunding bonds which were issued for the purpose of advance refunding $437.2 million. These bonds will mature at various dates through 2021, and bear interest rates of 3% to 5.125%.

In December, $175 million of general obligation bonds were issued, maturing at various dates through 2011 and bearing interest rates of 3% to 5%.

Required PERS Supplementary Information

Required Supplementary Information
Schedules of Funding Progress

(Expressed in Millions)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
SERS						
6/30/95	$4,209.2	$7,838.2	$3,629.0	53.7%	$2,325.8	156.0%
6/30/96	$4,604.2	$8,138.6	$3,534.4	56.6%	$2,385.5	148.2%
6/30/97	$5,131.0	$8,833.2	$3,702.2	58.1%	$2,225.2	166.4%
6/30/98	$5,669.9	$9,592.4	$3,922.5	59.1%	$2,339.0	167.7%
6/30/99 *	-	-	-	-	-	-
6/30/00	$7,196.0	$11,512.1	$4,316.1	62.5%	$2,651.9	162.8%
*No actuarial valuation was performed as of June 30, 1999						
TRS						
6/30/95 *	-	-	-	-	-	-
6/30/96	$6,648.2	$9,626.8	$2,978.6	69.1%	$2,151.6	138.4%
6/30/97 *	-	-	-	-	-	-
6/30/98	$7,721.1	$10,970.1	$3,249.0	70.4%	$2,298.9	141.3%
6/30/99 *	-	-	-	-	-	-
6/30/00	$9,605.9	$11,797.6	$2,191.7	81.4%	$2,501.5	87.6%
*No actuarial valuations were performed as of June 30, 1995, 1997 and 1999						
JRS						
9/30/95	$70.5	$154.7	$84.2	45.6%	$19.2	438.5%
9/30/96	$77.8	$161.5	$83.7	48.2%	$19.5	429.2%
9/30/97	$87.8	$167.5	$79.7	52.4%	$20.2	394.6%
6/30/98	$98.1	$168.1	$70.0	58.4%	$21.2	330.2%
6/30/99	$110.7	$172.5	$61.8	64.2%	$21.9	282.2%
6/30/00	$123.4	$181.7	$58.3	67.9%	$24.1	241.9%
MERS						
6/30/95	$711.0	$661.0	$(50.0)	107.6%	$237.0	(21.1)%
6/30/96	$782.0	$692.2	$(89.8)	113.0%	$242.8	(37.0)%
6/30/97	$872.0	$731.1	$(140.9)	119.3%	$246.0	(57.3)%
6/30/98	$980.4	$814.1	$(166.3)	120.4%	$258.2	(64.4)%
6/30/99	$1,100.7	$860.1	$(240.6)	128.0%	$269.4	(89.3)%
6/30/00	$1,251.6	$1,153.2	$(98.4)	108.5%	$290.3	(33.9)%

PJRS

For the Probate Judges Retirement System because the UAAL is zero, the actuarial cost method becomes the"aggregate cost method and a schedule of funding progress is not required.

Required Supplementary Information
Schedules of Employer Contributions

(Expressed in Millions)

	SERS		TRS		JRS		MERS		PJRS	
Fiscal Year	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
1996	$501.1	66.9%	$164.7	85.0%	$9.2	100.0%	$23.2	100.0%	$-	-
1997	$542.8	64.3%	$174.0	85.0%	$9.3	100.0%	$21.3	100.0%	$0.32	100.0%
1998	$567.6	59.0%	$211.0	85.0%	$9.3	100.0%	$18.8	100.0%	$0.35	100.0%
1999	$315.6	100.0%	$221.6	85.0%	$9.3	100.0%	$18.1	100.0%	$0.32	100.0%
2000	$342.8	100.0%	$240.5	85.0%	$9.3	100.0%	$32.0	100.0%	$-	-
2001	$375.6	100.0%	$252.5	85.0%	$9.8	100.0%	$15.5	100.0%	$-	-

Note: During 1996,2000 and 2001 the only contributions to the Probate Judges Retirement System were the required member contributions.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	SERS	TRS	JRS	MERS	PJRS
Valuation date	6/30/00	6/30/00	6/30/00	6/30/00	12/31/00
Actuarial cost method	Projected unit credit	Entry age	Projected unit credit	Entry age	Entry Age
Amortization method	Level percent of pay, closed	Level percent of pay, closed	Level percent of pay, closed	Level percent of pay, closed	-
Remaining amortization period	32 Years	13-32 Years	30 Years	14-22 Years	-
Asset valuation method	5 year smoothed market	4 year smoothed market	5 year smoothed market	5 year smoothed market	Asset smoothing
Actuarial assumptions:					
Investment rate of return	8.5%	8.5%	8.5%	8.5%	8.5%
Projected salary increases	4.25-15%	5-8.1%	5.5%	4.5-11.25%	6%
Includes inflation at	5%	5%	5.5%	3.75%	3.5%
Cost-of-living adjustments	2.75-3.75%	4%	3-5.5%	2.5-5%	3%

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APPENDIX III-D

NANCY WYMAN
COMPTROLLER

STATE OF CONNECTICUT

OFFICE OF THE STATE COMPTROLLER
55 ELM STREET
HARTFORD, CONNECTICUT 06106-1775

MARK E. OJAKIAN
DEPUTY COMPTROLLER

February 22, 2002

The Honorable Denise L. Nappier
State Treasurer
55 Elm Street
Hartford, CT 06106

Dear Ms. Nappier:

I have reviewed the accompanying balance sheets of the General Fund of the State of Connecticut for the fiscal years ending June 30, 1997-2001. This review also covered the accompanying statements of unappropriated surplus, revenues, and expenditures for the years ended on those dates. The statements are based on the annual report of the Office of the State Comptroller, which is prepared in compliance with Section 3-115 of the General Statutes, as well as the reports of the Auditors of Public Accounts with respect to the balance sheets and related statements for the fiscal years ending June 30, 1997–2001.

The statements have been prepared on a modified cash basis of accounting for appropriated funds and on a cash basis of accounting for all other funds. These methods of accounting have been applied consistently for all periods shown.

Sincerely,

Nancy Wyman

Nancy Wyman
State Comptroller

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

210 CAPITOL AVENUE

HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

CERTIFICATE OF AUDIT

We have audited the accompanying balance sheet of the General Fund of the State of Connecticut as of June 30, 1997, 1998, 1999, 2000 and 2001, and the related statements of revenues, expenditures, and changes in unappropriated surplus for the years ended on those dates as shown in Appendices III-D-4, III-D-5, III-D-6 and III-D-7. These financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

As discussed in Note (a) to Appendix III-D-4, the State of Connecticut prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Connecticut, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above present only the General Fund and are not intended to present fairly the financial position and results of operations of the State of Connecticut in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund as of June 30, 1997, 1998, 1999, 2000 and 2001, and the results of its operations for the years then ended, on the basis of accounting described in Note (a) to Appendix III-D-4.

As discussed in the litigation section of the accompanying Official Statement, the State of Connecticut is a defendant in certain legal proceedings. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements. However, as indicated in that section, an adverse judgement in any one of these cases could have a material fiscal impact on the State.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

December 31, 2001
State Capitol
Hartford, Connecticut

GENERAL FUND[(a)]

Balance Sheet
As of June 30
(In Thousands)

	1997	1998	1999	2000	2001
Assets					
Cash and Short-Term Investments	$ -	$ 106,204	$ 263,256	$ 150,871	$ 178,428
Accrued Taxes Receivable	632,854	641,845	664,504	667,036	751,329
Accrued Accounts Receivable	19,949	22,828	24,378	26,285	30,897
Federal and Other Grants Receivable and Unexpended	464,061	568,067	704,982	656,289	745,655
Investments		44,250	54,867	47,705	50,460
Due from Other Funds	4,532	5,070	4,753	4,692	4,499
Total Assets	$ 1,121,396	$ 1,388,264	$ 1,716,740	$ 1,552,878	$ 1,761,268
Liabilities, Reserves and Surplus					
Liabilities					
Deficiency in Cash and Short-Term Investments	$ 144,554	$ -	$ -	$ -	$ -
Deferred Restricted Accounts and Federal and Other Grant Revenue	91,596	189,738	319,484	266,260	301,801
Due to Other Funds	15,232	8,486	13,643	13,707	15,254
Total Liabilities	$ 251,382	$ 198,224	$ 333,127	$ 279,967	$ 317,055
Reserves					
Petty Cash Funds	$ 995	$ 1,052	$ 1,088	$ 1,092	$ 1,043
Statutory Surplus Reserves	262,639	312,911	71,759	300,435	30,660
Appropriations Continued to Following Year	606,380	876,077	1,310,766	971,384	1,412,510
Total Reserves	$ 870,014	$ 1,190,040	$ 1,383,613	$ 1,272,911	$ 1,444,213
Unappropriated Surplus (Deficit)	0	0	0	0	0
Total Liabilities, Reserves and Surplus	$ 1,121,396	$ 1,388,264	$ 1,716,740	$ 1,552,878	$ 1,761,268

(a) The State of Connecticut's policy, which was formulated in accordance with State fiscal statutes, is to prepare the accompanying financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Connecticut. The modified cash basis of accounting, as used by the State, records expenditures when they are paid and recognizes revenues when received, except for the accrual at June 30 of State collections in July and August of certain taxes levied, Indian gaming payments, and the accounting for restricted grants on an earned basis. Public Act No. 99-173 revised the accrual date for corporation business taxes to July 31st. Those taxes for which July collections are accrued include sales and use tax, personal income tax, corporation business tax, gross earnings taxes on utility and petroleum companies, hospital gross receipts tax, taxes on alcoholic beverages, cigarettes, gasoline and special motor fuels. Beginning in 2001, there is no longer a hospital gross receipts tax. Additionally, Indian gaming payments received through July 31 are accrued.

GENERAL FUND

Statement of Revenues, Expenditures and Changes in Unappropriated Surplus
Fiscal Year Ended June 30
(In Thousands)

	1997	1998	1999	2000	2001
Unappropriated Surplus (Deficit), July 1	$ - 0 -	$ - 0 -	$ - 0 -	$ - 0 -	$ -0-
Resources from Reserve for Debt Avoidance					265,474
Total Revenues (per Appendix III-D-8)...........	10,262,342	10,922,192	11,360,260	12,151,287	12,885,980
Total Expenditures (per Appendix III-D-9)	9,880,241	10,429,797	10,994,680	12,138,545	12,783,210
Operating Balance...	382,101	492,395	365,580	12,742	368,244
Reserved for Prior Year Appropriations					
Less Appropriations Carried Forward........	(110,974)	(180,520)	(294,077)	289,764	(333,999)
Transferred In (Out) or Reserved for:					
Budget Reserve Fund................................	(95,939)	(161,694)	(30,474)	(34,960)	(30,660)
Economic Recovery Note Debt					
Retirement Fund	(166,700)	--	--	--	--
Reserve for Debt Retirement/Avoidance	--	(151,217)	(41,285)	(265,474)	--
Other Adjustments	(8,488)	1,036	256	(2,072)	(3,585)
Unappropriated Surplus (Deficit),					
June 30..	$ - 0 -	$ - 0 -	$ - 0 -	$ - 0 -	$ - 0 -

GENERAL FUND

Statement of Revenues
Fiscal Year Ended June 30
(In Thousands)

	1997	1998	1999	2000	2001
Taxes:					
Personal Income	$ 3,110,868	$ 3,596,224	$ 3,820,837	$ 4,238,228	$ 4,744,233
Sales and Use	2,611,456	2,772,109	2,932,191	3,096,780	3,125,078
Corporations	677,883	663,672	619,539	587,756	550,509
Insurance Companies	193,072	192,756	196,195	201,225	191,107
Inheritance and Estate	227,984	279,236	237,573	228,072	252,802
Alcoholic Beverages	39,671	39,772	40,281	40,965	41,145
Cigarettes	126,576	127,174	123,345	122,045	119,476
Admissions, Dues, Cabaret	25,887	24,955	26,942	26,716	25,811
Oil Companies	80,362	61,858	22,170	54,285	64,497
Public Service Corporations	179,365	170,418	167,704	166,263	180,547
Real Estate Conveyance	75,082	93,596	106,813	114,565	112,282
Hospital Gross Receipts	173,738	140,930	128,079	69,180	-
Miscellaneous	28,509	28,044	40,635	40,227	35,088
Refunds of Taxes	(490,548)	(580,830)	(645,000)	(713,359)	(735,482)
Other Revenue:					
Licenses, Permits, Fees	124,833	123,156	122,062	127,544	124,331
Sales of Commodities and Services	39,053	29,491	30,110	32,941	31,312
Transfer - Special Revenue	258,682	267,323	280,529	259,785	258,181
Investment Income	39,623	54,716	60,856	53,371	67,868
Transfers — To Other Funds	(85,000)	(180,000)	(90,000)	(180,000)	(85,400)
Fines, Escheats and Rents	33,130	37,097	55,763	45,659	48,228
Miscellaneous	112,736	118,373	112,962	125,498	125,594
Federal Grants	1,795,514	1,824,595	1,938,271	2,078,914	2,237,045
Indian Gaming Payments	203,601	257,576	288,532	318,986	332,418
Statutory Transfers From Other Funds	-	-	-	78,000	138,800
Total Unrestricted Revenue	9,582,077	10,142,241	10,616,389	11,213,646	11,985,470
Restricted Accounts and Federal and Other Grants	680,265	779,951	743,871	937,641	900,510
Total Revenues[(a)]	$ 10,262,342	$ 10,922,192	$ 11,360,260	$ 12,151,287	$ 12,885,980

(a) See Operating Balance on **Appendix III-D-5** for surplus or deficit for each fiscal year.

GENERAL FUND

Statement of Expenditures
Fiscal Year Ended June 30
(In Thousands)

	1997	1998	1999	2000	2001
Legislative	$ 40,058	$ 41,793	$ 50,978	$ 54,541	$ 55,406
General Government					
Executive	7,234	8,022	8,731	9,929	10,018
Financial Administration	312,198	347,559	532,374	495,118	438,800
Legal	44,869	48,699	53,742	61,263	62,612
Total General Government	364,301	404,280	594,847	566,310	511,430
Regulation and Protection of Persons and Property					
Public Safety	56,270	57,327	107,942	129,216	130,051
Regulative	32,138	32,880	61,764	77,785	73,427
Total Regulation and Protection	88,408	90,207	169,706	207,001	203,478
Conservation and Development					
Agriculture	7,549	8,058	8,885	10,026	10,500
Environment	37,072	35,798	39,138	45,621	47,668
Historical Sites, Commerce and Industry	17,039	18,299	22,737	22,508	25,486
Total Conservation and Development	61,660	62,155	70,760	78,155	83,654
Health and Hospitals					
Public Health	63,080	63,170	70,334	79,445	82,225
Mental Retardation	514,368	540,359	579,290	627,435	654,698
Mental Health	184,899	214,248	255,905	298,353	355,438
Total Health and Hospitals	762,347	817,777	905,529	1,005,233	1,092,361
Transportation	-	-	-	-	34,857
Human Services	3,277,044	3,371,318	3,231,095	3,430,561	3,537,462
Education, Libraries and Museums					
Department of Education	1,507,614	1,557,271	1,683,536	1,825,305	2,169,762
Education of the Blind and Deaf	14,276	13,133	14,618	16,052	16,757
University of Connecticut	207,279	232,876	234,464	260,972	271,378
Higher Education and the Arts	24,719	30,860	39,385	55,326	61,888
Libraries	11,645	12,126	13,729	14,326	14,800
Teachers Retirement	152,781	184,714	201,105	215,396	226,663
Community--Technical Colleges	94,296	95,604	105,064	115,432	115,587
State University	109,620	113,853	119,578	134,709	130,556
Total Education, Libraries and Museums	2,122,230	2,240,437	2,411,479	2,637,518	3,007,391
Corrections	757,341	762,917	845,239	957,555	999,052
Judicial	217,086	232,340	266,043	309,319	338,568
Non-Functional					
Debt Service	726,065	790,164	848,391	926,365	973,554
Miscellaneous	783,436	836,458	856,742	1,028,346	1,045,487
Total Non-Functional	1,509,501	1,626,622	1,705,133	1,954,711	2,019,041
Totals	9,199,976	9,649,846	10,250,809	11,200,904	11,882,700
Restricted Accounts and Federal and Other Grants	680,265	779,951	743,871	937,641	900,510
Total Expenditures[(a)]	$ 9,880,241	$ 10,429,797	$ 10,994,680	$ 12,138,545	$ 12,783,210

(a) See Operating Balance on **Appendix III-D-5** for surplus or deficit for each fiscal year.

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GENERAL FUND REVENUES AND EXPENDITURES
ADOPTED BIENNIAL BUDGET FOR 2001-02 AND FOR 2002-03
ACTUAL RESULTS (UNAUDITED) FOR 2000-01 AND ESTIMATED BUDGET FOR 2001-02

(In Millions)

	Actual Budget 2000-01[d]	Adopted Budget 2001-02[e]	Estimated Budget 2001-02[g]	Adopted Budget 2002-03[e]
Revenues				
Taxes				
Personal Income Tax	$4,744.2	$4,841.4	$4,762.0	$5,109.9
Sales & Use	3,125.1	3,193.7[f]	3,107.5[f]	3,317.6[f]
Corporation	550.5	501.2	501.2	531.5
Public Service	180.6	189.7	184.7	199.8
Inheritance & Estate[a]	252.8	210.0	165.0	166.0
Insurance Companies	191.1	192.0	192.0	198.3
Cigarettes	119.5	117.0	117.0	114.1
Real Estate Conveyance	112.3	110.0	105.0	111.1
Oil Companies	64.5	61.8	52.0	61.0
Alcoholic Beverages	41.2	41.0	41.0	41.0
Admissions, Dues, Cabaret	25.8	25.3	25.3	25.8
Miscellaneous	35.1	36.1	36.1	35.3
Total Taxes	$9,442.7	$9,519.2	$9,288.8	$9,911.4
Less Refunds	(735.5)	(765.5)	(783.0)	(804.5)
Net Taxes	$8,707.2	$8,753.7	$8,505.8	$9,106.9
Other Revenues				
Transfers- Special Revenues	258.2	265.2	279.2	270.5
Indian Gaming Payments	332.4	360.0	360.0	370.0
Licenses, Permits, Fees	124.3	128.2	128.2	124.2
Sales of Commodities & Services	31.3	28.8	28.8	30.0
Rents, Fines & Escheats	48.2	51.2	51.2	52.4
Investment Income	67.9	62.7	57.2	61.2
Miscellaneous	125.6	128.0	115.1	136.2
Total Other Revenue	$987.9	$1,024.1	$1,019.7	$1,044.5
Other Sources				
Federal Grants	2,237.0	2,144.3	2,154.2	2,266.6
Transfers from Tobacco Settlement Funds	138.8	120.0	120.0	121.0
Transfers to Other Funds[b]	(85.4)	(148.0)	(148.0)	(107.0)
Total Other Sources	$2,290.4	$2,116.3	$2,126.2	$2,280.6
Total Unrestricted Revenues	$11,985.5	$11,894.1	$11,651.7	$12,432.0
Restricted Accounts and Federal & Other Grants	900.5	750.0	972.6[h]	750.0
Total Revenue	$12,886.0	$12,644.1	$12,624.3	$13,182.0

	Actual Budget 2000-01[d]	Adopted Budget 2001-02[e]	Estimated Budget 2001-02[g]	Adopted Budget 2002-03[e]
Appropriations/Expenditures				
Legislative	$57.3	$59.8	$59.8	$63.2
General Government	565.2	462.7	461.2	472.7
Regulation & Protection	212.8	224.7	226.7	231.7
Conservation & Development	126.1	75.1	75.6	79.6
Health & Hospitals	1,132.2	1,213.6	1,218.1	1,267.1
Transportation	83.7	35.0	35.0	35.0
Human Services	3,552.6	3,494.4	3,515.4	3,659.8
Education, Libraries & Museums	3,101.0	2,772.3	2,772.3	2,897.3
Corrections	992.8	1,085.5	1,092.5	1,137.7
Judicial	339.1	384.1	384.1	399.4
Non- Functional				
Debt Service	975.9	1,031.4	1,020.9	1,060.2
Miscellaneous	1,078.0	1,159.1	1,178.1	1,234.5
Subtotal	$12,216.7	$11,997.7	$12,039.7	$12,538.2
Unallocated Lapse	(265.5)	(103.9)	(91.8)	(106.9)
Net Appropriations/Expenditures	$11,951.2	$11,893.9	$11,947.9	$12,431.4
Surplus (or Deficit) from Operations	$34.3	$0.1	($296.3)	$0.6
Miscellaneous Adjustments	(3.6)	0.0	(5.4)	0.0
Balance[c]	$30.7	$0.1	($301.7)	$0.6

NOTE: Columns may not add due to rounding.

(a) Reflects the combination of the phase-out in the Connecticut Succession Tax pursuant to Public Act No. 95-256 and changes to the federal estate pick-up tax pursuant to federal law P.L. 107-16.

(b) Transfer to Mashantucket Pequot and Mohegan Fund for Grants to towns.

(c) Per Section 4-30a of the Connecticut General Statutes, any unappropriated surplus, up to five percent of General Fund expenditures, shall be deposited into the Budget Reserve Fund.

(d) Per the Comptroller's unaudited annual report for fiscal year ended June 30, 2001. Expenditure figures for fiscal year 2000-2001 include the disposition of $576.2 million in surplus funds pursuant to Sections 47(a) and 47(w) of Special Act No. 01-1 of the June Special Session. The line item expenditures exclude expenditures of appropriations carried over from the prior fiscal year and include expenditures of appropriations carried over to the next fiscal year, as determined by the Office of Policy and Management.

(e) Per Special Act No. 01-1 of the June Special Session.

(f) Reflects Public Act No. 01-6 of the June Special Session which suspended the tax on hospital services for fiscal years 2001-02 and 2002-03.

(g) Per the Comptroller's monthly report for the period ending September 30, 2001.

(h) The figure reflected for Restricted Accounts and Federal & Other Grants reflects realized revenues through September 30, 2001 and does not reflect an estimate for the entire period. Additional revenues may be received with respect to Restricted Accounts and Federal & Other Grants. Expenditures of these grants are not included; the amount of such expenditures is generally the same as the amount of grants received.

NOTE: The information in **Appendix III-E** contains only projections and no assurances can be given that subsequent projections will not indicate changes in the items of revenue and expenditure and in the final result of the operations of the General Fund. Changes may also occur as the result of legislative action adjusting the budget or taking other actions which impact revenues or expenditures.

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