NEW ISSUE/REFUNDING ISSUE (See **RATINGS** herein)

$480,580,000
State of Connecticut
General Obligation Bonds

$265,000,000 General Obligation Bonds (2003 Series C)
$215,580,000 General Obligation Refunding Bonds (2003 Series D)

Series C Bonds Dated: **May 1, 2003** Due: As shown on inside front cover
Series D Bonds Dated: **Date of Delivery**

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 Series C Bonds will be payable on November 1, 2003 and semiannually thereafter on May 1 and November 1 in each year until maturity or earlier redemption. Interest on the Series D Bonds will be payable on February 1, 2004 and semiannually thereafter on August 1 and February 1 in each year until maturity. Interest is calculated on the basis of a 360-day year of twelve 30-day months at the annual rates described on the inside front cover. **The Series C Bonds are subject to redemption prior to maturity as more fully described herein. The Series D Bonds are not subject to redemption prior to maturity.**

The Bonds are issuable only as fully registered bonds, without interest coupons, in denominations of $5,000 or any integral multiple thereof. 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 U.S. Bank National Association, 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 maturities, interest rates and prices or yields.)

In the opinion of Bond Counsel, rendered in reliance upon and assuming the accuracy of and continuing compliance by the State with its representations and covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended, under existing law, interest on the Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the alternative minimum tax, such interest is taken into account in computing the alternative minimum tax, as described under **TAX EXEMPTION** *herein.*

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.

The Bonds are offered when, as and if issued and received by the Underwriters, 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 State by its Tax Counsel. Certain legal matters will be passed upon for the Underwriters by Underwriters' Counsel.

The **Series C** Bonds are expected to be available for delivery at DTC in New York, New York, on or about May 15, 2003.

The **Series D** Bonds are expected to be available for delivery at DTC in New York, New York, on or about August 20, 2003.

Honorable Denise L. Nappier
Treasurer of the State of Connecticut

UBS PaineWebber Inc.

Bear, Stearns & Co. Inc. **Siebert Brandford Shank & Co., L.L.C.**

Advest, Inc.	**ApexPryor Securities**	**CIBC World Markets**
Gates Capital Corporation	**Jackson Securities**	**Janney Montgomery Scott LLC**
JPMorgan	**Lehman Brothers**	**David Lerner Associates, Inc.**
Loop Capital Markets, LLC	**Merrill Lynch & Co.**	**Morgan Stanley**
M.R. Beal & Company	**Prudential Securities Inc.**	**Quick & Reilly, Inc.**
Ramirez & Co., Inc.	**Raymond James & Associates, Inc.**	**RBC Dain Rauscher Inc.**
Roosevelt & Cross, Inc.	**SBK-Brooks Investment Corp.**	**William Blair & Co., LLC**

Dated: May 7, 2003

$480,580,000
State of Connecticut
General Obligation Bonds

$265,000,000 General Obligation Bonds (2003 Series C)

May 1,	Amount	Interest Rate	Price or Yield	CUSIP
2004	$13,250,000	2.00%	1.02%	20772F4E7
2005	4,660,000	2.00	1.40	20772F4F4
2005	8,590,000	4.00	1.40	20772F4G2
2006	1,130,000	2.00	1.69	20772F4H0
2006	12,120,000	4.00	1.69	20772F4J6
2007	4,700,000	2.10	2.16	20772F4K3
2007	8,550,000	5.00	2.16	20772F4L1
2008	5,925,000	2.45	2.50	20772F4M9
2008	7,325,000	5.00	2.50	20772F4N7
2009	2,330,000	2.75	2.80	20772F4P2
2009	8,145,000	5.00	2.80	20772F4Q0
2010	16,025,000	3.00	3.08	20772F4R8
2011	5,000,000**	3.30	3.32	20772F4S6
2011	8,250,000**	5.00	3.32	20772F4T4
2012	2,000,000**	3.40	3.44	20772F4U1
2012	11,250,000**	5.00	3.44	20772F4V9
2013	5,500,000**	3.50	3.55	20772F4W7
2013	7,750,000**	5.00	3.55	20772F4X5
2014	810,000**	3.60	3.63	20772F4Y3
2014	12,440,000**	5.25	3.63*	20772F4Z0
2015	595,000**	3.70	3.73	20772F5A4
2015	12,655,000**	5.25	3.73*	20772F5B2
2016	100,000**	3.80	3.83	20772F5C0
2016	13,150,000**	5.25	3.83*	20772F5D8
2017	10,000**	3.95	3.96	20772F5E6
2017	13,240,000**	5.00	3.96*	20772F5F3
2018	3,525,000**	4.00	4.05	20772F5G1
2018	9,725,000**	5.00	4.05*	20772F5H9
2019	1,050,000**	4.10	4.14	20772F5J5
2019	12,200,000**	5.00	4.14*	20772F5K2
2020	180,000**	4.20	4.21	20772F5L0
2020	13,070,000**	5.00	4.21*	20772F5M8
2021	275,000**	4.25	4.28	20772F5N6
2021	12,975,000**	5.00	4.28*	20772F5P1
2022	13,250,000**	5.00	4.35*	20772F5Q9
2023	4,670,000**	4.40	4.41	20772F5R7
2023	8,580,000**	5.00	4.41*	20772F5S5

(plus accrued interest)

* Priced at the stated yield to the May 1, 2013 optional redemption date at a redemption price of 100%; however, any such redemption is at the optional election of the Treasurer. See **THE BONDS – Optional Redemption** herein.

** Payment of principal of and interest on the Series C Bonds noted with "**" (the "Series C Insured Bonds") will be insured in accordance with the terms of a financial guaranty insurance policy to be issued simultaneously with the delivery of the Series C Insured Bonds by Financial Guaranty Insurance Company. See **Bond Insurance - Series C Bonds maturing in 2011 through and including 2023** and **Appendix I-D – Series C - Information Concerning Bond Insurance And Specimen Policy** herein.

FGIC **Financial Guaranty Insurance Company**

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.

$480,580,000
State of Connecticut
General Obligation Bonds

$215,580,000 General Obligation Refunding Bonds (2003 Series D)

Maturity Date	Amount	Interest Rate	Price or Yield	CUSIP
February 1, 2004	**$ 4,780,000**	**3.00%**	**1.047%**	**20772F5U0**
August 1, 2004	**22,515,000**	**6.00**	**1.240**	**20772F5V8**
August 1, 2005	**31,505,000**	**5.00**	**1.470**	**20772F5W6**
August 1, 2006	**34,655,000**	**5.00**	**1.820**	**20772F5X4**
August 1, 2007	**33,110,000**	**5.00**	**2.250**	**20772F5Y2**
August 1, 2008	**27,435,000**	**5.00**	**2.550**	**20772F5Z9**
August 1, 2009	**29,155,000**	**5.00**	**2.820**	**20772F6A3**
August 1, 2010	**32,425,000**	**5.00**	**3.110**	**20772F6B1**

The scheduled payment of principal of and interest on the Series D Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series D Bonds by FINANCIAL SECURITY ASSURANCE INC. See **Bond Insurance - Series D Bonds** and **Appendix I-D – Series D - Information Concerning Bond Insurance And Specimen Policy** herein.

FSA®

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption **Bond Insurance - Series D Bonds** and **Appendix I-D – Series D - Information Concerning Bond Insurance And Specimen Policy** herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series D Bonds; or (iii) the tax exempt status of the interest on the Series D Bonds.

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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 UNDERWRITERS 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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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 $265,000,000 aggregate principal amount of its General Obligation Bonds (2003 Series C) and $215,580,000 aggregate principal amount of its General Obligation Refunding Bonds (2003 Series D) (the "Bonds").

Part I of this Official Statement, including the cover and inside front 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

$480,580,000 General Obligation Bonds

$265,000,000 General Obligation Bonds (2003 Series C) – New Money
$215,580,000 General Obligation Refunding Bonds (2003 Series D) - Refunding

THE BONDS

Description of the Bonds

The State of Connecticut (the "State") is issuing $480,580,000 General Obligation Bonds (the "Bonds"). The Bonds consist of $265,000,000 General Obligation Bonds (2003 Series C) (the "Series C Bonds") comprised of the following issues:

$ 75,570,000 General Obligation Bonds (2003 Series C-1)
$ 149,430,000 General Obligation Bonds (2003 Series C-2)
$ 40,000,000 General Obligation Bonds (2003 Series C-3)

and $215,580,000 General Obligation Refunding Bonds (2003 Series D) (the "Series D Bonds") comprised of the following issues:

$ 25,935,000 General Obligation Refunding Bonds (2003 Series D-1)
$ 57,810,000 General Obligation Refunding Bonds (2003 Series D-2)
$ 57,565,000 General Obligation Refunding Bonds (2003 Series D-3)
$ 74,270,000 General Obligation Refunding Bonds (2003 Series D-4)

The $265,000,000 Series C Bonds will be dated May 1, 2003, and will bear interest payable on November 1, 2003 and semiannually thereafter on May 1 and November 1 in each year, until maturity or earlier redemption, at the rate or rates indicated on the inside front cover page of this Official Statement.

The $215,580,000 Series D Bonds will be dated the date of delivery, and will bear interest payable on February 1, 2004 and semiannually thereafter on August 1 and February 1 in each year, until maturity at the rate or rates indicated on the inside front cover page of this Official Statement.

Interest on the Series C Bonds 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. The Series C Bonds are issuable only as fully registered bonds, without interest coupons, in denominations of $5,000 or any integral multiple thereof.

Interest on the Series D Bonds 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 July and January in each year or the preceding business day if such fifteenth day is not a business day. The Series D Bonds are issuable only as fully registered bonds, without interest coupons, in denominations of $5,000 or any integral multiple thereof.

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). The Series C Bonds are issued pursuant to resolutions adopted by the State Bond

Commission, and other proceedings related thereto, including a Certificate of Determination of the Treasurer. The Series D Bonds are issued pursuant to a Bond 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 U.S. Bank National Association, as Paying Agent, so long as DTC or its nominee, Cede & Co., is the Bondowner. See **Book-Entry-Only System** herein.

The $265,000,000 Series C Bonds are being issued for various projects and purposes and are authorized by the bond acts listed in **Appendix I-A**. Series C Bonds of each series will mature in the years and in the principal amounts set forth in the following table:

$265,000,000 Series C Bonds

		Series		Total
Maturity May 1,	2003 C-1	2003 C-2	2003 C-3	2003 Series C
2004…		$13,250,000		$13,250,000
2005…		13,250,000		13,250,000
2006…		13,250,000		13,250,000
2007…		13,250,000		13,250,000
2008…		13,250,000		13,250,000
2009…		10,475,000		10,475,000
2010…		16,025,000		16,025,000
2011…		13,250,000		13,250,000
2012…		13,250,000		13,250,000
2013…		8,250,000	$ 5,000,000	13,250,000
2014…			13,250,000	13,250,000
2015…			13,250,000	13,250,000
2016…		4,750,000	8,500,000	13,250,000
2017…		13,250,000		13,250,000
2018…	$ 9,320,000	3,930,000		13,250,000
2019…	13,250,000			13,250,000
2020…	13,250,000			13,250,000
2021…	13,250,000			13,250,000
2022…	13,250,000			13,250,000
2023…	13,250,000			13,250,000
TOTAL	$75,570,000	$149,430,000	$40,000,000	$265,000,000

The Series D Bonds are being issued for the purpose of refunding an aggregate principal amount of all or a portion of the callable maturities of certain outstanding State general obligation bonds as set forth in the "Plan of Refunding" described in **Appendix I-A**. Series D Bonds of each series will mature in the years and in the principal amounts set forth in the following table:

$215,580,000 Series D Bonds

	Series				Total
Maturity Date	**2003 D-1**	**2003 D-2**	**2003 D-3**	**2003 D-4**	**2003 Series D**
February 1, 2004…				**$4,780,000**	**$ 4,780,000**
August 1, 2004…				**22,515,000**	**22,515,000**
August 1, 2005…				**31,505,000**	**31,505,000**
August 1, 2006…			**$19,185,000**	**15,470,000**	**34,655,000**
August 1, 2007…			**33,110,000**		**33,110,000**
August 1, 2008…		**$22,165,000**	**5,270,000**		**27,435,000**
August 1, 2009…		**29,155,000**			**29,155,000**
August 1, 2010…	**$25,935,000**	**6,490,000**			**32,425,000**
TOTAL	**$25,935,000**	**$57,810,000**	**$57,565,000**	**$74,270,000**	**$215,580,000**

Optional Redemption

The Series C Bonds maturing after May 1, 2013 will be subject to redemption, at the election of the Treasurer, on or after May 1, 2013 at any time, in whole or in part prior to maturity. The redeemed Series C Bonds may be in such amounts and in such order of maturity and in such Series and bear such interest rate or rates (but by lot among Series C Bonds bearing the same interest rate within a maturity of a Series) as the Treasurer may determine. The respective redemption prices (expressed as percentages of the principal amounts of Series C Bonds to be redeemed) are set forth in the following table, to which will be added interest accrued and unpaid to the redemption date:

Redemption Date	**Redemption Price**
From May 1, 2013 and thereafter	100%

The Series D Bonds are **not** subject to redemption prior to maturity.

Notice of Redemption. Notice of redemption shall be mailed not less than thirty (30) nor more than sixty (60) days prior to the redemption date to the registered owner of such Series C Bond at such Series C Bondowner's address as it appears on the registration books of the State. So long as Cede & Co., as nominee of DTC, is the registered owner of the Series C Bonds, all notices of redemption will be sent only to DTC.

Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered Bond certificates will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, 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 and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as 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 both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com**.

Purchases of 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. Beneficial Owners are, however, 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 Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any 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 Direct and Indirect 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 DTC. 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. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. 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, and redemption premium, if any, with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the 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 nor its nominee, 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, and redemption premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as 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 a successor 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 provided by 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 C	Series D
Sources:		
Par Amount of Bonds	$265,000,000.00	$215,580,000.00
Plus: Original Issue Premium	17,420,884.00	20,105,632.50
Total Sources	$282,420,884.00	$235,685,632.50
Uses:		
Deposit to Refunding Escrow		$234,106,168.33
Underwriters' Discount	$ 1,398,761.93	860,713.73
Other Money Available to State	281,022,122.07	718,750.44
Total Uses	$282,420,884.00	$235,685,632.50

(Accrued Interest to be Added)

BOND INSURANCE

Series C Bonds maturing in 2011 through and including 2023. The State has received a commitment from Financial Guaranty Insurance Company ("FGIC") for a financial guaranty insurance policy with respect to the Series C Bonds which mature in 2011 through and including 2023 (the "FGIC Policy"). Under the FGIC Policy, a specimen copy of which is included as **Appendix I-D** hereto, FGIC guarantees the payment of the principal of, and interest on, the Series C Insured Bonds on the regularly scheduled due dates for the payment thereof. The FGIC Policy is non-cancelable, and the premium will be fully paid upon delivery of the Series C Bonds. For information concerning FGIC and a specimen copy of the FGIC Policy, see **Appendix I-D – Series C - Information Concerning Bond Insurance And Specimen Policy** hereto.

Series D Bonds. Concurrently with the issuance of the Series D Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Series D Bonds (the "FSA Policy"). The FSA Policy guarantees the scheduled payment of principal and interest on the Series D Bonds when due as set forth in the form of the FSA Policy included as **Appendix I-D – Series D - Information Concerning Bond Insurance And Specimen Policy** hereto. The FSA Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

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

Moody's Investors Service ("Moody's"), Standard & Poor's Rating Services ("S&P"), a division of the McGraw-Hill Companies, Inc. and Fitch Ratings ("Fitch") have assigned their municipal bond ratings of Aa2, AA and AA, respectively, to the Series C Bonds. The Moody's and S&P ratings each carry a "negative" credit outlook on the State's Bonds. The State's general obligation and related bond ratings remain on credit watch by Moody's for possible downgrade. Upon the issuance of the Series C Insured Bonds (see **BOND INSURANCE**) the State anticipates that ratings of "Aaa", "AAA" and "AAA" will be assigned by Moody's, S&P and Fitch, respectively, based on the bond insurance to be provided by Financial Guaranty Insurance Company simultaneously with the delivery of the Series C Bonds.

Moody's, S&P and Fitch have assigned their municipal bond ratings of Aa2, AA and AA, respectively, to the Series D Bonds. The Moody's and S&P ratings each carry a "negative" credit outlook on the State's Bonds. The State's general obligation and related bond ratings remain on credit watch by Moody's for possible downgrade. Upon the issuance of the Series D Bonds (see **BOND INSURANCE**) the State anticipates that ratings of "Aaa", "AAA" and "AAA" will be assigned by Moody's, S&P and Fitch, respectively, based on the bond insurance to be provided by Financial Security Assurance Inc. simultaneously with the delivery of the Series D Bonds.

Each such rating and such credit outlook reflects only the views of the respective rating agency, and an explanation of the significance of such rating and such credit outlook 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.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

McGladrey & Pullen LLP, independent certified public accountants, will deliver a report relating to (i) the accuracy of the mathematical computations regarding the adequacy of the cash and maturing principal of and interest earned on the Governmental Obligations deposited with the Escrow Holder, as defined in **Appendix I-A**, to pay, when due, the principal, redemption price and interest on the Refunded Bonds, as defined in **Appendix I-A**, and (ii) the yield on the Bonds and on certain investments considered by Bond Counsel in their determination that the interest on the Bonds is not included in gross income for Federal income tax purposes, as a condition to the delivery of the Bonds.

TAX EXEMPTION

Opinion of Bond Counsel and Tax Counsel - Federal Tax Exemption

In the opinion of Bond Counsel and Tax Counsel, under existing law, interest on the Bonds (a) is not included in gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the federal alternative minimum tax, such interest is taken into account in determining adjusted current earnings for purposes of computing the federal alternative minimum tax.

Bond Counsel's and Tax Counsel's opinions with respect to the Bonds will be rendered in reliance upon and assuming the accuracy of and continuing compliance by the State with its representations and covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The Code establishes certain requirements which must be met at and subsequent to the issuance of the Bonds in order that interest on the Bonds be and remain excluded from gross income of the owners thereof for federal income tax purposes. Failure to comply with the continuing requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of their issuance irrespective of the date on which such noncompliance occurs. In the Tax Compliance Agreement and the Tax Certificate, which will be delivered concurrently with the issuance of the Bonds, the State will covenant to comply with certain provisions of the Code and will make certain representations designed to assure compliance with such requirements of the Code.

Pursuant to Section 3-20 of the General Statutes of the State, as amended, the State covenants that it will at all times comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to ensure that interest on the Bonds shall not be included in the gross income of the owners thereof for federal income tax purposes, including covenants regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds.

No other opinion is expressed by Bond Counsel or Tax Counsel regarding the federal tax consequences of the ownership of, or the receipt or accrual of interest on, the Bonds.

Original Issue Discount

The initial public offering prices of the Bonds of certain maturities (the "OID Bonds") are less than their stated principal amounts. Under existing law, the difference between the stated principal amount and the initial offering price of each maturity of the OID Bonds to the public (excluding bond houses and brokers) at which a substantial amount of such maturity of the OID Bonds is sold will constitute original issue discount ("OID"). The offering prices relating to the yields set forth on the inside front cover page of this Official Statement for the OID Bonds are expected to be the initial offering prices to the public at which a substantial amount of each maturity of the OID Bonds are sold. Under existing law OID on the Bonds accrued and properly allocable to the owners thereof under the Code is not included in gross income for federal income tax purposes if interest on the Bonds is not included in gross income for federal income tax purposes.

Under the Code, for purposes of determining an owner's adjusted basis in an OID Bond, OID treated as having accrued while the owner holds the OID Bond will be added to the owner's basis. OID will accrue on a constant-yield-to-maturity method based on regular compounding. The owner's adjusted basis will be used to determine taxable gain or loss upon the sale or other disposition (including redemption or payment at maturity) of an OID Bond. For certain corporations (as defined for federal income tax purposes) a portion of the original issue discount that accrues in each year to such an owner of an OID Bond will be included in the calculation of the corporation's federal alternative minimum tax liability. As a result, ownership of an OID Bond by such a corporation may result in an alternative minimum tax liability even though such owner has not received a corresponding cash payment.

Prospective purchasers of OID Bonds should consult their own tax advisors as to the calculation of accrued OID, the accrual of OID in the cases of owners of the OID Bonds purchasing such Bonds after the initial offering and sale, and the state and local tax consequences of owning or disposing of such OID Bonds.

Original Issue Premium

The initial public offering prices of the Bonds of certain maturities (the "OIP Bonds") are more than their stated principal amounts. An owner who purchases a Bond at a premium to its principal amount must amortize bond premium as provided in applicable Treasury Regulations, and amortized premium reduces the owner's basis in the Bond for federal income tax purposes. Prospective purchasers of OIP Bonds should consult their tax advisors regarding the amortization of premium and the effect upon basis.

Other Federal Tax Matters

In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation, financial institutions, certain insurance companies, S corporations, foreign corporations subject to the branch profits tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Legislation affecting the exclusion from gross income of interest on bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the Bonds will not have an adverse effect upon the tax-exempt status or the market price of the Bonds.

State Taxes

In the opinion of Bond Counsel and Tax 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.

Accrued original issue discount on a Bond is also 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.

Owners of OID Bonds or OIP Bonds should consult their own tax advisors with respect to the determination for state and local income tax purposes of original issue discount or original issue premium accrued upon sale or redemption thereof, and with respect to the state and local tax consequences of owning or disposing of OID Bonds or OIP Bonds.

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.

General

The opinions of Bond Counsel and Tax Counsel are rendered as of their date and Bond Counsel and Tax Counsel assume no obligation to update or supplement their opinions to reflect any facts or circumstances that may come to their attention or any changes in law that may occur after the date of their opinions.

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 Underwriters' obligation to purchase the Bonds shall be conditioned upon their 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, and any supplements thereto, as of their dates, 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 and any supplements thereto. 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 provided by the Underwriters or the Bond Insurers.

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 the Official Statement, or any supplements thereto, 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, Tax Counsel and Underwriters' 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 C Bonds, and delivery of the Series C Bonds will be subject to the approving opinions of Bond Counsel as follows:

(a) Nixon Peabody LLP with respect to the $75,570,000 General Obligation Bonds (2003 Series C-1);

(b) Robinson & Cole LLP with respect to the $149,430,000 General Obligation Bonds (2003 Series C-2);

(c) Squire, Sanders & Dempsey L.L.P. with respect to the $40,000,000 General Obligation Bonds (2003 Series C-3);

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 D Bonds, and delivery of the Series D Bonds will be subject to the approving opinions of Bond Counsel as follows:

(a) Day, Berry & Howard LLP with respect to the $25,935,000 General Obligation Refunding Bonds (2003 Series D-1);
(b) Levy & Droney, P.C. with respect to the $57,810,000 General Obligation Refunding Bonds (2003 Series D-2);
(c) Robinson & Cole LLP with respect to the $57,565,000 General Obligation Refunding Bonds (2003 Series D-3);
(d) Squire, Sanders & Dempsey L.L.P. with respect to the $74,270,000 General Obligation Refunding Bonds (2003 Series D-4);

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 underwriters' 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 State by its Tax Counsel, Hunton & Williams LLP.

Certain legal matters will be passed upon for the Underwriters by their counsel, Lewis & Munday, a Professional Corporation, of Detroit, Michigan. Lewis & Munday, a Professional Corporation serves 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.

DELAYED DELIVERY OF SERIES D BONDS

Subject to the terms of the Purchase Contract between the State and the Underwriters, the State expects that the Series D Bonds will be delivered to the Underwriters on August 20, 2003, or such later date as may be mutually agreed upon by the State and the Underwriters (the "Settlement Date").

The obligation of the Underwriters to accept delivery of the Series D Bonds and to pay the purchase price thereof is subject to the following conditions among others:

(i) Delivery of the opinions of Bond Counsel with respect to the Series D Bonds in substantially the form of Appendix I-B to the Official Statement;
(ii) Delivery of the opinions of Bond Counsel, Disclosure Counsel and Underwriters' Counsel to the effect that the Series D Bonds constitute exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended, and Section 304(a)(4) of the Trust Indenture Act of 1939, as amended, and it is not necessary in connection with the public offering and sale of such Series D Bonds to register such Series D Bonds under such Securities Act or to qualify any indenture under such Trust Indenture Act; and
(iii) Delivery of the Municipal Bond Insurance Policy for the Series D Bonds by FSA to the Paying Agent in substantially the form of **Appendix I-D** attached hereto.

The market value of the Series D Bonds as of the Settlement Date may be affected by a variety of factors and could be substantially higher or lower than the price to be paid by the initial purchasers of the Series D Bonds.

Neither the State nor the Underwriters makes any representation as to the expected market price of the Series D Bonds as of the Settlement Date. Factors which could affect the value of the Series D Bonds include, but are not limited to, the following:

Ratings Risk. As stated above, delivery of the Series D Bonds on the Settlement Date is subject to delivery of the Municipal Bond Insurance Policy by FSA. No assurance can be given that the ratings currently applicable to municipal obligations insured by FSA or general obligations of the State will be the ratings in effect with respect to the Series D Bonds as of the Settlement Date and lower ratings could adversely affect the market value of the Series D Bonds.

General Market and Business Factors. The market value of the Series D Bonds as of the Settlement Date may be affected by general market conditions and the financial condition and business operations of the State and FSA.

Change of Law. As stated above, delivery of the Series D Bonds on the Settlement Date is subject to delivery of an opinion of Bond Counsel in substantially the form of Appendix I-B to the Official Statement, which includes an opinion to the effect that interest on the Series D Bonds is excludable from gross income for regular Federal income tax purposes. Changes in Federal tax law, while not precluding issuance of such an opinion by Bond Counsel, could reduce the value of the exclusion of interest from gross income or otherwise adversely affect the market value of the Series D Bonds. In addition, changes in law other than Federal tax law could adversely affect the market value of the Series D Bonds.

The Underwriters are not obligated to make a secondary market in the Series D Bonds prior to the Settlement Date or at any time thereafter.

UNDERWRITING

The aggregate initial offering price of the Series C Bonds to the public is $282,420,884.00 plus accrued interest. The Underwriters have jointly and severally agreed, subject to certain conditions precedent to closing, to purchase the Series C Bonds from the State at an aggregate purchase price of $281,022,122.07 plus accrued interest. The Underwriters will be obligated to purchase all the Series C Bonds, if any such Series C Bonds are purchased. The Series C Bonds may be offered and sold to certain dealers (including unit investment trusts and other affiliated portfolios of certain underwriters and other dealers depositing the Series C Bonds into investment trusts) at prices lower than such initial public offering prices, and such initial public offering prices may be changed, from time to time, by the Underwriters.

The aggregate initial offering price of the Series D Bonds to the public is $235,685,632.50. The Underwriters have jointly and severally agreed, subject to certain conditions precedent to closing, to purchase the Series D Bonds from the State at an aggregate purchase price of $234,824,918.77. The Underwriters will be obligated to purchase all the Series D Bonds, if any such Series D Bonds are purchased. The Series D Bonds may be offered and sold to certain dealers (including unit investment trusts and other affiliated portfolios of certain underwriters and other dealers depositing the Series D Bonds into investment trusts) at prices lower than such initial public offering prices, and such initial public offering prices may be changed, from time to time, by the Underwriters.

Effective June 9, 2003, UBS PaineWebber Inc. will be renamed UBS Financial Services Inc. Any previous reference to UBS PaineWebber Inc. related to this transaction will refer to UBS Financial Services Inc. as of that date.

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 7th day of May, 2003

/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. $ 75,570,000 General Obligation Bonds (2003 Series C-1)

1.	$	26,726,997	General State Purposes Bonds (2001 Special Session Act, Section 2(j), Series B) authorized by Section 2(j) of Special Act No. 01-2 of the General Assembly of the State of Connecticut, June 2001 Special Session, as amended.
2.	$	48,043,003	General State Purposes Bonds (2001 Special Session Act, Section 17(g), Series A) authorized by Section 17(g) of Special Act No. 01-2 of the General Assembly of the State of Connecticut, June 2001 Special Session, as amended.
3.	$	800,000	General State Purposes Bonds (2002 Special Session Act, Section 2(e), Series A) authorized by Section 2(e) of Special Act No. 02-1 of the General Assembly of the State of Connecticut, May 2002 Special Session, as amended.

B. $ 149,430,000 General Obligation Bonds (2003 Series C-2)

1.	$	101,811,468	General State Purposes Bonds (2001 Act, Sections 1 through 7, Series B) authorized by Sections 1 through 7 of Special Act No. 01-2 of the General Assembly of the State of Connecticut, June 2001 Special Session, as amended.
2.	$	16,000,000	General State Purposes Bonds (2002 Act, Sections 1 through 7, Series A) authorized by Sections 1 through 7 of Special Act No. 02-1 of the General Assembly of the State of Connecticut, May 2002 Special Session, as amended.
3.	$	9,118,532	General State Purposes Bonds (1995 Act, Sections 1 through 7, Series J) authorized by Sections 1 through 7 of Special Act No. 95-20 of the General Assembly of the State of Connecticut, January 1995 Session, as amended.
4.	$	22,500,000	Local Capital Improvement Fund Bonds (1987 Act, Sections 11 through 14, Series LL) authorized by Sections 11 through 14 of Public Act No. 87-584 of the General Assembly of the State of Connecticut, January 1987 Session, as amended.

C. $ 40,000,000 General Obligation Bonds (2003 Series C-3)

1.	$	5,000,000	Stadium Facility Bonds (1999 Act, Section 28, Series D) authorized by Section 28 of Public Act No. 99-241 of the General Assembly of the State of Connecticut, January 1999 Session, as amended.
2.	$	35,000,000	Capital City Convention Center Bonds (Series C) authorized by Section 32-614 of the General Statutes of the State of Connecticut, Revision of 1958, as amended.

PLAN OF REFUNDING

The Series D Bonds will be used to refund the following maturities and principal amounts of outstanding general obligation bonds on the dates and at the redemption prices set forth below (the "Refunded Bonds").

Series	Maturity Date	Principal Amount	Coupon	Call Date	Call Price	CUSIP
1993 Series A	11/15/04	$23,950,000	5.10%	11/15/03	102%	2077264B3
1993 Series A	11/15/05	$32,945,000	5.20%	11/15/03	102%	2077264C1
1993 Series A	11/15/06	$36,255,000	5.30%	11/15/03	102%	207726DH0[1]
1993 Series A	11/15/07	$34,920,000	5.40%	11/15/03	102%	207726DJ6[2]
1993 Series A	11/15/08	$29,485,000	5.50%	11/15/03	102%	2077264F4
1993 Series A	11/15/09	$31,485,000	5.60%	11/15/03	102%	2077264G2
1993 Series A	11/15/10	$35,075,000	5.60%	11/15/03	102%	2077264H0

Upon delivery of the Series D Bonds, the State and U.S. Bank National Association ("Escrow Holder"), will enter into an Escrow Agreement (the "Escrow Agreement") to provide for the refunding of the Refunded Bonds. Under the Escrow Agreement, the Escrow Holder will deposit in an irrevocable trust fund called the Escrow Deposit Fund the net proceeds of the Series D Bonds and will use such proceeds to purchase direct obligations of, or obligations guaranteed by, the United States of America or obligations of the Federal National Mortgage Association (the "Government Obligations"), the maturing principal of and interest on which will provide amounts sufficient to pay the principal, interest and redemption prices on the Refunded Bonds on the dates such payments are due. The Escrow Agreement permits the substitution of certain Government Obligations for other Government Obligations provided that the maturing principal of and interest on all Government Obligations held at any time under the Escrow Agreement will provide amounts sufficient to pay the principal, interest and redemption prices on the Refunded Bonds on the dates such payments are due. All investment income on and maturing principal of the Government Obligations held in the Escrow Deposit Fund and needed to pay the principal and premium of and interest on the Refunded Bonds will be irrevocably deposited by the State for payment of the Refunded Bonds.

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[1] Original CUSIP No. 2077264D9, representing the full maturity amount of $39,890,000, was changed when portion of bonds of this maturity were partially defeased in November 1999; $39,300,000 remains outstanding with CUSIP No. 207726DH0.

[2] Original CUSIP No. 2077264E7, representing the full maturity amount of $37,870,000, was changed when portion of bonds of this maturity were partially defeased in November 1999; $37,390,000 remains outstanding with CUSIP No. 207726DJ6.

Appendix I-B

SERIES C BONDS - FORM OF BOND COUNSEL OPINION

The opinion of each Bond Counsel with respect to the series of the Series C Bonds for which such firm has been appointed to serve as Bond Counsel will be dated the date of original issuance of the Series C 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 $__________ General Obligation Bonds (2003 Series C-) of the State of Connecticut (the "Bonds"). The Bonds are issued contemporaneously with other general obligation bonds of the State of Connecticut in the aggregate principal amount of $265,000,000.

The Bonds are dated as of May 1, 2003, mature on May 1 in the years, in the principal amounts and bear interest from their dated date, payable on November 1, 2003 and semiannually thereafter on May 1 and November 1 in each year until maturity**[or earlier redemption]**, at the rate or rates per annum, as follows:

Year	Principal Amount	Interest Rate

The Bonds are payable as to principal and redemption price, if any, at the office of U.S. Bank National Association, in Hartford, Connecticut. Interest on the Bonds is payable to the person in whose name such bond is registered 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, 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 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 March 28, 2003 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 Certificate and a Tax Compliance Agreement.

The Bonds are issuable in the form of registered bonds without coupons in denominations of $5,000 or any integral multiple of $5,000, 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 U.S. Bank National Association, 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 further of the opinion that the Tax Compliance Agreement is a valid and binding agreement of the State and that the Tax Certificate and the Tax Compliance Agreement were duly authorized by the State.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. In the Tax Compliance Agreement and the Tax Certificate the State has made covenants and representations designed to assure compliance with such requirements of the Code. The State has covenanted in the Tax Compliance Agreement that it will at all times comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to ensure that interest on the Bonds shall not be included in the gross income of the owners thereof for federal income tax purposes, retroactively to the date of issue or otherwise, including covenants regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds.

We are of the opinion that, under existing law, interest on the Bonds, (a) is not included in gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the federal alternative minimum tax, such interest is taken into account in determining adjusted current earnings for purposes of computing such tax.

In rendering the foregoing opinions regarding the federal income tax treatment of interest on the Bonds, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Certificate and the Tax Compliance Agreement, and (ii) continuing compliance by the State with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, or continues to be, excluded from gross income for federal income tax purposes, as provided in the covenants set forth in the Tax Compliance Agreement as to such matters. We also have relied upon the approving opinions of bond counsel with respect to the other general obligation bonds of the State of Connecticut issued contemporaneously with the Bonds in the aggregate principal amount of $265,000,000 as to the validity and legality of such bonds and as to the exclusion of the interest thereon from gross income of the owners thereof for federal income tax purposes.

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,

SERIES D BONDS - FORM OF BOND COUNSEL OPINION

The opinion of each Bond Counsel with respect to the series of the Series D Bonds for which such firm has been appointed to serve as Bond Counsel will be dated the date of original issuance of the Series D 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 $__________ General Obligation Refunding Bonds (2003 Series D-) of the State of Connecticut (the "Bonds"). The Bonds are issued contemporaneously with other general obligation bonds of the State of Connecticut in the aggregate principal amount of $__________.

The Bonds are dated as of the date of delivery, mature on February 1 or August 1 in the years, in the principal amounts and bear interest from their dated date, payable on February 1, 2004 and semiannually thereafter on August 1 and February 1 in each year until maturity, at the rate or rates per annum, as follows:

Year	Principal Amount	Interest Rate

The Bonds are payable as to principal and redemption price, if any, at the office of U.S. Bank National Association, in Hartford, Connecticut. Interest on the Bonds is payable to the person in whose name such bond is registered as of the close of business on the last business day of April and October in each year, 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 not subject to redemption prior to maturity.

The Bonds are refunding bonds authorized by Section 3-20(i) of the General Statutes of Connecticut, Revision of 1958, as amended. The Bonds are being issued for the purposes of refunding:

[HERE LIST REFUNDED BONDS]

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, a Bond Determination executed by the State Treasurer and filed with the Secretary of the State Bond Commission and a Tax Certificate and a Tax Compliance Agreement.

The Bonds are issuable in the form of registered bonds without coupons in denominations of $5,000 or any integral multiple of $5,000, 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 U.S. Bank National Association, 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 further of the opinion that the Tax Compliance Agreement is a valid and binding agreement of the State and that the Tax Certificate and the Tax Compliance Agreement were duly authorized by the State.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. In the Tax Compliance Agreement and the Tax Certificate the State has made covenants and representations designed to assure compliance with such requirements of the Code. The State has covenanted in the Tax Compliance Agreement that it will at all times comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to ensure that interest on the Bonds shall not be included in the gross income of the owners thereof for federal income tax purposes, retroactively to the date of issue or otherwise, including covenants regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds.

We are of the opinion that, under existing law, interest on the Bonds, (a) is not included in gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the federal alternative minimum tax, such interest is taken into account in determining adjusted current earnings for purposes of computing such tax.

In rendering the foregoing opinions regarding the federal income tax treatment of interest on the Bonds, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Certificate and the Tax Compliance Agreement, and (ii) continuing compliance by the State with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, or continues to be, excluded from gross income for federal income tax purposes, as provided in the covenants set forth in the Tax Compliance Agreement as to such matters. We also have relied upon the approving opinions of bond counsel with respect to the other general obligation bonds of the State of Connecticut issued contemporaneously with the Bonds in the aggregate principal amount of $__________ as to the validity and legality of such bonds and as to the exclusion of the interest thereon from gross income of the owners thereof for federal income tax purposes.

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[August], 2003 by the State of Connecticut (the "State") acting by its undersigned officer, duly authorized, in connection with the issuance of [$265,000,000 General Obligation Bonds (2003 Series C) dated May 1, 2003] [$215,580,000 General Obligation Refunding Bonds (2003 Series D) dated as of the date hereof](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 May __, 2003 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) 771-7390
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, 2003) 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

SERIES C - INFORMATION CONCERNING BOND INSURANCE AND SPECIMEN POLICY

The information contained in this **Appendix I-D** with respect to the Series C Bonds which mature in the years 2011 through and including 2023 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 Series C Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Series C Bonds which mature in the years 2011 through and including 2023 (the "Series C Insured 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 Series C Insured 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 U.S. Bank Trust National Association, 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 Series C Insured 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-cancellable 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 Series C Insured 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 Series C Insured 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 may contain 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 Series C Insured 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 Electrical 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, 2002, the total capital and surplus of Financial Guaranty was approximately $978 million. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained in 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 for Financial Guaranty follows:

Exhibit A

Financial Guaranty Insurance Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

Municipal Bond
New Issue Insurance Policy

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

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 U.S. Bank Trust National Association 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
125 Park Avenue
New York, NY 10017
(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.

SPECIMEN

Deborah M. Reif

President

Effective Date:

Authorized Representative

U.S. Bank Trust National Association acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Endorsement

To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

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.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017
(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

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
U.S. Bank Trust National Association, 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

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
U.S. Bank Trust National Association, as Fiscal Agent

SERIES D BONDS - INFORMATION CONCERNING
BOND INSURANCE AND SPECIMEN POLICY

The information contained in this **Appendix I-D** with respect to the Series D Bonds has been furnished by Financial Security Assurance Inc. for use in this Official Statement. The State takes no responsibility for the accuracy thereof.

Bond Insurance Policy

Concurrently with the issuance of the Series D Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Series D Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Series D Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2003, Financial Security's total policyholders' surplus and contingency reserves were approximately $1,932,647,000 and its total unearned premium reserve was approximately $1,077,095,000 in accordance with statutory accounting principles. At March 31, 2003, Financial Security's total shareholders' equity was approximately $2,043,103,000 and its total net unearned premium reserve was approximately $904,700,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Series D Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Series D Bonds or the advisability of investing in the Series D Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

SPECIMEN INSURANCE POLICY

A specimen bond insurance policy for Financial Security follows:

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: -N

BONDS: $ in aggregate principal amount of

Effective Date:

Premium: $

SPECIMEN

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on 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 unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer 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. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature] FINANCIAL SECURITY ASSURANCE INC.

By ____________________ By ____________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd. (212) 826-0100
350 Park Avenue, New York, N.Y. 10022-6022

Form 500NY (5/90)

Appendix I-E

Form of Delayed Delivery Contract

_____________, 2003

UBS PaineWebber Inc.
as Representative of the
Underwriters named on
Appendix A hereto

Re: $215,580,000 State of Connecticut General Obligation Refunding Bonds (2003 Series D) (the *Bonds*)

Ladies and Gentlemen:

The undersigned (the *Purchaser*) hereby agrees to purchase from the above referenced underwriters (the *Underwriters*), when, as, and if issued and delivered to the Underwriters by the State of Connecticut (the *State*), and the Underwriters agree to sell to the Purchaser:

Par Amount	Maturity Date	Interest Rate	CUSIP Number	Yield	Price

… of the above-referenced Bonds offered by the State under the Preliminary Official Statement dated April 28, 2003 (the *Preliminary Official Statement*) and the Supplement thereto dated May 6, 2003 (the *Supplement*), and the Official Statement dated May 7, 2003 (the *Official Statement*), receipt and review of copies of which is hereby acknowledged, at the purchase price (plus accrued interest, if any, from the date of initial delivery of the Bonds), and with the interest rates, principal amounts, and maturity dates shown above, and on the further terms and conditions set forth in this Delayed Delivery Contract. Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Official Statement.

The Purchaser hereby purchases and agrees to accept delivery of such Bonds from the Underwriters on or about August 20, 2003 (the *Settlement Date*).

Payment for the Bonds which the Purchaser has agreed to purchase on the Settlement Date shall be made to the Underwriters or upon their order on the Settlement Date upon delivery to the Purchaser of the Bonds then to be purchased by the Purchaser through the book-entry system of The Depository Trust Company.

The obligation of the Purchaser to take delivery hereunder shall be unconditional except in the event that between the date of this delayed delivery contract and the Settlement Date one of the following events shall have occurred and not been waived by the Underwriters.

(i) Bond Counsel shall not deliver their opinions with respect to the 2003 Series D Bonds to the Underwriters in substantially the form of Appendix I-B to the Preliminary Official Statement; or

(ii) Bond Counsel, Disclosure Counsel and Underwriters' Counsel shall not deliver their opinions to the Underwriters to the effect that the Bonds constitute exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended, and Section 304(a)(4) of the Trust Indenture Act of 1939, as amended, and it is not necessary in connection with the public offering and sale of such Bonds to register such Bonds under such Securities Act or to qualify any indenture under such Trust Indenture Act; or

(iii) the Bond Insurer shall not deliver its Municipal Bond Insurance Policy in substantially the form of Appendix I-C to the Supplement.

The Purchaser acknowledges and agrees that the Bonds are being sold on a "forward" basis for delivery on the Settlement Date and that the Purchaser is obligated to take up and pay for the Bonds on the Settlement Date unless one of the events described above shall have occurred and not been waived by the Underwriters. The Purchaser acknowledges that it will not be able to withdraw its order as described herein, and will not otherwise be excused from performance of its obligations to take up and pay for the Bonds on the Settlement Date because of market or credit changes, including specifically, but not limited to (a) changes in the ratings anticipated to be assigned to the Bonds or in the credit associated with the Bonds generally, and (b) changes in the financial condition, operations, performance, properties or prospects of the State from the date hereof to the Settlement Date. The Purchaser acknowledges and agrees that it will remain obligated to purchase the Bonds in accordance with the terms hereof, even if the Purchaser decides to sell such Bonds following the date hereof, unless the Purchaser sells such Bonds to another financial institution with the prior written consent of the Underwriters and such financial institution provides a written acknowledgment of confirmation of purchase order in the same form as that executed by the Purchaser.

The Purchaser represents and warrants that, as of the date of this Delayed Delivery Contract, the Purchaser is not prohibited from purchasing the Bonds hereby agreed to be purchased by it under the laws of the jurisdiction to which the Purchaser is subject.

This Delayed Delivery Contract will inure to the benefit of and be binding upon the parties hereto and their respective successors, but will not be assignable by either party without the prior written consent of the other.

The Purchaser acknowledges that the Underwriters are entering into an agreement with the State to purchase the Bonds in reliance in part on the performance by the Purchaser of its obligations hereunder.

The Purchaser agrees that it will at all times satisfy the minimum initial and maintenance margin requirements of Regulation T of the Board of Governors of the Federal Reserve System, Rule 431 of the New York Governors of the Federal Reserve System, Rule 431 of the New York Stock Exchange, Inc., and any other margin regulations applicable to the Underwriters.

This Delayed Delivery Contract may be executed by either of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

It is understood that the acceptance by the Underwriters of any Delayed Delivery Contract (including this one) is in the Underwriters' sole discretion and that, without limiting the foregoing, acceptances of such contracts need not be on a first-come, first-served basis. If this Delayed Delivery Contract is acceptable to the Underwriters, it is requested that the Underwriters sign the form of acceptance below and mail or deliver one of the counterparts hereof to the Purchaser at its address set forth below. This will become a binding contract between the Underwriters and the Purchaser when such counterpart is so mailed or delivered by the Underwriters. This Delayed Delivery Contract does not constitute a customer confirmation pursuant to Rule G-15 of the Municipal Securities Rulemaking Board.

The State shall be deemed a third party beneficiary of this Delayed Delivery Contract.

This Delayed Delivery Contract shall be construed and administered under the laws of the State of New York.

____
Purchaser

____
Address

____
Telephone

By: ________________________________

Name: _____________________________

Title: ______________________________

Accepted:

UBS PaineWebber Inc.
as Representative

By: ________________________________

Name: _____________________________

Title: ______________________________

Appendix A
to
Delayed Delivery Contract
with respect to
$215,580,000
State of Connecticut General Obligation Refunding Bonds (2003 Series D)

Underwriters

UBS PaineWebber Inc.
Bear, Stearns & Co. Inc.
Siebert Brandford Shank & Co., L.L.C.
Advest, Inc.
Apex, Pryor Securities
CIBC World Markets
Gates Capital Corporation
Jackson Securities
Janney Montgomery Scott LLC
JPMorgan
Lehman Brothers
David Lerner Associates, Inc.
Loop Capital Markets, LLC
Merrill Lynch & Co.
Morgan Stanley
M.R. Beal & Company
Prudential Securities Inc.
Quick & Reilly, Inc.
Ramirez & Co, Inc.
Raymond James & Associates, Inc.
RBC Dain Rauscher Inc.
Roosevelt & Cross, Inc.
SBK-Brooks Investment Corp.
William Blair & Co., LLC

PART II

INFORMATION SUPPLEMENT

OF THE STATE OF CONNECTICUT

May 7, 2003

The Annual Information Statement of the State of Connecticut (the "State"), dated December 1, 2002, modified February 28, 2003, appears in this Official Statement as **Part III** and contains information through December 1, 2002. 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 December 1, 2002 Annual Information Statement through May 7, 2003. 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-24. The following information is added following the caption ***Fiscal Year 2002–2003 Operations:***

On December 6, 2002, the Governor called for a special session to be convened on December 18, 2002, to enact legislation necessary to adjust the state budget for fiscal year 2002-2003. On the same date, the Governor issued a plan to address the budget shortfall. In general, the Governor's plan called for $200 million in expenditure reductions and $200 million in revenue enhancements for the General Fund. In addition, the Governor specified that $100 million in additional expenditure reductions would be necessary should employee concessions regarding wages and benefits not materialize. Based upon the lack of progress in terms of the State Employees Bargaining Agent Coalition (SEBAC) the Governor initiated the process of laying off almost 3,000 state employees on December 6th. The special session did not enact legislation to address the budget shortfall. The budget gap continued to widen as the regular session of the General Assembly was convened in January 2003.

The adopted Midterm Budget Adjustments for the 2002-03 fiscal year anticipated General Fund expenditures of $12,091.8 million. Per Section 3-115 of the Connecticut General Statutes, the State's fiscal position is reported monthly to the Comptroller. This report compares the revenues already received and the expenditures already made to the estimated revenues to be collected and estimated expenditures to be made during the balance of the fiscal year. Per the Comptroller's monthly report for the period ending January 31, 2003, based on the estimate of the Office of Policy and Management, there was an estimated $628.3 million budget deficit for the 2002-2003 fiscal year. The deficit was comprised of a $387.6 million revenue shortfall and $240.7 million in higher than anticipated expenditures. The shortfall in revenue is primarily due to lower personal income tax collections, down $421.0 million and the sales and use tax, down $81.9 million. These shortfalls were partially offset by higher than anticipated collections under the corporation tax and from federal grants. The expenditure increases are due primarily to deficiencies in the Department of Social Services and the fact that the Administration is no longer anticipating savings of $94 million in union concessions.

On February 28, 2003, Governor Rowland signed into law House Bill No. 6495. This bill included numerous tax and expenditure changes aimed at mitigating this year's projected budget deficit. Included in the bill, according to estimates of the Office of Policy and Management, are approximately $485 million in revenue enhancements for the 2002-2003 fiscal year and approximately $108 million in attainable expenditure reductions. The most significant revenue changes include an increase in the personal income tax by increasing the top tax rate from 4.5% to 5.0%, reducing or eliminating various exemptions under the sales and use tax, imposing a one year 20% surtax on corporate earnings, increasing the cigarette tax from $1.11 per pack to $1.51 per pack, and a one-time transfer of $72 million from the resources of the Special Transportation Fund.

The most significant contributions to expenditure reductions include: various spending cuts totaling $63.4 million; layoff and anticipated early retirement savings of $44.2 million; lapsing unsettled collective bargaining funds of $18.7 million; and lapsing a reserve of $29.5 million for salary adjustments. In late February 2003, the Office of Policy and Management estimated that with the changes contained in House Bill No. 6495 the State's projected deficit would be erased and the result would be a surplus of $39.7 million. If certain proposals contained in the Governor's recommended budget for fiscal years 2003-2004 and 2004-2005 are made, the Office of Policy and Management estimated that the surplus would increase by an additional $8.1 million. According to the State Comptroller's monthly report dated March 3, 2003, the deficit reduction plan approved by the legislature and Governor would still result in an anticipated deficit of $32.6 million for fiscal year 2002-2003.

Pursuant to Section 4-66 of the Connecticut General Statutes, the Office of Policy and Management provides estimates of revenues and expenditures for the current fiscal year by the twentieth day of each month to the Comptroller for use by the Comptroller in preparing the Comptroller's monthly report. In the monthly estimates provided by the Office of Policy and Management on March 20, 2003, as of February 28, 2003 General Fund revenues were estimated at $12,174.3 million, General Fund expenditures and miscellaneous adjustments were estimated at $12,161.2 million, and the General Fund surplus for the 2002-2003 fiscal year was estimated at $15.1 million. On April 1, 2003, the Comptroller estimated a General Fund deficit of $47.4 million for the 2002-2003 fiscal year. In the monthly estimates provided by the Office of Policy and Management on April 20, 2003, as of March 31, 2003 General Fund revenues are estimated at $12,114.8 million, General Fund expenditures and miscellaneous adjustments are estimated at $12,181.0 million, and the General Fund deficit for the 2002-2003 fiscal year is estimated at $66.2 million. On May 1, 2003, the Comptroller estimated a deficit of $101.0 million for the 2002-2003 fiscal year.

See **Appendix III-E** to this **Part II** for more information concerning fiscal year 2002-2003.

The above projections are only estimates and the information in **Appendix III-E** to this **Part II**, in the monthly letter and estimates of the Office of Policy and Management to the Comptroller, 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 2002-03 operations of the General Fund.

Governor's Recommended Budget for Fiscal Years 2003-2004 and 2004-2005

Due to the deliberations of the General Assembly on a fiscal 2002-2003 deficit mitigation plan, the Governor's budget proposal for fiscal year 2003-2004 and 2004-2005 was delayed to March 4, 2003. The deficit mitigation plan contained in House Bill No. 6495 contains many elements that will strengthen the state's fiscal position over the biennium and the Governor's budget proposal for the biennium required incorporation of those changes contained in House Bill 6495.

The Governor's General Fund budget proposal for fiscal year 2003-2004 assumes revenues of $12,477.0 million and appropriations of $12,476.5 million, resulting in a projected surplus of $0.5 million. For fiscal year 2004-2005, the Governor's budget proposal assumes revenues of $13,026.7 million and appropriations of $13,026.4 million, resulting in a projected surplus of $0.3 million.

The Governor's budget proposal assumes the following more significant revenue changes and the revenue changes estimated for, respectively, fiscal year 2003-2004 and fiscal year 2004-2005: reduction of the $500 property tax credit to $400, estimated to bring in $68.0 million and $69.4 million; phase-out of the $100 minimum property tax credit for $12.0 million and $12.2 million; elimination of the hospital sales tax at a cost of $115.7 million and $116.4 million; imposing a 10% corporation tax surcharge for income year 2004, estimated at $22.8 million and $12.3 million; increasing the real estate conveyance tax rates for $25 million each year; deferring the inheritance tax phase-down for two years at $11.0 million and $26.0 million; and a number of fund transfers totaling $156.5 million and $226.5 million.

The Governor's budget proposal assumes the following significant expenditure changes for fiscal year 2003-2004: a debt service increase of $203.4 million, due partly to the fiscal year 2001-2002 deficit financing; an estimated $132.1 million in savings from an early retirement incentive program; a savings of $83.2 million from elimination of the state administered general assistance program; and an increase of $63.9 million in Medicaid spending. For fiscal year 2004-2005, more significant expenditure changes include: an increase in debt service of $158.8 million, again due in large part to deficit financing for fiscal year 2001-2002; an increase of $154.3 million due to various programmatic and expenditure changes in Medicaid; and savings of $58.9 million from elimination of funding for unsettled collective bargaining contracts.

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 biennial budget proposal for fiscal 2003-2004 remains $333.0 million below the expenditure cap and for fiscal 2004-2005, $65.6 million below the expenditure cap.

The Governor's proposed budget also includes a net increase in general obligation bond authorizations of $799.8 million to take effect in fiscal 2003-2004 and $950.7 million to take effect in fiscal 2004-2005. These increases are in addition to $100 million in fiscal 2003-2004 and $100 million in fiscal 2004-2005 that are existing UCONN authorizations which take effect in such fiscal years. Recommended revenue bond authorizations would not increase in fiscal 2003-2004 nor in fiscal 2004-2005. In addition, special transportation bond authorizations would increase in fiscal 2003-2004 by $242.7 million and in fiscal 2004-2005 by $195 million.

Deliberations on the Governor's budget recommendations are expected to continue throughout the legislative session with an expected adjournment date of June 4, 2003.

See **Appendix III-E** of this **Part II** for more information regarding the Governor's Proposed Budget for fiscal years 2003-2004 and 2004-2005.

STATE DEBT

Pages III-30 TABLE 7, III-34 TABLE 8 and III-36 TABLE 10.

On December 13, 2002 the State issued $219,235,000 General Obligation Economic Recovery Notes to fund the deficit for the 2001-2002 fiscal year. The Notes comprised $149,095,900 Series A Notes and $70,140,000 Series B Auction Notes. The Series A Notes were dated December 1, 2002 and mature on

December 1, in varying amounts, from 2003 to 2006 and bear interest at interest rates ranging from 2.00% to 4.00% per annum. The Series B Auction Notes were dated the day of delivery and mature on December 1, 2007 with a partial sinking fund redemption on December 1, 2006. On April 15, 2003 the State issued its $77,700,000 Floating Rate General Obligation Amortising Notes. The Notes mature on April 30, in varying amounts, from 2004 to 2013 and bear interest at interest rates which vary quarterly based on 21 basis points above three-month LIBOR rates. On April 30, 2003 the State issued $300,000,000 General Obligation Bonds, dated April 15, 2003 and maturing on April 15 in the amount of $15,000,000 annually from 2004 to 2023, and bearing interest at interest rates ranging from 2.70% to 5.70% per annum. On April 30, 2003 the State also issued $70,385,000 General Obligation Refunding Bonds, dated April 15, 2003 and maturing on April 15 in various amounts annually from 2004 to 2007, and bearing interest at interest rates ranging from 4.00% to 6.00% per annum.

OTHER FUNDS, DEBT AND LIABILITIES

Page III-51. The following information is added to footnote (d):

The Authority has been notified that certain rating agencies are considering possible reductions in its AAA or Aaa ratings if the Governor's budget proposal to transfer $40 million from the Authority to the State in each year of the 2003-2005 biennium is adopted. (See **Appendix III-E** to this **Part II,** Note (p) (v)).

LITIGATION

Pages III-57 to 59. The following information is added with respect to the following litigation matters:

In ***Sheff v. O'Neill*** the parties have reached a settlement that the legislature and the court have approved. Under the settlement agreement, the State will be obligated, over the next four years to, among other things, open two new magnet schools in the Hartford area each year, substantially increase the voluntary interdistrict busing program in the Hartford area, and work collaboratively with the plaintiffs in planning for the period after the four year duration of the proposed order. The anticipated additional costs of the proposed order over current expenditures, exclusive of school renovation/construction costs, are approximately $4.5 million in the first year, $9.0 million in the second year, $13.5 million in the third year, and $18.0 million in the fourth year, for a total additional cost of $45.0 million.

The Connecticut Traumatic Brain Injury Association, Inc. v. Hogan. Following the entry of judgment for the defendants on all pending claims in November 2002, the plaintiffs did not appeal the decision.

Johnson v. Rowland. The trial has now been scheduled for April 2004.

Hospital Tax Cases. The appeal to the Supreme Court was heard in January 2003 and is awaiting a decision.

Association for Retarded Citizens of Connecticut, Inc. v. O'Meara. The District Court recently granted plaintiff's motion for class certification and discovery is proceeding.

Seymour v. Region One Board of Education is a case in which the plaintiff property owners in Canaan claim that Section 10-51(b) of the Connecticut General Statutes, which sets out the cost allocation formula for towns comprising regional school districts, denies Canaan taxpayers equal protection because Canaan is one of the poorest towns in the district. Since all towns in the district pay the same per pupil charge, the plaintiffs allege that they must bear an inequitable tax burden. They seek to enjoin the present statutorily-mandated system and to have the Court order the regional board to devise a formula more favorable to them. The Superior Court dismissed the case as nonjusticiable, but the Connecticut Supreme Court reversed and remanded. The case remains pending.

Town of Andover v. Ryan is a case in which twelve municipalities have sought a mandamus to compel the Secretary of the Office of Policy and Management to certify to the Comptroller of the State the amount due each municipality under the provisions of Section 12-94b of the Connecticut General Statutes so that the grant amounts can be distributed. If applied to all municipalities, at issue is approximately $68 million in PILOT grants. This case was withdrawn on April 8, 2003.

Town of Andover v. Wyman is a case in which fourteen municipalities have sought a mandamus to compel the Comptroller to pay them grants under the provisions of Section 13a-175 et seq. of the Connecticut General Statutes. If applied to all municipalities, at issue is approximately $12.5 million in town road aid. This case was withdrawn on April 8, 2003.

S***tate Employees Bargaining Agent Coalition v. Rowland*** is a Federal District Court case in which a purported class of laid off State employees have sued the Governor and the Secretary of the Office of Policy and Management alleging that they were laid off in violation of their constitutional rights. The plaintiffs claim back wages, damages, attorneys fees and costs.

Rabin v. Wilson-Coker is a purported class action filed in the United States District Court pursuant to 42 U.S.C. section 1983 in which the plaintiffs assert that the defendant Commissioner of the Department of Social Services has violated federal law by implementing Public Act No. 03-02, which limits eligibility for Medicaid benefits under Connecticut's Husky A for Families coverage program to individuals with income of up to 100% of the federal poverty level. State law previously provided such benefits to individuals with income of up to 150% of the federal poverty level. The plaintiffs specifically claim that the Commissioner provided defective notices, that the plaintiffs were deprived of due process, and they are entitled to a continuation of benefits for a longer period of time than the state Act provides. The number of individuals alleged to be affected is approximately 30,000. On March 31, 2003, the Court issued a temporary restraining order enjoining the Commissioner from terminating the plaintiffs' continued receipt of Medicaid benefits under the Husky A for Families program unless and until they are given notice that complies with applicable law.

APPENDIX III-E

Appendix III-E to this **Part II** reflects the Governor's Proposed Biennial Budget for fiscal years 2003-2004 and 2004-2005. It also reflects the Midterm Budget Adjustments for fiscal year 2002-2003, using revenue estimates provided by the Office of Policy and Management, the estimated General Fund revenues and expenditures for the fiscal year 2002-2003, as estimated by the Office of Policy and Management before and shortly after adoption of legislation to address the budget gap. It does ***not*** include the estimates of the Office of Policy and Management in a letter dated March 20, 2003, described above on **Page II-2** of this **Part II**, which estimated a General Fund surplus of $15.1 million for the 2002-2003 fiscal year; and it does ***not*** include the estimate of the Comptroller in a letter dated April 1, 2003, described above on **Page II-2** of this **Part II**, which estimated a General Fund deficit of $47.4 million for the 2002-2003 fiscal year. It does ***not*** include the estimates of the Office of Policy and Management in a letter dated April 20, 2003, described above on **Page II-2** of this **Part II** which estimates a General Fund deficit of $66.2 million for the 2002-2003 fiscal year; and it does ***not*** include the estimate of the Comptroller in a letter dated May 1, 2003, described above on **Page II-2** of this **Part II** which estimates a General Fund deficit of $101.0 million for the 2002-2003 fiscal year.

GENERAL FUND REVENUES AND EXPENDITURES
MIDTERM BUDGET ADJUSTMENTS FOR FISCAL YEAR 2002-03
ESTIMATED BUDGET FOR FISCAL YEAR 2002-03
REVISED ESTIMATED BUDGET PER H.B. 6495 FOR FISCAL YEAR 2002-03
GOVERNOR'S PROPOSED BIENNIAL BUDGET
FOR FISCAL YEARS 2003-04 AND 2004-05
(In Millions)

	Mid-Term Budget Adjustments 2002-03[d]	Estimated Budget 2002-03[k]	OPM Estimate Per HB 6495 2002-03[n] [q]	Governor's Proposed Budget 2003-04[n][p] [q]	Governor's Proposed Budget 2004-05[n][p] [q]
Revenues					
Taxes					
Personal Income Tax	$4,553.0	$4,132.0	$4,372.5	$4,753.3	$5,025.1
Sales & Use	3,141.3	3,059.4	3,096.4	3,288.8	3,467.3
Corporation	470.4[e]	508.8[e]	561.4	554.4	542.3
Public Service	172.9	170.8	186.0	179.6	183.0
Inheritance & Estate[a]	143.5	165.0	165.0	141.0	101.0
Insurance Companies	218.0[f]	224.8[f]	224.8	233.0	238.8
Cigarettes	237.0[f]	241.5[f]	270.2	309.0	301.3
Real Estate Conveyance	111.0	123.5	135.5	142.3	135.0
Oil Companies	77.5[g]	88.9[g]	108.9	65.2	68.4
Alcoholic Beverages	42.0	42.0	42.0	42.2	42.4
Admissions and Dues	28.5	29.0	29.0	28.5	29.3
Miscellaneous	37.9	25.0	25.0	28.3	25.9
Total Taxes	$9,233.0	$8,810.7	$9,216.7	$9,765.6	$10,159.8
Less Refunds of Taxes	($794.6)	($787.0)	($787.0)	($805.0)	($823.0)
Less R&D Credit Exchange	(14.0)	(14.0)	(14.0)	(23.4)	(21.0)
Net Taxes	$8,424.4	$8,009.7	$8,415.7	$8,937.2	$9,315.8
Other Revenues					
Transfers- Special Revenues	273.0	268.9	268.9	274.3	279.8
Indian Gaming Payments	399.0	390.0	390.0	409.5	430.0
Licenses, Permits, Fees	128.5	128.8	128.8	147.5	136.7
Sales of Commodities & Services	31.0	30.9	30.9	31.5	32.1
Rents, Fines & Escheats	88.4[h]	83.2[h]	83.2	67.1	69.5
Investment Income	28.0	13.6	13.6	16.0	23.2
Miscellaneous	121.0	114.7	114.7	117.7	118.8
Less Refunds of Payments	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Total Other Revenue	$1,068.4	$1,029.6	$1,029.6	$1,063.1	$1,089.6
Other Sources					
Federal Grants	2,303.2	2,362.4	2,348.6	2,324.7	2,399.3
Transfers to the Resources of the G.F.	284.1[i]	287.1[i]	358.6	160.0	160.0
Transfers from Tobacco Settlement Funds	133.0	130.0	130.0	112.0	112.0
Transfers to Other Funds[b]	(121.2)	(114.5)	(93.0)	(120.0)	(50.0)
Total Other Sources	$2,599.1	$2,665.0	$2,744.2	$2,476.7	$2,621.3
Total Unrestricted Revenues	$12,091.9	$11,704.3	$12,189.5	$12,477.0	$13,026.7
Restricted Federal & Other Grants	750.0	1,653.2[l]	1,743.2	750.0	750.0
Total Revenue	$12,841.9	$13,357.5	$13,932.7	$13,227.0	$13,776.7

	Mid-Term Budget Adjustments 2002-03[(d)]	Estimated Budget 2002-03[(k)]	OPM Estimate Per HB 6495 2002-03[(n) (q)]	Governor's Proposed Budget 2003-04[(n)(p) (q)]	Governor's Proposed Budget 2004-05[(n)(p) (q)]
Appropriations/Expenditures					
Legislative	$60.8	$59.6	$60.8	$68.9	$72.2
General Government	451.9	451.9	424.7	402.5	406.9
Regulation & Protection	228.9	228.9	221.5	220.5	221.6
Conservation & Development	71.4	71.4	70.8	81.8	85.8
Health & Hospitals	1,246.4	1,252.7	1,234.5	1,240.8	1,273.0
Transportation	0.0	0.0	0.0	0.0	0.0
Human Services	3,687.4	3,784.1	3,752.7	3,766.0	3,895.9
Education, Libraries & Museums	2,810.3	2,810.3	2,792.3	2,782.5	2,809.5
Corrections	1,132.0	1,142.6	1,126.3	1,175.3	1,204.5
Judicial	395.9	395.9	382.6	391.2	404.5
Non-Functional					
Debt Service	1,023.4	999.1	999.1	1,202.9	1,361.3
Miscellaneous	1,235.2	1,255.7	1,230.8	1,405.5	1,541.7
Subtotal	$12,343.7	$12,452.2	$12,296.1	$12,737.9	$13,276.9
Unallocated Lapse	(251.9)[(j)]	(126.6)[(j)]	(156.3)	(261.4)	(250.5)
Net Appropriations/Expenditures	$12,091.8	$12,325.6	$12,139.8	$12,476.5	$13,026.4
Surplus (or Deficit) from Operations	$0.1	($621.3)	$49.7	$0.5	$0.3
Miscellaneous Adjustments	0.0	(7.0)	(10.0)	0.0	0.0
Balance[(c)]	$0.1	($628.3)[(m)]	$39.7[(o)]	$0.5	$0.3

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 seven and one-half 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) Expenditures are per Public Act No. 02-1 of the May Special Session. The Finance Committee did not adopt revised revenue estimates for the 2002-03 fiscal year. The revenues included in the table above were provided by the Office of Policy and Management and were the assumed revenue estimates at the time of adoption of Public Act No. 02-1 of the May Special Session.

(e) Public Act No. 02-1 of the May Special Session, effective on January 1, 2002, instituted a $250 charge on LLCs, LLPs and S corporations, and limited corporation credits from reducing tax liability by more than 70%. Public Act No. 02-4 of the May Special Session extended the tax to single-member LLCs that are not considered entities separate from their owners for federal tax purposes.

(f) Includes enacted legislative changes that affect revenues as follows:
i: Per Public Act No. 02-1, the increase in Cigarette Tax from 50 cents per pack to $1.11 per pack effective April 3, 2002 is estimated to yield $129.3 million in fiscal year 2003 in cigarette and sales taxes.
ii: Per Public Act No. 02-3, eliminating the HMO HUSKY tax credit is estimated to save $15.6 million in fiscal 2002-03.

(g) Public Act No. 02-1 of the May Special Session, effective on January 1, 2002, suspended the transfer to the Underground Tank Cleanup Account for one year, and reduced the annual transfer to the Special Transportation Fund by $25 million.

(h) Accelerate escheats to the State of Connecticut.

(i) Public Act No. 02-1 of the May Special Session, transferred one-time revenue of $100 million from quasi-public agencies, $127.2 million of proceeds from the Anthem demutualization, $50.9 million in transfers from Tobacco Settlement Funds, and $6 million from miscellaneous accounts.

(j) Per Public Act No. 02-1 of the May Special Session, the lapse anticipates $94 million in wage concessions from the state's labor unions, $11 million under the Executive & Judicial Branch for a manager and confidential wage freeze, and $7 million from the Executive & Judicial Branch hiring freeze. In addition, $35 million is anticipated for the Governor's extraordinary recission authority per section 52 of the Act.

(k) Per the Office of Policy and Management's letter to the Comptroller dated February 21, 2003 based on information for the period ending January 31, 2003.

(l) The figure reflected for Restricted Accounts and Federal & Other Grants reflects an estimate for the Estimated Budget 2002-03. 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.

(m) The deficit amount was based on revenue and expenditure estimates provided to the Comptroller by the Office of Policy and Management for purposes of the Comptroller's monthly report for the period ending January 31, 2003. The monthly report of the Comptroller issued March 3, 2003 estimated that the deficit would have been $638.1 million before factoring in the effect of H.B. 6495.

(n) Estimates from the Office of the Policy and Management in late February 2003, after taking into effect enacted legislative changes contained in Public Act 03-02 (HB No. 6495). Revenues are affected as follows:

i. Per Public Act 03-2, the increase in personal income tax rate from 4.5% to 5.0% effective January 1, 2003 is estimated to yield $230.5 million in fiscal 2003, $428.3 million in fiscal 2004, and $445.5 million in fiscal 2005.

ii. Per Public Act 03-2, imposing and extending the sales tax on certain items and services is estimated to yield $37.0 million in fiscal 2003, $135.3 million in fiscal 2004, and $143.3 million in fiscal 2005.

iii. Per Public Act 03-2, imposing a one-year business tax surcharge of 20% effective January 1, 2003 is estimated to yield $45.6 million in fiscal 2003 and $24.6 million in fiscal 2004.

iv. Per Public Act 03-02, the increase in cigarette tax from $1.11 per pack to $1.51 per pack effective March 15, 2003 is estimated to yield $28.7 million in fiscal 2003, $73.5 million in fiscal 2004, and $71.7 million in fiscal 2005.

v. Per Public Act 03-02, $52.0 million is transferred to the General Fund from the cumulative balance in the Special Transportation Fund. In addition, $19.5 million is transferred to the resources of the General Fund from various off budget accounts.

(o) **See page II-2 of this Part II (see discussion under STATE GENERAL FUND – Fiscal Year 2002-2003 Operations). The surplus amount in this Appendix is based on revenue and expenditure estimates by the Office of Policy and Management made shortly after the passage of H.B.6495. The monthly report of the Comptroller for the period ending January 31, 2003, taking into account the effect of H.B. 6495, projected a deficit of $32.6 million for fiscal 2003. The Office of Policy and Management's letter to the Comptroller dated March 20, 2003, estimated a General Fund surplus as of February 28, 2003 of $15.1 million for the 2002-2003 fiscal year. In a letter dated April 1, 2003, the Comptroller estimated a General Fund deficit as of February 28, 2003 of $47.4 million for the 2002-2003 fiscal year. The Office of Policy and Management's letter to the Comptroller dated April 20, 2003, estimates a General Fund deficit as of March 31, 2003 of $66.2 million for the 2002-2003 fiscal year. The Comptroller's letter of May 1, 2003 estimates a General Fund deficit of $101.0 million for the 2002-2003 fiscal year.**

(p) The Governor's budget proposals submitted to the General Assembly on March 4, 2003 affect the revenues and expenditures as follows:

i. Reduce the property tax credit from $500 to $400 and phases out the remaining $100 at higher levels effective January 1, 2003 is estimated to yield $80.0 million in fiscal 2004 and $81.6 million in fiscal 2005.

ii. Repeals various sales tax exemptions and transfers yielding $21.9 million in fiscal 2004 and $33.6 million in fiscal 2005. Permanently repeals the tax on hospital services for a revenue loss of approximately $116.0 million annually.

iii. Imposes a 10% surcharge on corporate entities and eliminates various minor tax credits effective January 1, 2003 yields a combined estimate of $27.8 million in fiscal 2004 and $21.3 million in fiscal 2005.

iv. Increases the effective tax rate on the conveyance of residential and commercial property effective April 1, 2003 is eliminated to yield $5 million in fiscal 2003, $25 million in both fiscal 2004 and fiscal 2005.

v. Transfers of one-time revenues from the Energy Conservation & Load Management Fund, the Clean Energy Fund, the Connecticut Housing Finance Authority, the Connecticut Development Authority, and Connecticut Innovations, Inc. yields a combined $147 million in both fiscal 2004 and 2005.

vi. Increase in debt service in fiscal 2004 and fiscal 2005 is primarily attributable to retiring the principle and interest on the state's five year deficit notes.

(q) The lapses anticipate $22 million, $153 million and $140 million respectively, in early retirement savings for the current fiscal year and two ensuing fiscal years. The lapse in fiscal 2003 anticipates $23 million in layoff savings and $18 million from a wage and hiring freeze in the Executive & Judicial Branch.

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.

PART III
ANNUAL INFORMATION STATEMENT
STATE OF CONNECTICUT

DECEMBER 1, 2002

MODIFIED FEBRUARY 28, 2003

This Annual Information Statement of the State of Connecticut (the "State") contains information through December 1, 2002, ***modified February 28, 2003*** to include June 30, 2002 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, 2001 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 December 1, 2002, 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**
Acting Commissioner of Transportation	**James F. Byrnes, Jr.**

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. Eileen Daily** **Rep. Andrea Stillman**
*** 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
DECEMBER 1, 2002
Modified February 28, 2003
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; Health and Hospitals; Corrections; General Government; Judicial; Regulation and Protection; Transportation; 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 more than 50% 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 rose steadily during the rest of the decade to a level above those experienced in the early 1990s; and the unemployment rate which is 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 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.

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 7□ % of the net General Fund appropriations, no further transfers shall be made by the Treasurer.

As of June 30, 2002, the balance in the budget reserve fund was $594.7 million. However, the entire budget reserve fund balance was applied to partially offset a fiscal year 2002 General Fund deficit of $817.1 million (unaudited) leaving a zero balance in the budget reserve fund. In the past, 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 the Comptroller 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, 2002 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, 1998 through June 30, 2002 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, 2002 and the estimated (as of October 31, 2002) budgetary-basis results for the fiscal year ending June 30, 2003 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; Global Insight, 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.

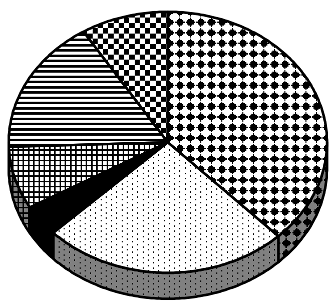
Because of the vast number of variables that can impact the revenue forecast, the State considers forecasting to be a process and not a product. While the economic data from available sources is analyzed and used to anticipate overall direction and trends, the revenue forecast is generated through a 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 year ending June 30, 2002 and as forecasted in connection with the mid-term budget adjustments for the fiscal year ending June 30, 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 approximately seventy percent of its General Fund revenues from taxes during each of the 2001-02 and 2002-03 fiscal years. Fiscal year 2001-2002 actual revenues, based on information contained in the Comptroller's annual report for the fiscal year ending June 30, 2002, and fiscal year 2002-2003 revenue forecasts based on information contained in the monthly report of the Office of Policy and Management for the period ending October 31, 2002, 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 year ending June 30, 2002 and for the fiscal year ending June 30, 2003, as forecasted at the time of adoption of the mid-term budget adjustments, are set forth below:

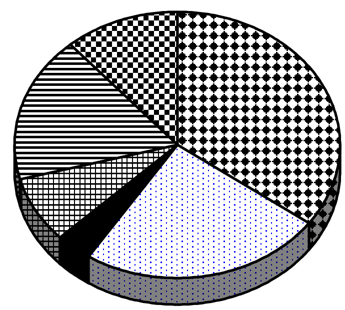
Adopted General Fund Revenues (In Millions)

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[(c)]	982.9	7.7%
Unrestricted Federal Grants	2,144.3	16.8%
Other Non-Tax Revenues [(d)]	1,144.1	8.9%

Adopted Revenues 2002-2003
12,091.9 [(a) (b)]



Personal Income Tax	$4,553.0	35.0%
Sales and Use Tax	3,141.3	24.1%
Corporate Business Tax	470.4	3.6%
Other Taxes[(c)]	1,068.3	8.2%
Unrestricted Federal Grants	2,303.2	17.7%
Other Non-Tax Revenues [(d)]	1,486.0	11.4%

(a) The pie charts reflect the total of the listed tax and revenue amounts of $12,807.6 million for 2001-2002 and $13,022.2 million for 2002-2003 and do not reflect tax refunds and transfers to other funds of $913.5 million for 2001-2002 and $930.3 million for 2002-2003. See **Appendix III-E** for anticipated adjustments to adopted tax revenues.

(b) Public Act No. 02-1 of the May 9th Special Session contains the midterm budget adjustments to fiscal year 2002-03. However, the legislature did not adopt new revenue estimates at that time. Therefore, the estimates included above were provided by the Office of Policy and Management and are the assumed revenue estimates at the time of adoption of Public Act No. 02-1 of the May 9th Special Session.

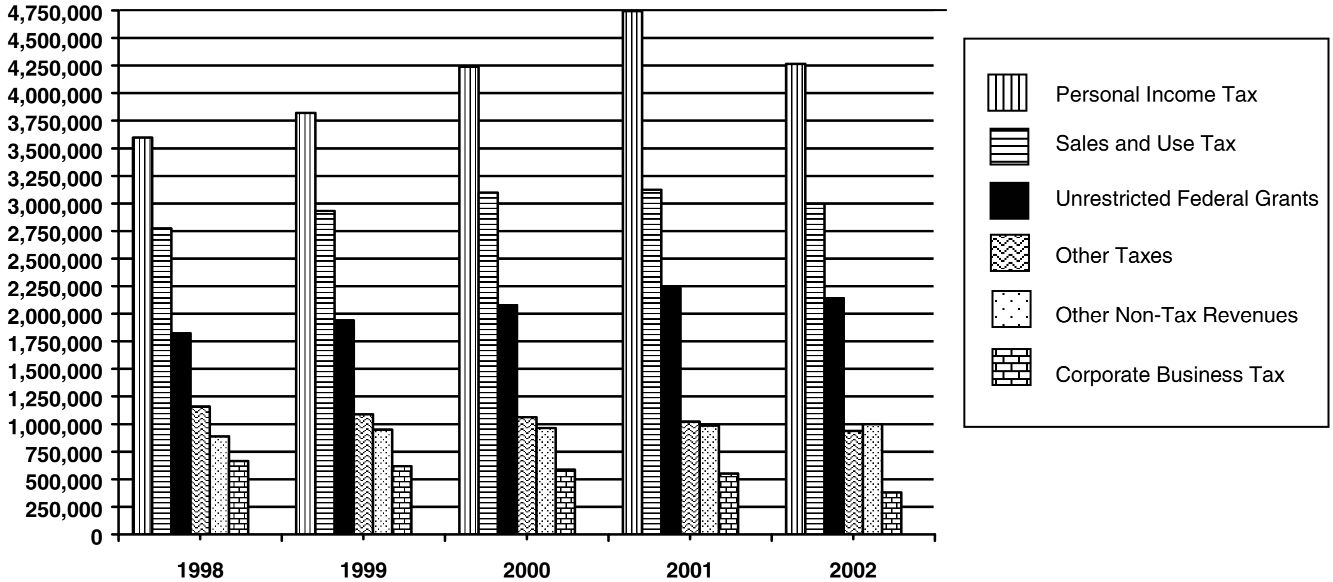
(c) Other taxes are comprised of inheritance and estate taxes, taxes on gross receipts of public service corporations, taxes on net direct premiums of insurance companies, taxes on oil companies, cigarettes and alcoholic beverages, real estate transfers, taxes on admissions and dues and other miscellaneous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

(d) 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 1998 through 2002 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)



	1998	1999	2000	2001	2002
Taxes:					
Personal Income Tax	$ 3,596,225	$ 3,820,837	$ 4,238,228	$ 4,744,233	$ 4,265,912
Sales Tax	2,772,109	2,932,191	3,096,780	3,125,078	2,997,766
Corporate Business Tax	663,672	619,539	587,756	550,509	380,985
Other Taxes [b]	1,158,738	1,089,738	1,063,543	1,022,755	937,782
Subtotal..............................	8,190,744	8,462,305	8,986,307	9,442,575	8,582,445
Refunds of Taxes	(580,830)	(645,000)	(713,359)	(735,482)	(851,491)
Total Net Taxes	$ 7,609,914	$ 7,817,305	$ 8,272,948	$ 8,707,093	$ 7,730,954
Other Revenue:					
Federal Grants (Unrestricted).........................	1,824,595	1,938,271	2,078,914	2,237,045	2,142,269
Other Non-Tax Revenues (Unrestricted)[c]	887,732	950,813	963,784	987,932	999,888
Transfers to Other Funds	(180,000)	(90,000)	(180,000)	(85,400)	(147,686)
Transfers from Other Funds......	0	0	78,000	138,800	120,000
Total Other Revenues	$ 2,532,327	$ 2,799,084	$ 2,940,698	$ 3,278,377	$ 3,114,471
Total Revenues...................	$ 10,142,241	$ 10,616,389	$ 11,213,646	$ 11,985,470	$ 10,845,425

(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: 1998, 1999, 2000, 2001 and 2002 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, with the lower end of the range increasing annually to $15,000 by taxable year 2009 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. Public Act No. 02-1 of the May 9th Special Session instituted a $250 charge on LLCs, LLPs and S corporations, and limited corporation credits from reducing tax liability by more than 70%. Public Act No. 02-4 of the May 9th Special Session extended the tax to single-member LLCs that are not considered entities separate from their owners for federal tax purposes.

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 2002 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

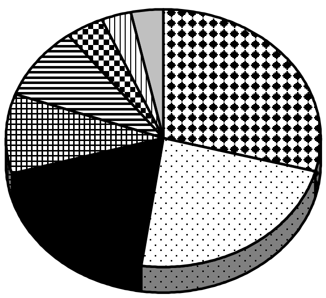
Appropriated and Historical Expenditures

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, final budget expenditures for the fiscal year ending June 30, 2002 based on information contained in the Comptroller's Annual Report and the estimated expenditures for the fiscal year ending June 30, 2003 based on information contained in the Office of Policy and Management's letter to the Comptroller dated November 20, 2002 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.

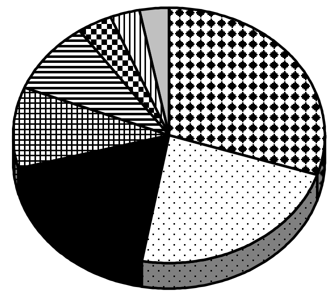
Appropriated General Fund Expenditures (In Millions)

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
$12,091.8 (a)



	Human Services	$3,687.4	29.9%
	Education, Libraries and Museums	2,810.3	22.8%
	Non-Functional	2,258.6	18.3%
	Health and Hospitals	1,246.4	10.1%
	Corrections	1,132.0	9.2%
	General Government	451.9	3.6%
	Judicial	395.9	3.2%
	Other Expenditures[(b)]	361.2	2.9%

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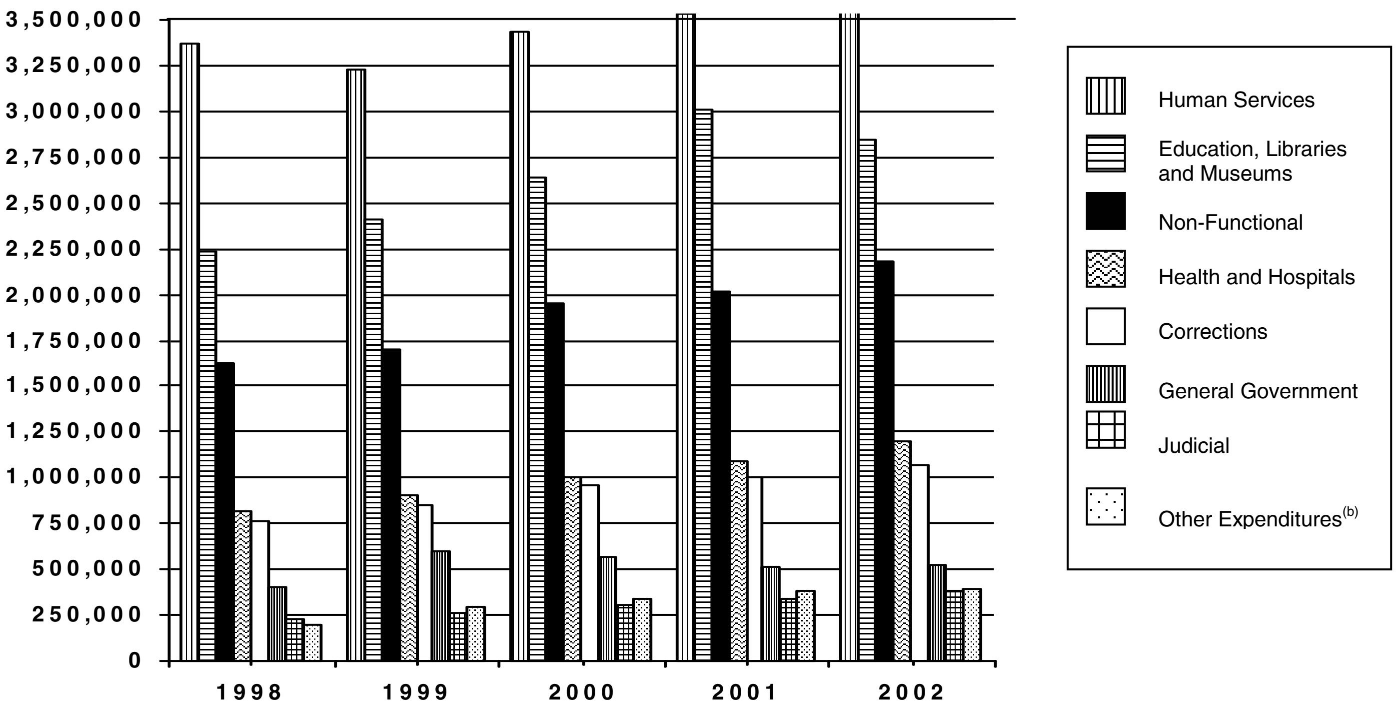
(a) The pie charts reflect the total listed expenditures of $11,997.7 for 2001-2002 and $12,343.7 for 2002-2003, and do not reflect adjustments for unallocated lapses of $103.9 for 2001-2002 and $251.9 for 2002-2003. See **Appendix III-E** for anticipated adjustments to appropriated expenditures.

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

SOURCE: Special Act No. 01-1 of the June Special Session and Public Act No. 02-1 of the May Special Session.

Historical General Fund Expenditures. Actual General Fund expenditures for the fiscal years 1998 through 2002 are set forth in **Appendix III-D** to this 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)

	1998	1999	2000	2001	2002
Human Services	$ 3,371,318	$ 3,231,095	$ 3,430,561	$ 3,537,462	$ 3,589,653
Education, Libraries and Museums	2,240,437	2,411,479	2,637,518	3,007,391	2,847,540
Non-Functional	1,626,622	1,705,133	1,954,711	2,019,041	2,182,512
Health and Hospitals	817,777	905,529	1,005,233	1,092,361	1,198,335
Corrections	762,917	845,239	957,555	999,052	1,068,183
General Government	404,279	594,847	566,310	511,430	527,287
Judicial	232,340	266,043	309,319	338,568	376,813
Other Expenditures(b)	194,156	291,444	339,697	377,395	396,703
Totals	$ 9,649,846	$ 10,250,809	$ 11,200,904	$ 11,882,700	$ 12,187,026

(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 expenditures for Regulation and Protection, Conservation and Development, and Legislative, and in some years, certain Transportation expenditures.

SOURCE: 1998, 1999, 2000, 2001 and 2002 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 2002-2003 fiscal year, approximately 71% 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 29% 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 56% of all appropriations for Conservation and Development based upon the adopted budget for the 2002-2003 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 62% of total General Fund appropriations under the adopted budget for the 2002-2003 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 38% of all General Fund appropriations under the adopted budget for the 2002-2003 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 in **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* (Actual)		Fiscal Year 2002* (Actual)		Fiscal Year 2003 (Appropriated)	
	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments
LEGISLATIVE						
Total – Legislative	243	0	255	0	261	0
GENERAL GOVERNMENT						
One Time Surplus Revenue Sharing	34,000	34,000	31,250	31,250	0	0
Property Tax Relief Elderly Circuit Breaker	20,562	20,562	20,337	20,337	22,000	22,000
P.I.L.O.T. – New Manufacturing Machinery and Equipment	76,145	76,145	76,459	76,459	71,725	71,725
Undesignated	56,983	34,230	64,906	39,805	42,054	27,801
Total – General Government	187,690	164,937	192,952	167,851	135,779	121,526
REGULATION AND PROTECTION						
Total – Regulation and Protection	424	0	313	0	275	0
CONSERVATION AND DEVELOPMENT						
Total – Conservation and Development	11,173	5,143	11,371	5,143	7,829	0

	Fiscal Year 2001* (Actual)		Fiscal Year 2002* (Actual)		Fiscal Year 2003 (Appropriated)	
	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments
HEALTH AND HOSPITALS						
Employment Opportunities and Day Services (Department of Mental Retardation)	99,353	0	109,067	0	115,533	0
Community Residential Services (Department of Mental Retardation)	218,254	0	236,737	0	242,809	0
Grants for Substance Abuse Services						
Grants for Mental Health Services	73,909	0	74,551	0	73,754	0
Undesignated	71,448	10,190	68,241	10,661	65,428	10,075
Total – Health and Hospitals	462,694	10,190	488,596	10,661	497,524	10,075
TRANSPORTATION						
Total – Transportation	34,857	34,857	34,857	34,857	0	0
HUMAN SERVICES						
Medicaid	2,372,994	0	2,547,092	0	2,629,568	0
Old Age Assistance	29,823	0	29,540	0	30,100	0
Aid to the Disabled	58,430	0	56,022	0	57,539	0
Temporary Assistance to Families	23,651	0	0	0	0	0
Temporary Assistance to Families – TANF	124,051	0	137,708	0	132,117	0
Connecticut Pharmaceutical Assistance Contract to the Elderly	37,862	0	41,896	0	63,906	0
Medicaid – Disproportionate Share – Mental Health	151,000	0	105,935	0	105,935	0
Connecticut Home Care Program	21,411	0	19,671	0	27,186	0
Child Care Services – TANF/CCDBG	106,642	0	121,587	0	112,854	0
Housing/Homeless Services	18,143	0	20,959	0	23,539	0
Disproportionate Share – Medical Emergency Assistance	205,487	0	85,000	0	76,725	0
State Administered General Assistance	94,066	0	105,306	0	105,054	0
Undesignated	81,778	14,595	90,603	5,391	81,489	5,457
Total – Human Services	3,325,338	14,595	3,361,319	5,391	3,446,012	5,457
EDUCATION, LIBRARIES AND MUSEUMS						
School Construction Grants	292,713	292,713	48,076	48,076	0	0
Transportation of School Children	45,939	45,939	47,948	47,948	45,410	45,410
Education Equalization Grants	1,384,627	1,384,627	1,453,330	1,453,330	1,516,250	1,516,250
Priority School Districts	20,058	20,058	80,346	80,346	81,622	81,622
Excess Cost – Student Based	58,399	58,399	66,820	66,820	66,000	66,000
Early Reading Success	20,572	20,572	2,032	2,032	2,236	2,236
Magnet Schools	29,891	29,891	32,568	32,568	44,776	44,776
Teachers' Retirement Contributions	214,666	0	204,511	0	179,824	0
Undesignated	212,975	107,834	189,162	80,046	156,750	58,004
Total – Education	2,279,840	1,960,033	2,124,793	1,811,166	2,092,868	1,814,298
CORRECTIONS						
Board and Care for Children – Adoption	30,832	0	37,859	0	40,738	0
Board and Care for Children – Foster	71,381	0	73,935	0	78,921	0
Board and Care for Children – Residential	114,783	0	130,074	0	127,824	0
Undesignated	67,948	0	81,280	0	94,662	0
Total – Corrections	284,944	0	323,148	0	342,145	0
NON FUNCTIONAL						
Debt Service (Including UConn 2000 and CHEFA Day Care Security)	975,875	0	992,071	0	1,023,378	0
Reimbursement to Towns for Loss of Taxes on State Property	64,759	64,759	66,059	66,059	64,959	64,959
Reimbursement to Towns for Loss of Taxes on Private Tax-exempt Property	97,163	97,163	100,932	100,932	100,932	100,932
Undesignated	644	0	681	0	871	0
Total – Non Functional	1,138,441	161,922	1,159,743	166,991	1,190,140	165,891
Total – Fixed Charges	7,725,914	2,351,677	7,697,347	2,202,060	7,712,833	2,117,247

* Includes funds carried forward from the previous fiscal year. Source: Comptroller's Annual Reports, Schedule B-3, Expenditure column.

SOURCE: Office of Policy and Management

Fiscal Year 2001-2002 Operating Results

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. **Appendix III-D** and **Appendix III-E** show the results for the 2001-2002 fiscal year per the Comptroller's Annual Report. This report indicates that General Fund revenues were $10,845.4 million and that General Fund expenditures and miscellaneous adjustments were $11,662.5 million, resulting in a deficit of $817.1 million for the 2001-2002 fiscal year. Per Section 4-30a of the Connecticut General Statutes, the balance of $594.7 million credited to the Budget Reserve Fund was deemed to be appropriated for the purpose of funding the deficit. Under the provisions of Special Act No. 02-1, Section 111 of the May 9, 2002 Special Session, the remaining deficit balance of $222.4 million will be financed by the issuance of five year Economic Recovery Notes.

Midterm Budget Adjustments for Fiscal 2002-03:

On July 1, 2002, the Governor signed Public Act No. 02-1 of the May 9th Special Session of the General Assembly, which constitutes the Midterm Budget Adjustments for fiscal year 2002-2003. The adopted Midterm Budget Adjustments anticipate General Fund expenditures of $12,091.8 million or a reduction of $339.6 million from the originally adopted fiscal year 2002-2003 budget plan.

The more significant revenue changes that were enacted in support of the adopted budget include the following modifications: (1) a 61 cent increase in the cigarette tax from $0.50 cents per pack to $1.11 per pack effective April 3, 2002, which was expected to result in $129.3 million in additional anticipated revenue from cigarette and sales taxes, (2) imposition of a $250 tax on certain business entities and limitations on the use of corporate tax credits that was expected to yield $58.5 million, (3) a deferral on the phase-in of previously enacted tax changes was expected to raise $35.6 million, (4) enhanced management of unclaimed property to be escheated to the State, which was expected to yield $35.0 million, (5) reduced general fund revenue transfers to other funds, which was expected to result in $24.8 million in savings, (6) a tax amnesty program which was expected to raise $22 million, (7) conversion of an HMO tax credit under the insurance premiums tax to an appropriation which was expected to yield an additional $15.6 million, and (8) transfers from other funds of the State, quasi-public agencies, and proceeds from the Anthem demutualization which were expected to yield $300.1 million.

For fiscal year 2002-2003, the enacted Midterm Budget Adjustments reduced $339.6 million in General Fund appropriations from the originally enacted budget. The more significant reductions included: (1) an additional $94 million in unallocated statewide lapses, (2) debt service savings of $36.8 million, (3) removal of the town aid road grant from the general fund totaling $35 million, (4) authorizing the Governor to undertake extraordinary rescission authority of no more than $35 million, (5) reduced State contributions to the teachers' retirement fund by $34.9 million, (6) reductions of $23.6 million to the constituent units of higher education, (7) $21 million in reductions to various education grants, (8) a freeze on hiring and managerial pay increases expected to save $18.0 million, and (9) $16.8 million in anticipated savings due to changes in purchasing reimbursement for pharmacy services.

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 Midterm Budget Adjustments for fiscal year 2002-2003 were $376.2 million below the expenditure cap.

During the August 2002 Special Session of the General Assembly various bills were approved to implement the 2002-2003 Midterm Budget Adjustments. They included reducing the net amount of bond authorizations which took effect in the 2002-2003 fiscal year, approving certain bond authorizations which would take effect in fiscal year 2003-2004 and increasing the bond authorization for the University of Connecticut, which will take effect beginning in the 2004-2005 fiscal year.

Fiscal Year 2002-2003 Operations:

The adopted Midterm Budget Adjustments for the 2002-2003 fiscal year anticipate General Fund expenditures of $12,091.8 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. Per the Comptroller's monthly report for the period ending July 31, 2002, based on the Office of Policy and Management estimate, in a letter to the Governor, there was an estimated $281.5 million budget deficit for the 2002-2003 fiscal year. This estimated deficit of $281.5 million is 2.3% of net General Fund Appropriations. 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 committee of the General Assembly on appropriations and on finance, revenue and bonding. The report shall include a deficit mitigation plan that 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. In anticipation of this plan, the Governor instructed the Secretary of the Office of Policy and Management to review all allotments in force to determine if enough reductions could be made to prevent a deficit.

During the review process, the 2002-2003 fiscal year deficit was forecasted to increase as anticipated revenues declined and expenditures increased. Per the Comptroller's monthly report for the period ending August 31, 2002, based on the Office of Policy and Management's estimate, in a letter to the Governor, there was an estimated $330.1 million budget deficit for the 2002-2003 fiscal year. The estimated deficit of $330.1 million was 2.7% of net General Fund Appropriations. After careful analysis, the Office of Policy and Management determined that neither the general authority granted to the Governor under Section 4-85(b) of the Connecticut General Statutes nor the special authority granted in Section 52 of Public Act No. 02-1 of the May 9, 2002 Special Session would generate enough savings to close the deficit. The major reductions already made in the current fiscal year adjusted budget line items occurred disproportionately in areas that lie within the Governor's recission authority. Given the Office of Policy and Management's determinations, rather than implement a plan of allotment reductions that would not adequately address the deficit, in a letter dated September 27, 2002, the Governor requested that legislative leadership begin a dialogue to discuss spending reductions.

Pursuant to Section 4-66 of the Connecticut General Statutes, the Office of Policy and Management provides estimates of revenues and expenditures for the current fiscal year by the twentieth day of each month to the Comptroller for use by the Comptroller in preparing the Comptroller's monthly report. In the monthly estimates provided by the Office of Policy and Management on November 20, 2002, as of October 31, 2002 General Fund revenues are estimated at $11,835.1 million, General Fund expenditures and miscellaneous adjustments are estimated at $12,226.0 million, and the General Fund deficit for the 2002-2003 fiscal year is estimated at $390.9 million as outlined in **Appendix III-E**. On December 2, 2002, the Comptroller estimated a General Fund deficit of $414.9 million for the 2002-2003 fiscal year. On November 12, 2002, the Office of Fiscal Analysis had estimated a General Fund deficit of $495.5 million for the 2002-2003 fiscal year, and indicated that the deficit could be greater if economic conditions deteriorate or if the anticipated $94 million lapse is not fully achieved.

The above projections are only estimates and the information in **Appendix III-E**, in the monthly letter of the Office of Policy and Management to the Comptroller, in the Comptroller's monthly reports and in the Office of Fiscal Analysis Budget Projections 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 2002-2003 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 1998 through 2002 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				
	1998	**1999**	**2000**	**2001**	**2002**
Total General Fund Revenues[a]	$10,142.2	$10,616.4	$11,213.6	$11,985.5	$10,845.4
Net-Appropriations/Expenditures[b]	9,829.3	10,544.6	10,913.2	11,954.8[c]	11,662.5
Operating Surplus/(Deficit)	$ 312.9[d]	$ 71.8[e]	$ 300.4[f]	$ 30.7[g]	$ (817.1)[h)]

(a) Does not include Restricted Accounts and Federal and Other Grants. See **Appendix III-D-6**.
(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) $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.
(e) $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.
(f) $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.
(g) $30.7 million of the operating surplus was reserved for transfer to the Budget Reserve Fund.
(h) $594.7 million from the Budget Reserve Fund was applied to partially fund the deficit. The remaining deficit balance will be financed through the issuance of economic recovery notes.

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 2002 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				
	1998	**1999**	**2000**	**2001**	**2002**
Modified Cash Basis Operating Surplus/(Deficit)	$ 312.9	$ 71.8	$ 300.4	$ 30.7	$ (817.1)
Adjustments:					
Increases (decreases) in revenue accruals:					
Governmental Receivables	(35.2)	56.3	59.8	80.0[a]	37.0
Other Receivables	(35.7)	(21.4)	15.5	(15.1)	9.0
(Increases) decreases in expenditure accruals:					
Accounts Payable and Other Liabilities	60.6	(49.7)	(161.5)	(115.8)[a]	69.4
Salaries and Fringe Benefits Payable	(6.5)	(33.7)	120.8	(14.1)	(15.6)
Increase (decrease) in Continuing Appropriations	180.5	294.1	(289.8)	334.0	(543.8)
Reclassification of equity adjustments	(85.8)	(142.5)	(118.1)	(266.5)	—
GAAP Based Operating Surplus/(Deficit)	$ 390.8	$ 174.9	$ (72.9)	$ 33.2	$(1,261.1)

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				
	1998	**1999**	**2000**	**2001**	**2002**
Operating Surplus/Deficit	$312.9	$ 71.8	$300.4	$ 30.7	$ (817.1)
Fund Transfers and Reserves					
Transfers to Budget Reserve Fund	161.7	30.5	34.9	30.7	--
Transfers from Budget Reserve Fund	--	--	--	--	594.7
Economic Recovery Note Debt Retirement	--	--	--	--	--
Reserve for Debt Service Appropriation	151.2	41.3	--	--	--
Reserve for Debt Avoidance	--	--	265.5	--	--
Total Transfers/Reserves	312.9	71.8	300.4	30.7	594.7
Unreserved Fund Balance					
Surplus/(deficit)	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ (222.4)

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				
	1998	1999	2000	2001	2002
Unreserved Fund Balance (Deficit)					
Modified Cash Basis	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$(222.4)
GAAP Based Adjustments					
Continuing Appropriations Available for GAAP Liabilities	—	141.8	35.0	25.4	—
Additional Assets					
Taxes Receivable					
Income Tax Accrual Reduction	(149.9)	(170.0)	(151.3)	(194.1)	(221.8)
Eliminate Corporation Accrual	(29.1)	(22.1)	(19.5)	(23.3)	(16.9)
Additional Taxes Receivable	8.1	5.0	4.0	7.0	9.3
Net Increase (Decrease) Taxes	(170.9)	(187.1)	(166.8)	(210.4)	(229.4)
Net Accounts Receivable	19.4	29.7	76.2	83.8	57.3
Federal and Other Grants Receivable[a]	383.4	428.4	435.7	525.8	582.0
Due From Other Funds	13.1	7.9	4.8	7.2	13.1
Total Additional Assets	$ 245.0	$ 278.9	$ 349.9	$ 406.4	$423.0
Additional Liabilities					
Salaries and Fringe Payable	(240.7)	(279.9)	(158.0)	(173.4)	(189.3)
Accounts Payable—Department of Social Services	(479.4)	(525.7)	(676.7)	(773.3)	(704.8)
Accounts Payable—Trade & Other	(125.4)	(142.1)	(175.6)	(191.2)	(180.7)
Payable to Local Governments	(.1)	-	-	-	-
Payable to Federal Government	(90.6)	(72.0)	(48.8)	(72.6)	(62.0)
Due to Other Funds	(3.1)	(3.7)	(.8)	(3.1)	(7.8)
Total Additional Liabilities	$(939.3)	$(1,023.4)	$(1,059.9)	$(1,213.6)	$(1,144.6)
Unreserved Fund Balance (Deficit)					
GAAP Basis	$(694.3)	$ (602.7)	$ (675.0)	$ (781.8)	$ (944.0)

(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				
	1998	**1999**	**2000**	**2001**	**2002**
Reserved:					
Petty Cash	$ 1.1	$ 1.1	$ 1.0	$ 1.0	$ 1.0
Budget Reserve	498.6	529.1	564.0	594.7	-
Loans & Advances to Other Funds	-	-	5.0	6.6	5.9
Restricted Purposes	-	-	265.5	249.3	283.2
Inventories	34.3	34.3	37.7	36.2	41.9
Continuing Appropriations	372.3	526.4	343.5	687.0	167.8
Debt Service	232.1	131.3	13.2	20.7	9.3
Total	1,138.4	1,222.2	1,229.9	1,595.5	509.1
Unreserved:	(694.3)	(602.7)	(675.0)	(781.8)	(944.0)
Total Fund Balance	$ 444.1	$ 619.5	$ 554.9	$ 813.7	$ (434.9)

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 and for the fiscal year ending June 30, 2002, 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 and Public Act No. 02-3, the amount of authorized but unissued debt for UConn 2000 and UConn 21st Century programs is limited to the amount permitted to be issued under the cap. See ***Types of Direct General Obligation Debt — UConn 2000 Financing and UConn 21st Century 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, 2002 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 November 1, 2002 is described in the following table.

TABLE 7

Statutory Debt Limit
as of November 1, 2002

Total General Fund Tax Receipts[a]	$ 8,147,500,000.00	
Multiplier	1.60	
Debt Limit		$ 13,036,000,000.00
Outstanding Debt [b]	$ 8,354,704,903.52	
Guaranteed Debt [c]	611,335,146.50	
Authorized Debt [d]	2,803,368,055.00	
Total Subject to Debt Limit		$ 11,769,408,105.02
Less Debt Retirement Funds [e]	$ 45,169,045.61	
Aggregate Net Debt		$ 11,724,239,059.41
Debt Incurring Margin		$ 1,311,760,940.59

(a) Total General Fund Tax Receipts estimates for the 2002-2003 fiscal year were not adopted as part of the Midterm Budget Adjustments. The estimate used in this table is the estimate provided by the Secretary of the Office of Policy and Management on November 20, 2002. The estimate in the Comptroller's monthly report of December 2, 2002 for Total General Fund Tax Receipts was approximately $8,138,200,000.00. The Debt Limit using this estimate is $13,021,120,000.00 which still allows for a Debt Incurring Margin of $1,296,880,940.59.

(b) See ***Table 8***. Includes accreted value of capital appreciation bonds. Excludes UConn 2000 Bonds, tax increment financings, short term revenue anticipation notes and lease financings other than the Middletown courthouse.

(c) 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.

(d) Includes guarantee for UConn 2000 Bonds authorized but unissued under cap on UConn 2000 Bonds for 2002-2003 fiscal year.

(e) Includes 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.

UConn 21st Century Financing. In 2002 the General Assembly enacted and the Governor signed into law Public Act No. 02-3, An Act Concerning 21st Century UConn. That act extended the existing UConn 2000 financing program, that was scheduled to end in 2005, to run for an additional 10 years from July 1, 2005 through June 30, 2015. The act authorizes an additional 51 projects for a total estimated cost of $1,348 million for Phase III and increases UConn's bonding authority in 2005 from $50 million to $100 million.

Of this total number of projects, 41 projects estimated to cost $1,043 million are for the Storrs and regional campuses and 10 projects costing $305.4 million are for the UConn Health Center. The act allows the University to borrower an additional $1,250 million for Phase III, which is to be secured by the State's debt service commitment. It requires the State Bond Commission to approve the master resolution or indenture for state-backed securities and eliminates UConn's authority to issue securities to finance temporary deficits.

The total amount of University bonds and State general obligation bonds authorized by the acts is approximately $368 million less than the estimated costs of the infrastructure improvements set forth in the acts. 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 government 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.

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.

Economic Recovery Notes. In 2002, the General Assembly authorized the Treasurer to issue notes of up to five years to fund the State's budget deficit for the fiscal year ending June 30, 2002 and to exempt these notes from the overall limit on state debt.

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 November 1, 2002) 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 as of November 1, 2002
(In Thousands)

General Obligation Bonds	$ 8,323,899
UConn 2000 Bonds	614,826
Lease Financings	47,760
Tax Increment Financings	32,395
Long Term General Obligation Debt Total	9,018,880
Short Term General Obligation Debt Total	-
Gross Direct General Obligation Debt	9,018,880
Deduct:	
University Auxiliary Services [(b)]	45,169
Net Direct General Obligation Debt	$ 8,973,711

(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.

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
(As of June 30 – in Thousands)

	1998	1999	2000	2001	2002
Gross Direct Debt[(a)]	$6,980,204	$7,176,905	$7,432,891	$7,920,531	$8,619,092
Net Direct Debt[(a)]	$6,864,897	$7,067,276	$7,315,945	$7,795,785	$8,492,234
Ratio of Debt to Personal Income [(b)]					
Gross Direct Debt	5.59%	5.51%	5.36%	5.52%	6.00%
Net Direct Debt	5.50%	5.43%	5.27%	5.43%	5.91%
Ratio of Debt to Estimated Full Value[(c)]					
Gross Direct Debt	2.65%	2.60%	2.51%	2.50%	2.39%
Net Direct Debt	2.61%	2.56%	2.47%	2.46%	2.35%
Per Capita Debt[(d)]					
Gross Direct Debt	$2,074	$2,120	$2,180	$2,313	$2,517
Net Direct Debt	$2,040	$2,087	$2,145	$2,276	$2,479

(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: 1998—$124,880 million; 1999—$130,175 million; 2000—$138,796 million; 2001—$143,613 million; and 2002 ratio uses 2001 data.
(c) Full value estimated by Office of Policy and Management. Uses final equalized net grand lists: 1996—$263 billion; 1997— $276 billion; 1998 — $296 billion; 1999 – $317 billion; and 2000—$361 billion. Property is assessed as of October 1 in each year for the tax levy effective the following July 1. The 1998 ratio uses 1996 data; 1999 ratio uses 1997 data; 2000 ratio uses 1998 data; 2001 ratio uses 1999 data; and 2002 ratio uses 2000 data.
(d) See ***Appendix III-B, Table B-1***. State population: 1998—3,365,000; 1999—3,386,000; 2000—3,410,000; 2001—3,425,000; and 2002 ratio uses 2001 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 November 1, 2002. 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 November 1, 2002

Fiscal Year	Principal Payments [(b)]	Interest Payments [(b)(c)(d)(e)]	Total Debt Service
2002-03	$ 458,128,441	$ 351,041,869	$ 809,170,310
2003-04	643,080,923	440,769,914	1,083,850,837
2004-05	658,506,775	425,924,476	1,084,431,251
2005-06	616,760,405	399,530,176	1,016,290,581
2006-07	606,725,140	378,321,519	985,046,659
2007-08	606,740,553	355,786,550	962,527,103
2008-09	584,943,493	368,284,407	953,227,900
2009-10	564,058,599	333,076,142	897,134,741
2010-11	533,139,105	246,124,014	779,263,119
2011-12	469,645,834	199,290,166	668,936,000
2012-13	411,112,960	157,102,236	568,215,196
2013-14	372,105,000	121,893,670	493,998,670
2014-15	355,806,365	94,680,103	450,486,468
2015-2031	1,605,484,121	257,219,407	1,862,703,528
Totals	$8,486,237,714	$4,129,044,649	$12,615,282,363

(a) Includes long-term general obligation debt as outlined in ***Table 8***. The future principal payments ($8,486,237,714), plus accreted interest ($532,642,649), on State and UConn 2000 capital appreciation bonds total the amount of such long-term debt ($9,018,880,143) as shown in ***Table 8***. See footnotes (b), (c), (d) and (e) 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) 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 4.00% average rate. The balance of the Bonds mature in the years 2005-2014.

(d) On February 22, 2001 the State issued $100,000,000 General Obligation Variable Rate Demand Bonds of which $100,000,000 remain outstanding. The interest on these securities is estimated herein at a 4.00% average rate. The balance of the Bonds mature in the years 2017-2020.

(e) On May 22, 2002 the State issued $100,000,000 Taxable General Obligation Auction Rate Bonds of which $100,000,000 remain outstanding. The interest on these securities is estimated herein at a 5.0% average rate. The balance of the Bonds mature in the years 2005-2012.

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 and the net long-term direct general obligation debt outstanding at the end of each of the last ten fiscal years. Net debt excludes bonds that are considered self-liquidating. See ***Table 8.***

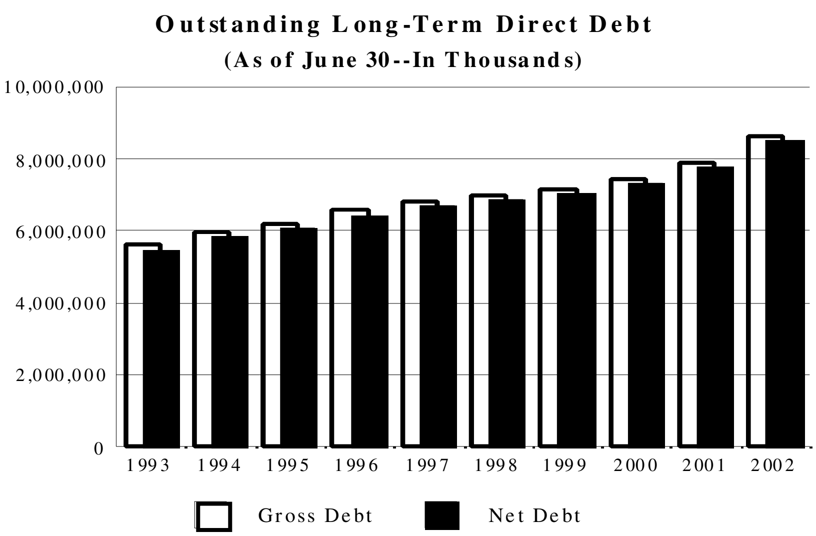
TABLE 11

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
1993	5,594,715 [a]	5,479,474 [a]	1998	$6,980,204 [f]	$6,864,897 [f]
1994	5,962,250 [b]	5,845,233 [b]	1999	7,176,905	7,067,276
1995	6,186,518 [c]	6,051,141 [c]	2000	7,432,891	7,315,945
1996	6,573,810 [d]	6,428,391 [d]	2001	7,920,531	7,795,785
1997	6,826,826 [e]	6,678,398 [e]	2002	8,619,092	8,492,234

(a) Includes $705,610,000 Economic Recovery Notes.
(b) Includes $555,610,000 Economic Recovery Notes.
(c) Includes $315,710,000 Economic Recovery Notes.
(d) Includes $236,055,000 Economic Recovery Notes.
(e) Includes $157,055,000 Economic Recovery Notes.
(f) 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 November 1, 2002, 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, 2003.

TABLE 12

Authorized but Unissued Direct General Obligation Debt
as of November 1, 2002
(In Thousands)

	State Direct Debt	UCONN 2000 [(a)]	Tax Increment	Total
Bond Acts in Effect	$ 15,607,587	$ 818,427	$ 42,800	$ 16,468,814
Amount Authorized	14,241,685	818,427	42,800	15,102,913
Amount Issued	12,673,219	718,427	39,330	13,430,976
Authorized but Unissued	1,568,467	100,000	3,470	1,671,937
Available for Authorization	1,365,901	-	-	1,365,901

(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.

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

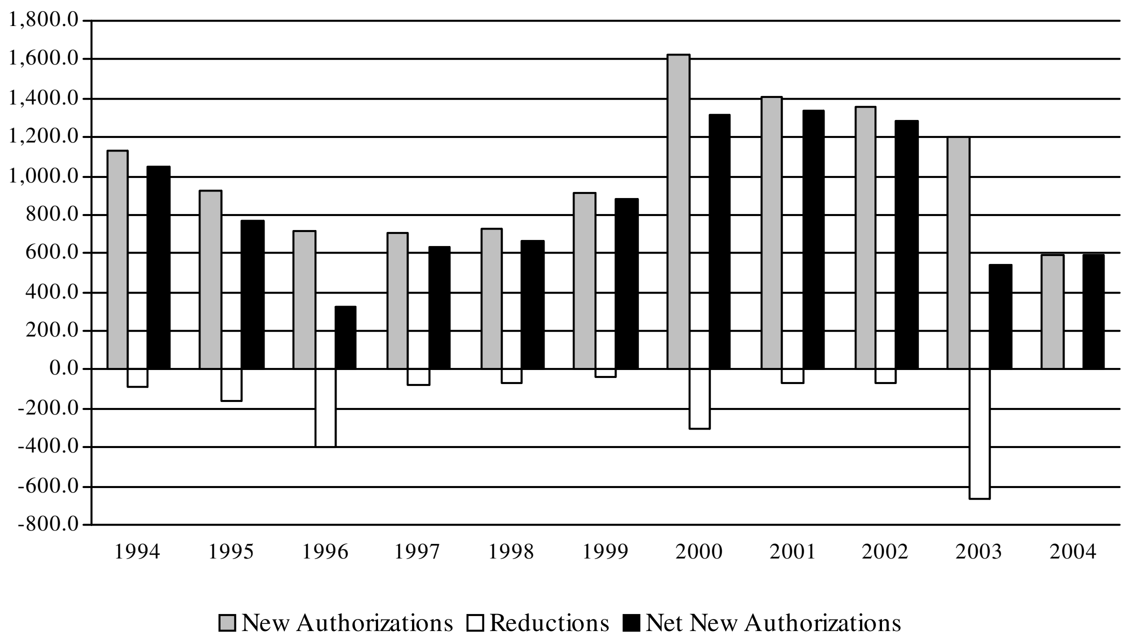
Statutory Bond Authorizations and Reductions[(a)]
(In Millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
New Authorizations	1,130.0	926.3	717.8	710.1	729.8	908.8	1,621.6	1,407.9	1,351.6	1,201.0	597.9
Reductions	(84.2)	(159.6)	(396.0)	(74.3)	(66.0)	(31.7)	(308.4)	(70.1)	(69.9)	(663.6)	0.0
Net New Authorizations	1,045.8	766.7	321.8	635.8	663.8	877.1	1,313.2	1,337.8	1,281.7	537.4	597.9

(a) Does not include lease financings, tax increment or cash flow borrowings. Includes amount for UConn 2000 available under the cap for 1997 through 2004, but does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest. Does not include authorizations which take effect after 2004.

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	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
Policy & Management	$ 116,800	$ 190,960	$ 179,921	$ 228,600	$ 210,600	$ 165,000
Comptroller	0	0	0	50,000	0	10,000
Administrative Services	0	0	0	53,000	0	0
Information Technology	0	0	0	4,500		5,000
Veterans' Affairs	500	0	0	0	0	0
Public Works	21,000	20,000	20,000	52,900	15,000	32,900
Public Safety (POST)	6,400	6,700	2,300	10,000	0	0
Motor Vehicles	0	0	0	0	0	1,000
Military	1,050	300	1,300	0	0	0
Agriculture	3,900	2,250	1,000	3,000	3,000	0
Environmental Protection	71,000	137,650	141,150	191,000	106,250	69,000
Economic and Community Development:						
Housing	20,000	5,000	10,500	10,000	10,000	0
Economic Development	16,400	40,000	138,500	110,900	51,000	17,000
Other		14,000	0	0	0	0
Ct Innovations Inc.	20,000	0	10,000	10,000	10,000	5,000
Historical Commission	150	300	300	300	300	0
Public Health	0	0	0	12,500	1,000	0
Mental Retardation	0	4,000	4,000	2,500	1,500	0
Mental Health and Addiction Services	10,300	20,750	21,750	6,000	6,000	0
Social Services	6,000	5,000	6,000	3,500	0	0
Education	344,200	404,900	482,100	191,800	488,100	30,000
State Library	2,500	2,500	2,500	2,500	2,500	0
Arts	1,000	1,000	1,000	1,000	1,000	0
Regional Community-Technical Colleges	69,705	77,187	74,855	69,070	66,162	70,447
State University	40,952	85,537	88,352	88,550	95,658	39,756
Secretary of State	750	0	0	0	0	0
Legislative Management	0	800	0	0	0	0
Children & Families	33,000	6,500	14,500	15,000	3,000	0
Judicial	11,500	62,000	20,500	56,500	27,500	32,888
CPTV	6,470	2,000	2,000	2,500	2,500	1,000
Contingency	0	0	0	0	0	0
Corrections	0	10,000	35,000	50,000	0	10,000
UConn	0	2,000	20,000	0	0	0
UConn Health	7,881	4,250	3,400	0	0	2,000
UConn 2000 [(a)]	64,311	130,000	100,000	100,000	100,000	100,000
Hartford Econ Dev Projects	33,000	386,000	27,000	26,000	0	7,000
Totals	$908,769	$1,621,584	$1,407,928	$1,351,620	$1,201,070	$597,900

(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 $100 million authorized under the cap for fiscal year 2005 or the $1,250 million authorized for UConn 21st Century for fiscal years 2006 through 2015.

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 $15.8 billion. During fiscal years 1985-2003, $13.7 billion of the total infrastructure program was approved. The remaining $2.1 billion is required for fiscal years 2004-2006. The $2.1 billion is comprised of $517.9 million from the anticipated issuance of new special tax obligation bonds, $38.4 million in anticipated revenues, and $1.59 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 November 1, 2002. 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 November 1, 2002
(In Millions)[(a)]

	New Money	Total
Amount Authorized	5,320.3[(b)]	
Amount Issued	4,996.7	6,974.6
Amount Outstanding	1,702.6	3,193.4

(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, 2002 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, 2002, the Special Transportation Fund paid $21.1 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 2002-03 is $17.3 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 2002, legislation was passed which made changes that will have an impact on the State's Special Transportation Fund. Revenue changes include increasing the diesel fuel tax from 18 cents per gallon to 26 cents per gallon effective August 1, 2002; a reduction to the transfer of oil companies tax revenue from the General Fund of $26 million beginning in fiscal year 2003; and for fiscal year 2003 only, the annual transfer from the Special Transportation Fund to the Conservation Fund will be reduced by $1 million. The most significant expenditure change was the funding of Town Aid Road grants from the Special Transportation Fund in fiscal year 2003. These grants were transferred to the General Fund in fiscal year 2001. Funding for Town Aid Road grants from the Special Transportation Fund is not included in the program projection period of fiscal years 2004 to 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. The initial transportation strategy was presented on January 15, 2002. The legislation also requires that the first revised strategy be submitted by December 15, 2002 and 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 November 1, 2002, there were $46.6 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 $1,180.1 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 November 1, 2002, $460.4 million revenue bonds (excluding refunded bonds) were outstanding.

Unemployment Compensation

The State pays unemployment compensation benefits from the State's Unemployment Compensation Fund, which is funded by unemployment compensation taxes collected from employers. In 1993, the State responded to a deficit in the Fund by, among other things, issuing three series of special obligation bonds totaling $1,020.7 million to repay certain federal borrowings and to fund certain reserves. All of these bonds were defeased in June 2001. To fund future shortfalls, the State has reserved the authority to issue bonds in an aggregate amount outstanding at any time not in excess of $1,000 million, plus amounts for certain reserves and costs of issuance. The State has not incurred any additional borrowing since 1993 other than borrowings from the Federal Unemployment Trust Fund 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 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, in addition to Second Injury claims transferred prior to July 1, 1999.

As of June 30, 2002, the Second Injury Fund had settled approximately 5,728 cases since January 1, 1995 at a cost of $423.7 million. Through a review of cases conducted by staff, using guidelines established in consultation with Deloitte & Touche, more than 1,700 inactive cases have been closed and approximately 2,737 cases remain open/active. 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. As of November 1, 2002, the amount of bonds outstanding was $58.4 million and $95.6 million, respectively. The State also has a Commercial Paper Dealer Agreement and credit support in place, initially for up to $300 million, now reduced to $80 million. As of November 1, 2002, there was no outstanding commercial paper. The bonds and any amounts borrowed under the line of credit are payable solely from amounts held in the Finance Account of the Second Injury Fund, revenues pledged for their payment pursuant to legislation and amounts held under the indenture of trust with respect to the bonds, 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, 2002 the assets in the Insurance Fund totaled $7.9 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, 2002, loans insured by the Insurance Fund totaled $22.0 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 $18.32 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. There is one vacancy on the Board of Directors.

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.

CRRA has approximately $198.1 million outstanding Special Capital Reserve Debt as of November 1, 2002 pertaining to the Mid-Connecticut waste to energy plant in Hartford, Connecticut. In addition to tipping fees under service agreements with participating municipalities, CRRA'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 electrical output from the facility. 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 unlikely that Enron will make its other required payments to CRRA. Additionally, Covanta Mid-Conn., Inc., operator of the steam and electricity production components of the Mid-Connecticut facility, filed for bankruptcy on April 1, 2002. Thus far the bankruptcy has not affected Covanta's operation of the Mid-Connecticut facility.

CRRA, in an effort to generate adequate revenues to pay debt service on its bonds for the Mid-Connecticut facility, has increased tipping fees, is pursuing remedies in bankruptcy court with the Attorney General, is negotiating with Connecticut Light & Power and other parties for increased electric rates and has received a license to act as an electric supplier in the State of Connecticut. Although it has received a license as an electric supplier, CRRA is not providing such services at this time due to contractual limitations and economic factors. In addition to attempting to increase its revenues, CRRA has decreased its expenses by implementing certain cuts in administrative and operational expenses. The State is obligated to maintain the Minimum Capital Reserve Requirement for these bonds to the extent CRRA uses monies in the capital reserve fund to pay debt service on CRRA'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 $25.4 million. During April 2002, the General Assembly passed Public Act No. 02-46 which authorizes a loan by the State to the CRRA of up to $115 million to support the repayment of CRRA'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.

The Board of Directors of CRRA is comprised of thirteen full members: three members appointed by the Governor; two members appointed by each of the president pro-tempore of the Senate, the speaker of the House of Representatives, the minority leader of the Senate and the minority leader of the House of Representatives; and two voting ex-officio members, who are the Secretary of the Office of Policy and Management and the State Treasurer or their designees. The Board also consists of eight ad-hoc members appointed by the Governor.

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 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 issued $97.5 million Special Capital Reserve Fund Bonds in April 2002. The Minimum Capital Reserve Requirement is $10.1 million.

The Waterbury Financial Planning and Assistance 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	Outstanding SCRF or Guaranteed Debt As of 11/1/02	Minimum Capital Reserve Requirement As of 11/1/02
INDEBTEDNESS SECURED BY SPECIAL CAPITAL RESERVE FUNDS			
Connecticut Development Authority			
Umbrella Bond Program	300.0	11.3	3.7
General Obligation Bond Program	30.6	18.3	2.4
Connecticut Health and Educational Facilities Authority			
Nursing Home Program	(a)	115.1	11.9
Connecticut State University System	(a)	153.0	16.3
Connecticut Higher Education Supplemental Loan Authority (b)	170.0	124.3	8.1
Connecticut Housing Finance Authority (d)			
Housing Mortgage Finance Program	(a)	3,217.9	277.4
Special Needs Housing Mortgage Finance Program	(a)	19.5	1.5
Connecticut Resources Recovery Authority (c)	725.0	277.8	33.8
University of Connecticut Student Fee Revenue Bonds (e)	(a)	31.2	2.1
City of Waterbury Special Capital Reserve Fund Bonds	100.0	97.5	10.1
INDEBTEDNESS GUARANTEED BY STATE			
Southeastern Connecticut Water Authority	15.0	0.7	N.A.

(a) No statutory limit.

(b) On November 15, 2002 the amount of outstanding bonds of the Connecticut Higher Education Supplemental Loan Authority was $114.3 million, due to the scheduled maturity of $3.5 million and the special mandatory redemption of $6.5 million of the Authority's bonds. The Minimum Capital Reserve Requirement remains at $8.1 million.

(c) Of the $277.8 million of outstanding SCRF or guaranteed debt as of November 1, 2002 of the Connecticut Resources Recovery Authority ("CRRA"), approximately $198.1 million pertains to the Mid-Connecticut waste to energy plant in Hartford, Connecticut. Those bonds have a Minimum Capital Reserve Requirement of approximately $25.4 million. (See discussion above under ***Connecticut Resources Recovery Authority***). On November 15, 2002, CRRA made principal payments on its SCRF debt. Therefore, on November 15, 2002, the outstanding SCRF or guaranteed debt was $259.5 million with a Minimum Capital Reserve Requirement of $33.8 million.

(d) Between November 1, 2002 and December 31, 2002 CHFA expects to issue various series of bonds for its programs and for refundings. It is expected that the outstanding SCRF debt as of December 31, 2002 will not exceed $3,300 million for the Housing Mortgage Finance Program and $45 million for the Special Needs Housing Mortgage Finance Program. It is also expected that the Minimum Capital Reserve Requirement as of December 31, 2002 will not exceed $290 million for the Housing Mortgage Finance Program and $4 million for the Special Needs Housing Mortgage Finance Program.

(e) On November 15, 2002, the University made a principal payment on its SCRF debt. Therefore, on November 15, 2002, the outstanding SCRF or guaranteed debt was $30.5 million with a Minimum Capital Reserve Requirement of $2.1 million.

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, which applies to certain school projects approved by the General Assembly prior to 1997, 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, 2002, the State is obligated to various cities, towns and regional districts for $846 million in aggregate installment payments and $278 million in aggregate interest subsidy, for a total of $1,124 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 $30 million for installment payment grants and approximately $8 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 no longer participates in the payment of debt service on municipal bonds and therefore no longer contributes to the cost of interest incurred by the municipalities. The State now pays 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, 2002 the Commissioner estimates that grant payments under this program will be approximately $2,800 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. Legislation enacted in 1999 provided for the obligation of the Department of Social Services to make debt service payments to be made by the State Treasurer. Any obligation by the Department or the State Treasurer to pay is subject to annual appropriation. The Authority first issued special obligation bonds under this program in 1998. The Authority has approximately $39.57 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, 2002 the future obligation to lottery prize winners is $693.9 million.

PENSION AND RETIREMENT SYSTEMS

State Employees' Retirement Fund

The State Employees' Retirement Fund is the largest system maintained by the State with approximately 54,287 active members, 1,496 inactive (vested) members and 32,354 retired members as of June 30, 2002. Generally employees hired before July 1, 1984 participate in the Tier I plan, which includes employee contributions. As of July 1, 2002 approximately 23% of the total work force was covered under the Tier I Plan. Other employees generally participate in the Tier II plan, which is non-contributory and provides somewhat lesser benefits. As of July 1, 2002 approximately 52% 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, 2002 approximately 25% 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 12, 2002, indicated that as of June 30, 2002 the State Employees' Retirement Fund had an actuarial accrued liability of $12,806,115,474 and had assets with an actuarial value of $7,893,683,977. This resulted in an unfunded accrued liability of $4,912,431,497 as of June 30, 2002. As of June 30, 2002 the market value of the fund's investment assets was $7,090,508,997, which amount was less than the actuarial value by $803,174,980.

The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 9.00% on investment assets over the past ten years (fiscal year 1992-93 through fiscal year 2001-02) and an annualized net return of 5.65% over the past five years (fiscal year 1997-98 through fiscal year 2001-02).

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				
	1998	**1999**	**2000**	**2001**	**2002**
General Fund Contributions.................	$227,610,361	$199,304,785	$212,947,331	$257,806,736	$284,527,059
Transportation Fund Contributions.................	25,740,000	28,419,000	27,636,000	31,321,880	36,676,000
Federal and other (Reimbursements)	81,163,459	87,838,000	102,176,999	86,494,566	94,289,540
Employee Contributions....	35,408,824	38,897,333	43,782,742	46,088,785	49,577,375
Total Contributions	$369,922,644	$354,459,118	$386,543,072	$421,711,967	$465,069,974
Investment Income[(a)]	242,206,972	245,642,870	286,587,354	276,494,999	271,445,717
Net Realized Gains (Losses)	357,937,509[(b)]	1,350,241	299,651,658	(2,140,298)	1,341,884
Benefits Paid	550,802,000[(c)]	572,003,425[(c)]	596,333,139	619,174,473	651,201,069

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

(b) 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.

(c) 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, 2002, there were approximately 57,300 active and former employees with accrued and accruing benefits and approximately 22,303 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 November 19, 2002, indicated that as of June 30, 2002 the Teachers' Retirement Fund, inclusive of the excess earnings account, had an actuarial accrued liability of $15,253,882,989 and had assets with an actuarial value of $11,961,346,260. This resulted in an unfunded accrued liability of $3,292,536,729 as of June 30, 2002. As of June 30, 2002 the market value of the fund's investment assets was $10,107,301,878, which amount was less than the actuarial value by $1,854,044,382.

The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 9.07% on investment assets over the past ten years (fiscal year 1992-93 through fiscal year 2001-02) and an annualized net return of 5.71% over the past five years (fiscal year 1997-98 through fiscal year 2001-02).

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				
	1998	**1999**	**2000**	**2001**	**2002**
General Fund Contributions...............	$179,365,000	$188,334,000	$204,445,443	$214,665,698	$204,511,460
Employee Contributions[(a)]............	155,242,385	154,682,000	168,207,183	173,884,438	187,095,618
Total Contributions	$334,607,385	$343,016,000	$372,652,626	$388,550,136	$391,607,078
Investment Income[(b)]	337,652,602	347,734,968	410,683,507	399,305,587	388,302,193
Net Realized Gains (Losses)	510,763,178[(c)]	777,827	461,947,176	(3,335,159)	1,584,432
Benefits Paid	523,035,137	562,962,086	630,885,706	690,674,530	754,655,476

(a) Includes municipal contributions under early retirement incentive programs ($3,324,208 during the 2002 fiscal year); does not include employee contributions to the Teacher's Retirement Health Insurance Fund ($25,903,003 during the 2002 fiscal year).

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

(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.

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, 2002, there were approximately 225 active members of these plans and approximately 238 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, 2002, approximately 63,353 State employees were entitled to Social Security coverage. The amount expended by the State for Social Security coverage for fiscal year 2001-02 was $185.3 million. Of this amount, $172.5 million was paid from the General Fund and $12.8 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, 2002, a total of 32,602 retirees were eligible to receive such benefits; and a total of 31,276 retirees and 22,997 retirees, respectively, were actually receiving health care benefits and life insurance benefits. For the fiscal year 2001-02, $204.8 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 2002-03, $236.7 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: $3,500,000 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; $10,485,936 was expended for fiscal year 2001-02; and $11,787,496 has been appropriated for fiscal year 2002-03. 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, 2000-01 and 2001-02, and the total appropriation for fiscal year 2002-03, expenditures of $4,323,636 for fiscal year 1999-00, $4,454,670 for fiscal year 2000-01 and $4,751,670 for fiscal year 2001-02 and an appropriation of $5,299,600 for fiscal year 2002-03 are attributable to this legislation. Since July 1, 1994, retiree health benefits have been self-insured.

Additional Information

The June 30, 2002 audited financial statements which are included as **Appendix III-C** hereto, and in particular notes 10 through 13 and note 15 and the required PERS Supplementary Information of the accompanying Basic Financial Statements, provide additional information about the foregoing retirement systems and their funding. In addition, paragraph B of note 21 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, the Court should issue was held in April, 2002. The Superior Court is waiting for additional briefs to be filed in December 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. In November 2002 the District Court entered judgment for the defendants on all pending claims. It is anticipated that the plaintiffs will appeal the decision.

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 September 2003.

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. The Superior Court has decided one suit in favor of the State. The decision has been appealed to the Supreme Court.

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. The plaintiffs seek damages, declaratory and injunctive relief, plus attorneys' fees and costs. On September 27, 2002, the District Court entered judgment for the defendants after trial. Class certification was denied at the same time. The plaintiffs have appealed both the judgment and the denial of class certification.

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 quasiinstitutional 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 Mashantucket Pequot Tribe has withdrawn its application to take the additional lands outside its reservation into trust. Therefore, the case pending before the United States District Court has been dismissed as moot. In June 2002, the Federal Bureau of Indian Affairs issued a final determination granting federal recognition to the Historic Eastern Pequot tribe. The State has appealed that decision to the Court of Appeals. If federal recognition is upheld, the tribe could institute land claims against the State or others.

Pratt & Whitney Division of UTC v. Commissioner of Revenue Services and ***Hamilton Standard Division of UTC v. Commissioner of Revenue Services*** are both cases in the Connecticut Superior Court. They involve sales and use tax refund claims by the plaintiffs, who argue that the materials, tools, machinery and equipment used by them in conducting research and development as aircraft manufacturers in an aircraft manufacturing facility with respect to aircraft parts and components qualify for an exemption from sales and use tax under Connecticut General Statutes Section 12-412 (78). The trial court bifurcated liability from the damages portion of the case, and on July 3, 2002 entered summary judgment for the plaintiffs on their claims. The case now proceeds to the damages phase. The claims cover the tax years April 1, 1995 through December 31, 1998, and July 1, 1993 through June 30, 1997, respectively. The decision could also affect other tax years.

INDEX TO APPENDICES

Appendix III-A

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.

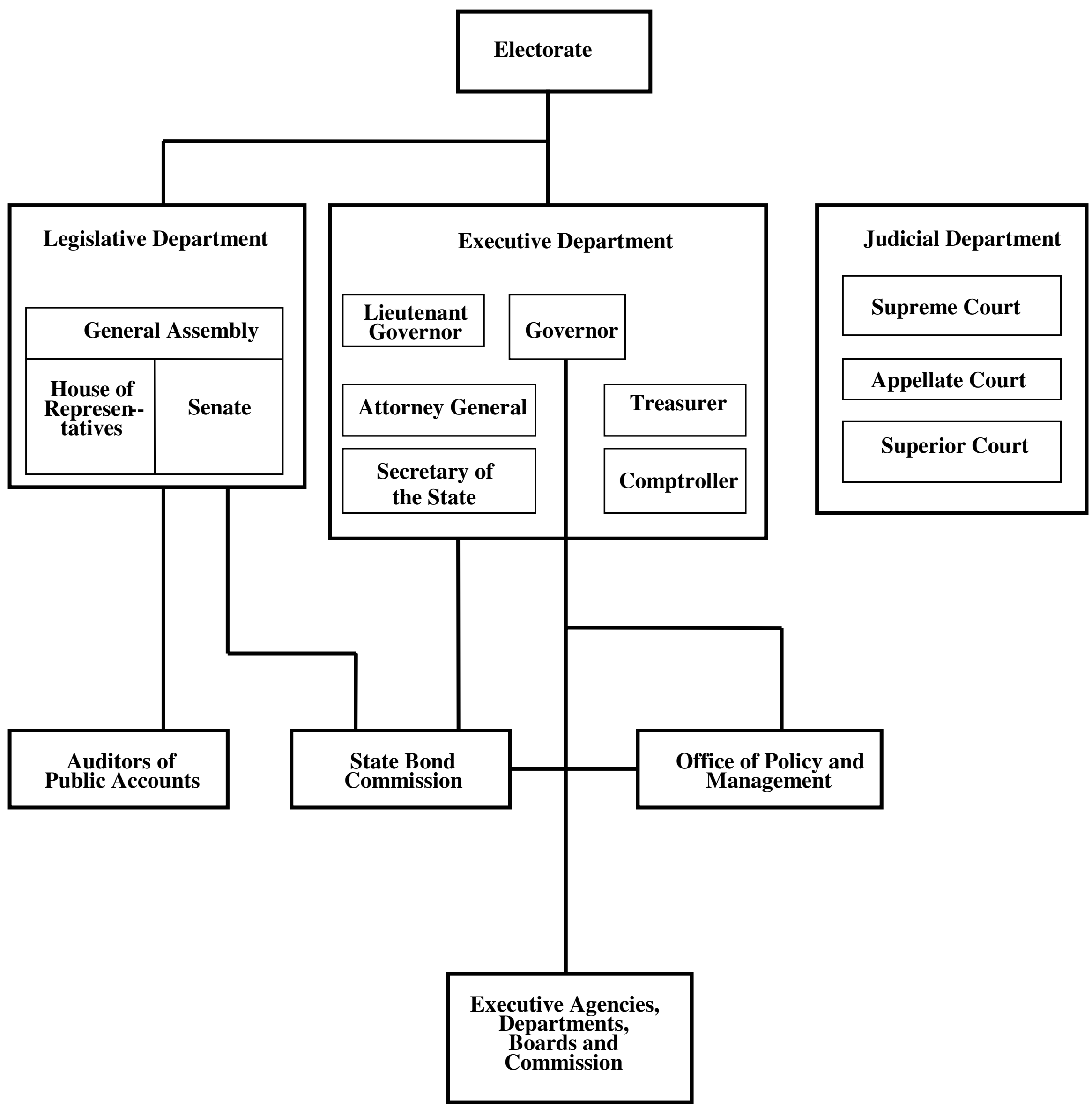
Under Connecticut law, all municipal governmental bodies have only the powers specifically granted to them by the State and the ancillary powers that are necessarily implied by powers explicitly granted. Municipalities which have the power to tax and to issue debt are explicitly denied the power by statute 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 2002, and the new members took office in January 2003.

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. A general election was held in November 2002, and the same officials were reelected to their respective offices for terms beginning in January 2003.

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 173 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 128 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)]	1998	1999	2000	2001	2002
Legislative	427	438	434	447	509
General Government	3,745	3,853	3,910	3,910	3,909
Regulation and Protection	4,200	4,319	4,550	4,592	4,620
Conservation and Development	1,399	1,420	1,463	1,457	1,496
Health and Hospitals	8,280	8,709	8,747	8,635	8,710
Transportation	3,675	3,610	3,643	3,626	3,631
Human Services	2,347	2,391	2,375	2,332	2,315
Education	13,494	14,130	14,357	14,921	15,331
Corrections	9,346	9,454	10,027	9,956	10,168
Judicial	2,971	3,068	3,224	3,342	3,369
Total	49,884	51,392	52,730	53,218	54,058

(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**.

SOURCE: Office of Policy and Management

TABLE A-3
State Employees as of June 30, 2002[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	509						509
General Government	3,082	11	9	450	29	328	3,909
Regulation and Protection	2,205	669	596	218	922	10	4,620
Conservation and Development	677		5	374	317	123	1,496
Health and Hospitals	8,243			77	335	55	8,710
Transportation		3,505		126			3,631
Human Services	1,980		14		307	14	2,315
Education	9,730			5,417	184		15,331
Corrections	10,012			91	65		10,168
Judicial	3,294			12	63		3,369
Total	39,732	4,185	624	6,765	2,222	530	54,058

[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[a]	Contract Status, if any
Covered by Collective Bargaining		
Administrative Clerical	9.64%	Contract in place through 6/30/2002 (b)
Correction Officers	9.21%	Contract in place through 6/30/2004
Health Care Non-Professionals	8.34%	Contract in place through 6/30/2005
Maintenance and Service	8.21%	Contract in place through 6/30/2005
Social and Human Services	7.33%	Contract in place through 6/30/2002 (b)
Administrative and Residual	6.04%	Contract in place through 6/30/2003
Engineering, Scientific and Technical	4.95%	Contract in place through 6/30/2005
Health Care Professionals	4.80%	Contract in place through 6/30/2005
University Health Professionals (University of Connecticut Health Center)	3.45%	Contract in place through 6/30/2006
Judicial Employees	2.59%	Contract in place through 6/30/2002 (b)
University of Connecticut Faculty	2.38%	Contract in place through 6/30/2006
University of Connecticut Professional Employee Association	2.30%	Contract in place through 6/30/2005
Connecticut State University Faculty	2.29%	Contract in place through 6/30/2006
State Police	2.20%	Contract in place through 6/30/2004
Vocational Technical School Teachers	2.11%	Contract in place through 6/30/2003
Congress of Connecticut Community Colleges	2.08%	Contract in place through 6/30/2005
Judicial Professionals	1.78%	Contract in place through 6/30/2002 (b)
Education Professionals (Institutions)	1.73%	Contract in place through 6/30/2005
Protective Services	1.62%	Contract in place through 6/30/2004
Judicial Marshals	1.37%	Contract in place through 6/30/2004
Connecticut State University Administrators	1.03%	Contract in place through 6/30/2005
Other Bargaining Units (11 units)	2.02%	Varies by Unit
Total Covered by Collective Bargaining	87.46%	
Not Covered by Collective Bargaining		
Auditors of Public Accounts	0.18%	Not Applicable
Other Employees	12.36%	Not Applicable
Total Not Covered by Collective Bargaining	12.54%	
Total Full-Time Work Force	100.00%	

(a) Percentage expressed reflects approximately 54,058 filled full-time positions as of June 30, 2002.

(b) The State and the bargaining unit are currently in negotiations or arbitration for a successor agreement.

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
Latino and Puerto Rican Affairs Commission
African-American Affairs Commission

General Government
Governor's Office
Secretary of the State
Lieutenant Governor's Office
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
Office of Workforce Competitiveness
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
State Marshal Commission

Regulation and Protection
Department of Public Safety
Police Officer Standards and Training Council
Board of Firearms Permit Examiners
Department of Motor Vehicles
Military Department
Commission on Fire Prevention and Control
Department of Banking
Insurance Department
Office of Consumer Counsel
Department of Public Utility Control
Office of Managed Care Ombudsman
Department of Consumer Protection
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 Chief 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 State 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 the Children's Trust Fund

Judicial
Judicial Department
Public Defender Services 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, 2002.

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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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 more than 50% 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, an increase of 118,449, or 3.6%, from the 3,287,116 figure of 1990. The State's population growth rate, which exceeded the United States' rate of population growth during the period 1940 to 1970, slowed substantially and trailed the national average markedly during the past three decades. The following table presents the population trends of Connecticut, New England and the United States since 1940. Connecticut's population increased 3.6% from 1990 to 2000 versus 5.4% in New England. Within New England, only Vermont and New Hampshire experienced growth significantly higher than the region. The mid-2001 population in Connecticut was estimated at 3,425,074, up 0.4% from a year ago, compared to increases of 0.6% and 0.9% for both New England and the nation, respectively.

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
1992….	3,301	(0.1)	13,271	0.2	256,514	1.4
1993….	3,309	0.3	13,334	0.5	259,919	1.3
1994….	3,316	0.2	13,396	0.5	263,126	1.2
1995….	3,324	0.2	13,473	0.6	266,278	1.2
1996….	3,337	0.4	13,555	0.6	269,394	1.2
1997….	3,349	0.4	13,642	0.6	272,647	1.2
1998….	3,365	0.5	13,734	0.7	275,854	1.2
1999….	3,386	0.6	13,838	0.8	279,040	1.2
2000….	3,410	0.7	13,944	0.8	282,125	1.1
2001….	3,425	0.4	14,022	0.6	284,797	0.9

Note: 1940-2000, April 1 Census. Figures are for census comparison purposes.
1992-2001, Mid-year estimates.

SOURCE: United States Department of Commerce, Bureau of the Census

The State is highly urbanized with a 2001 population density of 707 persons per square mile, as compared with 81 for the United States as a whole and 223 for the New England region. Of the 8 counties in the State, 75% of the population resides within Fairfield (26%), Hartford (25%), and New Haven (24%) counties.

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, Americans with Disabilities Act and paratransit 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 Stamford.

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 who 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 few 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). Two 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. and Verizon New York, Inc. Connecticut also has approximately 139 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 affect 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 high per capita income is due to the State's concentration of relatively high paying manufacturing jobs along with a higher portion of residents working in the non-manufacturing sector in such areas as finance, insurance and real estate, as well as educational services. A concentration of major corporate headquarters located within the State also contributes to the high level of income. The following table shows total and per capita personal income for Connecticut residents during the period from 1992 to 2001 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 of Dollars)	Per Capita[a] (Dollars)	New England	United States
1992	93,779	28,409	116.9	135.2
1993	96,867	29,274	117.2	135.6
1994	99,788	30,093	116.1	134.5
1995	104,315	31,382	116.1	134.8
1996	109,354	32,770	115.6	134.8
1997	116,420	34,763	116.2	136.6
1998	124,880	37,112	116.6	137.9
1999	130,175	38,445	115.6	137.8
2000	138,796	40,703	113.7	136.6
2001	143,613	41,931	114.2	137.5

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)
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	7.3%	7.1%	7.0%	6.0 %	5.8 %	5.7%
1999	4.2%	5.3%	4.9%	2.8 %	3.8 %	3.4%
2000	6.6%	8.4%	8.0%	4.4 %	6.2 %	5.7%
2001	3.5%	3.2%	3.3%	1.1 %	0.8%	0.9%

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 2001.

TABLE B-4

Sources of Personal Income By Place of Residence Calendar 2001 (In Millions)

	Conn.	Percent of Total	U.S.	Percent of Total
Wages in Non-manufacturing	$ 72,021	50.15	$4,161,208	47.91
Property Income (Div., Rents & Int.)	25,082	17.46	1,638,303	18.86
Wages in Manufacturing	16,519	11.50	789,400	9.09
Transfer Payments less Social Insurance Paid	9,619	6.70	798,165	9.19
Other Labor Income	8,818	6.14	570,395	6.57
Proprietor's Income	11,554	8.05	727,862	8.38
Personal Income—Total	$143,613	100.00	$8,685,333	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, thereafter the growth rates improved and remain higher than those experienced in the early 1990s.

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	**$**	**% Growth**	**$**	**% Growth**	**$**	**% Growth**
1991	100,395	1.5	344,025	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	142,701	5.7	503,940	6.9	8,750,174	6.4
1999	149,483	4.8	537,962	6.8	9,279,697	6.1
2000	159,288	6.6	582,776	8.3	9,941,552	7.1

(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	**$**	**% Growth**	**$**	**% Growth**	**$**	**% Growth**
1991	114,576	(2.3)	388,572	(2.5)	6,615,685	(0.2)
1992	114,830	0.2	391,385	0.7	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	138,159	4.2	488,673	5.4	8,502,663	5.1
1999	143,500	3.9	517,174	5.8	8,915,954	4.9
2000	149,649	4.3	549,304	6.2	9,314,279	4.5

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 2000, Connecticut's output was concentrated in three areas: finance (29.5%), services (22.1%) and manufacturing (15.7%), which contributed two-thirds of the State's total output. The output contribution of manufacturing has been declining over time as the contribution of finance and services has been rapidly increasing. In 1991, Connecticut's outputs from these three areas were: finance, 25.2%; services, 19.4%; and manufacturing, 19.8%. The increasing share of the non-manufacturing sector may help smooth the business cycle by prolonging the length of expansion and reducing the span and depth of recession.

TABLE B-7

Gross State Product by Industry in Connecticut
(In Millions of Dollars)

Sector	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Manufacturing	$19,901	$19,452	$18,420	$18,983	$20,017	$21,233	$22,998	$24,151	$24,016	$25,010
Construction[(a)]	3,544	3,493	3,594	3,670	3,904	3,929	4,285	4,661	5,129	5,579
Agriculture[(b)]	660	734	819	802	771	845	874	926	1,000	1,090
Utilities[(c)]	6,803	7,212	7,622	8,026	8,407	8,192	8,315	8,824	8,987	9,399
Wholesale Trade	6,762	7,013	7,008	7,377	7,747	8,136	9,126	9,305	9,338	9,726
Retail Trade	8,361	8,340	8,553	8,835	9,026	9,347	10,100	10,676	11,737	12,876
Finance[(d)]	25,258	26,607	29,173	29,797	32,221	34,073	37,892	40,812	43,596	47,045
Services[(e)]	19,470	20,995	22,488	24,205	25,577	27,063	29,652	31,164	33,109	35,235
Government	9,636	9,948	10,247	10,700	10,975	11,339	11,726	12,182	12,571	13,328
Total GSP	$100,395	$103,794	$107,924	$112,395	$118,645	$124,157	$134,968	$142,701	$149,483	$159,288

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

Non-agricultural employment includes all persons employed except federal military personnel, the self-employed, proprietors, unpaid workers, farm and household domestic workers. The following table compares non-agricultural establishment employment for Connecticut, New England and the United States between 1992 and 2001. In Connecticut, approximately 60% of total personal income is derived from wages and salaries earned by workers classified in the non-agricultural employment sector. Therefore the non-agricultural employment figure is a valuable indicator of economic activity. Connecticut's nonagricultural employment reached its decade-long high in the first quarter of 1989 with 1,676,230 persons employed, but began declining with the onset of the recession in the early 1990s. It was not until 1993 that the State's economy started to gain momentum and it has steadily improved in each successive year since, adding tens of thousands of new workers annually. During 2000, nonagricultural employment surpassed the 1989 peak with a total employment of 1,693,500. Total nonagricultural employment declined in 2001 as the economy softened beginning with the first quarter of 2001.

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
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	1,612.4	1.81	6,574.6	2.21	122,670	2.58
1998	1,643.1	1.90	6,721.6	2.24	125,853	2.59
1999	1,668.8	1.56	6,853.9	1.97	128,903	2.42
2000	1,693.5	1.48	7,018.4	2.40	131,718	2.18
2001	1,682.8	(0.63)	7,033.6	0.22	131,923	0.16

(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 2001. The table shows that Connecticut has a larger share of employment in services and manufacturing than the nation as a whole.

TABLE B-9

Connecticut Non-agricultural Employment, 2001
(In Thousands)

	Connecticut		United States	
	Total	%	Total	%
Services[(a)]	539.7	32.07	40,978	31.06
Trade[(b)]	358.2	21.29	30,295	22.96
Manufacturing	254.0	15.09	17,695	13.41
Government	243.8	14.49	20,928	15.86
Finance[(c)]	142.5	8.47	7,713	5.85
Utilities[(d)]	78.6	4.67	7,068	5.36
Construction[(e)]	66.0	3.93	7,246	5.49
	1,682.8	100.00	131,923	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. Throughout the last four decades, while manufacturing employment in Connecticut has been steadily declining, employment in non-manufacturing industries has surged. In calendar 2001, approximately 85% of the State's workforce was employed in non-manufacturing jobs, up from roughly 50% in the early 1950s.

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]
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	48.53	1,531.07
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	53.17	1,583.69
1997	275.98	351.61	494.97	225.73	132.13	74.93	57.06	1,612.41
1998	276.91	355.78	510.76	227.63	136.54	75.81	59.69	1,643.12
1999	268.42	359.23	526.29	235.09	140.04	77.53	62.16	1,668.76
2000	263.33	363.97	537.40	241.93	141.48	79.72	65.71	1,693.54
2001	253.96	358.17	539.72	243.84	142.51	78.56	66.04	1,682.80

(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

The manufacturing industry, despite its continuing downward employment trend over the past five decades, has traditionally served as an economic base industry and has been of prime economic importance to Connecticut. Based on the level of personal income derived from this sector, Connecticut ranks thirteenth in the nation for its dependency on manufacturing in fiscal 2001. 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. This downward movement in employment levels is also reflected in the New England region while manufacturing employment for the nation has remained somewhat steady for the decade. The transformation in the State's manufacturing base confirms that the State's employment levels in the manufacturing sector are much closer to the national average. Thus, Connecticut has been successful in diversifying itself away from dependence on just one type of industry. In calendar 2001, approximately 15% of the State's workforce, versus 13.4% for the nation, was employed in the manufacturing industry, down from roughly 50% in the early 1950s.

TABLE B-11

Manufacturing Employment
(In Thousands)

Calendar	Connecticut		New England		United States	
Year	Number	% Growth	Number	% Growth	Number	% Growth
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)	18,495	(0.16)
1997	276.0	0.44	1,045.3	0.47	18,670	0.95
1998	276.9	0.33	1,046.5	0.11	18,805	0.72
1999	268.4	(3.07)	1,017.7	(2.75)	18,555	(1.33)
2000	263.3	(1.90)	1,015.1	(0.26)	18,475	(0.43)
2001	254.0	(3.53)	980.0	(3.46)	17,695	(4.22)

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 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 2001.

TABLE B-12

Manufacturing Employment
By Industry
(In Thousands)

Calendar Year	Transportation Equipment	Fabricated Metals	Nonelectrical Machinery	Electrical Machinery	Other[a]	Total Manufacturing Employment
1992	70.55	33.35	37.15	29.10	135.56	305.71
1993	62.95	33.57	36.16	28.06	133.41	294.15
1994	56.87	33.97	35.33	27.68	131.44	285.29
1995	52.69	34.29	35.09	27.73	129.26	279.06
1996	50.59	34.00	34.94	28.26	127.00	274.79
1997	50.10	34.62	34.66	28.81	127.79	275.98
1998	50.26	35.27	34.70	28.67	128.01	276.91
1999	48.25	34.01	33.14	26.87	126.15	268.42
2000	45.60	33.54	32.91	27.39	123.89	263.33
2001	46.03	31.60	31.28	26.04	119.01	253.96

(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 1992 at 305,710 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 continued to decline to a recent low of 253,960 in 2001, after a rebound to 276,910 in 1998. The total number of manufacturing jobs dropped 51,750, or 16.93% for the ten year period since 1992.

Exports. In Connecticut, the export sector of manufacturing has assumed an increasingly important role in overall economic growth. According to figures published by the United States Department of Commerce, which were adjusted and enhanced by the University of Massachusetts (MISER), exports of manufacturing products registered at $8.6 billion in 2001, accounting for approximately 5% of Gross State Product. From 1997 to 2001, the State's export of goods grew at an average annual rate of 5.2%. The following table shows the growth in exports of manufacturing products.

TABLE B-13

Exports Originating in Connecticut
(In Millions)

	1997	1998	1999	2000	2001	% of 2001 Total	Average % Growth 1997-01
A. Manufacturing Products							
Transportation Equipment	$2,067.6	$2,665.3	$2,599.0	$3,168.5	$3,988.3	46.3%	18.6%
Computer & Electronics	807.5	762.6	877.6	904.5	804.4	9.3%	0.4%
Machinery, Except Electronics	831.4	801.4	755.7	1,005.2	898.0	10.4%	3.3%
Fabricated Metal Production	360.5	312.9	328.5	369.8	391.5	4.5%	2.6%
Chemicals	560.4	557.0	547.7	612.8	567.3	6.6%	0.5%
Misc. Manufacturing	515.0	568.3	581.5	395.1	430.4	5.0%	(2.6%)
Electrical Equipment	315.0	237.5	242.9	292.9	259.8	3.0%	(3.3%)
Plastics & Rubber	159.5	159.6	153.1	144.5	152.0	1.8%	(1.1%)
Paper	154.3	134.1	139.6	150.8	139.5	1.6%	(2.1%)
Primary Metal Mfg.	309.0	182.1	191.1	247.0	210.1	2.4%	(5.5%)
Others	977.9	916.3	814.5	755.7	769.1	8.9%	(5.7%)
Total	$7,058.1	$7,297.1	$7,231.2	$8,046.8	$8,610.4	100.0%	5.2%
% Growth		3.4%	(0.9%)	11.3%	7.0%		
B. Gross State Product[a]	$134,968	$142,701	$149,483	$159,288	$163,436[b]		
Mfg Exports as a % of GSP	5.2%	5.1%	4.8%	5.1%	5.3%		

(a) In millions.
(b) Gross State Product for 2001 is estimated by the Office of Policy and Management and is assumed to grow at the same rate as income derived from wages and salary, 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 the defense industry. Approximately one quarter of the State's manufacturing employees are employed in defense related business. 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 year 2001, however, Connecticut received $4.3 billion of prime contract awards, an increase of 96.1% over 2000. These total awards accounted for 3.2% of national total awards and ranked tenth in total defense dollars awarded and third in per capita dollars awarded among the 50 states. In fiscal year 2001, Connecticut had $1,247 in per capita defense awards, compared to the national average of $475. As measured by a three year moving average of defense contract awards as a percent of Gross State Product, awards to Connecticut based firms have fallen to 2.0% of Gross State Product in fiscal year 2001, down from 4.0% of Gross State Product in fiscal year 1992. The increase in 2001 was primarily due to higher awards for naval ships and helicopters.

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.
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
1999-00	$2,177,462	17th	(31.3)	7.3
2000-01	$4,269,536	10th	96.1	9.7

SOURCE: United States Department of Defense

Non-manufacturing. The non-manufacturing sector is comprised of industries that primarily provide services. Services differ significantly from manufactured goods in that the output is generally intangible, it is produced and consumed concurrently and it cannot be inventoried. Consumer demand for services is not as postponable as the purchase of goods, making the flow of demand for services more stable. An economy will therefore generally become more stable as it becomes more service oriented. 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 approximately 85% by 2001. This trend has decreased the State's dependence on manufacturing. Over the course of the last ten years, there were approximately 208,500 jobs created in this sector, an increase of 17.1%. Moreover, this sector has more than compensated for the loss in manufacturing jobs, fueling the recovery in nonagricultural employment since 1993.

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
1992	1,220.4	(1.00)	4,886.3	(0.08)	90,483	0.70
1993	1,236.9	1.35	4,995.6	2.24	92,615	2.36
1994	1,258.5	1.75	5,129.8	2.69	95,815	3.46
1995	1,282.8	1.93	5,263.6	2.61	98,665	2.97
1996	1,308.9	2.03	5,392.0	2.44	101,095	2.46
1997	1,336.4	2.10	5,529.3	2.55	104,000	2.87
1998	1,366.2	2.23	5,675.1	2.64	107,048	2.93
1999	1,400.3	2.50	5,836.2	2.84	110,348	3.08
2000	1,430.2	2.14	6,003.3	2.86	113,243	2.62
2001	1,428.9	(0.09)	6,053.5	0.84	114,228	0.87

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 1992, 1999, 2000 and 2001 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. Between 1992 and 2001, service industry employment expanded by 116,640 workers, adding more than one out of every two jobs statewide, which registered an increase of 208,490 jobs. State and local governments expanded by 38,710 jobs. The increase in this line item over the ten-year period can be attributed to the Federal Government's decision to categorize all workers employed on Indian Reservations as state government employees. Per the State's Department of Labor, approximately 20,000 employees worked at the State's two tribal casinos.

TABLE B-16
Connecticut Non-manufacturing Employment By Industry
(In Thousands)

Industry	Calendar 1992	Calendar 1999	Calendar 2000	Calendar 2001	Percent Change 2000-01	Percent Change 1992-01
Construction[(a)]	48.32	62.16	65.71	66.04	0.50	36.67
Transportation	39.68	44.53	45.42	46.02	1.32	15.98
Communications	17.11	18.75	19.26	20.33	5.56	18.82
Utilities	13.20	12.45	12.84	12.83	(0.08)	(2.80)
Wholesale Trade	73.42	86.21	86.31	75.96	(11.99)	3.46
Retail Trade	257.91	273.02	277.67	282.21	1.64	9.42
Finance and Real Estate	59.68	69.73	69.89	71.24	1.93	19.37
Insurance	82.66	70.32	71.59	71.27	(0.45)	(13.78)
Services[(b)]	423.08	526.29	537.40	539.72	0.43	27.57
Federal Government	24.27	22.35	22.32	23.49	5.24	(3.21)
State and Local Government	181.03	214.53	221.81	219.74	(0.93)	21.38
Total Non-manufacturing Employment[(c)]	1,220.36	1,400.34	1,430.22	1,428.85	(0.09)	17.08

(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.

The following table shows the major group in each SIC code as well as the State's retail trade history for the past five fiscal years. It demonstrates the fluctuating pattern of retail sales in Connecticut. Connecticut retail trade in fiscal 2001 totaled $42.2 billion, a decrease of 0.9% from fiscal 2000. This decrease reflects the State's economic slowdown after the continued, lengthy expansion in the State's economy experienced throughout most of the 1990s.

TABLE B-17

Retail Trade In Connecticut
(In Millions)

		Fiscal Year 1997	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	% Of Fiscal Year 2001 Total	Average % Growth Fiscal Year 1997-2001
SIC52	Hardware Stores	$1,436	$1,512	$2,320	$2,418	$2,376	5.6	15.3
SIC53	General Merchandise	3,636	3,793	3,742	3,744	3,024	7.2	(4.1)
SIC54	Food Products	6,127	6,479	6,922	7,139	7,521	17.8	5.3
SIC55	Automotive Products	7,488	7,654	7,963	8,712	8,531	20.2	3.4
SIC56	Apparel & Accessory	1,696	1,896	2,047	2,195	2,237	5.3	7.2
SIC57	Furniture & Appliances	3,724	4,333	4,011	4,299	3,971	9.4	2.1
SIC58	Eating & Drinking	2,685	2,799	2,966	3,148	3,327	7.9	5.5
SIC59	Misc. Shopping Stores	8,579	9,425	9,865	10,975	11,247	26.6	7.1
	Total[(a)]	$35,371	$37,891	$39,836	$42,630	$42,234	100.0	4.6
% Change from Previous Year		6.5	7.1	5.1	7.0	(0.9)		
Durables (SIC 52,55,57)		$12,648	$13,499	$14,294	$15,429	$14,878	35.2%	4.2%
% Change from Previous Year		10.3	6.7	5.9	7.9	(3.6)		
Non Durables (all other SICs)		$22,723	$24,392	$25,542	$27,201	$27,356	64.8%	4.8%
% Change from Previous Year		4.5	7.3	4.7	6.5	0.6		

(a) Totals may not agree with detail due to rounding.

SOURCE: Connecticut Department of Revenue Services

Unemployment Rates. 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.

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 1992, which was below the New England average of 8.1% but above the national average of 7.5%. Since then it has generally been declining and has mostly remained below the New England and the national average. It fell to 2.2% in 2000 and edged up to 3.6% for the first six months of 2002, below the national averages of 4.2% and 5.8%, respectively, for the same periods.

The following table compares the unemployment rate averages of Connecticut, New England and the United States between 1992 and the first half of 2002.

TABLE B-18

Unemployment Rate

Year	Unemployment Rate		
	Connecticut	New England	United States
1992	7.6	8.1	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	4.9
1998	3.4	3.5	4.5
1999	3.2	3.3	4.2
2000	2.2	2.8	4.0
2001	3.3	3.7	4.8
2002[(b)]	3.6	4.2	5.8

(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

NANCY WYMAN
COMPTROLLER

STATE OF CONNECTICUT

OFFICE OF THE STATE COMPTROLLER
55 ELM STREET
HARTFORD, CONNECTICUT 06106-1775

MARK E. OJAKIAN
DEPUTY COMPTROLLER

February 28, 2003

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, 2002. 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 financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Connecticut as of and for the year ended June 30, 2002, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Connecticut's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit:

<u>Government-wide Financial Statements</u>

- the financial statements of the Special Transportation Fund account within the Transportation Fund and the Transportation Special Tax Obligations account within the Debt Service Fund, which in the aggregate, represent seven percent of the assets and seven percent of the revenues of the Governmental Activities;
- the financial statements of the John Dempsey Hospital, University of Connecticut Foundation, Connecticut State University, and Connecticut Community Colleges accounts within the Higher Education Fund; Bradley International Airport; Connecticut Lottery Corporation; Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 57 percent of the assets and 52 percent of the revenues of the Business Type Activities;
- the financial statements of the discretely presented component units;

<u>Fund Financial Statements</u>

- the financial statements of the Special Transportation Fund account, which represents 99 percent of the assets and 98 percent of the revenues of the Transportation Fund;
- the financial statements of the Transportation Special Tax Obligations account, which represents 88 percent of the assets and 91 percent of the revenues of the Debt Service Fund;
- the financial statements of the John Dempsey Hospital, University of Connecticut Foundation, Connecticut State University, and Connecticut Community Colleges accounts within the Higher Education Fund; Bradley International Airport; Connecticut Lottery Corporation; Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 57 percent of the assets and 52 percent of the revenues of the Enterprise 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 on the reports of the 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 Drinking

Water Fund, Clean Water Fund, Bradley International Airport, Connecticut Lottery Corporation, Connecticut Resources Recovery Authority, Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, Connecticut Housing Finance Authority, Connecticut Development Authority, and Connecticut Innovations Incorporated, 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 entities 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 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, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the State of Connecticut as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof 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 February 28, 2003, 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 19 to the financial statements, the State of Connecticut implemented the following Governmental Accounting Standards statements for the 2001-2002 fiscal year: Statement Number 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement Number 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*; Statement Number 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement Number 38, *Certain Financial Statement Note Disclosures.* As required by these new standards, the State of Connecticut presents both government-wide financial statements and fund - level financial statements.

As discussed in Note 21 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.

The management's discussion and analysis information on pages 17 through 28 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Connecticut's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

February 28, 2003
State Capitol
Hartford, Connecticut

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)

The following discussion and analysis is supplementary information required by the Governmental Accounting Standards Board (GASB), and is intended to provide an easily readable explanation of the information provided in the attached basic financial statements. It is by necessity highly summarized, and in order to gain a thorough understanding of the state's financial position, the financial statements and footnotes should be viewed in their entirety. New standards issued by GASB have significantly changed the format of the basic financial statements. Due to these changes, few comparisons have been made between the current and prior year. In subsequent years, the MDA will focus on year-to-year comparisons.

FINANCIAL HIGHLIGHTS

Government-wide:
Assets of the state's governmental activities were $4.6 billion less than liabilities, a deterioration in financial position of $1.9 billion related to current year operations. Assets of the state's business type activities exceeded liabilities by $3.8 billion, an increase of $0.2 billion related to current year operations. In total, net assets went from $0.9 billion to a negative $0.8 billion, a decrease in total net assets of $1.7 billion.

As noted above, the liabilities of the state exceeded its assets by $4.6 billion as of June 30, 2002. Of this amount, the unrestricted net asset portion was a negative $8.2 billion. One of the primary reasons is the state's reliance on issuing bonds for operating purposes. Non-capital asset related bonded debt stood at $4.9 billion at the end of the fiscal year, with local school construction alone representing $1.3 billion in outstanding debt. Additionally, long-term obligations such as net pension, compensated absences and worker's compensation obligations of $3.7 billion, with no offsetting assets, further contributed to the state's negative financial position.

Fund Level:
Governmental fund assets exceeded liabilities resulting in a fund balance of $1.5 billion, of which $1.7 billion was reserved leaving a negative unreserved balance of $0.2 billion. The unreserved undesignated fund balance of the General Fund was also negative at $0.9 billion at June 30, 2002.

Enterprise Fund assets exceeded liabilities resulting in total net assets of $3.8 billion, of which $3.7 billion was restricted or invested in capital assets, and the balance of $0.1 billion was unrestricted.

Debt Issued and Outstanding:
Long-term bonded debt of governmental activities totaled $11.7 billion (see Note 15). Other long-term liabilities totaled $3.8 billion.

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION

There are three major parts to the basic financial statements: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE STATEMENTS (Reporting the State as a Whole)

Governments have traditionally focused their reporting on groupings of funds rather than on the government taken as a whole. The new financial reporting model, upon which this report is based, retains this traditional focus on funds and adds an additional focus on the overall government's financial position and operations.

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the state as a whole and its activities. These statements help to demonstrate how the state's financial position as a whole changed due to the year's operating activities. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting.

The Statement of Net Assets presents all of the state's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the state's financial position is improving or not.

The Statement of Activities presents information showing how the state's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in future fiscal year cash flows (e.g., earned but unused vacation time).

Both statements report three activities:

- *Governmental Activities* - Most of the state's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The legislature, the judiciary, and the general operations of the executive departments fall within the governmental activities.

- *Business-type Activities* – These activities are primarily funded by charges to external parties for the cost of goods and services provided. These activities are generally reported in Enterprise Funds in the fund level statements. The operations of Bradley International Airport, the Connecticut Lottery Corporation and Employment Security, are examples of business-type activities.

- *Discretely Presented Component Units* – Component units are legally separate organizations for which the state is financially accountable. More information on discretely presented component units can be found in Note 1 on page 61**.**

Financial reporting for governmental activities traditionally has focused on changes in current spendable resources rather than on changes in total resources. This traditional focus has been retained for purposes of fund reporting. However, as governmental activities are included with other activities in the new government-wide financial statement format, the focus for these activities shifts to changes in total resources. In other words, all activities reported in government-wide financial statements are reported in a manner similar to private-sector accounting. To increase the readers understanding, a summary reconciliation of the difference between the governmental fund financial statements and the government-wide financial statements is provided as part of the basic financial statements.

FUND LEVEL STATEMENTS

Fund financial statements focus on individual parts of the state's operations in more detail than the government-wide statements. Funds are accounting devices that governments use to keep track of specific sources of funding and spending for particular purposes. The state of Connecticut is required to report four categories of fund statements – governmental, proprietary, and fiduciary funds, to the extent that state activities meet the criteria for using these funds, and "combining statements" for its component units.

As a practical matter, governments have traditionally been combining similar individual funds into groupings or "fund types" (i.e., general fund, special revenue funds, debt service funds, capital projects funds, enterprise funds, internal service funds and trust & agency funds). In the past, it was these fund types, rather than individual funds, that have been the focus of the combined financial statements presented in financial reports. Under the new financial reporting model, as presented here, however, governments focus on major individual funds rather than on fund types (with aggregated information presented for the total of all non-major funds).

Major Governmental Fund Financial Statements:

Governmental fund reporting focuses primarily on the sources uses and balances of current financial resources and often has a budgetary orientation. The state's major government funds include the General Fund, the Transportation Fund and the Debt Service Fund.

General Fund. The General Fund functions as the chief operating fund for the state government. All of the state's activities are reported in the General Fund unless there is a compelling reason to report them elsewhere.

Transportation Fund. The Transportation Fund is a special revenue fund that accounts for motor vehicle taxes, receipts and transportation related federal revenues collected for the purpose of payment of debt service requirements and for making appropriations budgeted for the Department of Transportation and the Department of Motor Vehicles and related expenses. The Department of Transportation is responsible for all aspects of the planning, development, maintenance and improvement of the state transportation system.

Debt Service Fund. The Debt Service Fund is a governmental fund, which accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Changes in budgetary reporting. Traditionally, governments have included a budget-to-actual comparison as one of their basic financial statements. The final amended budget has provided the budgetary amounts used for this presentation. The new financial reporting model brings three important changes to traditional practice.

- Budgetary comparisons will henceforth need to present the original budget in addition to the final amended budget.

- In the past budgetary comparisons were presented by fund type (e.g., total budgeted special revenue funds). The new financial reporting model will require a budgetary comparison for the General Fund and individual major special-revenue funds.

- Governments are permitted to present the budgetary comparison as a basic financial statement if they wish to do so, thereby retaining it within the scope of the independent audit. The state of Connecticut has elected to do so even though it is only required to present non-audited budgetary comparison statements as “required supplementary information”.

Major Proprietary Fund Financial Statements:

Proprietary funds (enterprise and internal service) are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting where all assets and liabilities are reported on the balance sheet. Revenues are recorded when earned and expenses are recorded when incurred. Some of the important changes that relate to the new reporting standard include the following:

- The new reporting model requires that proprietary fund reporting distinguish current assets and liabilities from non-current assets and liabilities.

- Traditionally, the equity of proprietary funds was divided between "contributed capital" and "retained earnings." Under the new financial reporting model, such a distinction is no longer made. Three new classifications are used under the new financial reporting model to classify equity for proprietary funds and for the government-wide financial statements. These three classifications are 1) "invested in capital assets net of related debt," 2) "restricted" (distinguishing between major categories of restrictions) and 3) "unrestricted."

Enterprise funds report activities that provide goods or services to the general public. An example is the Connecticut Lottery. Internal service funds report activities that provide supplies and services to the state’s other programs and activities. An example is the state’s motor fleet operations. Internal service funds are reported as governmental activities on the government-wide statements

Fiduciary Fund Financial Statements:

The fiduciary fund category includes pension (and other employee benefit) trust funds, investment-trust fund, private-purpose-trust fund and agency funds. These fund types should be used to report resources held and administered by the state when it is acting in a fiduciary capacity for individuals, private organizations or other governments. Some of the important changes to traditional reporting include the following:

Limitation on the use of fiduciary funds. The use of fiduciary funds will henceforth be limited to accounting for resources that are not available to support a government's operations and programs. This limitation resulted in the non-fiduciary reclassification of numerous expendable and non-expendable trust funds reported in the traditional financial reporting model, which is no longer used.

Changes in fiduciary funds. The distinction between expendable and non-expendable trust funds has been eliminated. Instead, some expendable trust funds have been reclassified and are now reported as special revenue funds while others have been replaced by the "private-purpose" trust fund. This newly created fund type is used to report all trust arrangements under which principal and income are to be used to benefit individuals, private organizations or other governments. Non-expendable or endowment-like arrangements available to support the operations or programs of the government (e.g., cemetery perpetual care funds) are accounted for in a governmental fund type, newly created by GASB statement 34, called "permanent funds."

Component Unit Combining Statements:

The same GASB 34 reporting rules regarding the determination of major funds are applied to the states component units. The Component units of the State of Connecticut are:

Connecticut Housing Finance Authority. Classified as the State's major component unit, the CHFA is a public instrumentality and political subdivision 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.

Connecticut Development Authority. CDA's purpose is to stimulate commercial development.

Connecticut Resources Recovery Authority. CRRA's purpose is solid waste management.

Connecticut Higher Education Supplemental Loan Authority. CHESLA's purpose is to provide resources for student loans.

Connecticut Health and Educational Facilities Authority. CHEFA's purpose is to provide resources for financing major projects for health and educational institutions.

Connecticut Innovations, Incorporated. CI's purpose is to stimulate application of new technology.

Capital City Economic Development Authority. CCEDA's purpose is to stimulate economic development in the city of Hartford.

FINANCIAL SECTION CONTENTS OTHER THAN FINANCIAL STATEMENTS

Notes To The Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements.
Required supplementary information. The RSI provides additional information regarding the States progress on funding its obligation to provide pension benefits to its employees.

Combining Financial Statements. Combining statements for non-major funds are not required to be presented or audited under generally accepted accounting principals. Nevertheless, Connecticut presents these statements as supplementary information, in the optional part of this report.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

NET ASSETS

The following table was derived from the government-wide Statement of Net Assets. The state's combined net assets declined $1.7 billion over the course of Fiscal Year 2002 operations. The net assets of governmental activities decreased $1.9 billion, while net assets from business-type activities increased $0.2 billion.

State Of Connecticut's Net Assets
(in Millions)

	Governmental Activities 2002	Business-type Activities 2002	Total Primary Government 2002
Current and Other Non-current Assets	$ 3,369.3	$ 3,931.0	$ 7,300.3
Capital Assets	9,125.8	2,306.1	11,431.9
Total Assets	12,495.1	6,237.1	18,732.2
Current Liabilities	2,535.4	488.4	3,023.8
Long-term Liabilities	14,576.6	1,948.7	16,525.3
Total Liabilities	17,112.0	2,437.1	19,549.1
Net Assets:			
Invested in Capital Assets, Net of Related Debt	2,348.4	1,847.5	4,195.9
Restricted	1,231.4	1,846.1	3,077.5
Unrestricted	(8,196.7)	106.4	(8,090.3)
Total Net Assets	$ (4,616.9)	$ 3,800.0	$ (816.9)

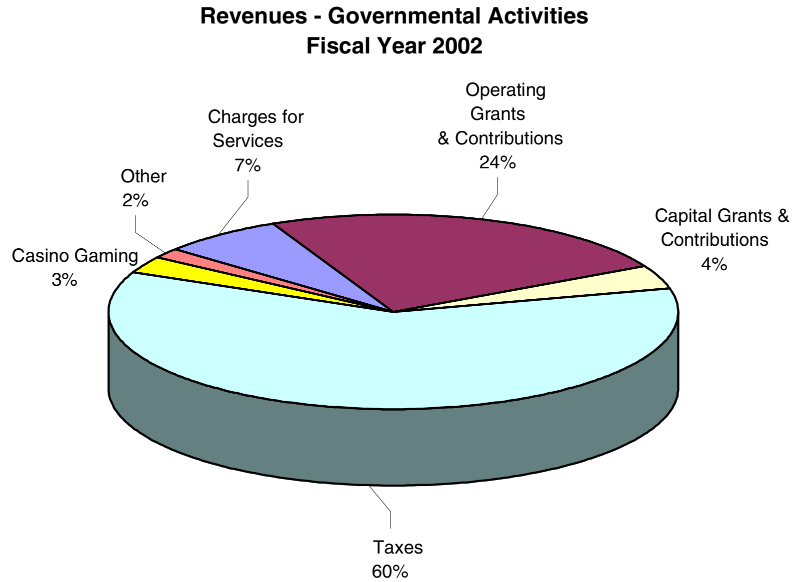
The following condensed financial information was derived from the government-wide Statement of Activities and reflects the nature of the state's change in net assets throughout Fiscal Year 2002.

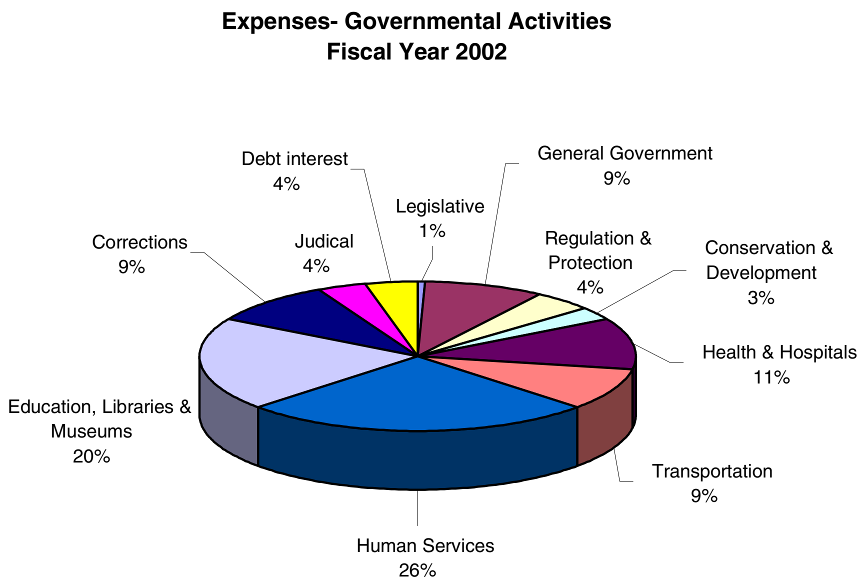
State of Connecticut's Changes in Net Assets
(Expressed in Millions)

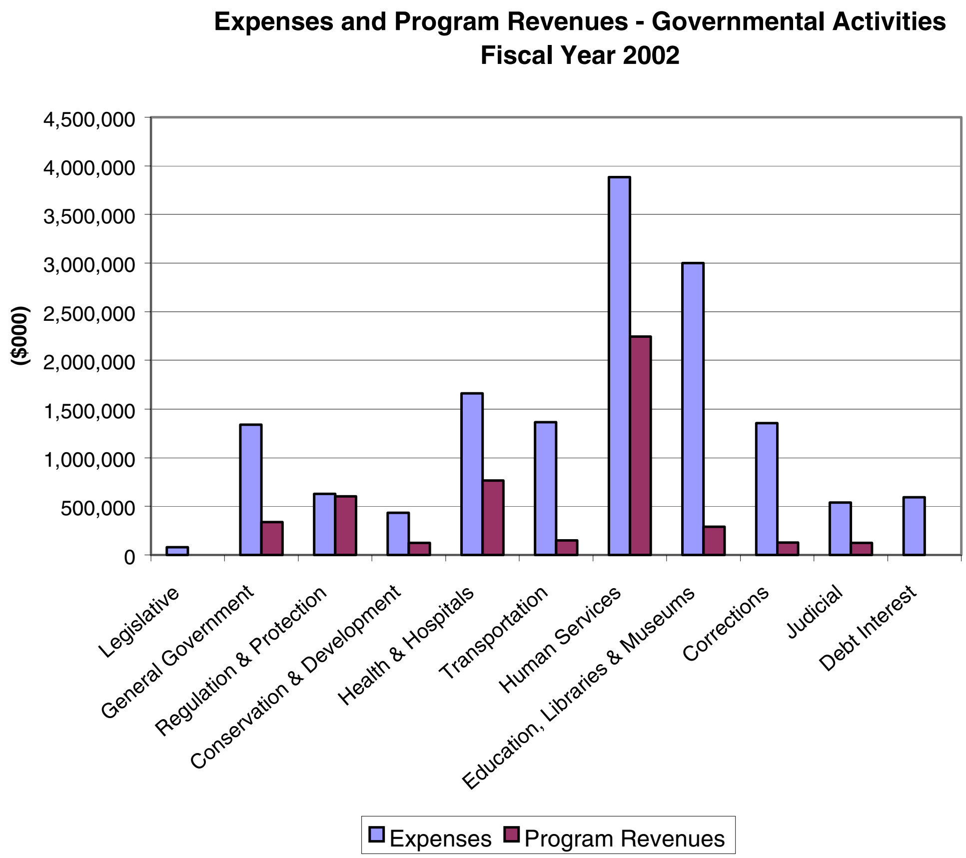
	Governmental Activities 2002	Business-Type Activities 2002	Total 2002
Revenues			
Program Revenues			
Charges for Services	$ 942.9	$ 2,409.7	$ 3,352.6
Operating Grants and Contributions	3,320.1	447.7	3,767.8
Capital Grants and Contributions	509.1	37.8	546.9
General Revenues			-
Taxes	8,292.6	-	8,292.6
Casino Gaming Payments	369.0	-	369.0
Other	224.6	89.4	314.0
Total Revenues	13,658.3	2,984.6	16,642.9
Expenses			
Legislative	80.2	-	80.2
General Government	1,340.0	-	1,340.0
Regulation and Protection	627.4	-	627.4
Conservation and Development	434.4	-	434.4
Health and Hospitals	1,664.1	-	1,664.1
Transportation	1,366.1	-	1,366.1
Human Services	3,882.7	-	3,882.7
Education, Libraries and Museums	3,000.3	-	3,000.3
Corrections	1,355.1	-	1,355.1
Judicial	538.4	-	538.4
Interest and Fiscal Charges	592.5	-	592.5
Higher Education	-	1,869.9	1,869.9
Bradley International Airport	-	50.4	50.4
CT Lottery Corporation	-	672.1	672.1
Employment Security	-	736.3	736.3
Second Injury & Compensation Assurance	-	61.2	61.2
Clean Water	-	30.9	30.9
Other	-	19.2	19.2
Total Expenses	14,881.2	3,440.0	18,321.2
Excess(Deficiency) Before Transfers and Special Items	(1,222.9)	(455.4)	(1,678.3)
Transfers	(657.0)	657.0	-
Special Items	-	(4.5)	(4.5)
Increase(Decrease) in Net Assets	(1,879.9)	197.1	(1,682.8)
Net Assets(Deficit) – Beginning	(2,737.0)	3,602.9	865.9
Net Assets(Deficit) - Ending	$ (4,616.9)	$ 3,800.0	$ (816.9)

GOVERNMENTAL ACTIVITIES

The following charts depict the distribution of revenues and expenses for Fiscal Year 2002.







Within governmental activities, Fiscal Year 2002 program and general revenue receipts were \$1.9 billion less than expenses. During Fiscal Year 2002, budget projections indicated that this gap between revenues and expenses would widen in future fiscal years. In an effort to improve the state's future operating results, revenue enhancements were enacted and appropriations reduced during the course of the 2002 legislative session. Specific appropriation reductions and revenue enhancements impacting Fiscal Year 2003 have been implemented and additional measures are under consideration at this writing.

Business-type activities saw an increase of \$0.2 billion or 5.5 percent through Fiscal Year 2002 operations. Higher-Education expenses accounted for 54.3 percent of business-type expenses and 37.5 percent of program revenues. Program revenues exceeded expenses in the Connecticut Lottery Corporation by \$0.2 billion.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The state completed Fiscal Year 2002 with a balance of \$1.5 billion in its governmental funds. There is a small shortfall or negative balance of \$0.1 billion in the unreserved portion of this fund balance. Fiscal Year 2002 operations reduced the balance in governmental funds by \$1.1 billion from the prior year.

General Fund

The General Fund is the chief operating fund of the state. At the end of Fiscal Year 2002, the General Fund had a negative unreserved fund balance of $0.9 billion. Fiscal Year 2002 operations reduced the total fund balance in the General Fund by $1.3 billion. Lower tax receipts associated with a national economic recession were the primary cause of the deterioration in fund balance. On a budgetary accounting basis, actual revenues fell $1.1 billion short of the original budget plan estimates.

By the end of the first quarter of Fiscal Year 2002, budget forecasts were showing a large deficit building for the year. In response, deficit mitigation legislation was enacted. These mitigation plans resulted in net appropriation reductions after transfers of $0.3 billion. An increase in the state's cigarette tax was also enacted. The deficit mitigation initiatives implemented during the course of Fiscal Year 2002 were not sufficient to keep pace with declining revenues and the General Fund ended the year with a large operating deficit. This deficit was partially offset by a $0.6 billion balance in the state's Budget Reserve Fund. The remaining budgetary base General Fund operating deficit for Fiscal Year 2002 of $0.2 billion was financed through the issuance of economic recovery notes.

Transportation Fund

The Transportation Fund ended Fiscal Year 2002 with an unreserved fund balance of $0.2 billion. The change in fund balance through Fiscal Year 2002 operations was negligible.

The variance in Fiscal Year 2002 actual revenues from the original budget plan was less than fifty million dollars in this Fund.

Other Funds

The other funds category includes the state's special revenue funds. These funds had a total unreserved balance of $0.6 billion on June 30, 2002. The total fund balance as of that date was $1.0 billion.

In Fiscal Year 2002, expenditures exceeded revenues by $1.4 billion in the other funds category. Bonds issued in the amount of $1.6 billion provided an offset to this deficit. The state has a long history of utilizing bond proceeds to offset operating deficits within these funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets.

The State of Connecticut's investment in capital assets for its governmental and business-type activities as of June 30, 2002 amounts to $11.4 billion (net of accumulated depreciation). The increase in capital assets for governmental activities was 2.1% while the increase for business-type activities was 12.1%. Depreciation charges for the fiscal year totaled $0.9 billion.

State of Connecticut's Capital Assets
(Net of Depreciation, in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2002	2001	2002	2001	2002	2001
Land	$ 863.6	$ 819.9	$ 46.1	$ 44.0	$ 909.7	$ 863.9
Buildings	701.4	522.9	1,311.6	1,195.5	2,013.0	1,718.4
Improvements Other than Buildings	45.4	127.7	198.8	182.9	244.2	310.6
Equipment	547.4	559.4	365.4	352.8	912.8	912.2
Infrastructure	5,719.7	5,794.6	-	-	5,719.7	5,794.6
Construction in Progress	1,248.3	1,116.7	384.2	282.3	1,632.5	1,399.0
Total	$ 9,125.8	$ 8,941.2	$ 2,306.1	$ 2,057.5	$ 11,431.9	$ 10,998.7

Additional information on the State of Connecticut's capital assets can be found in Note 9 on page 70 of this report.

Long-term Debt.

The state, pursuant to various public and special acts, has authorized a variety of types of debt which fall 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; and special obligation and revenue debt, which is payable from specified revenues and other funds.

State of Connecticut's Outstanding Debt
General Obligation and Revenue Bonds (in Millions)

	Governmental Activities		Business-type Activities		Total	
	2002	2001	2002	2001	2002	2001
General Obligation Bonds	$ 8,527.4	$ 7,812.1	$ -	$ -	$ 8,527.4	$ 7,812.1
Transportation Related Bonds	3,174.9	3,100.1	-	-	3,174.9	3,100.1
Revenue Bonds	-	-	1,504.8	1,464.1	1,504.8	1,464.1
Total	$ 11,702.3	$ 10,912.2	$ 1,504.8	$ 1,464.1	$ 13,207.1	$ 12,376.3

The state issued approximately $2.9 billion of bonds in fiscal year 2002 including $1.2 billion in refunding bonds with a net increase of 7.2% in outstanding debt for governmental activities and 2.8% for business-type activities. The state's general obligation bonds are rated Aa2, AA and AA by Moody's, Standard and Poor's and Fitch IBCA, respectively, while transportation-related special tax obligation bonds are currently rated Aa3, AA- and AA-, respectively.

Section 3-21 of the Connecticut General Statutes provides that the total amount of bonds, notes or other evidences of indebtedness payable from general fund tax receipts authorized by the General Assembly but have not been issued and the total amount of such indebtedness which has been issued and remains outstanding shall not exceed 1.6 times the total estimated general fund tax receipts of the state for the current fiscal year. In computing the indebtedness at any time, revenue anticipation notes, refunded indebtedness, bond anticipation notes, tax increment financing, budget deficit bonding, revenue bonding, balances in debt retirement funds and other indebtedness pursuant to certain provisions of the General Statutes shall be excluded from the calculation.

Additional information on the State of Connecticut's long-term debt can be found in Notes 15 and 16 on pages 73-77 of this report.

CONDITIONS EXPECTED TO AFFECT FUTURE OPERATIONS

By the second quarter of Fiscal Year 2002, it became clear that the state was facing a structural imbalance between projected revenues and estimates of spending requirements. The General Fund deficit for Fiscal Year 2003 was estimated to be $0.6 billion on a budgetary (non-GAAP) accounting basis. The deficit for Fiscal Year 2004 was projected at $2 billion.

In February 2003, the legislature passed a deficit reduction plan that reduces appropriations by approximately $0.2 billion and is expected to produce over $0.4 billion in additional General Fund revenue in Fiscal Year 2003 almost entirely eliminating the deficit. Many of the spending reductions and revenue enhancements will continue into future fiscal years and significantly alleviate the structural budget imbalances. The legislature and governor are continuing their work to ensure that budgets are balanced in future fiscal years.

To date, 2,800 state employees have been terminated in an attempt to mitigate the budget deficit. If these employees are not recalled, future state services and operations will be impacted. The specific operational consequences of the reduction in the state's workforce is not known at this time.

CONTACTING THE STATE'S OFFICES OF FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have any questions about this report, please contact the State Comptroller's Office at 1-860-702-3350.

Basic Financial Statements

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Statement of Net Assets

June 30, 2002
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 405,057	$ 486,600	$ 891,657	$ 536,609
Deposits with U.S. Treasury	-	675,562	675,562	-
Investments	181,405	250,670	432,075	120,078
Receivables, (Net of Allowances)	1,841,932	450,954	2,292,886	165,888
Due From Component Units	-	99,611	99,611	-
Due From Primary Government	-	-	-	20,346
Inventories	61,130	10,814	71,944	3,543
Restricted Assets	-	9,420	9,420	451,057
Internal Balances	(145,078)	145,078	-	-
Other Current Assets	13,821	8,910	22,731	12,353
Total Current Assets	2,358,267	2,137,619	4,495,886	1,309,874
Noncurrent Assets:				
Cash and Cash Equivalents	-	63,073	63,073	-
Restricted Assets	590,374	695,704	1,286,078	425,372
Investments	-	448,063	448,063	234,383
Loans, (Net of Allowances)	406,272	505,043	911,315	3,068,708
Capital Assets, (Net of Accumulated Depreciation)	9,125,804	2,306,065	11,431,869	252,286
Other Noncurrent Assets	14,388	81,532	95,920	59,925
Total Noncurrent Assets	10,136,838	4,099,480	14,236,318	4,040,674
Total Assets	12,495,105	6,237,099	18,732,204	5,350,548
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	710,270	194,520	904,790	52,986
Due To Component Units	20,346	-	20,346	-
Due To Primary Government	-	-	-	99,611
Escrow Deposits	-	-	-	26,347
Current Portion of Long-Term Obligations	976,958	168,936	1,145,894	118,451
Amount Held for Institutions	-	-	-	279,817
Deferred Revenue	39,159	59,335	98,494	680
Medicaid Liability	577,150	-	577,150	-
Liability for Escheated Property	51,178	-	51,178	-
Other Current Liabilities	160,333	65,563	225,896	18,271
Total Current Liabilities	2,535,394	488,354	3,023,748	596,163
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	14,576,670	1,948,712	16,525,382	3,667,265
Total Noncurrent Liabilities	14,576,670	1,948,712	16,525,382	3,667,265
Total Liabilities	17,112,064	2,437,066	19,549,130	4,263,428
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,348,364	1,847,526	4,195,890	44,126
Restricted For:				
Transportation	169,228	-	169,228	-
Debt Service	553,530	103,933	657,463	20,229
Capital Projects	-	144,982	144,982	-
Unemployment Compensation	-	798,703	798,703	-
Clean Water Projects	-	402,281	402,281	-
Bond Indenture Requirements	-	22,425	22,425	609,058
Other Purposes	419,135	196,465	615,600	27,817
Funds Held as Permanent Investments:				
Expendable	5,924	-	5,924	-
Nonexpendable	83,598	177,343	260,941	-
Unrestricted (Deficit)	(8,196,738)	106,375	(8,090,363)	385,890
Total Net Assets (Deficit)	$ (4,616,959)	$ 3,800,033	$ (816,926)	$ 1,087,120

The accompanying notes are an integral part of the financial statements.

Statement of Activities

For The Fiscal Year Ended June 30, 2002

(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Service, Fees, Fines, and Others**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government				
Governmental Activities:				
Legislative	$ 80,212	$ 170	$ -	$ -
General Government	1,339,982	174,172	164,532	-
Regulation and Protection	627,352	465,005	137,394	-
Conservation and Development	434,356	43,186	81,260	-
Health and Hospitals	1,664,152	40,333	218,045	-
Transportation	1,366,108	48,835	101,924	509,112
Human Services	3,882,711	42,624	2,202,406	-
Education, Libraries and Museums	3,000,315	9,165	282,534	-
Corrections	1,355,142	11,193	116,898	-
Judicial	538,368	108,188	15,106	-
Interest and Fiscal Charges	592,490	-	-	-
Total Governmental Activities	14,881,188	942,871	3,320,099	509,112
Business-Type Activities:				
Higher Education	1,869,875	812,295	248,330	25,674
Bradley International Airport	50,455	44,629	-	12,163
CT Lottery Corporation	672,118	908,204	-	-
Employment Security	736,261	505,012	180,074	-
Second Injury & Compensation Assurance	61,235	110,563	-	-
Clean Water	30,903	11,610	12,656	-
Other	19,186	17,335	6,646	-
Total Business-Type Activities	3,440,033	2,409,648	447,706	37,837
Total Primary Government	$ 18,321,221	$ 3,352,519	$ 3,767,805	$ 546,949
Component Units:				
Connecticut Development Authority	28,320	26,304	-	-
Connecticut Housing Finance Authority (12-31-01)	214,425	212,755	575	-
Connecticut Resource Recovery Authority	173,034	157,513	-	-
Others	29,708	15,323	23,218	-
Total Component Units	$ 445,487	$ 411,895	$ 23,793	$ -

General Revenues:
- Taxes:
  - Personal Income
  - Corporate Income
  - Sales and Use
  - Others
  - Restricted for Transportation Purposes:
  - Motor Fuel
  - Others
- Casino Gaming Payments
- Tobacco Settlement
- Unrestricted Investment Earnings

Transfers-Internal Activities

Special Items:
- Loss on Disposal of Capital Assets
- Others

Total General Revenues, Transfers, and Special Items

Change in Net Assets

Net Assets (Deficit) - Beginning (as restated)

Net Assets (Deficit) - Ending

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (80,042)	$ -	$ (80,042)	$ -
(1,001,278)	-	(1,001,278)	-
(24,953)	-	(24,953)	-
(309,910)	-	(309,910)	-
(1,405,774)	-	(1,405,774)	-
(706,237)	-	(706,237)	-
(1,637,681)	-	(1,637,681)	-
(2,708,616)	-	(2,708,616)	-
(1,227,051)	-	(1,227,051)	-
(415,074)	-	(415,074)	-
(592,490)	-	(592,490)	-
(10,109,106)	-	(10,109,106)	-
-	(783,576)	(783,576)	-
-	6,337	6,337	-
-	236,086	236,086	-
-	(51,175)	(51,175)	-
-	49,328	49,328	-
-	(6,637)	(6,637)	-
-	4,795	4,795	-
-	(544,842)	(544,842)	-
(10,109,106)	(544,842)	(10,653,948)	-
-	-	-	(2,016)
-	-	-	(1,095)
-	-	-	(15,521)
-	-	-	8,833
-	-	-	(9,799)
3,680,434	-	3,680,434	-
197,245	-	197,245	-
2,933,268	-	2,933,268	-
948,369	-	948,369	-
424,037	-	424,037	-
109,272	-	109,272	-
368,954	-	368,954	-
139,968	-	139,968	
84,684	89,388	174,072	(3,306)
(657,037)	657,037	-	-
-	(4,499)	(4,499)	-
-	-	-	(2,560)
8,229,194	741,926	8,971,120	(5,866)
(1,879,912)	197,084	(1,682,828)	(15,665)
(2,737,047)	3,602,949	865,902	1,102,785
$ (4,616,959)	$ 3,800,033	$ (816,926)	$ 1,087,120

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Governmental Fund Financial Statements

Major Funds

General Fund:
This fund is the State's general operating fund. It accounts for the financial resources and transactions not accounted for in other funds.

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.

Transportation Fund:
to account for motor vehicle taxes, receipts and transportation related federal revenues collected for the purposes of payment of debt service requirements and budgeted appropriations made to the Department of Transportation. The Department of Transportation is responsible for all aspects of the planning, development, maintenance, and improvement of transportation in the state.

Nonmajor Funds
Nonmajor governmental funds are presented, by fund type beginning on page 88.

Balance Sheet
Governmental Funds

June 30, 2002
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	$ -	$ 80,396	$ 166,602	$ 145,818	$ 392,816
Investments	40,813	-	-	140,592	181,405
Securities Lending Collateral	-	-	-	13,466	13,466
Receivables:					
Taxes, Net of Allowances	863,612	-	38,084	-	901,696
Accounts, Net of Allowances	178,076	-	4,211	26,916	209,203
Loans, Net of Allowances	909	-	-	405,363	406,272
From Other Governments	570,266	-	14,272	105,119	689,657
Interest	126	4,419	160	-	4,705
Other	6,315	-	6,555	4	12,874
Due From Other Funds	607,786	-	22,287	566,932	1,197,005
Advances To Other Funds	4,950	-	-	-	4,950
Inventories	41,869	-	14,859	-	56,728
Restricted Assets	-	590,374	-	-	590,374
Total Assets	$ 2,314,722	$ 675,189	$ 267,030	$ 1,404,210	$ 4,661,151
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable and Accrued Liabilities	$ 327,546	$ -	$ 27,912	$ 177,903	533,361
Due To Other Funds	1,136,323	4,418	1,021	156,747	1,298,509
Due To Component Units	150	-	-	20,196	20,346
Due To Governments	68,380	-	-	-	68,380
Deferred Revenue	443,648	-	16,426	34,348	494,422
Medicaid Liability	577,150	-	-		577,150
Liability For Escheated Property	51,178	-	-	-	51,178
Securities Lending Obligation	-	-	-	13,466	13,466
Other Liabilities	145,273	-	-	1,520	146,793
Total Liabilities	2,749,648	4,418	45,359	404,180	3,203,605
Fund Balances					
Reserved For:					
Petty Cash	1,031	-	-	-	1,031
Inventories	41,869	-	14,859	-	56,728
Loans	5,859	-	-	405,363	411,222
Continuing Appropriations	167,854	-	28,192	849	196,895
Debt Service	9,270	554,816	-	-	564,086
Restricted Purposes	283,213	-	-	89,522	372,735
Unreserved Reported In:					
General Fund	(944,022)	-	-	-	(944,022)
Transportation Fund	-	-	178,620	-	178,620
Debt Service	-	115,955	-	-	115,955
Special Revenue Funds	-	-	-	595,158	595,158
Capital Project Funds	-	-	-	(90,862)	(90,862)
Total Fund Balances	(434,926)	670,771	221,671	1,000,030	1,457,546
Total Liabilities and Fund Balances	$ 2,314,722	$ 675,189	$ 267,030	$ 1,404,210	$ 4,661,151

The accompanying notes are an integral part of the financial statements.

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2002

(Expressed in Thousands)

Total Fund Balance - Governmental Funds		$ 1,457,546
Net assets reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Buildings	2,356,943	
Equipment	1,165,633	
Infrastructure	10,444,768	
Other Capital Assets	1,013,645	
Accumulated Depreciation	(5,919,622)	9,061,367
Debt issue costs are recorded as expenditures in the funds. However, these costs are deferred (reported as other assets) and amortized over the life of the bonds in the Statement of Net Assets.		14,351
Some of the state's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		455,592
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		32,729
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds (Note 15).		
Net Pension Obligation	(3,117,349)	
Worker's Compensation	(245,183)	
Capital Leases	(76,896)	
Compensated Absences	(335,562)	
Claims and Judgments	(7,725)	(3,782,715)
Long-term bonded debt is not due and payable in the current period and therefore is not reported in the funds. Unamortized premiums, loss on refundings, and interest payable are not reported in the funds. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement (Note 15).		
Bonds Payable	(11,702,339)	
Unamortized Premiums	(123,890)	
Less: Deferred Loss on Refundings	60,793	
Accrued Interest Payable	(90,393)	(11,855,829)
Net Assets of Governmental Activites		$ (4,616,959)

The accompanying notes are an integral part of the financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For The Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Revenues					
Taxes	$ 7,721,885	$ -	$ 533,703	$ 22,752	$ 8,278,340
Licenses, Permits and Fees	195,262	-	287,428	68,679	551,369
Tobacco Settlement	-	-	-	139,968	139,968
Intergovernmental	3,159,621	-	101,924	575,848	3,837,393
Charges for Services	25,193	-	33,422	2,432	61,047
Fines, Forfeits and Rents	45,228	-	24,165	1,646	71,039
Casino Gaming Payments	368,954	-	-	-	368,954
Investment Earnings	22,414	37,101	4,738	13,821	78,074
Miscellaneous	206,896	-	8,886	76,960	292,742
Total Revenues	11,745,453	37,101	994,266	902,106	13,678,926
Expenditures					
Current:					
Legislative	76,595	-	-	-	76,595
General Government	980,990	-	1,673	344,237	1,326,900
Regulation and Protection	335,400	-	74,491	197,183	607,074
Conservation and Development	187,731	-	-	240,523	428,254
Health and Hospitals	1,639,205	-	-	13,633	1,652,838
Transportation	38,219	-	533,917	4,721	576,857
Human Services	3,853,342	-	-	13,628	3,866,970
Education, Libraries, and Museums	2,566,700	-	-	415,159	2,981,859
Corrections	1,320,274	-	-	14,153	1,334,427
Judicial	521,006	-	-	11,768	532,774
Capital Projects	-	-	-	1,030,628	1,030,628
Debt Service:					
Principal Retirement	612,283	193,585	17,884	1,073	824,825
Interest and Fiscal Charges	422,436	158,582	5,018	13,759	599,795
Total Expenditures	12,554,181	352,167	632,983	2,300,465	15,839,796
Excess (Deficiency) of Revenues Over Expenditures	(808,728)	(315,066)	361,283	(1,398,359)	(2,160,870)
Other Financing Sources (Uses)					
Bonds Issued	-	-	-	1,621,001	1,621,001
Premiums On Bonds Issued	-	84,248	-	46,768	131,016
Transfers In	435,475	388,455	38,660	242,675	1,105,265
Transfers Out	(893,193)	(36,348)	(382,577)	(451,321)	(1,763,439)
Capital Lease Obligations	5,356	-	399	1,234	6,989
Refunding Bonds Issued	-	1,121,670	-	-	1,121,670
Payment to Refunded Bond Escrow Agent	-	(1,204,925)	-	-	(1,204,925)
Total Other Financing Sources (Uses)	(452,362)	353,100	(343,518)	1,460,357	1,017,577
Net Change in Fund Balances	(1,261,090)	38,034	17,765	61,998	(1,143,293)
Fund Balances - Beginning (as restated)	820,528	632,737	202,191	938,032	2,593,488
Changes in Reserves for Inventories	5,636	-	1,715	-	7,351
Fund Balances - Ending	$ (434,926)	$ 670,771	$ 221,671	$ 1,000,030	$ 1,457,546

The accompanying notes are an integral part of the financial statements.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

June 30, 2002

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		$ (1,143,293)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Bond proceeds provide current financial resources to governmental funds, However, issuing debt increases long term liabilities in the Statement of Net Assets. Bond proceeds were received this year from:		
Bonds Issued	(1,621,001)	
Refunding Bonds Issued	(1,121,670)	
Premium on Bonds Issued	(131,016)	(2,873,687)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the Statement of Net Assets. Long-term debt repayments this year consisted of:		
Principal Retirement	824,825	
Payments to Refunded Bond Escrow Agent	1,204,925	
Capital Lease Payments	5,407	2,035,157
Capital outlays are reported as expenditures in the governmental funds. However in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital Outlays	907,266	
Depreciation Expense	(736,882)	170,384
Some capital assets acquired this year were financed with capital leases. The amount financed by leases is reported in the governmental funds as a source of financing, but lease obligations are reported as long-term liabilities on the Statement of Net Assets.		(6,989)
Inventories are reported as expenditures in the governmental funds when purchased. However, in the Statement of Activities the cost of these assets is recognized when those assets are consumed. This is the amount by which purchases exceeded consumption of inventories.		7,351
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in Accrued Interest	2,277	
Increase in Interest Accreted on Capital Appreciation Debt	(10,919)	
Amortization of Bond Premium	7,125	
Amortization of Loss on Debt Refundings	(5,529)	
Increase in Compensated Absences Liability	(26,975)	
Decrease in Workers Compensation Liability	81,234	
Decrease in Claims and Judgements Liability	5,385	
Increase in Net Pension Obligation	(105,902)	(53,304)
Because some revenues will not be collected for several months after the state's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues decreased by this amount this year.		(21,767)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of certain internal service funds is reported with the governmental activities.		(8,115)
Debt issue costs are recorded as expenditures in the governmental funds. However, these costs are amortized over the life of the bonds in the Statement of Activities. In the current year, these amounts are:		
Debt Issue Costs Payments	15,011	
Amortization of Debt Issue Costs	(660)	14,351
Change in Net Assets of Governmental Activities		$ (1,879,912)

The accompanying notes are an integral part of the financial statements.

Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Non-GAAP Budgetary Basis
General and Transportation Funds

For the Fiscal Year Ended June 30, 2002

(Expressed in Thousands)

	General Fund			
	Budget			Variance with Final Budget
Revenues	Original	Final	Actual	Over (Under)
Budgeted:				
Taxes, Net of Refunds	$ 8,754,200	$ 7,738,200	$ 7,730,954	$ (7,246)
Operating Transfers In	385,200	397,600	397,589	(11)
Casino Gaming Payments	360,000	369,000	368,954	(46)
Licenses, Permits, and Fees	128,200	137,600	137,518	(82)
Other	270,700	215,400	216,200	800
Federal Grants	2,144,300	2,142,200	2,142,269	69
Refunds of Payments	(500)	(400)	(373)	27
Operating Transfers Out	(148,000)	(147,700)	(147,686)	14
Total Budgeted	11,894,100	10,851,900	10,845,425	(6,475)
Federal and Other Restricted	700,080	1,895,200	1,098,258	(796,942)
Total Revenues	12,594,180	12,747,100	11,943,683	(803,417)
Expenditures				
Budgeted:				
Legislative	66,962	67,087	58,095	8,992
General Government	645,956	574,038	527,288	46,750
Regulation and Protection	250,255	243,788	222,490	21,298
Conservation and Development	131,698	93,682	78,464	15,218
Health and Hospitals	1,265,550	1,229,506	1,198,335	31,171
Transportation	83,926	52,701	37,653	15,048
Human Services	3,555,552	3,617,827	3,589,653	28,174
Education, Libraries, and Museums	2,966,317	2,881,637	2,847,540	34,097
Corrections	1,095,683	1,099,164	1,068,183	30,981
Judicial	385,341	387,288	376,813	10,475
Non Functional	2,262,991	2,270,539	2,182,512	88,027
Total Budgeted	12,710,231	12,517,257	12,187,026	330,231
Federal and Other Restricted	700,080	1,895,200	1,098,258	796,942
Total Expenditures	13,410,311	14,412,457	13,285,284	1,127,173
Appropriations Lapsed	103,850	161,608	-	(161,608)
Excess (Deficiency) of Revenues Over Expenditures	(712,281)	(1,503,749)	(1,341,601)	162,148
Other Financing Sources (Uses)				
Prior Year Appropriations Carried Forward	712,430	712,430	712,430	-
Appropriations Continued to Fiscal Year 2002-2003	-	-	(168,623)	(168,623)
Miscellaneous Adjustments	-	-	(19,291)	(19,291)
Total Other Financing Sources (Uses)	712,430	712,430	524,516	(187,914)
Net Change in Fund Balance	$ 149	$ (791,319)	(817,085)	$ (25,766)
Budgetary Fund Balances (deficit) - July 1			1,444,214	
Changes in Reserves			116,959	
Budgetary Fund Balances - June 30			$ 744,088	

The accompanying notes are an integral part of the financial statements.

Transportation Fund

Budget Original	Budget Final	Actual	Variance with Final Budget Over (Under)
$ 514,400	$ 534,400	$ 533,734	$ (666)
-	-	-	-
-	-	-	-
320,300	331,400	331,394	(6)
37,000	40,500	40,480	(20)
3,000	3,300	3,310	10
(2,800)	(2,500)	(2,525)	(25)
(9,500)	(9,500)	(9,500)	-
862,400	897,600	896,893	(707)
199,569	308,272	103,225	(205,047)
1,061,969	1,205,872	1,000,118	(205,754)
-	-	-	-
2,252	2,252	1,673	579
63,866	63,902	55,757	8,145
-	-	-	-
-	-	-	-
359,838	365,612	347,043	18,569
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
484,540	486,495	468,182	18,313
910,496	918,261	872,655	45,606
199,569	308,272	103,225	205,047
1,110,065	1,226,533	975,880	250,653
15,000	17,413	-	(17,413)
(33,096)	(3,248)	24,238	27,486
54,748	54,748	54,748	-
-	-	(28,192)	(28,192)
-	-	3,167	3,167
54,748	54,748	29,723	(25,025)
$ 21,652	$ 51,500	53,961	$ 2,461
		390,038	
		(21,078)	
		$ 422,921	

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Proprietary Fund Financial Statements

Major Funds

Higher Education:
Higher Education Funds are used to account for all transactions relating to public institutions of higher education and an affiliated organization. Higher Education institutions include five universities and twelve community-technical colleges.

Bradley Airport Operations:
The airport is owned by the State of Connecticut and is operated by the Bureau of Aeronautics of the State of Connecticut, Department of Transportation. In 1982, the State issued the Airport, 1982 series, Revenue Bonds in the aggregate principal amount of $100,000,000. The bonds were refunded in 1992 with the issuance of $94,065,000 in refunding bonds. The refunding bonds 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 Indenture.

The Connecticut Lottery Corporation:
The Connecticut Lottery Corporation, a public instrumentality and political subdivision of the State of Connecticut was created on July 1, 1996 for the purpose of generating revenues for the State of Connecticut's General Fund through the operation of a lottery.

Employment Security:
to account for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Second Injury and Compensation Assurance:
an extension of the Worker's Compensation Act, the fund is currently used to pay claimants whose injuries are made more severe because of a pre-existing condition, and in cases where an injured worker receiving worker's compensation subsequently undergoes an incapacitating relapse.

Clean Water:
to account for resources used to provide loans to municipalities to finance waste water treatment projects.

Nonmajor Funds
Nonmajor proprietary funds are presented, by fund type beginning on page 110.

Statement of Net Assets
Proprietary Funds

June 30, 2002

(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	Higher Education	Bradley International Airport	Connecticut Lottery Corporation	Employment Security
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 429,820	$ 15,745	$ 19,276	$ -
Deposits with U.S. Treasury	-	-	-	675,562
Investments	189,431	-	61,239	-
Receivables:				
Accounts, Net of Allowances	116,053	4,043	9,511	131,514
Loans, Net of Allowances	4,030	-	-	-
Interest	-	-	17,421	-
From Other Governments	1,726	5,925	-	6,290
Due From Other Funds	175,801	-	-	647
Due From Component Units	99,611	-	-	-
Inventories	9,163	-	1,651	-
Restricted Assets	60	9,360	-	-
Other Current Assets	7,191	518	519	-
Total Current Assets	1,032,886	35,591	109,617	814,013
Noncurrent Assets:				
Cash and Cash Equivalents	63,073	-	-	-
Receivables, Net of Allowances	54,838	-	-	-
Restricted Assets	18,813	188,051	-	-
Investments	-	-	409,216	-
Capital Assets, Net of Accumulated Depreciation	2,022,511	247,151	1,992	-
Other Noncurrent Assets	20,643	9,985	4,887	-
Total Noncurrent Assets	2,179,878	445,187	416,095	-
Total Assets	3,212,764	480,778	525,712	814,013
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	153,022	8,038	6,994	-
Due To Other Funds	9,360	6,700	-	15,310
Current Portion of Long-Term Obligations	58,143	5,775	64,666	-
Deferred Revenue	58,231	590	395	-
Other Current Liabilities	20,333	3,585	41,631	-
Total Current Liabilities	299,089	24,688	113,686	15,310
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	512,136	257,148	409,216	-
Total Noncurrent Liabilities	512,136	257,148	409,216	-
Total Liabilities	811,225	281,836	522,902	15,310
Net Assets (Deficit)				
Invested in Capital Assets, Net of Related Debt	1,781,262	83,684	1,992	-
Restricted For:				
Debt Service	12,457	40,411	-	-
Unemployment Compensation	-	-	-	798,703
Clean Water Projects	-	-	-	-
Capital Projects	107,773	37,209	-	-
Nonexpendable Endowment	177,343	-	-	-
Other Purposes	172,903	22,425	2,810	-
Unrestricted	149,801	15,213	(1,992)	-
Total Net Assets (Deficit)	$ 2,401,539	$ 198,942	$ 2,810	$ 798,703

The accompanying notes are an integral part of the financial statements.

Business-Type Activities Enterprise Funds				Governmental Activities
Second Injury & Compensation Assurance	**Clean Water**	**Other Funds**	**Total**	**Internal Service Funds**
$ 16,177	$ 5,523	$ 59	$ 486,600	$ 12,241
-	-	-	675,562	-
-	-	-	250,670	-
18,084	-	-	279,205	10,952
-	118,650	8,082	130,762	-
-	8,265	1,288	26,974	-
-	72	-	14,013	-
-	-	25	176,473	4,666
-	-	-	99,611	-
-	-	-	10,814	-
-	-	-	9,420	-
167	515	-	8,910	4,757
34,428	133,025	9,454	2,169,014	32,616
-	-	-	63,073	-
-	468,588	18,673	542,099	-
-	437,357	51,483	695,704	-
38,847	-	-	448,063	-
24	-	34,387	2,306,065	64,437
-	6,651	2,310	44,476	37
38,871	912,596	106,853	4,099,480	64,474
73,299	1,045,621	116,307	6,268,494	97,090
13,623	10,702	2,141	194,520	11,709
-	25	-	31,395	41,822
13,302	27,050	-	168,936	268
-	-	119	59,335	329
-	-	14	65,563	74
26,925	37,777	2,274	519,749	54,202
142,449	543,706	84,057	1,948,712	10,159
142,449	543,706	84,057	1,948,712	10,159
169,374	581,483	86,331	2,468,461	64,361
-	-	(19,412)	1,847,526	23,007
40,172	-	10,893	103,933	-
-	-	-	798,703	-
-	402,281	-	402,281	-
-	-	-	144,982	-
-	-	-	177,343	-
-	-	20,752	218,890	-
(136,247)	61,857	17,743	106,375	9,722
$ (96,075)	$ 464,138	$ 29,976	$ 3,800,033	$ 32,729

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For The Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	Higher Education	Bradley International Airport	Connecticut Lottery Corporation	Employment Security
Operating Revenues				
Charges for Sales and Services	$ 719,159	$ 31,055	$ 907,903	$ -
Assessments	-	-	-	433,883
Intergovernmental	187,474	-	-	180,074
Private Gifts and Grants	60,856	-	-	-
Interest on Loans	-	-	-	-
Other	47,555	-	280	29,747
Total Operating Revenues	1,015,044	31,055	908,183	643,704
Operating Expenses				
Cost of Sales and Services	151,151	-	621,062	-
Salaries, Wages and Administrative	1,287,629	27,838	10,915	-
Unemployment Compensation	-	-	-	736,105
Claims Paid	-	-	-	-
Depreciation and Amortization	105,605	11,008	935	-
Other	317,200	-	3,618	-
Total Operating Expenses	1,861,585	38,846	636,530	736,105
Operating Income (Loss)	(846,541)	(7,791)	271,653	(92,401)
Nonoperating Revenue (Expenses)				
Interest and Investment Income	13,315	10,086	36,291	41,945
Interest and Fiscal Charges	(8,290)	(11,609)	(35,588)	(156)
Other	45,581	13,574	21	-
Total Nonoperating Revenues (Expenses)	50,606	12,051	724	41,789
Income (Loss) Before Capital Contributions, Grants, Special Item, and Transfers	(795,935)	4,260	272,377	(50,612)
Capital Contributions	25,674	12,163	-	-
Federal Grants	-	-	-	-
Special Item-Loss on Disposal of Capital Assets	(3,102)	-	-	-
Transfers In	925,078	8,338	-	3,086
Transfers Out	-	-	(271,510)	(6,314)
Change in Net Assets	151,715	24,761	867	(53,840)
Total Net Assets (Deficit) - Beginning (as restated)	2,249,824	174,181	1,943	852,543
Total Net Assets (Deficit) - Ending	$ 2,401,539	$ 198,942	$ 2,810	$ 798,703

The accompanying notes are an integral part of the financial statements.

Business-Type Activities				Governmental
Enterprise Funds				Activities
Second Injury & Compensation Assurance	Clean Water	Other Funds	Totals	Internal Service Funds
$ -	$ -	$ 15,912	$ 1,674,029	$ 123,549
107,132	-	-	541,015	-
-	-	-	367,548	-
-	-	-	60,856	-
-	11,610	625	12,235	-
3,431	-	798	81,811	-
110,563	11,610	17,335	2,737,494	123,549
-	-	11,691	783,904	86,010
8,927	701	1,541	1,337,551	34,055
-	-	-	736,105	-
41,506	-	-	41,506	-
-	-	1,004	118,552	12,932
-	-	-	320,818	-
50,433	701	14,236	3,338,436	132,997
60,130	10,909	3,099	(600,942)	(9,448)
2,045	24,205	2,883	130,770	1,154
(10,581)	(29,917)	(4,950)	(101,091)	-
(221)	(285)	-	58,670	-
(8,757)	(5,997)	(2,067)	88,349	1,154
51,373	4,912	1,032	(512,593)	(8,294)
-	-	-	37,837	179
-	12,656	6,646	19,302	-
(1,397)	-	-	(4,499)	-
-	7,258	-	943,760	-
-	-	(8,899)	(286,723)	-
49,976	24,826	(1,221)	197,084	(8,115)
(146,051)	439,312	31,197	3,602,949	40,844
$ (96,075)	$ 464,138	$ 29,976	$ 3,800,033	$ 32,729

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	Business-Type Activities		
	Enterprise Funds		
	Higher Education	Bradley International Airport	Connecticut Lottery Corporation
Cash Flows from Operating Activities			
Receipts from Customers	$ 843,493	$ 31,319	$ 908,498
Payments to Suppliers	(503,343)	(15,643)	(23,322)
Payments to Employees	(1,141,856)	(11,899)	(9,225)
Other Receipts (Payments)	59,379	-	(598,842)
Net Cash Provided by (Used in) Operating Activities	(742,327)	3,777	277,109
Cash Flows from Noncapital Financing Activities			
Retirement of Bonds and Annuities Payable	(130)	-	(40,278)
Interest of Bonds and Annuities Payable	-	-	(37,140)
Transfers In	835,211	8,338	-
Transfers Out	-	-	(282,755)
Other Receipts (Payments)	15,506	-	-
Net Cash Flows from Noncapital Financing Activities	850,587	8,338	(360,173)
Cash Flows from Capital and Related Financing Activities			
Additions to Property, Plant and Equipment	(212,378)	(82,417)	(269)
Proceeds from Capital Debt	164,965	-	-
Principal Paid on Capital Debt	(45,922)	(3,860)	-
Interest Paid on Capital Debt	(33,740)	(15,356)	-
Transfer In	85,157	-	-
Capital Contributions	-	7,915	-
Other Receipts (Payments)	50,944	14,050	-
Net Cash Flows from Capital and Related Financing Activities	9,026	(79,668)	(269)
Cash Flows from Investing Activities			
Proceeds from Sales and Maturities of Investments	14,548	51,665	40,760
Purchase of Investment Securities	(76,910)	-	(4,267)
Interest on Investments	14,117	10,969	37,842
Net Cash Flows from Investing Activities	(48,245)	62,634	74,335
Net Increase (Decrease) in Cash and Cash Equivalents	69,041	(4,919)	(8,998)
Cash and Cash Equivalents -Beginning of Year (as restated)	434,771	90,392	28,274
Cash and Cash Equivalents -End of Year	$ 503,812	$ 85,473	$ 19,276
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities			
Operating Income (Loss)	$ (846,541)	$ (7,791)	$ 271,653
Adjustments not Affecting Cash:			
Depreciation and Amortization	105,605	11,008	935
Others	942	-	4,463
Change in Assets and Liabilities:			
(Increase) Decrease in Receivables, Net	(4,621)	(3,675)	304
(Increase) Decrease in Due From Other Funds	(17,930)	-	-
(Increase) Decrease in Inventories and Other Assets	(1,311)	-	(702)
Increase (Decrease) in Accounts Payables & Accrued Liabilities	22,236	10	456
Increase (Decrease) in Due To Other Funds	(707)	4,225	-
Total Adjustments	104,214	11,568	5,456
Net Cash Provided by (Used In) Operating Activities	$ (742,327)	$ 3,777	$ 277,109
Noncash Investing, Noncapital Financing and Capital and Related Financing Transactions			
Fixed Assets Acquired by Incurring Capital Lease Obligations	236	-	-
Change in Receivable from State Affecting Proceeds of Capital Debt	3,655	-	-
Bond Issuance Costs Reducing Proceeds of Long-Term Debt	(308)	-	-
Change in Accrued Interest Payable Affecting Interest Paid	(1,683)	-	-
Bond Premium Affecting Cost, Increasing Bond Proceeds	622	-	-
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets			
Cash and Cash Equivalents - Current	$ 429,820	$ 15,745	
Cash and Cash Equivalents - Noncurrent	63,073	-	
Cash and Cash Equivalents - Restricted	10,919	69,728	
	$ 503,812	$ 85,473	

The accompanying notes are an integral part of the financial statements.

Business-Type Activities					Governmental
Enterprise Funds					Activities
Employment Security	Second Injury & Compensation Assurance	Clean Water	Other	Totals	Internal Service Funds
$ 626,041	$ 111,110	$ 47,767	$ 17,760	$ 2,585,988	$ 120,276
-	-	-	(11,603)	(553,911)	(105,875)
-	(8,419)	(680)	(1,082)	(1,173,161)	(33,459)
(701,510)	(37,591)	(49,204)	(8,925)	(1,336,693)	38,051
(75,469)	65,100	(2,117)	(3,850)	(477,777)	18,993
-	(94,530)	(31,040)	-	(165,978)	-
(156)	(13,565)	(29,100)	(1,165)	(81,126)	-
3,086	-	6,743	-	853,378	-
(6,314)	-	-	(8,884)	(297,953)	-
-	(1,637)	12,793	6,730	33,392	-
(3,384)	(109,732)	(40,604)	(3,319)	341,713	-
-	(27)	-	(1,958)	(297,049)	(24,258)
-	-	-	-	164,965	921
-	-	-	-	(49,782)	-
-	-	-	(3,583)	(52,679)	-
-	-	-	-	85,157	-
-	-	-	-	7,915	-
-	-	-	-	64,994	-
-	(27)	-	(5,541)	(76,479)	(23,337)
34,534	34,009	24,783	10,765	211,064	-
-	-	-	-	(81,177)	-
41,945	2,223	22,442	1,991	131,529	1,154
76,479	36,232	47,225	12,756	261,416	1,154
(2,374)	(8,427)	4,504	46	48,873	(3,190)
2,374	24,604	1,019	13	581,447	15,431
$ -	$ 16,177	$ 5,523	$ 59	$ 630,320	$ 12,241
$ (92,401)	$ 60,130	$ 10,909	$ 3,099	$ (600,942)	$ (9,448)
-	-	-	1,004	118,552	12,932
-	-	-	-	5,405	-
(17,664)	(8,154)	(13,026)	(8,041)	(54,877)	(2,384)
-	-	-	-	(17,930)	(888)
58,108	(14)	-	88	56,169	567
(65)	13,135	-	-	35,772	(23,119)
(23,447)	3	-	-	(19,926)	41,333
16,932	4,970	(13,026)	(6,949)	123,165	28,441
$ (75,469)	$ 65,100	$ (2,117)	$ (3,850)	$ (477,777)	$ 18,993
-	-	-	-	236	-
-	-	-	-	3,655	-
-	-	-	-	(308)	-
-	-	-	-	(1,683)	-
-	-	-	-	622	-

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Fiduciary Fund Financial Statements

Investment Trust Fund
External Investment Pool:
to account for the portion of the Short-Term Investment Fund that belongs to participants that are not part of the State's financial reporting entity.

Private Purpose Trust Fund
Escheat Securities:
to account for securities that are held by the State Treasurer for individuals under escheat laws of the State.

Individual fund descriptions and financial statements begin on the following pages:
Pension (and Other Employee Benefit) Trust Funds, page 118
Agency Funds, page 124

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2002

(Expressed in Thousands)

	Pension & Other Employee Benefit Trust Funds	Investment Trust Fund External Investment Pool	Private-Purpose Trust Fund Escheat Securities	Agency Funds	Total
Assets					
Cash and Cash Equivalents	$ 11,693	$ -	$ -	$ 271,551	$ 283,244
Receivables:					
Accounts, Net of Allowances	11,371	-	-	2,755	14,126
From Other Governments	1,637	-	-	-	1,637
From Other Funds	4,331	-	-	4,169	8,500
Interest	842	1,024	-	94	1,960
Investments	18,585,924	1,245,812	-	-	19,831,736
Inventories	-	-	-	170	170
Securities Lending Collateral	1,572,731	-	-	-	1,572,731
Other Assets	4,756	7	60,768	522,426	587,957
Total Assets	20,193,285	1,246,843	60,768	$ 801,165	22,302,061
Liabilities					
Accounts Payable and Accrued Liabilities	25	2,032	-	14,831	16,888
Securities Lending Obligation	1,572,731	-	-	-	1,572,731
Due to Other Funds	14,918	-	-	-	14,918
Other Liabilities	-	82	-	562	644
Funds Held for Others	-	-	-	785,772	785,772
Total Liabilities	1,587,674	2,114	-	$ 801,165	2,390,953
Net Assets					
Held in Trust For:					
Employees' Pension Benefits (Note 12)	18,571,063	-	-		18,571,063
Other Employee Benefits	34,548	-	-		34,548
Individuals, Organizations, and Other Governments	-	1,244,729	60,768		1,305,497
Total Net Assets	$ 18,605,611	$ 1,244,729	$ 60,768		$ 19,911,108

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

For the Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	Pension & Other Employee Benefit Trust Funds	Investment Trust Fund External Investment Pool	Private-Purpose Trust Fund Escheat Securities	Total
Additions				
Contributions:				
Plan Members	$ 275,381	$ -	$ -	$ 275,381
State	640,088	-	-	640,088
Municipalities	19,053	-	-	19,053
Total Contributions	934,522	-	-	934,522
Investment Income (Loss)	(1,240,059)	48,770	-	(1,191,289)
Less: Investment Expense	(93,424)	(690)	-	(94,114)
Net Investment Income (Loss)	(1,333,483)	48,080	-	(1,285,403)
Escheat Securities Received	-	-	12,576	12,576
Transfers In	1,137	-	-	1,137
Other	5	-	-	5
Total Additions	(397,819)	48,080	12,576	(337,163)
Deductions				
Administrative Expense	1,396	-	-	1,396
Benefit Payments and Refunds	1,528,793	-	-	1,528,793
Escheat Securities Returned or Sold	-	-	12,997	12,997
Pool's Share Transactions	-	169,351	-	169,351
Distributions to Pool Participants	-	48,080	-	48,080
Other	3,948	-	5,547	9,495
Total Deductions	1,534,137	217,431	18,544	1,770,112
Change in Net Assets Held In Trust For:				
Pension and Other Employee Benefits	(1,931,956)	-	-	(1,931,956)
Individuals, Organizations, and Other Governments	-	(169,351)	(5,968)	(175,319)
Net Assets - Beginning (as restated)	20,537,567	1,414,080	66,736	22,018,383
Net Assets - Ending	$ 18,605,611	$ 1,244,729	$ 60,768	$ 19,911,108

The accompanying notes are an integral part of the financial statements.

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Component Unit Financial Statements

Major Component Units

Connecticut Development Authority:
the Connecticut Development Authority is a public instrumentality and political subdivision of the State. The Authority was created to stimulate industrial and commercial development within the State through its Self-Sustaining Bond Program, its Umbrella Program and its Insurance Program.

Connecticut Housing Finance Authority:
the Connecticut Housing Finance Authority is a public instrumentality and political subdivision of the State 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 throughout the State.

Connecticut Resources Recovery Authority:
the Connecticut Resources Recovery Authority is a public instrumentality and political subdivision of the State. The Authority is responsible for implementing the State's solid waste management plan, which includes design, construction and operation of resources recovery facilities and the marketing of recovered products.

Nonmajor
The nonmajor component units are presented beginning on page 127.

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Combining Statement of Net Assets
Component Units

June 30, 2002

(Expressed in Thousands)

Assets	Connecticut Development Authority	Connecticut Housing Finance Authority (12-31-01)	Connecticut Resources Recovery Authority	Other Component Units	Total
Current Assets:					
Cash and Cash Equivalents	$ 22,333	$ 359,043	$ 69,705	$ 85,528	$ 536,609
Investments	960	21,421	-	97,697	120,078
Receivables, Net of Allowances	16,801	114,336	19,474	15,277	165,888
Due From Primary Government	20,327	-	-	19	20,346
Inventories	-	-	3,543	-	3,543
Restricted Assets	-	47,192	-	403,865	451,057
Other Current Assets	839	8,967	1,519	1,028	12,353
Total Current Assets	61,260	550,959	94,241	603,414	1,309,874
Noncurrent Assets:					
Restricted Assets	20,229	319,525	85,339	279	425,372
Capital Assets, Net of Accumulated Depreciation	20,272	2,523	229,151	340	252,286
Investments	19,886	214,497	-	-	234,383
Receivables, Net of Allowances	110,884	2,877,689	-	80,135	3,068,708
Other Noncurrent Assets	3,381	43,190	11,480	1,874	59,925
Total Noncurrent Assets	174,652	3,457,424	325,970	82,628	4,040,674
Total Assets	235,912	4,008,383	420,211	686,042	5,350,548
Liabilities					
Current Liabilities:					
Accounts Payable and Accrued Liabilities	889	23,509	27,447	1,141	52,986
Due To Primary Government	-	-	-	99,611	99,611
Escrow Deposits	152	26,195	-	-	26,347
Current Portion of Long-Term Obligations	5,688	89,075	18,373	5,315	118,451
Amount Held for Institutions	-	-	-	279,817	279,817
Deferred Revenue	285	-	-	395	680
Other Current Liabilities	8,246	4,775	1,317	3,933	18,271
Total Current Liabilities	15,260	143,554	47,137	390,212	596,163
Noncurrent Liabilities:					
Noncurrent Portion of Long-Term Obligations	50,591	3,247,074	242,154	127,446	3,667,265
Total Noncurrent Liabilities	50,591	3,247,074	242,154	127,446	3,667,265
Total Liabilities	65,851	3,390,628	289,291	517,658	4,263,428
Net Assets					
Invested in Capital Assets, Net of Related Debt	14,226	2,523	27,037	340	44,126
Restricted:					
Debt Service	20,229	-	-	-	20,229
Bond Indentures	-	609,058	-	-	609,058
Other Purposes	-	1,933	20,786	5,098	27,817
Unrestricted	135,606	4,241	83,097	162,946	385,890
Total Net Assets	$ 170,061	$ 617,755	$ 130,920	$ 168,384	$ 1,087,120

The accompanying notes are an integral part of the financial statements.

Statement of Activities
Component Units

For The Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Connecticut Development Authority	$ 28,320	$ 26,304	$ -	$ -
Connecticut Housing Finance Authority (12/31/01)	214,425	212,755	575	-
Connecticut Resources Recovery Authority	173,034	157,513	-	-
Other Component Units	29,708	15,323	23,218	-
Total Component Units	$ 445,487	$ 411,895	$ 23,793	$ -

General Revenues:
Investment Income
Special Items:
Administrative Fee Rebates
Others
Total General Revenues and
Special Items
Change in Net Assets
Net Assets - Beginning (as restated)
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenue and Changes in Net Assets				
Connecticut Development Authority	**Connecticut Housing Finance Authority (12-31-01)**	**Connecticut Resources Recovery Authority**	**Other Component Units**	**Totals**
$ (2,016)	$ -	$ -	$ -	$ (2,016)
-	(1,095)	-	-	(1,095)
-	-	(15,521)	-	(15,521)
-	-	-	8,833	8,833
(2,016)	(1,095)	(15,521)	8,833	(9,799)
3,286	43,153	4,388	(54,133)	(3,306)
-	-	-	(1,327)	(1,327)
(1,233)	-	-	-	(1,233)
2,053	43,153	4,388	(55,460)	(5,866)
37	42,058	(11,133)	(46,627)	(15,665)
170,024	575,697	142,053	215,011	1,102,785
$ 170,061	$ 617,755	$ 130,920	$ 168,384	$ 1,087,120

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Notes to the Financial Statements
June 30, 2002

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, except for the financial statements of the University of Connecticut Foundation, Incorporated (a component unit). Those statements are prepared according to generally accepted accounting principles as prescribed in pronouncements of the Financial Accounting Standards Board.

b. Reporting Entity
For financial reporting purposes, the State's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, agencies, departments, bureaus, commissions, and component units that are considered an integral part of the State's legal entity. Component units are legally separate organizations for which the State is financially accountable. 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. The State also includes a nongovernmental corporation as a component unit because it would be misleading to exclude the corporation from the reporting entity. Component units are reported in the financial statements in a separate column (discrete presentation), or as part of the primary government (blending presentation).

Discretely Presented Component Units
Discretely presented component units include 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 following organizations are reported in separate columns and rows in the government-wide financial statements to emphasize that they are legally separate from the primary government:

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, 2001.

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.

Financial statements for the major component units are included in the accompanying financial statements after the fund financial statements. Audited financial statements issued separately by each component unit can be obtained from their respective administrative offices.

Blended Component Units
Connecticut Lottery Corporation
The Connecticut Lottery Corporation is a legally separate organization for which the State appoints a voting majority of the Corporation's governing board and which provides a significant amount of revenues to the State. The corporation is reported as part of the primary government's business-type activities in the government-wide financial statements and as a major Enterprise fund in the fund financial statements.

University of Connecticut Foundation, Incorporated

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, a unit of the Higher Education fund. The University is not financially accountable for the Foundation. 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 as part of the primary government's business-type activities in the government-wide financial statements and as part of the Higher Education fund (a major Enterprise fund) in the fund financial statements.

c. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between the governmental and business-type activities of the primary government by using separate columns and rows. Governmental activities are generally financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds issued to buy, construct, or improve those assets.

2. Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

3. Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are not allocated to the various functions or segments. Program revenues include a) fees, fines, and charges paid by the recipients of goods or services offered by the functions or segments and b) grants and contributions that are restricted to meeting the operational or capital needs of a particular function or segment. Revenues that are not classified as program revenues, including all taxes, are reported as general revenues.

Fund Financial Statements

The fund financial statements provide information about the State's funds, including its fiduciary funds and blended component units. Separate statements for each fund category (governmental, proprietary, and fiduciary) are presented. The emphasis of fund financial statements is on major governmental and enterprise funds; each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The State reports the following major governmental funds:

General Fund - This is the State's primary operating fund. It is used to account for all financial resources which are not required to be accounted in other funds and which are spent for those services normally provided by the State (e.g., health, social assistance, education, etc.).

Debt Service - This fund is used to account for the resources accumulated and payments made for principal and interest on special tax obligation bonds of the Transportation fund and Rental Housing bonds.

Transportation - This fund is used to account for motor vehicle taxes, receipts, and transportation related federal revenues collected for the purpose of payment of transportation related bonds and budgeted appropriations of the Department of Transportation. The Department of Transportation is responsible for all aspects of the planning, development, maintenance, and improvement of transportation in the State.

The State reports the following major enterprise funds:

Higher Education - This fund is used to account for the financial activities of the State's higher education institutions, including the University of Connecticut, the University of Connecticut Health Center (including John Dempsey Hospital), State Universities, Community-Technical Colleges, and the University of Connecticut Foundation, Incorporated, a component unit.

Bradley International Airport - This fund is used to account for the financial activities of the Bradley International Airport, which is owned and operated by the State.

Connecticut Lottery Corporation - This fund is used to account for the financial activities of the State's lottery. The Corporation was created in 1996 for the purpose of generating revenues for the State's General Fund.

Employment Security - This fund is used to account for unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Second Injury and Compensation Assurance - This fund is an extension of the Workers' Compensation Act managed by the State Treasurer and is used to pay injured workers whose injuries are made more severe because of a pre-existing condition, and in cases where an injured worker subsequently undergoes an incapacitating relapse.

Clean Water - This fund is used to account for resources used to provide loans to municipalities to finance waste water treatment facilities.

In addition, the State reports the following fund types:

Internal Service Funds - These funds account for goods and services provided to other agencies of the State on a cost-reimbursement basis. These goods and services include prisoner-built office furnishings, information services support, telecommunications, printing, and other services.

Pension (and Other Employee Benefits) Trust Funds - These funds account for resources held in trust for the members and beneficiaries of the State's defined benefit pension plans, a defined contribution plan, and other employee benefits plans. These plans are discussed more fully in Notes 10 and 11.

Investment Trust Fund - This fund accounts for the external portion of the State's Short-Term Investment Fund, an investment pool managed by the State Treasurer.

Private-Purpose Trust Fund - This fund accounts for escheat securities held in trust for individuals by the State Treasurer.

Agency Funds - These funds account for deposits, investments, and other assets held by the State as an agent for inmates and patients of State institutions, insurance companies, municipalities, and private organizations.

d. Measurement Focus and Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Taxes and casino gaming payments are recognized as revenues in the period when the underlying exchange transaction has occurred. Grants and similar items are recognized as revenues in the period when all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the State's enterprise and internal service funds are charges to customers for sales and services, assessments, and intergovernmental revenues. Operating expenses for enterprise and internal service funds include salaries, wages, and administrative expenses, unemployment compensation, claims paid, and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. This option is followed by the following component units of the State: the Connecticut Development Authority and the Connecticut Health and Educational Facilities Authority.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Sales and use taxes, personal income taxes, public service corporation taxes, special fuel taxes, federal grants, and casino gaming payments are considered to be susceptible to accrual. Licenses, permits, and fees are not considered to be susceptible to accrual and are recognized as revenues when the cash is collected. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general-long term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then unrestricted resources, as they are needed.

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 the General and Transportation funds. During the 2002 fiscal year, the original adopted budget was adjusted by the General Assembly and the Finance Advisory Committee.

f. 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)

Investments include Equity in Combined Investment Funds and other investments. Equity in Combined Investment Funds is reported at fair value based on the funds' current share price. 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.
- Investments of the External Investment Pool fund (an Investment Trust fund).

The fair value of other investments is determined based on quoted market prices except for:

- The fair value of State bonds held by the Clean Water Fund (an Enterprise 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.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, railways, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the State as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated fair market value at the date of donation.

Collections of historical documents, rare books and manuscripts, guns, paintings, and other items are not capitalized. These collections are held by the State Library for public exhibition, education, or research; and are kept protected, cared for, and preserved indefinitely. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are also not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40
Improvements Other than Buildings	10-20
Machinery and Equipment	5-30
Infrastructure	20-28

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 participant funds based on their equity in the Combined Investment Funds.

Deferred Revenues
In the government-wide and fund financial statements, this liability represents resources that have been received, but not yet earned. In the fund financial statements, this liability also represents revenues considered measurable but not available during the current period.

Long-term Obligations
In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Other long-term obligations include compensated absences, workers' compensation claims, capital leases, claims and judgements, annuities payable, and the net pension obligation.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 government-wide statement of net assets at its net or accreted value rather than at face value.

Compensated Absences
The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

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.

g. Fund Balance
In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

h. 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 16).

i. Interfund Activities
In the fund financial statements, interfund activities are reported as follows:

Interfund receivables/payables - The current portion of interfund loans outstanding at the end of the fiscal year is reported as due from/to other funds; the noncurrent portion as advances to/from other funds. All other outstanding balances between funds are reported as due from/to other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Interfund services provided and used - Sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. In the statement of activities, transactions between the primary government and its discretely presented component units are reported as revenues and expenses, unless they represent repayments of loans or similar activities.

Interfund transfers - Flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

Interfund reimbursements - Repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are not reported in the financial statements.

j. Food Stamps

Food stamps distributed to recipients during the year are recognized as both an expenditure and a revenue in the governmental fund financial statements.

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 investment 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.

Note 2 Budgetary vs. GAAP Basis of Accounting

The following is a reconciliation of the net change in fund balances as reported in the budgetary and GAAP basis of accounting statements of revenues, expenditures, and changes in fund balances (amounts in thousands):

	General Fund	Transportation Fund
Net change in fund balances (budgetary basis)	$ (817,085)	$ 53,961
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	46,016	(4,029)
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	69,405	(4,996)
Salaries and Fringe Benefits Payable	(15,620)	(615)
Increases (decreases) in continuing appropriations	(543,806)	(26,556)
Net change in fund balances (GAAP basis)	$ (1,261,090)	$ 17,765

The major differences between the budgetary (legal) and the GAAP (generally accepted accounting principles) basis of accounting as reconciled above 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).

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).

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.

Note 3 Fund Deficits

The following funds have deficit balances at June 30, 2002, none of which constitutes a violation of statutory provisions (amounts in thousands).

~~**General Fund**~~	$ 434,926
~~**Special Revenue**~~	
Consumer Counsel & Public Utility Control	2,076
~~**Capital Projects**~~	
State Facilities	205,449
~~**Enterprise**~~	
Second Injury & Compenstion Assurance	96,075
Bradley Parking Garage	8,519

The General Fund and Consumer Counsel and Public Utility Control Fund deficits 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.

The State Facilities deficit will be eliminated in the future by the sale of bonds.

The deficit balance in the Second Injury and Compensation Assurance fund will be eliminated in the future by higher employer assessments.

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, 2002, the reported amount of the State's deposits was $(194.6) for the Primary Government and Fiduciary Funds (pooled deposits) and $11.4 for the Component Units. The corresponding bank balance for such deposits was $126.4 for the Primary Government and Fiduciary Funds and $16.6 for the Component Units. Of the bank balance for the Primary Government and Fiduciary Funds $40.9 was insured by the Federal Deposit Insurance Corporation or held in the State's name (Category 1) and $85.5 was uninsured and uncollateralized (Category 3). Of the bank balance for the Component Units, $4.5 was insured by the Federal Deposit Insurance Corporation or held in the Component Units' name (Category 1), and $12.1 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 investment 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 (External Investment Pool fund) in the fiduciary fund 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 financial statements. Instead, each fund's investment in the internal portion of STIF is reported as "cash equivalents" in the government-wide and fund financial statements.

The CIFS are open-ended, unitized portfolios in which the State pension trust and permanent funds are eligible to invest. The State pension trust and permanent 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 investment schedules.

For financial reporting purposes, the CIFS are considered to be internal investment pools and are not reported in the financial statements. Instead, each fund's equity in the CIFS is reported as investments in the government-wide and fund financial statements.

Complete financial information about STIF and the CIFS can be obtained from financial statements issued by the State Treasurer. As of June 30, 2002, investments consisted of the following (amounts in thousands):

	Primary Government			
	Governmental Activities	Business-Type Activities	Component Units	Fiduciary Funds
Equity in CIFS	$ 119,684	$ 545	$ -	$ 18,585,924
Other Investments	61,721	250,125	120,098	1,245,812
Total Investments-current	$ 181,405	$ 250,670	$ 120,098	$ 19,831,736
Other Investments-noncurrent	$ -	$ 448,063	$ 234,383	$ -

The following investment schedules disclose the reported amount and fair value of the State's investment in total and by investment type as of June 30, 2002. 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.

Investments-Primary Government and Fiduciary Funds
Short-Term Investment Fund
(amounts in thousands)

Investment Type	Reported Amount Category 1	Fair Value
Certificates of Deposit-Negotiable	$ 100,000	$ 100,000
Commercial Paper	2,055,921	2,056,072
Corporate Notes	311,688	311,807
Bankers' Acceptances	38,913	39,048
Bank Notes	363,707	364,012
Federal Agency Securities	124,557	125,149
Extendable Commercial Notes	348,770	348,770
Repurchase Agreements	200,000	200,000
Total Investments	$ 3,543,556	$ 3,544,858

Investments-Primary Government and Fiduciary Funds
Combined Investment Funds
(amounts in thousands)

Investment Type	Reported Amount (Fair Value) Category 1	Category 3	Total
Certificates of Deposit-Negotiable	$ -	$ 310,422	$ 310,422
Asset Backed Securities	652,860	-	652,860
U.S. Government and Agency Securities:			-
Not on Securities Loan	1,490,373	-	1,490,373
On Securities Loan for Securities or Letter of Credit Collateral	-	52,128	52,128
Mortgage Backed Securities	711,836	-	711,836
Corporate Debt	3,040,199	1,050,944	4,091,143
Convertible Securities	211,080	-	211,080
U. S. Corporate Stock:			-
Not on Securities Loan	6,459,089	-	6,459,089
On Securities Loan for Securities or Letter of Credit Collateral	-	12,040	12,040
International Equity Securities:			
Not on Securities Loan	1,699,773	-	1,699,773
On Securities Loan for Securities or Letter of Credit Collateral	-	3,329	3,329
Short-term Investments	-	224,868	224,868
Preferred Stock	101,279	-	101,279
	$ 14,366,489	$ 1,653,731	$ 16,020,220
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form.			
Real Estate Investment Trusts			55,936
Mutual Funds			33,833
Limited Liability Corporations			33,972
Trusts			51,047
Limited Partnerships			2,548,141
Annuities			12,959
Securities Held by Brokers-Dealers under Sec. Loans for Cash Collateral:			
U.S. Government and Agency Securities			674,561
U. S. Corporate Stock			246,453
International Equity Securities			454,495
Domestic Fixed Securities			165,436
International Fixed Securities			3,823
			$ 20,300,876

The pension trust funds own approximately 100 percent of the investments that are in categories 1 and 3.

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, the above 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.

Other Investments-Primary Government
(amounts in thousands)

Investment Type	Reported Amount Category 1	Category 2	Total	Fair Value
Collateralized Investment Agreements	$ 378,329	$ -	$ 378,329	$ 378,329
State/Municipal Bonds	164,535	-	164,535	163,125
U.S. Government & Agency Securities	445,094	-	445,094	445,094
Common Stock	25,220	960	26,180	26,180
Corporate Bonds	10,044	37,838	47,882	47,882
Other	5,216	-	5,216	5,216
	$ 1,028,438	$ 38,798	$ 1,067,236	$ 1,065,826
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:				
Annuity Contracts			470,455	470,455
Mutual Funds			111,167	111,167
Guaranteed Investment Contracts			8,719	8,719
Tax Exempt Proceeds Fund			84,115	84,115
Other			5,839	5,839
Total Investments			$ 1,747,531	$ 1,746,121

The Higher Education fund owns all of the investments that are in Category No. 2.

Other Investments-Component Units
(amounts in thousands)

Investment Type	Reported Amount Category 1	Category 3	Total	Fair Value
U.S. Government & Agency Securities	$ 32,566	$ 6,195	$ 38,761	$ 38,776
Common Stock	76,343	-	76,343	76,343
Repurchase Agreements	86,375	-	86,375	86,375
Collateralized Investment Agreements	2,288	12,583	14,871	14,871
Mortgage Backed Securities and Obligations	431,046	-	431,046	431,046
Corporate Debt	22,388	-	22,388	22,388
Other	44,698	2	44,700	44,700
	$ 695,704	$ 18,780	714,484	714,499
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:				
Guaranteed Investment Contracts			47,117	47,117
Fidelity Funds			333,620	333,620
Limited Partnerships			9,574	9,574
Other			20,300	20,300
Total Investments			$ 1,125,095	$ 1,125,110

CHFA owns approximately 86 percent and CHESLA owns approximately 55 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, corporate notes, 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, 2002, the fund held MBSs of $629 million and ABSs of $182 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, 2002, the IOs had a value of $7 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, 2002, the International Stock Fund reported an unrealized loss of $47 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. The funds did not impose any restrictions during the fiscal year on the amount of loans that the lending agent made on their behalf and the lending agent indemnified the funds by agreeing to purchase replacement securities, or return the cash collateral thereof in the event any borrowers failed to return the loaned securities or pay distributions thereon. 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 55 days; the average duration of the loans was unknown, although it is assumed to remain at one day.

Note 5 Receivables

As of June 30, 2002, receivables consisted of the following:

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	$ 921,097	$ -	$ -
Accounts	1,173,456	364,740	19,887
Loans	-	130,762	126,232
Other Governments	689,658	14,014	-
Interest	4,705	-	-
Other	25,719	26,974	24,375
Total Receivables	2,814,635	536,490	170,494
Allowance for doubtful accounts	(972,703)	(85,536)	(4,606)
Receivables, net	$ 1,841,932	$ 450,954	$ 165,888

Note 6 Taxes Receivable

Taxes receivable consisted of the following as of June 30, 2002 (amounts in thousands):

	Governmental Activities		
	General Fund	Transportation Fund	Total
Sales and Use	$ 549,016	$ -	$ 549,016
Income Taxes	161,858	-	161,858
Corporations	89,869	-	89,869
Gasoline and Special Fuel	-	38,281	38,281
Various Other	82,073	-	82,073
Total Taxes Receivable	882,816	38,281	921,097
Allowance for Uncollectibles	(19,204)	(197)	(19,401)
Taxes Receivable, net	$ 863,612	$ 38,084	$ 901,696

Note 7 Loans Receivable

Loans receivable for the primary government and its component units, as of June 30, 2002, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Mortgage	$ -	$ -	$ 2,918,424
Industrial	-	-	116,947
Housing	202,535	-	-
Clean Water	51,076	468,589	-
Education	-	20,340	80,135
Other	161,705	18,673	-
Less Allowance for Losses	(9,044)	(2,559)	(46,798)
Loans Receivable Net	$ 406,272	$ 505,043	$ 3,068,708

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, and the State has guaranteed the repayment of up to $5 million for the Authority's Residential Mortgage Guarantee Program. 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 2.64 percent to 12 percent. As of June 30, 2002, loans in the amount of $22.1 million (including loans of $6.7 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 $7.9 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 8 Restricted Assets

Restricted assets are defined as resources that are restricted by legal or contractual requirements. As of June 30, 2002, restricted assets for the primary government and its component units were comprised of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Cash & Cash Equivalents	$ 590,374	$ 80,647	$ 95,105
Investments	-	620,363	779,361
Interest Receivable	-	2,055	1,963
Other	-	2,059	-
Total	$ 590,374	$ 705,124	$ 876,429

Note 9 Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Capital Assets not being Depreciated:				
Land	$ 435,227	$ 37,904	$ 5,649	$ 467,482
Land-Infrastructure	384,653	11,467	-	396,120
Construction in Progress-Infrastructure	885,615	429,683	317,405	997,893
Construction in Progress	231,115	312,664	293,336	250,443
Total Capital Assets not being Depreciated	1,936,610	791,718	616,390	2,111,938
Other Capital Assets:				
Buildings	2,095,991	294,124	32,290	2,357,825
Improvements Other than Buildings	279,061	16,791	132	295,720
Equipment	1,263,839	128,400	40,964	1,351,275
Infrastructure	8,733,350	317,405	-	9,050,755
Total Other Capital Assets at Historical Cost	12,372,241	756,720	73,386	13,055,575
Less: Accumulated Depreciation For:				
Buildings	1,573,056	115,700	32,290	1,656,466
Improvements Other than Buildings	151,346	99,070	132	250,284
Equipment	704,483	140,398	40,964	803,917
Infrastructure	2,938,776	392,266	-	3,331,042
Total Accumulated Depreciation	5,367,661	747,434 *	73,386	6,041,709
Other Capital Assets, Net	7,004,580	9,286	-	7,013,866
Governmental Activities, Captial Assets, Net	$ 8,941,190	$ 801,004	$ 616,390	$ 9,125,804

* Depreciation expense was charged to functions as follows:

Governmental Activities:	
Legislative	$ 6,196
General Government	13,594
Regulation and Protection	33,188
Conservation and Development	9,060
Health and Hospitals	9,766
Transportation	603,451
Human Services	2,941
Education, Libraries and Museums	14,845
Corrections	30,333
Judicial	13,507
Capital assets held by the government's internal service funds are charge to the various functions based on the usage of the assets	10,553
Total Depreciation Expense	$ 747,434

	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities				
Capital Assets not being Depreciated:				
Land	$ 43,997	$ 2,766	$ 685	$ 46,078
Construction in Progress	282,317	233,143	131,224	384,236
Total Capital Assets not being Depreciated	326,314	235,909	131,909	430,314
Capital Assets being Depreciated:				
Buildings	1,809,862	179,360	7,070	1,982,152
Improvements Other Than Buildings	280,372	28,197	266	308,303
Equipment	619,249	62,013	20,331	660,931
Total Other Capital Assets at Historical Cost	2,709,483	269,570	27,667	2,951,386
Less: Accumulated Depreciation For:				
Buildings	614,354	59,588	3,303	670,639
Improvements Other Than Buildings	97,449	12,311	255	109,505
Equipment	266,459	45,912	16,880	295,491
Total Accumulated Depreciation	978,262	117,811	20,438	1,075,635
Other Capital Assets, Net	1,731,221	151,759	7,229	1,875,751
Business-Type Activities, Capital Assets, Net	$ 2,057,535	$ 387,668	$ 139,138	$ 2,306,065

b. Component Units

Capital assets of the component units consisted of the following as of June 30, 2002:

Land	$ 27,774
Buildings	202,027
Improvements other than Buildings	40
Machinery and Equipment	225,145
Construction in Progress	30
Total Capital Assets	455,016
Accumulated Depreciation	(202,730)
Capital Assets, net	$ 252,286

Note 10 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. However, financial statements for SERS, TRS, and JRS are presented in Note No. 12.

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 6/30/02	TRS 6/30/02	JRS 6/30/02
Retirees and beneficiaries receiving benefits	32,354	22,303	210
Terminated plan members entitled to but not yet receiving benefits	1,496	1,508	1
Active plan members	54,287	48,902	220
Total	88,137	72,713	431

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 2002, the annual required contribution (ARC) was $210.7 million; however, the State contributed $204.5 million to the plan, reflecting a reduction of $6.2 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	$ 415,493	$ 210,701	$ 9,598
Interest on net pension obligation	166,054	89,954	3
Adjustment to annual required contribution	(102,046)	(54,251)	(2)
Annual pension cost	479,501	246,404	9,599
Contributions made	415,493	204,511	9,598
Increase (decrease) in net pension obligation	64,008	41,893	1
Net pension obligation beginning of year	1,953,580	1,057,828	39
Net pension obligation end of year	$ 2,017,588	$ 1,099,721	$ 40

Three-year trend information is as follows (amounts in thousands):

	Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
SERS	2000	405,927	84.4%	1,889,886
	2001	439,317	85.5%	1,953,580
	2002	479,501	86.7%	2,017,588
TRS	2000	268,857	76.0%	985,967
	2001	286,527	74.9%	1,057,828
	2002	246,404	83.0%	1,099,721
JRS	2000	9,326	100%	37
	2001	9,839	100%	39
	2002	9,599	100%	40

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 $20.7 million and $33.9 million, respectively.

Note 11 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). The State makes no contribution to and has only a fiduciary responsibility for these funds. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for CMERS and CPJERS are presented in Note No. 12.

Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at the date of the latest actuarial valuation:

	CMERS 6/30/01	CPJERS 12/31/01
Retirees and beneficiaries receiving benefits	4,572	227
Terminated plan members entitled to but not receiving benefits	186	29
Active plan members	8,233	363
Total	12,991	619
Number of participating employers	164	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 12 Pension Trust Funds Financial Statements

The financial statements of the pension trust funds are prepared using the accrual basis of accounting. 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 are allocated ratably to the pension trust funds based on each fund's equity in the Combined Investment Funds. (see Note No. 4)

Statement of Fiduciary Net Assets (000's)

	State Employees	State Teachers	Judicial	Connecticut Municipal Employees	Probate Judges	Other	Total
Assets							
Cash and Cash Equivalents	$ -	$ -	$ -	$ 711	$ 1	$ 73	$ 785
Receivables:							
Accounts, Net of Allowances	2,007	7,346	8	1,997	3	10	11,371
From Other Governments	-	1,637	-	-	-	-	1,637
From Other Funds	2,258	-	-	-	-	-	2,258
Interest	266	440	15	106	6	-	833
Investments	7,090,509	10,107,302	125,264	1,184,508	60,924	615	18,569,122
Securities Lending Collateral	604,496	854,494	10,287	97,013	5,509	38	1,571,837
Total Assets	7,699,536	10,971,219	135,574	1,284,335	66,443	736	20,157,843
Liabilities							
Accounts Payable and Accrued Liabilities	25	-	-	-	-	-	25
Securities Lending Obligation	604,496	854,494	10,287	97,013	5,509	38	1,571,837
Due to Other Funds	1,612	13,306	-	-	-	-	14,918
Total Liabilities	606,133	867,800	10,287	97,013	5,509	38	1,586,780
Net Assets							
Held in Trust For Employee Pension Benefits	7,093,403	10,103,419	125,287	1,187,322	60,934	698	18,571,063
Total Net Assets	$ 7,093,403	$ 10,103,419	$ 125,287	$ 1,187,322	$ 60,934	$ 698	$ 18,571,063

Statement of Changes in Fiduciary Net Assets (000's)

	State Employees	State Teachers	Judicial	Connecticut Municipal Employees	Probate Judges	Other	Total
Additions							
Contributions:							
Plan Members	$ 49,577	$ 179,687	$ 1,331	$ 11,198	$ 228	$ 32	$ 242,053
State	415,493	204,511	9,598	-	-	-	629,602
Municipalities	-	3,758	-	15,295	-	-	19,053
Total Contributions	465,070	387,956	10,929	26,493	228	32	890,708
Investment Income (Loss)	(472,978)	(679,166)	(7,344)	(76,488)	(3,581)	(49)	(1,239,606)
Less: Investment Expenses	(35,618)	(51,169)	(553)	(5,760)	(270)	(4)	(93,374)
Net Investment Income (Loss)	(508,596)	(730,335)	(7,897)	(82,248)	(3,851)	(53)	(1,332,980)
Transfers In	-	-	-	-	1,137	-	1,137
Other	-	-	-	-	-	5	5
Total Additions	(43,526)	(342,379)	3,032	(55,755)	(2,486)	(16)	(441,130)
Deductions							
Administrative Expense	272	-	7	7	-	-	286
Benefit Payments and Refunds	651,201	761,288	13,509	57,265	2,111	93	1,485,467
Other	2,701	-	-	-	1,173	-	3,874
Total Deductions	654,174	761,288	13,516	57,272	3,284	93	1,489,627
Changes in Net Assets	(697,700)	(1,103,667)	(10,484)	(113,027)	(5,770)	(109)	(1,930,757)
Net Assets Held in Trust For Employee Pension Benefits:							
Beginning of Year	7,791,103	11,207,086	135,771	1,300,349	66,704	807	20,501,820
End of Year	$ 7,093,403	$ 10,103,419	$ 125,287	$ 1,187,322	$ 60,934	$ 698	$ 18,571,063

Note 13 Postemployment Benefits

In addition to the pension benefits described in Note 10, the State provides postretirement health care and life insurance benefits, in accordance with State statues, Sections 5-257(d) and 5-259(a), to all employees who retire from the State.

As of June 30, 2002, 32,602 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 had 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, 2002, $205 million was paid in postretirement benefits.

Note 14 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):

2003	31,917
2004	31,661
2005	26,208
2006	21,957
2007	22,313
Thereafter	4,470
Total	$ 138,526

Contingent revenues for the year ended June 30, 2002, were $2.9 million.

State as Lessee

Obligations under capital and operating leases as of June 30, 2002, were as follows (amounts in thousands):

	Noncancelable Operating Leases	Capital Leases
2003	$ 20,581	$ 14,150
2004	20,269	10,413
2005	17,357	8,347
2006	13,619	7,464
2007	8,235	7,189
2008-2012	23,825	28,965
2013-2017	-	14,184
2018-2022	-	6,150
2023-2027	-	6,124
2028-2032	-	4,870
Total minimum lease payments	$ 103,886	107,856
Less: Amount representing interest costs		30,960
Present value of minimum lease payments		$ 76,896

Minimum capital lease payments were discounted using an interest rate of approximately 6 percent.

Rental and lease payments for equipment charged to expenditures during the year ended June 30, 2002, totaled $43.7 million.

Note 15 Changes in General Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2002, (amounts in thousands):

Governmental Activities	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Amounts due within one year
Bonds:					
General Obligation	$ 7,812,055	$ 1,916,495	$ 1,201,114	$ 8,527,436	$ 677,267
Transportation	3,100,121	821,130	746,348	3,174,903	225,350
	10,912,176	2,737,625	1,947,462	11,702,339	902,617
Plus/(Less) premiums, discounts and deferred amounts	-	64,693	1,596	63,097	-
Total Bonds	10,912,176	2,802,318	1,949,058	11,765,436	902,617
Other Liabilities:					
Net Pension Obligation	3,011,447	735,504	629,602	3,117,349	-
Compensated Absences	314,015	43,009	15,985	341,039	10,451
Workers' Compensation	326,417	5,845	87,079	245,183	55,344
Capital Leases	75,314	6,989	5,407	76,896	2,334
Claims and Judgements	13,110	-	5,385	7,725	6,212
Total Other Liabilities	3,740,303	791,347	743,458	3,788,192	74,341
Governmental Activities Long-Term Liabilites	$ 14,652,479	$ 3,593,665	$ 2,692,516	$ 15,553,628	$ 976,958

In prior years, the General and Transportation funds have been used to liquidate other liabilities.

Business-Type Activities	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Amounts due within one year
Revenue Bonds	$ 1,464,120	$ 191,745	$ 151,066	$ 1,504,799	$ 61,980
Plus/(Less) premiums, discounts and deferred amounts	-	7,783	1,708	6,075	-
Total Revenue Bonds	1,464,120	199,528	152,774	1,510,874	61,980
Other Liabilities:					
Lottery Prizes	514,182	-	40,299	473,883	64,666
Compensated Absences	-	-	-	80,773	24,421
Other	-	-	-	52,118	17,869
Total Other Liabilities	514,182	-	40,299	606,774	106,956
Business-Type Long-Term Liabilities	$ 1,978,302	$ 199,528	$ 193,073	$ 2,117,648	$ 168,936

Note 16 Bonded Debt

a. Primary Government – Governmental Activities

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, 2002, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital Improvements	2002-2022	2.55-7.525%	$ 2,315,390	$ 597,460
School Construction	2002-2022	3-9.75%	1,304,618	48,876
Municipal & Other Grants & Loans	200-2021	3-8.4%	1,742,944	712,160
Elderly Housing	2003-2011	7-7.5%	19,905	-
Rental Housing	2002	5.25%	80,000	-
Elimination of Water Pollution	2002-2022	4.1-7.525%	289,076	104,950
General Obligation Refunding	2002-2019	2.4-7%	2,107,832	-
Miscellaneous	2002-2031	3.5-9.5%	144,093	8,131
			8,003,858	$ 1,471,577
Accretion-Various Capital Appreciation Bonds			523,578	
		Total	$ 8,527,436	

Future amounts (in thousands) needed to pay principal and interest on general obligation bonds outstanding at June 30, 2002, were as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 677,267	$ 428,521	$ 1,105,788
2004	607,389	411,545	1,018,934
2005	635,773	397,006	1,032,779
2006	577,853	371,579	949,432
2007	567,995	351,490	919,485
2008-2012	2,557,173	1,394,030	3,951,203
2013-2017	1,593,158	448,441	2,041,599
2018-2022	767,228	92,511	859,739
2023-2027	13,217	3,514	16,731
2028-2032	6,805	608	7,413
Total	$ 8,003,858	$ 3,899,245	$ 11,903,103

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, 2002, 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%	$ 13,878	$ 3,902
Infrastructure Improvements	2003-2022	2-10.0%	3,144,908	376,663
General Obligation Refunding	2004	5.15-9.75%	8,505	-
Other	2008-2013	4.6-7.525%	499	164
			3,167,790	$ 380,729
Accretion-Various Capital Appreciation Bonds			7,113	
		Total	$ 3,174,903	

Future amounts (in thousands) required to pay principal and interest on transportation related bonds outstanding at June 30, 2002, were as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 225,350	$ 158,836	$ 384,186
2004	226,655	149,607	376,262
2005	223,990	137,816	361,806
2006	247,735	126,054	373,789
2007	235,753	119,404	355,157
2008-2012	1,103,647	390,623	1,494,270
2013-2017	647,255	137,474	784,729
2018-2022	249,000	26,442	275,442
2023-2027	8,405	210	8,615
Total	$ 3,167,790	$ 1,246,466	$ 4,414,256

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 2004 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.

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	$ 156,100	variable	2010
General Obligation	$ 20,000	variable	2012

The agreements require the State to pay a fixed interest rate to the counterparties to the swaps, and the counterparties pay the State a variable interest rate that is determined by the Agreements. 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.	$ 93,700	5.75%	65% of 1-month LIBOR rate
SMBC	$ 62,400	5.71%	65% of 1-month LIBOR rate
Morgan Stanley	$ 20,000	4.33%	CPI(adj semi-annual)

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, 2002, the AIG, SMBC, and Morgan Stanley interest rate swaps had unfavorable positions of $10.9 million, $7.2 million, and $1.6 million respectively.

The counterparties guarantee the 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.

b. Primary Government – Business–Type Activities

Revenue Bonds

Revenue bonds are those bonds that are paid out of resources pledged in the enterprise funds and component units.

Enterprise funds' revenue bonds outstanding at June 30, 2002, were as follows:

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
Higher Education	2002-2030	2.1-7%	$ 439,120
Bradley International Airport	2012-2031	3.25-7.65%	263,935
Second Injury	2012-2015	4.5-6%	154,020
Clean Water	2011-2022	3.45-11%	564,310
Other:			
Bradley Parking Garage	2006-2024	6.125-8%	53,800
Drinking Water	2022	4-5.5%	29,614
Total Revenue Bonds			1,504,799
Plus/(Less) premiums, discounts and deferred amounts:			
Bradley International Airport			(1,012)
Clean Water			6,445
Other			642
Revenue Bonds, net			$ 1,510,874

Bradley Airport has issued various revenue bonds to finance costs of improvements to the airport. As of June 30, 2002, the following bonds were outstanding:

a) Airport revenue refunding bonds in the amount of $50.8 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.

In November 1996 and in October 2000, the State issued $100 million and $124.1 million of Second Injury Special Assessment Revenue Bonds, respectively. The bonds were issued to reduce long-term liabilities of the fund by settling claims on a one-time lump sum basis. Additionally, the bond indenture allows for the periodic issuance of subordinated bond anticipation notes (BANs) in the form of commercial paper.

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.

Bradley Parking Garage bonds were issued in 2000 in the amount of $53.8 million to build parking garage at the airport.

Future amounts (in thousands) needed to pay principal and interest on revenue bonds outstanding at June 30, 2002, were as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 61,980	$ 77,800	$ 139,780
2004	77,211	73,961	151,172
2005	86,393	69,870	156,263
2006	81,597	66,547	148,144
2007	78,336	60,784	139,120
2008-2012	439,619	239,543	679,162
2013-2017	272,949	139,918	412,867
2018-2022	203,710	78,438	282,148
2023-2027	119,700	35,102	154,802
2028-2032	83,304	9,434	92,738
Total	$ 1,504,799	$ 851,397	$ 2,356,196

c. Component Units

Component units' revenue bonds outstanding at June 30, 2002, were as follows:

Component Unit	Final Maturity Date	Interest Rates	Amount Outstanding (000's)
CT Development Authority	2003-2019	4.6-8.75%	$ 54,320
CT Housing Finance Authority	2002-2042	3.6-9.5%	3,226,505
CT Resources Recovery Authority	2001-2016	3.4-7.7%	238,979
Other:			
CT Higher Education Supplemental Loan Authority	2001-2021	4-7.5%	124,285
CT Health and Educational Facilities Authority	2001-2004	4.32-14.94%	3,730
Total Revenue Bonds			3,647,819
Less discount on CDA bonds			(74,078)
Revenue Bonds, net			$ 3,573,741

Revenue bonds issued by the component units do not constitute a liability or debt of the State. The State is only contingently liable for those bonds as discussed below.

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, 2002 were $11.3 million. Assets totaling $10.8 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 $43.0 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, 2001, bonds outstanding under the bond resolution and the indenture were $3,206.7 million and $19.8 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 ($270.0 million at 12/31/01) on all outstanding bonds. In addition, all assets of the Authority's general and capital reserve funds ($3,980.5 million) are restricted until such time as they are determined to be "surplus funds." As of December 31, 2001, the Authority has entered into interest rate swap agreements for $436 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 re-financing 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 $3.7 million in outstanding general obligation bonds.

Each Authority has established special capital reserve funds that secure all the outstanding bonds of the Authority at year-end, except as discussed next. 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 $204.6 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) needed to pay principal and interest on revenue bonds outstanding at June 30, 2002, were as follows:

Year Ending June 30,	Principal	Interest	Total
2003	$ 218,868	$ 383,194	$ 602,062
2004	143,992	193,792	337,784
2005	147,417	185,933	333,350
2006	151,408	177,743	329,151
2007	650,828	712,672	1,363,500
2008-2012	837,455	562,137	1,399,592
2013-2017	627,411	335,568	962,979
2018-2022	522,559	178,467	701,026
2023-2027	304,311	57,356	361,667
2028-2032	31,335	8,656	39,991
2033-2037	10,130	2,344	12,474
2038-2042	2,105	164	2,269
Total	$ 3,647,819	$ 2,798,026	$ 6,445,845

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 are paid solely from payments received from participating companies (or from proceeds of the sale of the specific projects in the event of 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, 2002 were $1,122.3 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, 2002 were $244.3 million. Of this amount, $68.6 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, 2002, were $4,066.6 million, of which $277.7 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 this section.

d. Debt Refundings

During the year, the State issued $1,217.8 million of general obligation, special tax obligation refunding, and revenue refunding bonds with an average interest rate of 4.86% to advance refund $1,228.9 million of general obligation, special tax obligation refunding, and revenue refunding bonds with an average interest rate of 5.53%. 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 statement of net assets. The reacquisition price exceeded the carrying amount of the old debt by $73.5 million. This amount is being netted against the new debt and amortized over the life of the new or old debt, whichever is shorter.

The State advance refunded these bonds to reduce its total debt service payments over the next fifteen years by $155.4 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of $113.8 million. As of June 30, 2002, $2,510.9 million of outstanding general obligation, special tax obligation, and revenue bonds (including prior year's refundings) are considered defeased.

Note 17 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.

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 Higher Education fund, an Enterprise fund. At year-end, liabilities for unpaid claims are recorded in the statement of net assets (government-wide and proprietary fund statements) when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The liabilities are 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 are actuarially determined and the unpaid liability for medical malpractice is reported at its present value, using a discount rate of 5 percent. In the General fund, the liability for unpaid claims is only recorded if the liability is due for payment at year-end. Settlements have not exceeded coverages for each of the past three fiscal years. Changes in the claims liabilities during the last two fiscal years were as follows (amounts in thousands):

	Governmental ~~Activities~~ Workers' Compensation	Business-Type ~~Activities~~ Medical Malpractice
Balance 6-30-00	$ 283,600	$ 8,325
Incurred claims	105,270	2,026
Paid claims	(62,453)	(800)
Balance 6-30-01	326,417	9,551
Incurred claims	5,845	384
Paid claims	(87,079)	(580)
Balance 6-30-02	$ 245,183	$ 9,355

Note 18 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2002, were as follows (amounts in thousands):

~~Fund~~	Interfund ~~Receivable~~	Interfund ~~Payable~~
Governmental Funds		
General	$ 612,736	$ 1,136,473
Debt Service	-	4,418
Transportation	22,287	1,021
Other Funds:		
Special Revenue:		
Workers' Compensation	82	152
Banking	-	168
Consumer Counsel and Public Utility Control	-	197
Insurance	28	202
Criminal Injuries	11	-
Regional Market	-	6
Soldiers, Sailors, and Marines	44	15
Employment Security Adminstration	1,125	951
Grant and Loan Programs	291,492	20,224
Environmental Programs	44,969	315
Housing Programs	-	16
Other	115,754	103
Capital Projects:		
State Facilities	-	153,532
Infrastructure	104,895	824
Transportation	8,531	-
Permanent:		
Soldiers, Sailors and Marines	-	44
Other	1	194
Total Other Funds	566,932	176,943
Total Governemental Funds	$ 1,201,955	$ 1,318,855
Proprietary Funds		
Enterprise:		
Higher Education	$ 275,412	$ 9,360
Bradley International Airport	-	6,700
Employment Security	647	15,310
Clean Water	-	25
Drinking Water	25	-
Total Enterprise Funds	$ 276,084	$ 31,395
Internal Service:		
Correction Industries	$ 567	$ 4,954
Information and Technology	2,761	288
Administrative Services	1,338	41,530
Total Internal Service Funds	$ 4,666	$ 46,772
Fiduciary Funds		
Pension and Other Employee Benefits:		
State Employees	$ 2,258	$ 1,612
State Teachers	-	13,306
Other Employee Benefits	2,073	-
Total Pension and Other Benefits	4,331	14,918
Agency:		
Payroll and Fringe Benefit	4,169	-
Total Agency Funds	4,169	-
Total Fiduciary Funds	$ 8,500	$ 14,918
Component Units		
Connecticut Development Authority	$ 20,327	$ -
Connecticut Health & Educational Supplemental Loan Authority	-	99,611
Connecticut Innovations Incorporated	19	-
Total Component Units	$ 20,346	$ 99,611
Totals	$ 1,511,551	$ 1,511,551

Note 19 Accounting Changes and Restatements

During the fiscal year 2001-2002, the State implemented the following statements issued by the Governmental Accounting Standards Board:

Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments.

Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis – for Public Colleges and Universities.

Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus, and

Statement No. 38, Certain Financial Statement Disclosures.

Statement No. 34, as amended by Statement No. 37, establishes new financial standards for states and local governments. The new standards require significant changes to the content and format of the basic financial statements of the State. Some of these changes are including an introductory managements' discussion and analysis, including new government-wide financial statements, and reporting fund financial statements by major funds, rather than by fund type. The new government-wide financial statements consist of a statement of net assets and a statement of activities that are prepared using the economic resources measurement focus and the accrual basis of accounting. To implement these changes, fund reclassifications and adjustments to the fund equities reported in the prior year financial statements were required.

Statement No. 35 establishes new accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of Statement No. 34. The State's higher education institutions, reported as an Enterprise fund, adopted the requirements of this statement.

Statement No. 38 requires certain note disclosures when Statement No. 34 is implemented.

The provisions of these new standards have been incorporated into the financial statements and notes. The following schedule summarizes changes to fund equities reported on the combined balance sheet. The changes resulted primarily from implementing Statement No. 34.

	Fund Equity 6-30-01 Previously Reported	GASB Statements Implementation: Fund Reclass	GASB Statements Implementation: Prior Period Adjustment	Other Prior Period Adjustments	Fund Equity 6-30-01 as Restated
Governmental Funds and Activities					
Major Funds:					
General	$ 813,709	$ -	$ 6,819	$ -	$ 820,528
Debt Service	554,816	77,921	-	-	632,737
Transportation-previously reported as a Special Revenue fund	-	201,446	745	-	202,191
Non-Major Funds:					
Special Revenue Funds:					
Transportation	201,446	(201,446)	-	-	-
Housing Programs	164,090	85,622	-	-	249,712
Other	81,049	44,245	-		125,294
Unadjusted Special Revenue Funds	460,983	-	-	-	460,983
Total Special Revenue Funds	907,568	(71,579)	-	-	835,989
Capital Projects Funds:					
State Facilities	19,174	-	(56,728)	-	(37,554)
Others-unadjusted	49,261	-	-	-	49,261
Total Capital Projects Funds	68,435	-	(56,728)	-	11,707
Permanent Funds:					
Soldiers, Sailors, & Marines	-	58,037	-	-	58,037
Connecticut Arts Endowment	-	13,717	-	-	13,717
Other	-	18,582	-	-	18,582
Total Permanent Funds	-	90,336	-	-	90,336
Total Non-major Funds	976,003	18,757	(56,728)	-	938,032
Total Governmental Funds	$ 2,344,528	$ 298,124	$ (49,164)	$ -	$ 2,593,488
Adoption of GASB 34					-
Capital assets, net of depreciation	$ -	$ 4,060,881	$ 4,830,102	$ -	$ 8,890,983
Net assets of Internal Service Funds	-	41,132	-	(288)	40,844
Additional Revenues	-	-	477,359	-	477,359
Long-term Liabilities	-	(83,932)	(14,655,789)	-	(14,739,721)
Total adoption of GASB 34	-	4,018,081	(9,348,328)	(288)	(5,330,535)
Total Governmental Funds and Activities	$ 2,344,528	$ 4,316,205	$ (9,397,492)	$ (288)	$ (2,737,047)

	Fund Equity 6-30-01 Previously Reported	GASB Statements Implementation Fund Reclass	GASB Statements Implementation Prior Period Adjustment	Other Prior Period Adjustments	Fund Equity 6-30-01 as Restated
Proprietary Funds and Business-Type Activities					
Enterprise Funds:					
Major Funds:					
Higher Education	$ -	$ 2,646,400	$ (396,576)	$ -	$ 2,249,824
Bradley International Airport	174,181	-	-	-	174,181
Connecticut Lottery Corporation	1,943	-	-	-	1,943
Employment Security	-	841,336	11,207	-	852,543
Second Injury	-	86,488	(232,539)	-	(146,051)
Clean Water	-	439,312	-	-	439,312
Non-Major funds:					
Bradley Parking Garage-previously reported as other Enterprise Fund	(1,406)	-	-	-	(1,406)
Clean Water	-	32,603	-	-	32,603
Total Non-Major Funds	(1,406)	32,603	-	-	31,197
Rental Housing	80,616	(79,611)	(1,005)	-	-
John Dempsey	51,108	(51,108)	-	-	-
Other	793	(604)	(189)	-	-
Total Enterprise Funds	307,235	3,914,816	(619,102)	-	3,602,949
Internal Service Funds	41,132	(41,132)	-	-	-
Total Proprietary Funds and					-
Business-Type Activities	$ 348,367	$ 3,873,684	$ (619,102)	$ -	$ 3,602,949
Fiduciary Funds					
Pension and Other Employee					
Benefits Trust Funds:					
Pension Trusts	$ 20,501,820	$ -	$ -	$ -	$ 20,501,820
Retired Teachers' Health Benefits Plan	-	17,955	-	-	17,955
Police, Firemen Survivors Benefits	-	17,792	-	-	17,792
Total Pension and Other Employee Benefits Trust Funds	20,501,820	35,747	-	-	20,537,567
Investment Trust Fund-External Investment Pool	1,414,080	-	-	-	1,414,080
Private-Purpose Trust Fund-Escheat Securities	-	-	66,736		66,736
Funds previously reported as					
Expendable Trust Funds	1,007,211	(1,007,211)	-	-	-
Funds previously reported as					
Non-Expendable Trust Funds	562,252	(562,252)	-	-	-
Total Fiduciary Funds	$ 23,485,363	$ (1,533,716)	$ 66,736	$ -	$ 22,018,383
Higher Education Funds	$ 2,595,292	$ (2,595,292)	$ -	$ -	$ -
Accounts Groups					-
General Fixed Assets	4,060,881	(4,060,881)	-	-	-
General Long-Term Debt	-	-	-	-	-
Total Account Groups	4,060,881	(4,060,881)	-	-	-
Total Primary Government	$ 32,834,431	$ -	$ (9,949,858)	$ (288)	$ 22,884,285
Connecticut Development Authority-Component Unit	$ 170,762	$ -	$ (738)	$ -	$ 170,024

Note 20 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 21 Commitments and Contingencies

A. Commitments

At June 30, 2002, 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 $1,642.2 million of which $1,175.6 million is expected to be reimbursed by federal grants or other payments.

2) School construction and alteration grants with various towns for $3,676.2 million and interest costs of $285.9 million for a total of $3,962.1 million. Funding for these projects is expected to come from bond sales.

3) Loan commitments, mortgage and grant programs, and loan guarantees total approximately $604.6 million. Funding for these programs is expected to come from bond sales.

4) The State has authorized a loan to the Connecticut Resources Recovery Authority (a component unit) of up to $115 million to support the repayment of the Authority's debt for one of its facilities and to minimize the amount of tipping fee increases chargeable to the towns which use the facility. As of June 30, 2002, the Authority had not drawn on these funds.

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.

During the year, the City of Waterbury issued $97.5 million of General Obligation Special Capital Reserve Fund Bonds. These bonds are secured by a Special Capital Reserve Fund for which the State may be contingently liable as explained previously in Note 16 – Component Units.

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 22 Subsequent Events

In August, $656 million of general obligation and general obligation refunding bonds were issued. The bonds will mature November 15, of the years 2002 through 2022 and bear interest rates ranging from 2% to 5.5%.

In November, $231 million of general obligation bonds and $215 million of special tax obligation bonds were issued. The general obligation bonds will mature October 15, of the years 2003 through 2022 and bear interest rates ranging from 3% to 5%. The special tax obligation bonds will mature December 1, of the years 2007 through 2022 and bear interest rate of 4.23%.

In December, $219 million of general obligation economic recovery notes were issued to fund the accumulated deficit in the General Fund. These notes will mature at various dates through 2007 and bear interest rates of 2% to 4%.

In February, 2003, $422 million of special tax obligation refunding bonds for transportation infrastructure programs were issued. These bonds will mature through February, 2022 and bear interest rates in the Weekly Mode until such a date, if any, as the State elects to change from the Weekly Mode to another interest rate.

In January 2003, an agreement was reached between the parties in the *Sheff v. O'Neill* lawsuit. While this agreement must be approved by the General Assembly and ordered by the court in order to take effect, its basic provisions are aimed at reducing racial, ethnic and economic isolation in the Hartford public schools over the next four years. The agreement requires the state to create eight new interdistrict magnet schools in Hartford, expand the Open Choice program to provide additional seats in suburban schools for minority public school students from Hartford and provide increased funding for interdistrict cooperative programs serving Hartford public school students. It is estimated that the cost over the next four years will be $45 million. Additionally, the state is required to fund an undetermined amount of money for eligible school construction costs for magnet schools.

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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						
6/30/1997	$5,131.0	$8,833.2	$3,702.2	58.1%	$2,225.2	166.4%
6/30/1998	$5,669.9	$9,592.4	$3,922.5	59.1%	$2,339.0	167.7%
6/30/1999 *	-	-	-	-	-	-
6/30/2000	$7,196.0	$11,512.1	$4,316.1	62.5%	$2,651.9	162.8%
6/30/2001	$7,638.9	$12,105.4	$4,466.5	63.1%	$2,784.5	160.4%
6/30/2002	$7,893.7	$12,806.1	$4,912.4	61.6%	$2,852.1	172.2%
*No actuarial valuation was performed as of June 30, 1999						
TRS						
6/30/1997 *	-	-	-	-	-	-
6/30/1998	$7,721.1	$10,970.1	$3,249.0	70.4%	$2,298.9	141.3%
6/30/1999 *	-	-	-	-	-	-
6/30/2000	$9,605.9	$11,797.6	$2,191.7	81.4%	$2,501.5	87.6%
6/30/2001 *	-	-	-	-	-	-
6/30/2002	$10,387.3	$13,679.9	$3,292.6	75.9%	$2,698.3	122.0%
*No actuarial valuations were performed as of June 30, 1997, 1999 and 2001						
JRS						
9/30/1997	$87.8	$167.5	$79.7	52.4%	$20.2	394.6%
6/30/1998	$98.1	$168.1	$70.0	58.4%	$21.2	330.2%
6/30/1999	$110.7	$172.5	$61.8	64.2%	$21.9	282.2%
6/30/2000	$123.4	$181.7	$58.3	67.9%	$24.1	241.9%
6/30/2001	$133.1	$193.8	$60.7	68.7%	$26.3	230.8%
6/30/2002	$138.4	$209.4	$71.0	66.1%	$28.9	245.7%
MERS						
6/30/1996	$782.0	$692.2	$(89.8)	113.0%	$242.8	(37.0)%
6/30/1997	$872.0	$731.1	$(140.9)	119.3%	$246.0	(57.3)%
6/30/1998	$980.4	$814.1	$(166.3)	120.4%	$258.2	(64.4)%
6/30/1999	$1,100.7	$860.1	$(240.6)	128.0%	$269.4	(89.3)%
6/30/2000	$1,251.6	$1,153.2	$(98.4)	108.5%	$290.3	(33.9)%
6/30/2001	$1,353.1	$1,238.1	$(115.0)	109.3%	$311.2	(37.0)%

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
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%	$0.25	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%	$-	-
2002	$415.5	100.0%	$210.7	97.1%	$9.6	100.0%	$15.3	100.0%	$-	-

Note: During 2000, 2001 and 2002 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	6/30/2002	6/30/2002	6/30/2002	6/30/2001	12/31/2001
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	30 Years	10-29 Years	29 Years	10-25 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%	4-8%	5.5%	4.5-11.25%	6%
Includes inflation at	5%	4%	5.5%	3.75%	3.5%
Cost-of-living adjustments	2.75-3.75%	3%	3-5.5%	2.5-5.0%	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 28, 2003

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, 1998-2002. 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, 1998–2002.

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, 1998, 1999, 2000, 2001 and 2002 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 modified cash basis, 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, 1998, 1999, 2000, 2001 and 2002, and the results of its operations for the years then ended, in conformity with 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
Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

December 31, 2002
State Capitol
Hartford, Connecticut

GENERAL FUND[a]

Balance Sheet
As of June 30
(In Thousands)

	1998	1999	2000	2001	2002
Assets					
Cash and Short-Term Investments	$ 106,204	$ 263,256	$ 150,871	$ 178,428	$ --
Accrued Taxes Receivable	641,845	664,504	667,036	751,329	731,462
Accrued Accounts Receivable	22,828	24,378	26,285	30,897	31,726
Federal and Other Grants Receivable and Unexpended	568,067	704,982	656,289	745,655	839,676
Investments	44,250	54,867	47,705	50,460	40,813
Due from Other Funds	5,070	4,753	4,692	4,499	594,698
Total Assets	$ 1,388,264	$ 1,716,740	$ 1,552,878	$ 1,761,268	$2,238,375
Liabilities, Reserves and Surplus					
Liabilities					
Deficiency in Cash and Short-Term Investments	$ -	$ -	$ -	$ -	$ 1,071,882
Accounts Payable[b]					85,032
Deferred Restricted Accounts and Federal and Other Grant Revenue	189,738	319,484	266,260	301,801	320,716
Due to Other Funds	8,486	13,643	13,707	15,254	16,656
Total Liabilities	$ 198,224	$ 333,127	$ 279,967	$ 317,055	$1,494,286
Reserves					
Petty Cash Funds	$ 1,052	$ 1,088	$ 1,092	$ 1,043	$ 1,031
Statutory Surplus Reserves	312,911	71,759	300,435	30,660	--
Appropriations Continued to Following Year	876,077	1,310,766	971,384	1,412,510	965,446
Total Reserves	$ 1,190,040	$ 1,383,613	$ 1,272,911	$ 1,444,213	$ 966,477
Unappropriated Surplus (Deficit)	0	0	0	0	(222,388)
Total Liabilities, Reserves and Surplus	$ 1,388,264	$ 1,716,740	$ 1,552,878	$ 1,761,268	$2,238,375

(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.

(b) For fiscal year 2002, Public Act No. 02-1 of the May special session authorized certain fiscal year 2003 expenditures to be accrued to the prior fiscal year.

GENERAL FUND

Statement of Revenues, Expenditures and Changes in Unappropriated Surplus
Fiscal Year Ended June 30
(In Thousands)

	1998	1999	2000	2001	2002
Unappropriated Surplus (Deficit), July 1	$ - 0 -	$ - 0 -	$ - 0 -	$ -0-	$ - 0 -
Resources from Reserve for Debt Avoidance				265,474	
Total Revenues (per Appendix III-D-6)	10,922,192[a]	11,360,260[c]	12,151,287[e]	12,885,980[g]	11,943,683[i]
Total Expenditures (per Appendix III-D-7)	10,429,797[b]	10,994,680[d]	12,138,545[f]	12,783,210[h]	13,285,284[j]
Operating Balance	492,395	365,580	12,742	368,244	(1,341,601)
Reserved for Prior Year Appropriations					
Less Appropriations Carried Forward	(180,520)	(294,077)	289,764	(333,999)	543,806
Transferred (Out) or Reserved for:					
Budget Reserve Fund	(161,694)	(30,474)	(34,960)	(30,660)	--
Reserve for Debt Retirement/Avoidance	(151,217)	(41,285)	(265,474)	--	--
Other Adjustments	1,036	256	(2,072)	(3,585)	(19,291)
Subtotal	-0-	-0-	-0-	-0-	(817,086)
Transferred from Budget Reserve Fund	-0-	-0-	-0-	-0-	594,698
Unappropriated Surplus (Deficit), June 30	$ - 0 -	$ - 0 -	$ - 0 -	$ - 0 -	$(222,388)

(a) Total Revenues includes Restricted Accounts and Federal and Other Grants in the amount of $779,951.

(b) Total Expenditures includes Restricted Accounts and Federal and Other Grants in the amount of $779,951 and prior year appropriations less appropriations carried forward to the next fiscal year in the amount of $(180,520).

(c) Total Revenues includes Restricted Accounts and Federal and Other Grants in the amount of $743,871.

(d) Total Expenditures includes Restricted Accounts and Federal and Other Grants in the amount of $743,871 and prior year appropriations less appropriations carried forward to the next fiscal year in the amount of $(294,077).

(e) Total Revenues includes Restricted Accounts and Federal and Other Grants in the amount of $937,641.

(f) Total Expenditures includes Restricted Accounts and Federal and Other Grants in the amount of $937,641 and prior year appropriations less appropriations carried forward to the next fiscal year in the amount of $289,764.

(g) Total Revenues includes Restricted Accounts and Federal and Other Grants in the amount of $900,510.

(h) Total Expenditures includes Restricted Accounts and Federal and Other Grants in the amount of $900,510 and prior year appropriations less appropriations carried forward to the next fiscal year in the amount of $(333,999).

(i) Total Revenues includes Restricted Accounts and Federal and Other Grants in the amount of $1,098,258.

(j) Total Expenditures includes Restricted Accounts and Federal and Other Grants in the amount of $1,098,258 and prior year appropriations less appropriations carried forward to the next fiscal year in the amount of $543,806.

GENERAL FUND

Statement of Revenues
Fiscal Year Ended June 30
(In Thousands)

	1998	1999	2000	2001	2002
Taxes:					
Personal Income	$ 3,596,224	$ 3,820,837	$ 4,238,228	$ 4,744,233	$4,265,912
Sales and Use	2,772,109	2,932,191	3,096,780	3,125,078	2,997,766
Corporations	663,672	619,539	587,756	550,509	380,985
Insurance Companies	192,756	196,195	201,225	191,107	217,371
Inheritance and Estate	279,236	237,573	228,072	252,802	153,092
Alcoholic Beverages	39,772	40,281	40,965	41,145	41,619
Cigarettes	127,174	123,345	122,045	119,476	160,904
Admissions, Dues, Cabaret	24,955	26,942	26,716	25,811	26,905
Oil Companies	61,858	22,170	54,285	64,497	24,309
Public Service Corporations	170,418	167,704	166,263	180,547	166,597
Real Estate Conveyance	93,596	106,813	114,565	112,282	120,717
Hospital Gross Receipts	140,930	128,079	69,180	-	--
Miscellaneous	28,044	40,635	40,227	35,088	26,267
Refunds of Taxes	(580,830)	(645,000)	(713,359)	(735,482)	(829,558)
R&D Credit Exchange	--	--	--	--	(21,933)
Other Revenue:					
Licenses, Permits, Fees	123,156	122,062	127,544	124,331	137,518
Sales of Commodities and Services	29,491	30,110	32,941	31,312	30,479
Transfer – Special Revenue	267,323	280,529	259,785	258,181	277,589
Investment Income	54,716	60,856	53,371	67,868	23,828
Transfers — To Other Funds	(180,000)	(90,000)	(180,000)	(85,400)	(147,685)[a]
Fines, Escheats and Rents	37,097	55,763	45,659	48,228	47,620
Miscellaneous	118,373	112,962	125,498	125,594	114,273
Refunds of Payments	--	--	--	--	(373)
Federal Grants	1,824,595	1,938,271	2,078,914	2,237,045	2,142,269
Indian Gaming Payments	257,576	288,532	318,986	332,418	368,954
Statutory Transfers From Other Funds	--	--	78,000	138,800	120,000[b]
Total Unrestricted Revenue	10,142,241	10,616,389	11,213,646	11,985,470	10,845,425
Restricted Accounts and Federal and Other Grants	779,951	743,871	937,641	900,510	1,098,258
Total Revenues[c]	$ 10,922,192	$ 11,360,260	$ 12,151,287	$ 12,885,980	$ 11,943,683

(a) Transfer to Pequot/Mohegan Fund.

(b) Transfer from Tobacco Settlement Fund.

(c) 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)

	1998	1999	2000	2001	2002
Legislative	$ 41,793	$ 50,978	$ 54,541	$ 55,406	$ 58,095
General Government					
Executive	8,022	8,731	9,929	10,018	9,569
Financial Administration	347,559	532,374	495,118	438,800	451,738
Legal	48,699	53,742	61,263	62,612	65,980
Total General Government	404,280	594,847	566,310	511,430	527,287
Regulation and Protection of Persons and Property					
Public Safety	57,327	107,942	129,216	130,051	141,830
Regulative	32,880	61,764	77,785	73,427	80,660
Total Regulation and Protection	90,207	169,706	207,001	203,478	222,490
Conservation and Development					
Agriculture	8,058	8,885	10,026	10,500	11,015
Environment	35,798	39,138	45,621	47,668	42,716
Historical Sites, Commerce and Industry	18,299	22,737	22,508	25,486	24,733
Total Conservation and Development	62,155	70,760	78,155	83,654	78,464
Health and Hospitals					
Public Health	63,170	70,334	79,445	82,225	85,058
Mental Retardation	540,359	579,290	627,435	654,698	701,343
Mental Health	214,248	255,905	298,353	355,438	411,934
Total Health and Hospitals	817,777	905,529	1,005,233	1,092,361	1,198,335
Transportation	-	-	-	34,857	37,653
Human Services	3,371,318	3,231,095	3,430,561	3,537,462	3,589,653
Education, Libraries and Museums					
Department of Education	1,557,271	1,683,536	1,825,305	2,169,762	1,995,545
Education of the Blind and Deaf	13,133	14,618	16,052	16,757	15,978
University of Connecticut	232,876	234,464	260,972	271,378	265,854
Higher Education and the Arts	30,860	39,385	55,326	61,888	66,425
Libraries	12,126	13,729	14,326	14,800	17,439
Teachers Retirement	184,714	201,105	215,396	226,663	217,762
Community—Technical Colleges	95,604	105,064	115,432	115,587	129,262
State University	113,853	119,578	134,709	130,556	139,276
Total Education, Libraries and Museums	2,240,437	2,411,479	2,637,518	3,007,391	2,847,541
Corrections	762,917	845,239	957,555	999,052	1,068,183
Judicial	232,340	266,043	309,319	338,568	376,813
Non-Functional					
Debt Service	790,164	848,391	926,365	973,554	992,071
Miscellaneous	836,458	856,742	1,028,346	1,045,487	1,190,441
Total Non-Functional	1,626,622	1,705,133	1,954,711	2,019,041	2,182,512
Totals	9,649,846	10,250,809	11,200,904	11,882,700	12,187,026
Restricted Accounts and Federal and Other Grants	779,951	743,871	937,641	900,510	1,098,258
Total Expenditures[(a)]	$ 10,429,797	$ 10,994,680	$ 12,138,545	$ 12,783,210	$13,285,284

(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 BUDGET FOR FISCAL YEAR 2001-02
ESTIMATED BUDGET FOR FISCAL YEAR 2001-02
MIDTERM BUDGET ADJUSTMENTS FOR FISCAL YEAR 2002-03
ESTIMATED BUDGET FOR FISCAL YEAR 2002-03
(In Millions)

	Adopted Budget 2001-02[d]	Actual Budget 2001-02[e]	Mid-Term Budget Adjustments 2002-03[j]	Estimated Budget 2002-03[p]
Revenues				
Taxes				
Personal Income Tax	$4,841.4	$4,265.9	$4,553.0	$4,248.0
Sales & Use	3,193.7	2,997.7	3,141.3	3,103.5
Corporation	501.2	381.0	470.4[k]	508.8[k]
Public Service	189.7	166.6	172.9	170.8
Inheritance & Estate[a]	210.0	153.1	143.5	160.0
Insurance Companies	192.0	217.4[f]	218.0[f]	224.8[f]
Cigarettes	117.0	160.9[f]	237.0[f]	241.5[f]
Real Estate Conveyance	110.0	120.7	111.0	115.0
Oil Companies	61.8	24.3	77.5[l]	77.5[l]
Alcoholic Beverages	41.0	41.6	42.0	42.0
Admissions and Dues	25.3	26.9	28.5	27.7
Miscellaneous	36.1	26.3	37.9	28.9
Total Taxes	$9,519.2	$8,582.4	$9,233.0	$8,948.5
Less Refunds of Taxes	($751.0)	($829.6)	($794.6)	($787.0)
Less R&D Credit Exchange	(14.0)	(21.9)	(14.0)	(14.0)
Net Taxes	$8,754.2	$7,730.9	$8,424.4	$8,147.5
Other Revenues				
Transfers- Special Revenues	265.2	277.6	273.0	268.9
Indian Gaming Payments	360.0	369.0	399.0	396.7
Licenses, Permits, Fees	128.2	137.5	128.5	131.0
Sales of Commodities & Services	28.8	30.5	31.0	30.9
Rents, Fines & Escheats	51.2	47.6	88.4[m]	83.2[m]
Investment Income	62.7	23.8	28.0	15.1
Miscellaneous	128.0	114.3	121.0	113.5
Less Refunds of Payments	(0.5)	(0.4)	(0.5)	(0.5)
Total Other Revenue	$1023.6	$999.9	$1,068.4	$1,038.8
Other Sources				
Federal Grants	2,144.3	2,142.3	2,303.2	2,352.9
Transfers to the Resources of the G.F.	0.0	0.0	284.1[n]	284.1[n]
Transfers from Tobacco Settlement Funds	120.0	120.0	133.0	133.0
Transfers to Other Funds[b]	(148.0)	(147.7)	(121.2)	(121.2)
Total Other Sources	$2,116.3	$2,114.6	$2,599.1	$2,648.8
Total Unrestricted Revenues	$11,894.1	$10,845.4	$12,091.9	$11,835.1
Restricted Federal & Other Grants	750.0	1,098.3[g]	750.0	1290.9[g]
Total Revenue	$12,644.1	$11,943.7	$12,841.9	$13,126.0

	Adopted Budget 2001-02[d]	Actual Budget 2001-02[e]	Mid-Term Budget Adjustments 2002-03[j]	Estimated Budget 2002-03[p]
Appropriations/Expenditures				
Legislative	$59.8	$55.3	$60.8	$59.6
General Government	462.7	373.6	451.9	451.9
Regulation & Protection	224.7	205.9	228.9	228.9
Conservation & Development	75.1	34.3	71.4	71.4
Health & Hospitals	1,213.6	1,155.1	1,246.4	1,251.6
Transportation	35.0	3.9	0.0	0.0
Human Services	3,494.4	3,544.0	3,687.4	3,781.5
Education, Libraries & Museums	2,772.3	2,667.6	2,810.3	2,810.3
Corrections	1,085.5	1,061.3	1,132.0	1,146.3
Judicial	384.1	378.7	395.9	395.9
Non-Functional				
Debt Service	1,031.4	992.0	1,023.4	1,023.4
Miscellaneous	1,159.1	1,171.5	1,235.2	1,252.2
Subtotal	$11,997.7	$11,643.2	$12,343.7	$12,473.0
Unallocated Lapse	(103.9)	0.0	(251.9)[o]	(249.5)[o]
Net Appropriations/Expenditures	$11,893.9	$11,643.2	$12,091.8	$12,223.5
Surplus (or Deficit) from Operations	$0.1	($797.8)	$0.1	($388.4)
Miscellaneous Adjustments	0.0	(19.3)[h]	0.0	(2.5)
Balance[c]	$0.1	($817.1)[i]	$0.1	($390.9)[q]

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 seven and one-half 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 Comptroller's Annual Report for the fiscal year ending June 30, 2002. 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.

(f) Includes enacted legislative changes that affect revenues as follows:
i: Per Public Act No. 02-1, the increase in Cigarette Tax from 50 cents per pack to $1.11 per pack effective April 3, 2002 is estimated to yield $42.5 million in fiscal year 2002 and $129.3 million in fiscal year 2003 in cigarette and sales taxes.
ii: Per Public Act No. 02-3, eliminating the HMO HUSKY tax credit is estimated to save $14 million in fiscal 2001-02 and $15.6 million in fiscal 2002-03.

(g) The figure reflected for Restricted Accounts and Federal & Other Grants reflects realized revenues through June 30, 2002 for the Preliminary Final Budget 2001-02 and an estimate for the Estimated Budget 2002-03. 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) Per an adjustment of $19.3 million for restricted grants affecting the surplus.

(i) The balance of $594.7 million credited to the Budget Reserve Fund was deemed to be appropriated for the purpose of funding the fiscal 2002 deficit. The unfunded balance of $222.4 million will be financed by the issuance of 5 year economic recovery notes.

(j) Expenditures are per Public Act No. 02-1 of the May Special Session. The Finance Committee did not adopt revised revenue estimates for the 2002-03 fiscal year. The revenues included in the table above are per OPM and are the assumed revenue estimates at the time of adoption of Public Act No. 02-1 of the May Special Session.

(k) Public Act No. 02-1 of the May Special Session, effective on January 1, 2002, instituted a $250 charge on LLCs, LLPs and S corporations, and limited corporation credits from reducing tax liability by more than 70%. Public Act No. 02-4 of the May Special Session extended the tax to single-member LLCs that are not considered entities separate from their owners for federal tax purposes.

(l) Public Act No. 02-1 of the May Special Session, effective on January 1, 2002, suspended the transfer to the Underground Tank Cleanup Account for one year, and reduced the annual transfer to the Special Transportation Fund by $25 million.

(m) Accelerate escheats to the State of Connecticut.

(n) Public Act No. 02-1 of the May Special Session, transferred one-time revenue of $100 million from quasi-public agencies, $127.2 million of proceeds from the Anthem demutualization, $50.9 million in transfers from Tobacco Settlement Funds, and $6 million from miscellaneous accounts.

(o) Per Public Act No. 02-1 of the May Special Session, the lapse anticipates $94 million in wage concessions from the state's labor unions, $11 million under the Executive & Judicial Branch for a manager and confidential wage freeze, and $7 million from the Executive & Judicial Branch hiring freeze. In addition, $35 million is anticipated for the Governor's extraordinary recission authority per section 52 of the Act.

(p) Per the Office of Policy and Management's letter to the Comptroller dated November 20, 2002 for the period ending October 31, 2002.

(q) 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. ***See discussion above under STATE GENERAL FUND – Fiscal Year 2002-2003 Operations. The deficit amount is based on revenue and expenditure estimates provided to the Comptroller by the Office of Policy and Management for purposes of the Comptroller's monthly report for the period ending October 31, 2002, which was issued December 2, 2002. The Comptroller's estimate of the General Fund budget deficit was $414.9 million.***

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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