NEW ISSUE (See **RATINGS** herein)

$97,700,000
STATE OF CONNECTICUT
General Obligation Economic Recovery Notes
(2004 Series) (Auction Notes)

Dated: **Date of Delivery** Due: **June 1, as shown on inside front cover**

The Notes 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 Notes as the same become due. See **THE NOTES - Nature of Obligation** herein. Interest on the Notes will be payable at the applicable Auction Rate established pursuant to the **Auction Procedures** as described herein unless converted to a Fixed Rate. **The Notes are subject to optional redemption, mandatory sinking fund redemption and mandatory tender for purchase prior to maturity as more fully described herein.**

The Notes are issuable only as fully registered Notes, without interest coupons in denominations of $25,000 or any integral multiple thereof. When issued, the Notes 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 Notes. Purchases of the Notes will be made in book-entry form. Purchasers will not receive certificates representing their interest in the Notes. 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 Notes. See **THE NOTES – Book-Entry-Only System** herein. Principal of and interest on the Notes 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, mandatory sinking fund redemption schedules, 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 Notes 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 Notes 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 Notes 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 Notes are expected to be available for delivery at DTC in New York, New York, on or about June 24, 2004.

Treasurer of the State of Connecticut

Bear, Stearns & Co. Inc.

Dated: June 21, 2004

$97,700,000
State of Connecticut
General Obligation Economic Recovery Notes
(2004 Series) (Auction Notes)

$48,850,000 Series A	**Due: June 1, 2009**	**CUSIP 20772GHK7**
$48,850,000 Series B	**Due: June 1, 2009**	**CUSIP 20772GHL5**

The initial interest rate for the Notes will be determined on or prior to the delivery date. Interest will accrue from the delivery date and initially will be payable on July 15, 2004 for the Series A Notes and on July 22, 2004 for the Series B Notes. Thereafter the Notes will bear interest for successive 28-day Auction Periods at the Auction Rate established pursuant to the Auction Procedures and payable on each Interest Payment Date, as described herein. The Auction Periods may be changed as provided herein. The interest on the Notes may be converted to a Fixed Rate to maturity as described herein.

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

June 1,	Amount
2005	**$19,500,000**
2006	**$19,550,000**
2007	**$19,550,000**
2008	**$19,550,000**
2009	**$19,550,000** (final maturity)

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

The scheduled payment of principal of and interest on the Notes when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Notes by FINANCIAL SECURITY ASSURANCE INC. See **"Bond Insurance"** and **"Appendix I-D"** herein.

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Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and Appendix I-D specimen "Municipal Bond Insurance 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 Notes; or (iii) the tax exempt status of the interest on the Notes.

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 Notes. 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 Notes and the proceedings of the State Treasurer relating thereto are qualified in their entirety by reference to the definitive forms of the Notes and such proceedings. This Official Statement is submitted only in connection with the sale of the Notes 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 Notes 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 NOTES 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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(2004 Series) (Auction Notes)

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 $97,700,000 aggregate principal amount of its General Obligation Economic Recovery Notes (2004 Series) (the "Notes").

Part I of this Official Statement, including the cover and inside front cover pages and the Appendices thereto, contains information relating to the Notes. 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 pages, this Introduction, and Parts I, II and III and the Appendices thereto should be read collectively and in their entirety.

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PART I
INFORMATION CONCERNING THE NOTES

STATE OF CONNECTICUT
$97,700,000 General Obligation Economic Recovery Notes
(2004 Series) (Auction Notes)

THE NOTES

Description of the Notes

The State of Connecticut (the "State") is issuing $97,700,000 General Obligation Economic Recovery Notes (2004 Series) (the "Notes"). The Notes consist of $48,850,000 Series A Notes (the "Series A Notes") and $48,850,000 Series B Notes (the "Series B Notes") (the Series A Notes and the Series B Notes are referred collectively as the "Notes"). The Notes are being issued to fund the deficit in the State's general fund for the fiscal year ending June 30, 2003, as reported by the Comptroller to the Governor in accordance with section 3-115 of the General Statutes, and to provide funding in an amount certified by the Secretary of the Office of Policy and Management to pay any remaining retrospective reimbursements billed by hospitals for inpatient and outpatient services or other providers of medical services for services rendered to recipients of medical assistance in the general assistance programs prior to the conversion of such programs on October 1, 2003. The Notes are authorized by Public Act No. 03-1 of the September 8, 2003 Special Session of the General Assembly of the State of Connecticut (the "Act").

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

Interest on the Notes is payable to the person in whose name such note is registered as of the Record Date. The Notes are issuable only as fully registered notes, without interest coupons, in denominations of $25,000 or any integral multiple thereof while bearing interest at the Auction Rate, and in denominations of $5,000 or any integral multiple thereof after the conversion to a Fixed Rate.

The Notes will mature on June 1 in the years and in the principal amounts set forth on the inside front cover of this Official Statement.

The Notes will be general obligations 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 Notes as the same become due. The Notes will be issued pursuant to the Act and other proceedings related thereto, including a Certificate of Determination of the Treasurer. See **Nature of Obligation** herein.

Principal of and interest on the Notes 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.

Additional Information Related to Auction Notes

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

Interest. Auction Notes will bear interest for each Auction Period at the Auction Rate. The initial interest rate for the Notes will be determined prior to the delivery of the Notes and will be in effect from the date of issuance of the Notes to and including July 14, 2004 for the Series A Notes and July 21, 2004 for the Series B Notes. Thereafter, the Auction Rate applicable to the Auction Notes will equal the Auction Rate for each Auction Period in accordance with the Auction Procedures as described in **Appendix I-C** hereto.

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

Notwithstanding the foregoing provisions, (i) if the Auction Agent shall have failed to calculate or timely provide the Auction Rate for any Auction Period, the Auction Rate for such Auction Period shall be the No Auction Rate determined for such Auction Period; (ii) if a failure to pay principal or interest on any Auction Note when due shall have occurred and the Bond Insurer shall have failed to pay amounts due under the Policy, the Auction Rate for the Auction Period during which such failure shall have occurred and each Auction Period thereafter commencing prior to the date on which such failure shall have ceased to be continuing shall be the Default Rate for such Auction Period; (iii) in the event of a failed conversion to a Fixed Rate, the Auction Notes will continue as Auction Notes with the same Auction Period and bear interest at the Maximum Auction Rate for the next Auction Period which shall be a 7-day Auction Period; and (iv) in no event shall the Auction Rate exceed the Maximum Auction Rate or be less than the Minimum Auction Rate.

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

Broker-Dealer. Bear, Stearns & Co. Inc. will enter into a Broker-Dealer Agreement with the Auction Agent for purposes of implementing the Auction Procedures.

Auction Date. An Auction to determine the interest rate with respect to the Auction Notes for the next succeeding Auction Period will be held on the Business Day next preceding the Interest Payment Date for the preceding Auction Period. The first Auction for the Notes will take place on July 14, 2004 for the Series A Notes and July 21, 2004 for the Series B Notes.

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

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

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

Conversion of Auction Notes to Fixed Rate. The State, and so long as there is no Bond Insurer Payment Default with the consent of the Bond Insurer, may direct that all or a portion of the Auction Notes be converted to bear interest at a Fixed Rate by written notice to the Paying Agent and the Auction Agent at least 20 days before the proposed Conversion Date; provided that the aggregate principal amount of any portion not so converted is a multiple of $25,000. The Conversion Date must be an Interest Payment Date. Not later than 15 days prior to the date of conversion of all or a portion of the Auction Notes to a Fixed Rate the Paying Agent shall give notice of the conversion to a Fixed Rate to all owners of Auction Notes selected to be converted and the Auction Agent shall give a similar notice to the Broker-Dealers all as described in **Appendix I-C**. On the Conversion Date applicable to the Auction Notes to be converted, the Auction Notes to be converted shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, subject to and in accordance with the Auction Notes; provided, however, that in the event of a failed conversion to a Fixed Rate, the Auction Notes will not be subject to mandatory tender, will be returned to their owners and will bear interest at the Maximum Auction Rate for the next Auction Period which shall be a 7-day Auction Period.

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

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

Mandatory Tender for Purchase of Auction Notes.

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

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

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

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

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

The Auction Note provisions concerning the Auction Procedures and related definitions may be amended by obtaining the consent of the Bond Insurer so long as there is no Bond Insurer Payment Default and the beneficial owners of all Auction Notes affected by such amendment. The consent of the beneficial owners affected by such amendment may be deemed to have been given under certain circumstances. See ***"Amendment of Auction Procedures"*** in **Appendix I-C.**

The Auction Notes provide that the Auction Agent may resign from its duties as Auction Agent by giving at least 45 days' notice to each Broker-Dealer, the Bond Insurer, the Paying Agent and the State Representative. The Auction Notes provide that the Auction Agent may be removed at any time upon the written direction of the State Representative. As a condition to the effectiveness of such resignation or removal , a replacement Auction Agent must be in place. If the Auction Agent does not receive its fee, it may resign if such fee is not paid within 45 days after notice to the Bond Insurer, the Broker-Dealers, Paying Agent and State Representative, and such a resignation does *not* require that a replacement Auction Agent be in place. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon five Business Days' notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on the Auction Notes will be the No Auction Rate.

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

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

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

Optional Redemption

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

Fixed Rate Notes. After conversion of any Auction Notes to a Fixed Rate the Notes will not be subject to optional redemption prior to maturity.

Sinking Fund Redemption

The Notes maturing on June 1, 2009 are subject to mandatory sinking fund redemption in part by lot, but in such amount in any Series as the Treasurer may determine, at a redemption price equal to one hundred percent (100%) of the principal amount of the Notes to be redeemed, plus accrued interest thereon to the date specified for redemption, on June 1 (or the prior Interest Payment Date if June 1 is not an Interest Payment Date) in each of the years set forth in the following table, in the principal amount specified in each of such years:

Year	Sinking Fund Payment
2005	$19,500,000
2006	$19,550,000
2007	$19,550,000
2008	$19,550,000
2009	$19,550,000 (final maturity)

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

Notice of Redemption

Notice of redemption shall be mailed not less than fifteen (15) days in the case of Auction Notes and not less than thirty (30) days in the case of any Notes which have been converted to Fixed Rate Notes, nor more than sixty (60) days prior to the redemption date to the registered owner of such Note at such Noteowner's address as it appears on the registration books of the State, and also to the Auction Agent and the Broker-Dealers in the case of Auction Notes. So long as Cede & Co., as nominee of DTC, is the registered owner of the Notes, 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 Notes (the "Notes"). The Notes 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 Note certificates will be issued for each maturity of the Notes 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 Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("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 Notes 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 Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes 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 Notes 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes 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 Notes 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 Notes 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 Notes 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 Notes 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 Notes 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, note 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, note 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 Note when duly issued and paid for will constitute a contract between the State and the owner thereof.

The Act pursuant to which the Notes are issued provides that the Notes 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 Notes as the same become due. Such act further provides that, as part of the contract of the State with the owners of said Notes, 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 Notes, 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 Notes 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 Notes, 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 Note Proceeds

Proceeds of the Notes are to be applied as follows:

Sources:	
Par Amount of Notes................................	$ 97,700,000.00
Total Sources.....................................	$ 97,700,000.00
Uses:	
Money Available to State.........................	$ 96,614,935.00
Underwriters' Discount or Fee.................	499,057.03
Costs of Issuance and Bond Insurance......	586,007.97
Total Uses..	$ 97,700,000.00

BOND INSURANCE

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

For information concerning the Bond Insurer and a specimen copy of the Policy, see **Appendix I-D** hereto. The information contained in **Appendix I-D** has been furnished by the Bond Insurer for use in this Official Statement and the State takes no responsibility for the accuracy thereof.

LEGALITY FOR INVESTMENT

Under existing State law, the Notes 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 Notes also are legal investments for virtually all public authorities in the State.

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

RATINGS

Concurrently with the delivery of the Notes, it is anticipated that Moody's Investors Service, Standard & Poor's Rating Services (a division of the McGraw Hill Companies, Inc.) and Fitch Ratings will assign their municipal bond ratings of Aaa, AAA and AAA, respectively, to the Notes with the understanding that, upon delivery of the Notes, the bond insurance policy will be issued by Financial Security Assurance Inc.

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 Notes.

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 Notes (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 Notes 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 Notes in order that interest on the Notes 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 Notes 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 Notes, 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 Notes to ensure that interest on the Notes 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 Notes and the timely payment to the United States of any arbitrage rebate amounts with respect to the Notes.

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 Notes.

Other Federal Tax Matters

In addition to the matters addressed above, prospective purchasers of the Notes 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 Notes should consult their tax advisors as to the applicability and impact of such consequences.

Legislation affecting the exclusion from gross income of interest on Notes 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 Notes will not have an adverse effect upon the tax-exempt status or the market price of the Notes.

State Taxes

In the opinion of Bond Counsel and Tax Counsel, under existing statutes, interest on the Notes 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 Notes is included in gross income for purposes of the Connecticut corporation business tax.

Owners of the Notes should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the Notes 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 Note. Prospective owners of the Notes, 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 Notes.

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 Notes for the benefit of the beneficial owners of the Notes, 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 Notes, 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 Notes shall be conditioned upon their receiving, at or prior to the delivery of the Notes, 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 Economic Recovery Notes.

DOCUMENTS ACCOMPANYING DELIVERY OF THE NOTES

State Treasurer's Certificate

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

Absence of Litigation

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

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 Day, Berry & Howard LLP, Hartford, Connecticut, to serve as Bond Counsel with respect to the Notes, and delivery of the Notes will be subject to the approving opinion of Bond Counsel.

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, Soeder & Associates, LLC, of Hartford, Connecticut.

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 Notes.

UNDERWRITING

Bear, Stearns & Co. Inc. will agree, subject to certain conditions precedent to closing, to purchase the Notes from the State at par, $97,700,000, and receive an underwriting fee of $499,057.03.

Bear, Stearns & Co. Inc. will be obligated to collectively purchase all the Notes, if any such Notes are purchased. The Notes may be offered and sold to certain dealers (including unit investment trusts and other affiliated portfolios of certain underwriters and other dealers depositing the Notes 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 Auction Agent has entered into a Broker-Dealer Agreement pertaining to the Notes. The Broker-Dealers may receive fees pursuant to the Broker-Dealer Agreements.

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 21st day of June, 2004

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

Appendix I-A

FORM OF BOND COUNSEL OPINION

The opinion of Bond Counsel will be dated the date of original issuance of the Notes 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 $97,700,000 General Obligation Economic Recovery Notes (2004 Series) of the State of Connecticut (the "Notes") for the purpose of funding the cumulative deficit in the General Fund of the State for the fiscal year ended June 30, 2003.

The Notes are dated as of the date hereof, mature on June 1, 2009 and bear interest from their dated date, payable on each Interest Payment Date until maturity or earlier redemption or earlier mandatory tender for purchase, at the Auction Rate in effect from time to time until converted to a Fixed Rate, as provided in the Notes.

The Notes 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 Notes is payable to the person in whose name such note is registered as of the Record Date, by check mailed to such registered owner at such owner's address as shown on the registration books kept by the State or its designated agent.

The Notes are subject to redemption prior to maturity as therein provided. The Notes are subject to mandatory tender for purchase prior to maturity as therein provided.

The Notes are authorized by proceedings taken in accordance with Public Act No. 03-1 of the September 8, 2003 Special Session of the General Assembly of the State of Connecticut and a Certificate of Determination executed by the State Treasurer and a Tax Certificate and a Tax Compliance Agreement.

The Notes are issuable in the form of registered notes without coupons in denominations of $25,000 (or $5,000 in the case of those Notes which are converted to a Fixed Rate) or any integral multiple thereof, not exceeding the aggregate principal amount of Notes maturing in any year. The Notes 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 Notes.

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 Notes 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 Notes, 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 Notes in order that interest on the Notes 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 Notes to ensure that interest on the Notes 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 Notes and the timely payment to the United States of any arbitrage rebate amounts with respect to the Notes.

We are of the opinion that, under existing law, interest on the Notes, (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 Notes, 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 Notes 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 are further of the opinion that, under existing statutes, interest on the Notes 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 Notes.

Respectfully yours,

Appendix I-B

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 Notes 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 Notes, 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 Notes.

Continuing Disclosure Agreement

This Continuing Disclosure Agreement ("Agreement") is made as of the 24th day of June, 2004 by the State of Connecticut (the "State") acting by its undersigned officer, duly authorized, in connection with the issuance of $97,700,000 General Obligation Economic Recovery Notes (2004 Series) dated as of the date hereof (the "Notes"), for the benefit of the beneficial owners from time to time of the Notes.

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 June 21, 2004 prepared in connection with the Notes.

"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, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
http://www.bloomberg.com/markets/muni_contactinfo.html
Email: Munis@Bloomberg.com

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

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

Standard & Poor's Securities Evaluations, Inc.
55 Water Street - 45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
www.jjkenny.com/jjkenny/pser_decrip_data_rep.html
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, 2004) 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 Notes 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 Direct General Obligation Debt (as of end of most recent fiscal year or a later date) (See Table 12).

7. Statutory General Obligation 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 Teachers' 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 Notes, 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 Notes;
(g) modifications to rights of holders of the Notes;
(h) Note calls;
(i) Note defeasances;
(j) release, substitution, or sale of property securing repayment of the Notes; 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 Notes, or (ii) such time as the State ceases to be an obligated person with respect to the Notes 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 Notes. 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 Notes 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 Notes 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 Notes.

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 Notes. 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 Notes or an approving vote by the holders of not less than 60% of the aggregate principal amount of the Notes 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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DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE AUCTION NOTES AND AUCTION PROCEDURES

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

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

As used in this Appendix, the $97,700,000 General Obligation Economic Recovery Notes (2004 Series) are generally referred to collectively as the Auction Notes.

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

DEFINITIONS

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

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

"Auction Agent" means the auction agent acting pursuant to the Auction Notes, initially Wells Fargo Bank, National Association, or any successor thereto, or substitute therefor appointed by the State.

"Auction Agent Agreement" means the Auction Agent Agreement, dated as of June 24, 2004, among the State, the Paying Agent and the Auction Agent, as amended and supplemented from time to time, and any other agreement entered into by the State, the Paying Agent and the Auction Agent in lieu of the original Auction Agent Agreement and all amendments thereto.

"Auction Date" means with respect to any Series of Auction Notes, the Business Day next preceding each applicable Interest Payment Date for such Series of Auction Notes (whether or not an Auction shall be conducted on such date); except that the last Auction Date shall be the earlier of (i) the Business Day next preceding the applicable Interest Payment Date next preceding the applicable Conversion Date for such Auction Notes and (ii) the Business Day next preceding the applicable Interest Payment Date next preceding the applicable Maturity Date for such Auction Notes. The first Auction Date for the Series A Notes will be July 14, 2004 and for the Series B Notes will be July 21, 2004.

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

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

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

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

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

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

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

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

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

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

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

"Bond Insurer" means Financial Security Assurance Inc.

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

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

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

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

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

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

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

"Default Rate" means in respect of any applicable Auction Period, a per annum rate equal to two hundred fifty percent (250%) of the Index determined on the Auction Date next preceding the first day of such Auction Period; but never to exceed the Maximum Auction Rate.

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

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

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

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

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

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

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

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

"Initial Period" means the period from the Delivery Date to and including July 14, 2004 with respect to the Series A Notes and July 21, 2004 with respect to the Series B Notes.

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

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

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

"Maximum Auction Rate" means, as of any applicable Auction Date, the product of the Index multiplied by the Auction Multiple; but never to exceed the lesser of (y) 10%, or (z) the maximum rate permitted by applicable law.

"Minimum Auction Rate" means, as of any applicable Auction Date, 55% of the Index in effect on such Auction Date; but in no event shall the Minimum Auction Rate exceed the Maximum Auction Rate.

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

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

Prevailing Rating	**Percentage of Index for Tax Exempt Notes**
AAA/AAA/Aaa	65%
AA/AA/Aa	70
A/A/A	85
Below A/A/A	100

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

"Notes" means any of the State of Connecticut General Obligation Economic Recovery Notes, 2004 Series, in the original principal amount of $97,700,000, consisting of $48,850,000 Series A Notes and $48,850,000 Series B Notes.

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

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

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

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

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

"Paying Agent" means the bank or banks, if any, designated pursuant to the Notes to receive and disburse the principal of and interest and premium, if any, on the Notes, initially U.S. Bank National Association, its successor and assigns.

"Paying Agent Agreement" shall mean the Paying Agent Agreement, dated as of **[June 24]**, 2004, by and between the State and the Paying Agent, and all amendments thereto.

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

"Prevailing Rating" means, (i) when such term is used in the definition of the No Auction Rate, (a) AAA/AAA/Aaa, if the applicable Auction Notes shall have a rating of AAA or better by S&P and Fitch and a rating of Aaa or better by Moody's, (b) if not AAA/AAA/Aaa, AA/AA/Aa if the applicable Auction Notes shall have a rating of AA- or better by S&P and Fitch and a rating of Aa3 or better by Moody's, (c) if not AAA/AAA/Aaa or AA/AA/Aa, A/A/A if the applicable Auction Notes shall have a rating of A- or better by S&P and Fitch and a rating of A3 or better by Moody's, and (d) if not AAA/AAA/Aaa, AA/AA/Aa or A/A/A, then below A/A/A, whether or not the applicable Auction Notes are rated by any Rating Service, and (ii) when such term is used in the definition of the Auction Multiple, (a) AAA/AAA/Aaa, if the applicable Auction Notes shall have a rating of AAA or better by S&P and Fitch and a rating of Aaa or better by Moody's, (b) if not AAA/AAA/Aaa, AA/AA/Aa if the applicable Auction Notes shall have a rating of AA- or better by S&P and Fitch and a rating of Aa3 or better by Moody's, (c) if not AAA/AAA/Aaa or AA/AA/Aa, A/A/A if the applicable Auction Notes shall have a rating of A- or better by S&P and Fitch and a rating of A3 or better by Moody's, (d) if not AAA/AAA/Aaa, AA/AA/Aa or A/A/A, BBB/BBB/Baa if the applicable Auction Notes shall have a rating of BBB- or better by S&P and Fitch and a rating of Baa3 or better by Moody's, and (a) if not AAA/AAA/Aaa, AA/AA/Aa, A/A/A or BBB/BBB/Baa, then below BBB/BBB/Baa, whether or not the applicable Auction Notes are rated by any Rating Service. For purposes of this definition, S&P's and Fitch's rating categories of "AAA," "AA-," "A-" and "BBB-" and Moody's rating categories of "Aaa," "Aa3," "A3" and "Baa3" shall be deemed to refer to and include the respective rating categories correlative thereto in the event that any such Rating Service shall have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof shall use different rating categories. If the applicable Auction Notes are not rated by a Rating Service, the requirement of a rating by such Rating Service shall be disregarded. If the ratings for the applicable Auction Notes are split between two of the foregoing categories, the lower rating shall determine the Prevailing Rating.

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

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

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

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

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

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

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

"Series" or "Series of Notes" means the Series A Notes or the Series B Notes.

"Series A Notes" means the $48,850,000 portion of the Notes designated as "Series A."

"Series B Notes" means the $48,850,000 portion of the Notes designated as "Series B."

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

"State" means the State of Connecticut.

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

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

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

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

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

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

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

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

AUCTION PROCEDURES

Auction Rate

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

Auction Agent

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

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

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

Broker-Dealers

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

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

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

Auction Dates

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

DTC Required During Auction Rate Mode; Limitations on Transfer

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

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

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

Auction Period — General

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

On each Auction Date, the Auction Agent shall determine the Maximum Auction Rate. As of the Delivery Date the Prevailing Rating of the Auction Notes is “AAA/AAA/Aaa” and the Auction Multiple is 150%. Thereafter, if there shall have been a change in the Prevailing Rating of the Auction Notes, the State Representative shall supply to the Auction Agent by facsimile transmission, prior to 9:00 a.m. New York City time on the first Auction Date following such change, the new Prevailing Rating of the Auction Notes and the applicable Auction Multiple. The Auction Agent may conclusively rely upon such information so obtained and shall be entitled to assume that there has been no change in the Prevailing Rating of the Auction Notes and the Auction Multiple unless and until it has been so notified by the State Representative to the contrary.

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

The Auction Agent shall maintain a list of Existing Owners. The Auction Agent may rely upon, as evidence of the identities of the Existing Owners, a list of the initial Existing Owners provided by the Broker-Dealer, the results of Auctions, notices from the Securities Depository regarding the results of mandatory tenders and redemptions, and notices from any Existing Owner, the Agent Member of any Existing Owner or the Broker-Dealer of any Existing Owner with respect to such Existing Owner’s transfer of Notes to another person only if (a) such transfer is pursuant to an Auction or (b) the Auction Agent has been notified in writing

(i) by such Existing Owner or its Agent Member or Broker-Dealer of such transfer or (ii) by a Broker-Dealer of any person that purchased or sold such Auction Notes in an Auction of the failure of such Auction Notes to be transferred as a result of the Auction. The Auction Agent will not be required to accept any notice delivered after 3:00 p.m., New York City time, on the Business Day next preceding Auction Date.

Orders by Existing Owners and Potential Owners

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

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

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

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

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

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the applicable Auction Notes, the Broker-Dealer shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of applicable Auction Notes, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding applicable Auction Period is not less than the rate per annum then specified by such Potential Owner.

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

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

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

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

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

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

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

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

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

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

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

(c) Anything herein to the contrary notwithstanding:

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

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

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

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

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

Submission of Orders by Broker-Dealers to Auction Agent

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Determination of Auction Rate

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

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

(c) Promptly after the Auction Agent has made the determinations pursuant to the preceding paragraph, the Auction Agent shall advise the Paying Agent by telephone (promptly confirmed in writing), telex or facsimile transmission or other electronic communication acceptable to the parties of the applicable

Auction Rate for the next succeeding Auction Period and the Paying Agent shall promptly notify the Securities Depository of such Auction Rate.

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

(e) If the Auction Notes are not rated or are no longer maintained in book-entry form by the Securities Depository, then the Auction Rate shall be the Maximum Auction Rate. In such an event, best efforts shall be used to convert the Auction Notes to Fixed Rate.

Allocation of Auction Notes

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

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

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

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Notes that are the subject of such Submitted Bid;

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

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

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Notes that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of Auction Notes obtained by multiplying (A) the aggregate principal amount of applicable

Outstanding Auction Notes which are not the subject of Submitted Hold Orders described above or Submitted Bids described above by (B) a fraction the numerator of which shall be the principal amount of Auction Notes subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Auction Notes subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

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

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

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

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

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

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

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

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

Notes, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Auction Notes on such Auction Date.

Notice of Auction Rate

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

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

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

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

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

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

(vi) the immediately succeeding applicable Auction Date.

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

Index

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

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

Payment Default Notices

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

Changes in Auction Periods or Auction Dates

(a) Changes in Auction Period.

(i) The State Representative or in the case of a payment default by the State provided there is no Bond Insurer Payment Default, the Bond Insurer, may from time to time on any Interest Payment Date, change the length of the Auction Period with respect to any of the Series of Auction Notes among 7-day, 28-day and 35-day Auction Periods. The State Representative or the Bond Insurer, as the case may be, shall initiate the change in the length of the Auction Period by giving written notice to the Bond Insurer, the Auction Agent, thc Broker-Dealers and the Securities Depository that the Auction Period for the Auction Notes specified in such notice shall change if the conditions described herein are satisfied and the proposed effective date of the change at least 10 Business Days prior to the Auction Date for such Auction Period.

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

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

(b) Changes in Auction Date.

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

Amendment of Auction Procedures

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

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

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

Conversion to Fixed Rate

The Paying Agent shall, at the request of the State, and so long as there is no Bond Insurer Payment Default with the consent of the Bond Insurer, permanently fix the interest rate on any Note selected by the State at a rate per annum (the "Fixed Rate"), determined as hereinafter provided, to become effective on any Business Day which is an Interest Payment Date and on which such Note is callable, at the direction of the State Representative at the par amount thereof plus accrued interest (the "Conversion Date" for such Note) selected by the State Representative on the following terms and conditions:

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

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

(c) Each Note converted to a Fixed Rate shall bear interest at a Fixed Rate, which shall be, in each case, the lesser of 10 percent per annum or the lowest rate of interest per annum which, in the judgment of the Remarketing Agent exercised at any time prior to 12:00 noon (New York City time) on the day preceding the Conversion Date for such Note, will enable such Note to be sold at 100% of the principal amount thereof on the Conversion Date therefor pursuant to irrevocable bids or bids for such Note which shall be acceptable to the State Representative. Such interest shall accrue from the Conversion Date and shall be payable on June 1 and December 1 of each year, beginning with the June 1 or December 1 following such Conversion Date, to the registered owner as of the applicable Record Date.

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

(e) ***[reserved]***

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

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

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

In the event of a payment default, the Bond Insurer shall have the right to direct the Conversion of a Note to Fixed Rate on the terms and conditions set forth herein.

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

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

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

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

Failed Conversions

In the event of failure to establish a Fixed Rate, the Auction Note will continue as Auction Notes with a 7-day Auction Period, the interest rate on the Auction Notes effective on the failed Conversion Date shall be the Maximum Auction Rate and Auctions shall be resumed beginning on the Auction Date immediately following the failed Conversion Date.

The information contained in Appendix I-D has been furnished by the Bond Insurer for use in this Official Statement and the State takes no responsibility for the accuracy thereof.

Appendix I-D

INFORMATION CONCERNING BOND INSURANCE AND SPECIMEN POLICY

The information contained in this **Appendix I-D** with respect to the Notes 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 Notes, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Notes (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Notes 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 financial guaranty 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, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management 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, 2004, Financial Security's total policyholders' surplus and contingency reserves were approximately $2,156,705,000 and its total unearned premium reserve was approximately $1,391,897,000 in accordance with statutory accounting practices. At March 31, 2004, Financial Security's total shareholders' equity was approximately $2,430,264,000 and its total net unearned premium reserve was approximately $1,190,846,000 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 Notes. 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 Notes, 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 Notes or the advisability of investing in the Notes. 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:

BONDS:

Policy No.: -N

Effective Date:

Premium:

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)

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PART II

INFORMATION SUPPLEMENT

OF THE STATE OF CONNECTICUT

JUNE 21, 2004

The Annual Information Statement of the State of Connecticut (the “State”), dated December 19, 2003, modified February 10, 2004, appears in this Official Statement as **Part III** and contains information through December 19, 2004. 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 19, 2003 Annual Information Statement through June 21, 2004. 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**.

INVESTIGATIONS

There is an ongoing federal investigation of the Rowland administration regarding alleged improprieties with contract awards. In connection with that investigation, federal authorities are also reviewing gifts given to the Governor. The Speaker of the House of Representatives has appointed a bipartisan committee to investigate these matters and report back to the full House on its findings and recommendations. The Governor has indicated that he is confident that he has violated no laws. The House committee is scheduled to report its findings and recommendations by June 30, 2004.

RESIGNATION OF GOVERNOR

On June 21, 2004 Governor John G. Rowland announced that he would resign as Governor of the State, effective on July 1, 2004. Under Article Fourth, Section 18 of the State Constitution, when Governor Rowland’s resignation takes effect the Lieutenant-Governor, M. Jodi Rell, shall become Governor of the State to serve as Governor until a governor is chosen at the next regular election for governor and is duly qualified. The Lieutenant-Governor is a member of the same party as the Governor and was elected to her position with the Governor at the last regular election. The Governor and Lieutenant-Governor are elected as a unit. Under Article Fourth, Section 19 of the State Constitution, the President Pro Tempore of the Senate would succeed to the Office of the Lieutenant-Governor.

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.

COVER PAGE

Page III-1. See **Resignation of Governor** caption above. Stephen Korta was appointed to serve as Commissioner of Transportation as of April 1, 2004.

FINANCIAL PROCEDURES

Page III-9. The following information is added to the information under the caption **Accounting Procedures:**

In July 2003, the State implemented the first phase of a new fully integrated, internet based financial management and human resources system called Core-CT. The financial software modules (accounts payable, accounts receivable, commitment control, general ledger and reporting) came online first in July 2003, followed by the human resources and payroll applications (payroll, time and labor) in October 2003. Additional financial enhancements relating to asset management and inventory control, contracts and billing and project management are expected to go online in fiscal year 2004-2005.

The new system provides a single point of entry for all State financial, human resources and payroll data. The implementation of Core-CT is the product of several years of work to improve the State's financial reporting and management information systems. From an information technology perspective, Core-CT will allow the State to standardize and modernize its computer technology bringing uniformity to the computers, programming languages, and data base packages utilized by State government. Core-CT utilizes PeopleSoft ERP software.

As with the implementation of any large-scale information technology system, Core-CT has experienced some initial difficulties. Software anomalies have been detected, certain application processing has been time consuming, and some users have been slow to adapt to new coding conventions and accounting entries. These problems have been aggravated by technical complications relating to an interface to Core-CT from a new revenue management system implemented in January 2004 at the Department of Revenue Services. While this system is not part of Core-CT, it must interface effectively with Core-CT applications.

A State team consisting of employees from the Office of the State Comptroller, the Office of Policy and Management, the Office of Information and Technology and the Department of Administrative Services is working with State agencies, consultants and PeopleSoft representatives to resolve the implementation problems. PeopleSoft is analyzing the software anomalies that have been detected as well as evaluating processing performance issues. Additional resources have been focused on interfacing problems, and additional training laboratories have been added for users.

Because of these initial implementation difficulties, the preparation of certain financial statements and reports for fiscal year 2003-2004 have been delayed. The State has been providing certain financial statements and management reports for fiscal year 2003-2004, but not all statements and reports are available at this time. The State is working diligently to resolve all implementation problems and does not expect that these problems will present a long-term impediment to full financial and management reporting.

STATE GENERAL FUND

Page III-23. The following information is added to the information under the caption ***Fiscal Year 2003-2004 Operations*****:**

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 May 20, 2004, as of April 30, 2004, General Fund revenues were estimated at $12,706.6 million, General Fund expenditures and miscellaneous adjustments were estimated at $12,705.7 million and the General Fund balance for the 2003-2004 fiscal year was estimated to have a surplus of $0.9 million. These estimates included the impact of changes contained in Public Act No. 04-216, discussed more fully below. The increase in revenue was primarily due to higher personal income tax collections, up $384.1 million. Offsetting this increase was a revenue shortfall of $113.0 million in the corporation tax along with other miscellaneous revenue changes which account for shortfalls of $16.6 million. The expenditure increases in fiscal year 2003-2004 are due primarily to deficiencies in the Department of Social Services of $47 million, the Department of Children and Families of $23.5 million, the Department of Mental Health and Addiction Services of $8.6 million, the Department of Mental Retardation of $2.9 million, and the Department of Public Works of $4.0 million. In the monthly estimate provided by the Office of Policy and Management on June 18, 2004, as of May 31, 2004 the General Fund balance is estimated to have a surplus of $51.9 million after the use of revenues, instead of borrowed funds, to pay certain reimbursements for medical services.

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. The monthly report of the Comptroller dated June 1, 2004, for the period ending April 30, 2004, estimates an operating surplus of $0.7 million. The next monthly report of the Comptroller is anticipated on July 1, 2004.

The above projections are only estimates and the information in the monthly letter of the Office of Policy and Management to the Comptroller and in the Comptroller's monthly report contain only estimates and no assurances can be given that future events will materialize as estimated or that subsequent estimates or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2003-2004 operations of the General Fund.

Midterm Budget Adjustments for 2003-2004 and 2004-2005

A number of Midterm Budget Adjustments have been made to both fiscal year 2003-2004 and fiscal year 2004-2005. The legislature passed and the Governor signed on May 6, Public Act No. 04-216. At the time the midterm budget adjustments were adopted, the legislature was projecting a fiscal year 2003-2004 gross surplus of $328.2 million. Of this amount, Public Act No. 04-216 increased appropriations by $234.9 million in fiscal year 2003-2004, of which $90.5 million is for fiscal year 2003-2004 deficiencies and $112.4 million is for appropriations carried forward to fund fiscal year 2004-2005 expenditures. Additionally, $125.3 million was transferred to fiscal year 2004-2005 revenue. This act also increases the original fiscal year 2004-2005 General Fund appropriation for state agencies and accounts enacted last year by $259.1 million to $13,226.0 million. The revised fiscal year 2004-2005 budget is $129.5 million under the spending cap and is expected to be in surplus by $0.3 million.

In addition to the transfer of $125.3 million in revenue from fiscal year 2003-2004 to fiscal year 2004-2005 mentioned above, other significant revenue adjustments for fiscal year 2004-2005 include a one-time acceleration of the liquidation of escheated property for an additional $50.0 million and securitization of future unclaimed property revenue for another additional $40.0 million. These actions, along with the state's improving budget situation, eliminated the need for a previously planned securitization of future tobacco settlement revenue which was expected to raise $300.0 million. The act also increases the maximum property credit against the state personal income tax from $350 to $500 starting with tax years beginning on or after January 1, 2005. This change has no impact on the fiscal year 2004-2005 biennial budget but is anticipated to result in a General Fund revenue loss of $105 million in fiscal year 2005-2006 and subsequent years.

On the expenditure side, this act provides $259.1 million in additional fiscal year 2004-2005 General Fund appropriations. Significant changes include an increase of $40.0 million in aid to municipalities for education and an additional $43.5 million for increased health services costs for retired employees. Other notable changes include: an elimination of $55.0 million in required lapses; a reduction in savings expected from the early retirement incentive program of $29.7 million; Medicaid provider rate increases of $12.9

million; restoration of HUSKY benefits of $17.7 million; and expansion of funding for priority school districts of $18.7 million.

The Midterm Budget Adjustments for fiscal year 2003-2004 and for fiscal year 2004-2005 are outlined in **Appendix III-E** to this **Part II**.

STATE DEBT

Page III-30. TABLE 7 is revised as follows:

TABLE 7

Statutory Debt Limit
as of June 15, 2004 [a]

Total General Fund Tax Receipts	$8,624,000,000.00	
Multiplier	1.60	
Debt Limit		$13,798,400,000.00
Outstanding Debt [b]	$8,911,934,376.18	
Guaranteed Debt [c]	$718,580,146.50	
Authorized Debt [d]	$2,212,666,583.00	
Total Subject to Debt Limit		$11,843,181,105.68
Less Debt Retirement Funds [e]	$53,287,426.41	
Aggregate Net Debt		$11,789,893,674.27
Debt Incurring Margin		$2,008,506,320.73

(a) Economic Recovery Notes are not included in calculations.
(b) See ***Table 8***. Includes accreted value of capital appreciation bonds. Excludes UConn 2000 Bonds, tax increment financings and short term revenue anticipation notes and lease financings other than the Middletown Courthouse and the Juvenile Training School.
(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 for 2003-2004 fiscal year.
(e) Includes debt service funds for self-liquidating debt issued to finance facilities at University of Connecticut and Connecticut State University.

Page III-34. TABLE 8 is revised as follows:

TABLE 8

Direct General Obligation Indebtedness [a]
Principal Amount Outstanding as of June 15, 2004
(In Thousands)

General Obligation Bonds	$9,044,164
UConn 2000 Bonds	723,476
Lease Financings	43,285
Tax Increment Financings	29,825
Long Term General Obligation Debt Total	9,840,750
Short Term General Obligation Debt Total	
Gross Direct General Obligation Debt	9,840,750
Deduct:	
University Auxiliary Services [b]	53,287
Net Direct General Obligation Debt	$9,787,463

(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.

Page III-36. TABLE 10 is revised as follows:

TABLE 10

Summary of Principal, Mandatory Sinking Fund Payments, and Interest on Long-Term Direct General Obligation Debt[(a)] as of June 15, 2004

Fiscal Year	Principal Payments [(b)]	Interest Payments [(b)-(g)]	Total Debt Service
2004-05	795,896,775	498,233,358	1,294,130,133
2005-06	756,460,405	469,004,209	1,225,464,614
2006-07	746,407,353	443,976,802	1,190,384,155
2007-08	751,146,834	417,970,330	1,169,117,163
2008-09	672,418,493	426,890,192	1,099,308,685
2009-10	676,093,599	388,508,545	1,064,602,145
2010-11	640,129,105	297,913,509	938,042,615
2011-12	576,365,834	246,779,113	823,144,947
2012-13	507,457,960	200,057,946	707,515,906
2013-14	474,375,000	160,659,986	635,034,986
2014-15	427,616,365	129,013,095	556,629,460
2015-16	388,650,061	107,714,948	496,365,009
2016-17	388,084,988	88,605,625	476,690,613
2017-2031	1,522,514,072	223,737,700	1,746,251,772
Totals	9,323,616,844	4,099,065,359	13,422,682,203

(a) Includes long-term general obligation debt as outlined in ***Table 8***. The future principal payments ($9,323,616,844), plus accreted interest ($517,133,575) on State and UConn 2000 capital appreciation bonds, total the amount of such long-term debt ($9,840,750,419) as shown in ***Table 8***. See footnotes (b) to (g) 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 2005-2014.

(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 3.75% 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 3.75% 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 4.25% average rate. The balance of the Bonds mature in the years 2005-2012.

(f) On December 19, 2002 the State issued $70,140,000 of General Obligation Economic Recovery Auction Notes of which $70,140,000 remain outstanding. The interest on these securities is estimated herein at a 3.50% average rate. The balance of the Bonds mature in the years 2006 and 2007.

(g) On April 15, 2003 the State issued $77,700,000 Floating Rate General Obligation Notes of which $70,200,000 remain outstanding. The interest on these securities is estimated herein at a 4.25% average rate. The balance of the Bonds mature in the years 2005-2013.

Pages III-38 TABLE 12 and III-39 TABLE 13.

Legislation was enacted by the General Assembly which provides for an increase in general obligation bond authorizations of $138.7 million for the 2003-2004 fiscal year and $1,169.4 million for the 2004-2005 fiscal year. The legislation also includes a reduction or cancellation of existing bond authorizations of $199.3 million for the 2004-2005 fiscal year, for a net increase in existing general obligation bond authorizations for 2004-2005 of $970.1 million.

OTHER FUNDS, DEBT AND LIABILITIES

Page III-41. **Transportation Fund and Debt.**

The General Assembly in 2004 authorized $74.0 million Special Tax Obligation Bonds to take effect during the 2003-2004 fiscal year and $149.5 million Special Tax Obligation Bonds to take effect during the 2004-2005 fiscal year.

Page III-43. **Other Special Revenue Funds and Debt.** ***Abandoned Property Fund***

The General Assembly in 2004 has authorized the issuance of approximately $60.0 million special obligation bonds payable solely from revenues under the special abandoned property fund established under section 56 of Public Act No. 04-216. Revenues come from receipts from the disposition of abandoned property.

Page III-45-51. **Contingent Liability Debt.** ***Connecticut Health and Educational Facilities Authority ("CHEFA"); Capital City Economic Development Authority ("CCEDA").***

Public Act No. 04-01 of the May Special Session authorized CHEFA to issue up to $100.0 million special obligation bonds secured by a special capital reserve fund to finance equipment acquisitions by hospitals.

Public Act No. 04-01 of the May Special Session also authorized the CCEDA to use a special capital reserve fund in connection with revenue bonds for the convention center in Hartford. (See page III-33.)

Page III-51. **School Construction Grant Commitments.**

The State has authorized a net increase in school construction grant commitments of approximately $478.7 million.

LITIGATION

Pages III-58 to 59. The last sentence under the heading ***Hospital Tax Cases*** is revised to read as follows:

The Hospitals have indicated that they may seek to challenge the constitutionality of clarifying legislation regarding the tax in the remaining cases, which remain pending in the Superior Court.

Pages III-59 to 60. The eleventh paragraph under the heading **LITIGATION** is replaced with the following:

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 defendant to that action. In February 2004, the Federal Bureau of Indian Affairs issued a final determination granting federal recognition to the Schaghticoke Tribal Nation. The State has appealed that decision to the Interior Board of Appeals. It is possible that other 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 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 was dismissed as moot in April 2002. 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 Interior Board of Appeals. If federal recognition is upheld, the tribe could institute land claims against the State or others. In June of 2004, the Federal Bureau of Indian Affairs denied recognition to the alleged Golden Hill Paugussett Tribe of Indians.

Page III-60. The last sentence under ***Rabin v. Wilson-Coker*** is revised to read as follows:

The Court of Appeals heard argument on the merits of the case on August 4, 2003, and thereafter reversed the District Court's summary judgment and ordered the entry of a judgment for the plaintiffs that required the State to provide the Medicaid benefits at issue under the Husky A for Families program to those persons whose benefits had been discontinued because the State's new eligibility provisions had made them ineligible. The State has filed a motion for rehearing in this matter, which remains pending.

Page III-60. The following information is added with respect to the following litigation matter:

Since 1991, the State Department of Children and Families has been operating under the provisions of a federal court-ordered consent decree in the ***Juan F.*** case. In October 2003, the State entered into an agreement with the ***Juan F.*** Court Monitor and lawyers representing the plaintiff class of children in the child welfare system designed to end judicial oversight of the agency by November 2006. The agreement was approved and ordered by the court. The agreement included the establishment of a Transition Task Force which included the ***Juan F.*** Court Monitor, who was given full and binding authority to develop an Exit Plan. The Court Monitor's Exit Plan includes an open-ended funding provision (virtually identical to that contained in the Consent Decree). The State has objected to this provision of the Exit Plan, which was adopted by the court in December 2003, claiming in part that the Exit Plan requires the State to provide open-ended funding to implement the plan which could violate the State's constitutional cap on spending. On February 10, 2004 the court denied the State's request to reconsider the funding provision. The State is currently considering what legal options are available to challenge this provision.

APPENDIX III-A

Page III-A-7. TABLE A-4 is revised as follows:

TABLE A-4

Full-Time Work Force
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		
Correction Officers	10.02%	Contract in place through 6/30/2008
Administrative Clerical	9.06%	Contract in place through 6/30/2006
Health Care Non-Professionals	8.74%	Contract in place through 6/30/2005
Maintenance and Service	7.37%	Contract in place through 6/30/2005
Social and Human Services	7.01%	Contract in place through 6/30/2006
Administrative and Residual	5.48%	Contract in place through 6/30/2003 (b)
Engineering, Scientific and Technical	4.71%	Contract in place through 6/30/2005
Health Care Professionals	4.40%	Contract in place through 6/30/2005
University Health Professionals (University of Connecticut Health Center)	3.97%	Contract in place through 6/30/2006
University of Connecticut Faculty	2.62%	Contract in place through 6/30/2007
Judicial Employees	2.57%	Contract in place through 6/30/2006
University of Connecticut Professional Employee Association	2.50%	Contract in place through 6/30/2007
State Police	2.38%	Contract in place through 6/30/2004
Connecticut State University Faculty	2.20%	Contract in place through 6/30/2007
Congress of Connecticut Community Colleges	2.19%	Contract in place through 6/30/2007
Vocational Technical School Teachers	2.10%	Contract in place through 6/30/2007
Judicial Professionals	1.73%	Contract in place through 6/30/2006
Education Professionals (Institutions)	1.65%	Contract in place through 6/30/2005
Protective Services	1.61%	Contract in place through 6/30/2008
Other Bargaining Units (11 units)	4.93%	Varies by Unit
Total Covered by Collective Bargaining	87.24%	
Not Covered by Collective Bargaining		
Auditors of Public Accounts	0.21%	Not Applicable
Other Employees	12.56%	Not Applicable
Total Not Covered by Collective Bargaining	12.76%	
Total Full-Time Work Force	100.00%	

(a) Percentage expressed reflects approximately 48,707 filled full-time positions as of June 30, 2003.

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

Source: Office of Policy and Management.

APPENDIX III-E

Appendix III-E to this **Part II** reflects the adopted mid-term budget adjustments for fiscal years 2003-04 and 2004-05 and revenue and expenditure estimates for the 2003-04 fiscal year.

APPENDIX III-E

GENERAL FUND REVENUES AND EXPENDITURES
ADOPTED BIENNIAL BUDGET FOR FISCAL 2003-04 AND 2004-05
REVISED ADOPTED BUDGET FOR FISCAL 2003-04 AND 2004-05
ESTIMATED BUDGET FOR FISCAL 2003-04

(In Millions)

	Adopted Biennial Budget 2003-04[g]	Revised Adopted Budget 2003-04[j]	Estimated Budget 2003-04[l]	Adopted Biennial Budget 2004-05[g]	Revised Adopted Budget 2004-05[j]
Revenues					
Taxes					
Personal Income Tax	4,475.9	4,852.0	4,860.0	4,795.7	5,131.0
Sales & Use	3,092.1	3,142.0[k]	3,132.1[k]	3,271.1	3,323.6[k]
Corporation[a]	607.5	497.7	494.5	601.7	501.7
Public Service	182.8	188.9	189.5	183.3	189.4
Inheritance & Estate[b]	140.1	140.1	142.1	161.6	161.6
Insurance Companies	247.9	237.0	230.4	255.3	244.1
Cigarettes[c]	300.8	274.0	280.0	296.3	269.9
Real Estate Conveyance	130.4	140.0	149.0	125.4	124.2
Oil Companies	97.5	92.0	97.5	84.2	79.1
Alcoholic Beverages	44.1	43.5	44.1	44.1	43.5
Admissions and Dues	30.6	31.0	31.5	32.2	32.6
Miscellaneous	32.3	32.4	33.2	33.9	33.8
Total Taxes	9,382.0	9,670.6	9,683.9	9,884.8	10,134.5
Less Refunds of Taxes	(744.0)	(726.0)	(694.0)	(759.0)	(759.0)
Less R&D Credit Exchange	(14.0)	(14.0)	(17.0)	(14.0)	(14.0)
Net Taxes	8,624.0	8,930.6	8,972.9	9,111.8	9,361.5
Other Revenues					
Transfers- Special Revenues	269.6	269.6	269.6	274.1	274.1
Indian Gaming Payments	410.0	405.0	405.0	430.0	430.0
Licenses, Permits, Fees	149.5	149.5	149.8	138.1	138.1
Sales of Commodities & Services	31.0	31.0	33.5	34.0	34.0
Rents, Fines & Escheats	77.3	107.3	110.0	77.3	137.3[n]
Investment Income	12.5	7.5	6.0	20.0	15.3
Miscellaneous	118.0	118.0	105.0	119.0	119.0
Less Refunds of Payments	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Total Other Revenue	1,067.4	1,087.4	1,078.4	1,092.0	1,147.3
Other Sources					
Federal Grants	2,527.0[h]	2,538.7[h]	2,543.3[h]	2,382.8	2,469.7
Transfers to the Resources of the G.F.	207.7[m]	207.7[m]	207.7[m]	354.5[m]	94.5[o]
Transfers from Tobacco Settlement Funds	111.0	114.6	114.6	111.0	113.0
Transfers from FY 2004 to FY 2005	-	(125.3)	(125.3)	-	125.3
Transfers to Other Funds[d]	(85.0)	(85.0)	(85.0)	(85.0)	(85.0)
Total Other Sources	2,760.7	2,650.7	2,655.3	2,763.3	2,717.5
Total Unrestricted Revenues	12,452.1	12,668.7	12,706.6	12,967.1	13,226.3
Restricted Federal & other Grants[e]	750.0	750.0	750.0	750.0	750.0
Total Revenue	13,202.1	13,418.7	13,456.6	13,717.1	13,976.3

Appropriations/Expenditures					
Legislative	62.0	65.6	65.6	65.9	66.0
General Government	413.8	419.4	419.4	431.3	440.0
Regulation & Protection	213.1	213.1	213.1	219.5	209.4
Conservation & Development	69.3	89.6[k]	89.6[k]	68.3	91.4[k]
Health & Hospitals	1,256.8	1,268.3	1,268.3	1,290.6	1,267.3
Transportation	-	-	-	-	-
Human Services	3,767.1	3,860.8	3,860.8	3,901.1	3,916.6
Education, Libraries & Museums	2,826.6	2,851.9	2,851.9	2,851.6	2,901.3
Corrections	1,172.0	1,198.5	1,198.5	1,197.0	1,197.3
Judicial	390.3	390.3	390.3	402.5	399.5
Non- Functional					
Debt Service	1,164.2	1,136.2	1,136.2	1,337.5	1,311.2
Miscellaneous	1,377.1	1,425.5	1,425.5	1,509.0	1,535.8
Subtotal	12,712.3	12,919.2	12,919.2	13,274.3	13,335.8
Unallocated Lapse	(260.3)[i]	(264.5)	(224.1)	(307.4)[i]	(109.8)
Net Appropriations/Expenditures	12,452.0	12,654.7	12,695.1	12,966.9	13,226.0
Surplus (or Deficit) from Operations	0.1	14.0	11.5	0.2	0.3
Miscellaneous Adjustments	-	(14.0)	(10.6)	-	-
Balance[f]	0.1	0.0	0.9	0.2	0.3

NOTE: Columns may not add due to rounding.

(a) Per Public Act No. 03-1 and No. 03-6 includes a 25% corporate tax surcharge and an increase in the preference tax. These changes are expected to yield $79.5 million in fiscal 2003-04 and $63.5 million in fiscal 2004-05.

(b) 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, Public Act No. 03-1 of the June Special Session, and changes to the federal estate pick-up tax pursuant to federal law P.L. 107-16. The imposition of a temporary estate tax is estimated to raise $55 million in fiscal year 2005 if the State fails to receive extraordinary federal assistance similar to that contained in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.

(c) Per Public Act No. 03-2, the increase in Cigarette Tax from $1.11 per pack to $1.51 per pack effective March 15, 2003 is estimated to yield $70.9 million in fiscal year 2004 and $70.9 million in fiscal year 2005 in cigarette and sales taxes.

(d) Transfer to Mashantucket Pequot and Mohegan Fund for grants to towns.

(e) The figure reflected for Restricted Accounts and Federal & Other Grants reflects an estimate for the budgets for 2003-04 and 2004-05. 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.

(f) Per Section 4-30a of the Connecticut General Statutes, any unappropriated surplus, up to ten 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.

(g) Per Public Act No. 03-1 of the June 30 Special Session, Public Act No. 03-3 of the June 30 Special Session, Public Act No. 03-4 of the June 30 Special Session and Public Act No. 03-6 of the June 30 Special Session which constitute the adopted budget for fiscal year 2004 and fiscal year 2005.

(h) Per the Federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (PL 108-27), the State will receive $115.8 million of flexible grants and an estimated $134.3 million due to a temporary increase in the federal medical assistance percentage (FMAP) for medical expenses in fiscal year 2004.

(i) Per the adopted budget, among other items, the lapse in each fiscal year anticipated $75 million unallocated lapses, $14 million under General Personal Services Reductions, $11 million under General Other Expenses Reductions, and $5 million in Fleet Reductions. Moreover, the lapse in each fiscal year anticipated savings from the Governor's Early Retirement Incentive Plan of $153.3 million in fiscal year 2004 and $140.4 million in fiscal year 2005. In addition, $55 million was anticipated for the Governor's extraordinary rescission authority in fiscal year 2005.

(j) Public Act No. 04-216 constitutes the revised biennial budget for fiscal years 2003-04 and 2004-05. The act includes a total of $234.9 million in additional appropriations to fiscal year 2004. These additional appropriations include $90.5 million for deficiencies in fiscal year 2003-04, $20.0 million for the incorporation of the Commission on Arts, Tourism, Culture, History and Film into the General Fund, $11.7 million to appropriate the TANF High Performance Bonus funding, $0.3 million related to the State Marshals, and $112.4 million for appropriations carried forward to fund fiscal year 2004-05 expenditures.

(k) Public Act No. 04-216 incorporates the Commission on Arts, Tourism, Culture, History, and Film into the general fund beginning in fiscal year 2003-04.

(l) Per Office of Policy and Management's letter to the Comptroller dated May 20, 2004 for the period ending April 30, 2004.

(m) Per the adopted budget, funds being transferred in fiscal year 2004 include: $144 million from a securitization of a portion of the Energy Conservation and Load Management Fund, $25.0 million from a securitization of a portion of the Clean Energy Fund, $17.5 million from quasi-public agencies, and approximately $9 million from miscellaneous accounts. In fiscal year 2005, transfers include $300 million from the securitization of a portion of tobacco funds, $25.0 million from a securitization of a portion of the Clean Energy Fund, $17.5 million from quasi-public agencies, and approximately $12 million from miscellaneous accounts.

(n) Per Public Act No. 04-216, the one time sale of unclaimed property will raise revenue by $50 million.

(o) Public Act No. 04-216 eliminates the securitization of tobacco revenue of $300 million and securitizes unclaimed property revenue for a total of $40 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.

PART III
ANNUAL INFORMATION STATEMENT
STATE OF CONNECTICUT

DECEMBER 19, 2003
MODIFIED FEBRUARY 10, 2004

This Annual Information Statement of the State of Connecticut (the “State”) contains information through December 19, 2003, ***modified February 10, 2004*** to include June 30, 2003 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, 2002 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 19, 2003, 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**
*** Acting Commissioner of Public Works**	**James T. Fleming**
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 19, 2003
Modified February 10, 2004
ANNUAL INFORMATION STATEMENT OF THE STATE OF CONNECTICUT

TABLE OF CONTENTS

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 10 % of the net General Fund appropriations, no further transfers shall be made by the Treasurer.

As of June 30, 2003, there was a zero balance (unaudited) in the budget reserve fund. In the past, moneys in the budget reserve fund were applied to partially offset a general fund deficit and 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, 2005 and the amortization date to June 30, 2007.

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 fifteenth day of August 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; (9) the accrual of real estate conveyance tax revenue which is received by the Commissioner of Revenue Services no later than the last day of July immediately following the end of such fiscal year; and (10) 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, 1999 through June 30, 2003 are included in **Appendix III-D** to this Annual Information Statement. The adopted budgets for the fiscal years ending June 30, 2004 and June 30, 2005, the actual budgetary-basis results for the fiscal year ending June 30, 2003 and the estimated (as of October 31, 2003) budgetary-basis results for the fiscal year ending June 30, 2004 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.

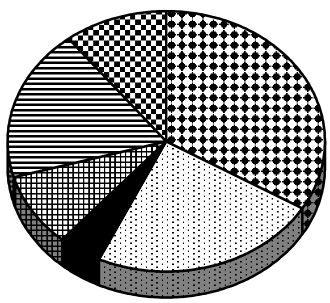
Because of the vast number of variables that can impact the revenue forecast, the State considers forecasting to be a process and not a product. While the economic data from available sources is analyzed and used to anticipate overall direction and trends, the revenue forecast is generated through a 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 2003 and 2004 Adopted Revenues. General Fund revenues as forecasted at the adoption of the budgets for the fiscal year ending June 30, 2004 and June 30, 2005 ("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-one percent of its General Fund revenues from taxes during the 2003-04 fiscal year and approximately seventy-two percent of its General Fund revenues from taxes during the 2004-05 fiscal year. Fiscal year 2002-2003 actual revenues, based on information contained in the Comptroller's annual report for the fiscal year ending June 30, 2003, and fiscal year 2003-2004 revenue forecasts based on information contained in the monthly report of the Office of Policy and Management for the period ending October 31, 2003, 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, 2003 and for the fiscal year ending June 30, 2004, are set forth below:

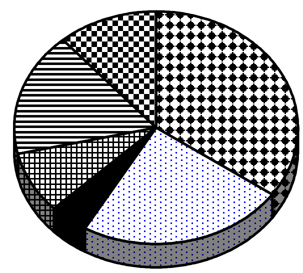
Adopted General Fund Revenues (In Millions)

Adopted Revenues 2003-2004
$12,452.1 [(a)]



Personal Income Tax	$ 4,475.9	33.7%
Sales and Use Tax	3,092.1	23.3%
Corporate Business Tax	607.5	4.9%
Other Taxes[(b)]	1,206.5	9.1%
Unrestricted Federal Grants	2,527.0	19.0%
Other Non-Tax Revenues [(c)]	1,386.6	10.4%

Adopted Revenues 2004-2005
$12,967.1 [(a)]



Personal Income Tax	$ 4,795.7	34.7%
Sales and Use Tax	3,271.1	23.7%
Corporate Business Tax	601.7	4.4%
Other Taxes[(b)]	1,216.3	8.8%
Unrestricted Federal Grants	2,382.8	17.2%
Other Non-Tax Revenues [(c)]	1,558.0	11.3%

(a) The pie charts reflect the total of the listed tax and revenue amounts of $13,295.6 million for 2003-2004 and $13,825.6 for 2004-2005 and do not reflect tax refunds and transfers to other funds of $843.5 million for 2003-2004 and $858.5 for 2004-2005. See **Appendix III-E** for anticipated adjustments to adopted tax revenues.

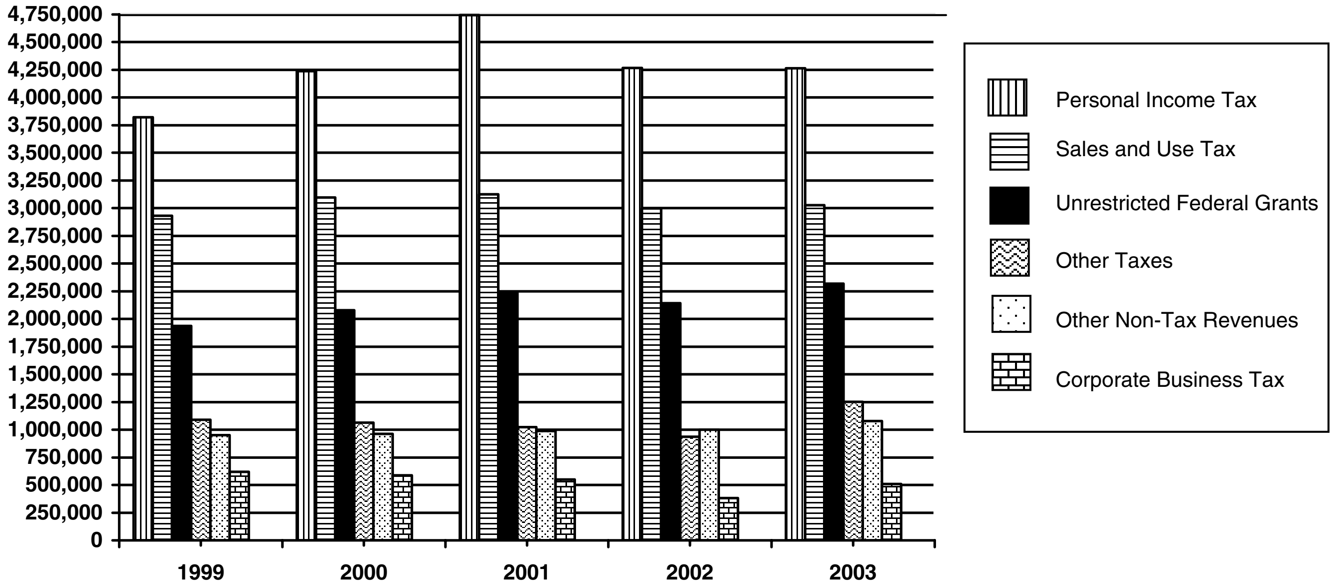
(b) Other taxes are comprised of inheritance and estate taxes, taxes on gross receipts of public service corporations, taxes on net direct premiums of insurance companies, taxes on oil companies, cigarettes and alcoholic beverages, real estate transfers, taxes on admissions and dues and other miscellaneous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

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

SOURCE: Public Act No. 03-1 of the June Special Session.

Historical General Fund Revenues. Actual General Fund revenues for the fiscal years 1999 through 2003 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)



	1999	2000	2001	2002	2003
Taxes:					
Personal Income Tax	$ 3,820,837	$ 4,238,228	$ 4,744,233	$ 4,265,912	$ 4,263,070
Sales Tax..................................	2,932,191	3,096,780	3,125,078	2,997,766	3,025,743
Corporate Business Tax	619,539	587,756	550,509	380,985	507,975
Other Taxes [(b)]..........................	1,089,738	1,063,543	1,022,755	937,782	1,252,375
Subtotal..............................	8,462,305	8,986,307	9,442,575	8,582,445	9,049,163
R & D Credit Exchange……….	-	-	-	-	(11,148)
Refunds of Taxes	(645,000)	(713,359)	(735,482)	(851,491)	(808,209)
Total Net Taxes	$ 7,817,305	$ 8,272,948	$ 8,707,093	$ 7,730,954	$ 8,229,806
Other Revenue:					
Federal Grants (Unrestricted).........................	1,938,271	2,078,914	2,237,045	2,142,269	2,318,421
Other Non-Tax Revenues (Unrestricted)[(c)]	950,813	963,784	987,932	999,888	1,078,622
Transfers to Other Funds	(90,000)	(180,000)	(85,400)	(147,686)	(93,009)
Transfers from Other Funds......	0	78,000	138,800	120,000	489,486
Total Other Revenues	$ 2,799,084	$ 2,940,698	$ 3,278,377	$ 3,114,471	$ 3,793,520
Total Revenues	$ 10,616,389	$ 11,213,646	$ 11,985,470	$ 10,845,425	$ 12,023,326

(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: 1999, 2000, 2001, 2002 and 2003 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 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 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 decreased from a maximum of $500 per filer to $350 per filer beginning with the taxable year commencing January 1, 2003. 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) newspaper vendor sales transactions, (g) sales of advertising and marketing services, and (h) 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. Public Act No. 03-2 institutes a one time corporation business tax surcharge of 20% in income year 2003 and Public Act No. 03-1 of the June 30th Special Session imposes another one time corporation business tax surcharge of 25% in income year 2004.

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 2003 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

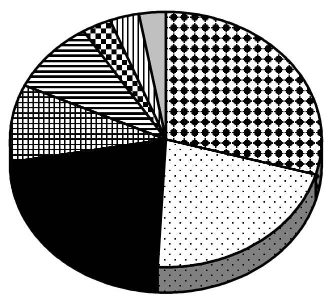
Appropriated and Historical Expenditures

Fiscal 2004 and 2005 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, 2004 and June 30, 2005, final budget expenditures for the fiscal year ending June 30, 2003 based on information contained in the Comptroller's Annual Report and the estimated expenditures for the fiscal year ending June 30, 2004 based on information contained in the Comptroller's Monthly Report dated December 1, 2003 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, 2004 and June 30, 2005 is set forth below.

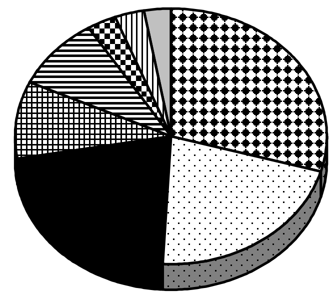
Appropriated General Fund Expenditures (In Millions)

Appropriated Expenditures 2003-2004
$12,452.0 [(a)]



Human Services	$3,767.1	29.6%
Education, Libraries and Museums	2,826.6	22.2%
Non-Functional	2,541.3	20.0%
Health and Hospitals	1,256.8	9.9%
Corrections	1,172.0	9.2%
General Government	413.8	3.3%
Judicial	390.3	3.1%
Other Expenditures[(b)]	344.4	2.7%

Appropriated Expenditures 2004-2005
$12,966.9 [(a)]



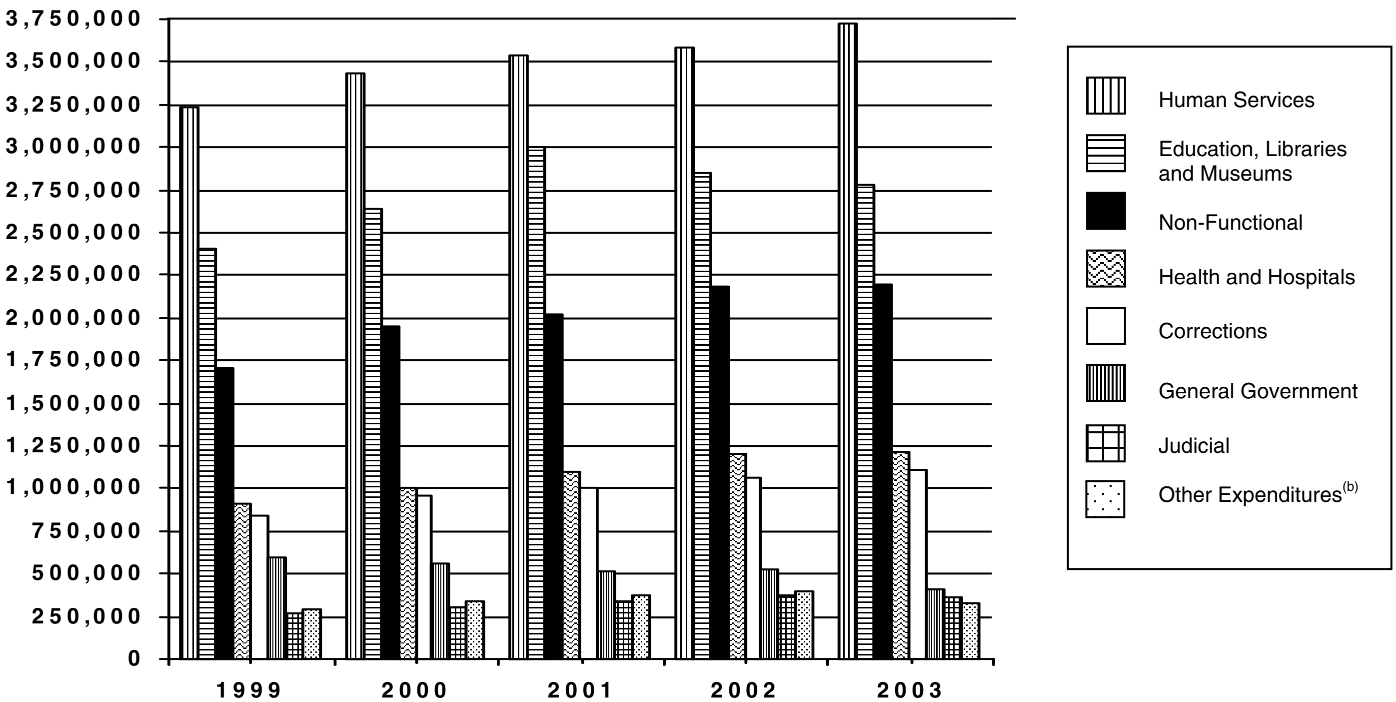
Human Services	$3,901.1	29.4%
Education, Libraries and Museums	2,851.6	21.5%
Non-Functional	2,846.5	21.4%
Health and Hospitals	1,290.6	9.7%
Corrections	1,197.0	9.0%
General Government	431.3	3.2%
Judicial	402.5	3.0%
Other Expenditures[(b)]	353.7	2.7%

(a) The pie charts reflect the total listed expenditures of $12,712.3 for 2003-2004 and $13,274.3 for 2004-2005, and do not reflect adjustments for unallocated lapses of $260.3 for 2003-2004 and $307.4 for 2004-2005. 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: Public Act No. 03-1 of the June Special Session.

Historical General Fund Expenditures. Actual General Fund expenditures for the fiscal years 1999 through 2003 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)

	1999	2000	2001	2002	2003
Human Services	$ 3,231,095	$ 3,430,561	$ 3,537,462	$ 3,589,653	$ 3,724,789
Education, Libraries and Museums	2,411,479	2,637,518	3,007,391	2,847,540	2,789,051
Non-Functional	1,705,133	1,954,711	2,019,041	2,182,512	2,224,838
Health and Hospitals	905,529	1,005,233	1,092,361	1,198,335	1,222,978
Corrections	845,239	957,555	999,052	1,068,183	1,111,416
General Government	594,847	566,310	511,430	527,287	420,241
Judicial	266,043	309,319	338,568	376,813	368,143
Other Expenditures(b)	291,444	339,697	377,395	396,703	348,877
Totals	$ 10,250,809	$ 11,200,904	$ 11,882,700	$ 12,187,026	$ 12,210,333

(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: 1999, 2000, 2001, 2002 and 2003 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 2003-2004 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 54% of all appropriations for Conservation and Development based upon the adopted budget for the 2003-2004 fiscal year.

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

Expenditures by Type

General Fund appropriations and the State expenditures to which they relate are divided for both administrative and budgetary purposes among appropriation account categories based on the type of appropriation. Appropriation account types may be grouped conceptually into two broad categories: payments to third parties and costs of State administration. Payments to third parties consist of two major appropriation account types: payments to local governments, and payments to parties other than local governments (which include debt service payments). Such payments to third parties amount to approximately 63% of total General Fund appropriations under the adopted budget for the 2003-2004 fiscal year. Costs of State administration consist of three major appropriation account types: personal services, equipment, and other expenses. These expenditures are used directly to operate the facilities and programs of State agencies and include such items as salaries, wages, pension and other benefits for State employees; utility and fuel costs; food; institutional and office supplies; equipment; rent for office space and other facilities; and other current expenses. Appropriations for costs of State administration represent approximately 37% of all General Fund appropriations under the adopted budget for the 2003-2004 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 2002* (Actual)		Fiscal Year 2003 (Unaudited)		Fiscal Year 2004 (Appropriated)	
	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments
LEGISLATIVE						
Total – Legislative	255	0	261	0	275	0
GENERAL GOVERNMENT						
One Time Surplus Revenue Sharing	31,250	31,250	0	0	0	0
Property Tax Relief Elderly Circuit Breaker	20,337	20,337	20,506	20,506	20,506	20,506
P.I.L.O.T. – New Manufacturing Machinery and Equipment	76,459	76,459	55,828	55,828	50,730	50,730
Undesignated	64,906	39,805	40,187	25,274	30,514	16,366
Total – General Government	192,952	167,851	116,521	101,608	101,750	87,602
REGULATION AND PROTECTION						
Total – Regulation and Protection	313	0	273	0	37	0
CONSERVATION AND DEVELOPMENT						
Total – Conservation and Development	11,371	5,143	11,914	4,821	13,175	4,886

	Fiscal Year 2002* (Actual)		Fiscal Year 2003 (Unaudited)		Fiscal Year 2004 (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)	109,067	0	114,033	0	115,368	0
Community Residential Services (Department of Mental Retardation)	236,737	0	242,483	0	248,317	0
Grants for Mental Health Services	74,551	0	74,115	0	73,938	0
Undesignated	68,241	10,661	65,229	9,942	64,990	9,925
Total – Health and Hospitals	488,596	10,661	495,860	9,942	502,613	9,925
TRANSPORTATION						
Total – Transportation	34,857	34,857	0	0	0	0
HUMAN SERVICES						
Medicaid	2,547,092	0	2,703,204	0	2,755,223	0
Old Age Assistance	29,540	0	29,959	0	31,501	0
Aid to the Disabled	56,022	0	55,291	0	58,459	0
Temporary Assistance to Families – TANF	137,708	0	113,628	0	127,542	0
Connecticut Pharmaceutical Assistance Contract to the Elderly	41,896	0	69,194	0	66,799	0
Medicaid – Disproportionate Share – Mental Health	105,935	0	105,935	0	105,935	0
Connecticut Home Care Program	19,671	0	29,060	0	32,000	0
Child Care Services – TANF/CCDBG	121,587	0	99,090	0	90,367	0
Housing/Homeless Services	20,959	0	22,520	0	21,489	0
Disproportionate Share – Medical Emergency Assistance	85,000	0	71,725	0	63,725	0
DSH – Urban Hospitals in Distressed Municipalities	0	0	26,550	0	31,550	0
State Administered General Assistance	105,306	0	122,427	0	114,120	0
Undesignated	90,603	5,391	57,391	5,147	49,136	6,157
Total – Human Services	3,361,319	5,391	3,505,974	5,147	3,547,846	6,157
EDUCATION, LIBRARIES AND MUSEUMS						
School Construction Grants	48,076	48,076	3,485	3,485	0	0
Transportation of School Children	47,948	47,948	43,140	43,140	43,140	43,140
Education Equalization Grants	1,453,330	1,453,330	1,514,903	1,514,903	1,522,700	1,522,700
Priority School Districts	80,346	80,346	78,384	78,384	81,154	81,154
Excess Cost – Student Based	66,820	66,820	62,700	62,700	61,500	61,500
Magnet Schools	32,568	32,568	43,719	43,719	58,768	58,768
Teachers' Retirement Contributions	204,511	0	179,824	0	185,348	0
Undesignated	191,194	82,078	153,398	56,496	148,989	58,949
Total – Education	2,124,793	1,811,166	2,079,553	1,802,827	2,101,599	1,826,211
CORRECTIONS						
Community Support Services - Department of Correction**	18,062	0	17,235	0	20,653	0
Board and Care for Children – Adoption	37,859	0	44,389	0	50,660	0
Board and Care for Children – Foster	73,935	0	75,190	0	77,477	0
Board and Care for Children – Residential	130,074	0	127,306	0	134,177	0
Undesignated	63,218	0	73,224	0	72,590	0
Total – Corrections	323,148	0	337,344	0	355,557	0
NON FUNCTIONAL						
Debt Service (Including UConn 2000 and CHEFA Day Care Security)	992,071	0	988,515	0	1,164,218	0
Reimbursement to Towns for Loss of Taxes on State Property	66,059	66,059	64,959	64,959	64,959	64,959
Reimbursement to Towns for Loss of Taxes on Private Tax-exempt Property	100,932	100,932	100,932	100,932	100,932	100,932
Undesignated	681	0	694	0	1,009	0
Total – Non Functional	1,159,743	166,991	1,155,100	165,891	1,331,118	165,891
Total – Fixed Charges	7,697,347	2,202,060	7,702,800	2,090,236	7,953,970	2,100,672

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

** In fiscal years 2002 and 2003, Community Support Services were paid from two separate accounts – Community Residential Services and Community Non-Residential Services.

SOURCE: Office of Policy and Management

Fiscal Year 2002-2003 Operating Results:

The State ended the 2002-2003 fiscal year with a deficit. The possibility of a deficit was recognized early in the fiscal year. On December 6, 2002, the Governor issued a plan to address the budget shortfall calling for $200 million in expenditure reductions and $200 million in revenue enhancements for the General Fund. The Governor also initiated the process of laying off almost 3,000 state employees based upon the lack of progress in terms of the State Employees Bargaining Agent Coalition (SEBAC). On December 18, 2002, a special session called to enact legislation necessary to adjust the state budget for fiscal year 2002-2003 did not enact legislation to address the budget shortfall. 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 an estimated $387.6 million revenue shortfall and $240.7 million in higher than anticipated expenditures. The shortfall in revenue was 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 were due primarily to deficiencies in the Department of Social Services and the fact that the Office of Policy and Management was no longer anticipating savings of $94 million in union concessions. On February 28, 2003, Governor Rowland signed into law Public Act 03-2. This act included numerous tax and expenditure changes aimed at mitigating the projected budget deficit. Included in the act, according to estimates of the Office of Policy and Management, were approximately $485 million in revenue enhancements for the 2002-2003 fiscal year and approximately $108 million in attainable expenditure reductions. In late February 2003, the Office of Policy and Management estimated that with the changes contained in Public Act No. 03-2 the State's projected deficit would be erased and the result would be a surplus of $39.7 million.

Despite the deficit reduction plan approved by the legislature and Governor, the State ended the 2002-2003 fiscal year with a deficit. In the unaudited annual financial report provided by the Comptroller dated October 1, 2003, as of June 30, 2003, General Fund revenues were $12,023.3 million, unaudited General Fund expenditures and miscellaneous adjustments were $12,120.1 million and the General Fund deficit for the 2002-2003 fiscal year was $96.8 million. Per Section 1 of Public Act No. 03-1 of the September 8 Special Session of 2003, the deficit will be financed with the issuance of five-year Economic Recovery Notes. In addition, recently enacted modification in the State's General Assistance program will result in certain lagged claims for medical services related to changed provisions in the existing program. These retrospective reimbursements claimed by hospitals for inpatient and outpatient services are estimated to total approximately $25 million. Per Section 1 of Public Act No. 03-1 of the September 8 Special Session of 2003, these retrospective reimbursements will be incorporated into the fiscal year 2002-2003 deficit financing.

See **Appendix III-E** for more information concerning fiscal year 2002-2003.

Budget for Fiscal Years 2003-2004 and 2004-2005

On August 16, 2003, Governor Rowland signed into law Public Act No. 03-1 of the June 30 Special Session. On August 20, 2003, the Governor signed into law Public Act No. 03-3, Public Act No. 03-4 and Public Act No. 03-6 of the June 30 Special Session. These four public acts constitute the budget for fiscal years 2003-2004 and 2004-2005. For fiscal year 2003-2004, the budget anticipates revenues of $12,452.1 million and expenditures of $12,452.0 million, resulting in a surplus of $0.1 million. For fiscal year 2004-2005, the budget anticipates revenues of $12,967.1 million and expenditures of $12,966.9 million, resulting in a surplus of $0.2 million.

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 budget for fiscal year 2003-2004 remains $381.2 million below the expenditure cap and for fiscal year 2004-2005, $115.4 million below the expenditure cap.

The budget includes approximately $570 million in net revenue enhancements for the 2003-2004 fiscal year and $550 million for the 2004-2005 fiscal year while reducing expenditures from current service levels by approximately $715 million for the 2003-2004 fiscal year and $1,160 million for the 2004-2005 fiscal year.

The most significant revenue changes include: (1) an increase in the personal income tax by reducing the property tax credit from $500 to $350 and the elimination of the minimum $100 property tax credit for expected revenues of $112.0 million in fiscal year 2003-2004 and $112.2 million in fiscal year 2004-2005; (2) repeal of the sales tax on hospital services, newspapers and magazines, and advertising services for a revenue loss of $123.4 million in fiscal year 2003-2004 and $139.2 million in fiscal year 2004-2005; (3) the imposition of a 25% surtax on corporations in income year 2004, in addition to other modifications, which are expected to yield $90 million in fiscal year 2003-2004 and $68 million in fiscal year 2004-2005; (4) the imposition of a temporary estate tax estimated to raise $55 million in fiscal year 2004-2005 should the state fail to receive extraordinary federal assistance similar to that contained in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003; and (5) an increase of $50 million in each year of the biennium in revenue resulting from a decrease in funds that will be set aside for grants paid to municipalities under the Mashantucket Pequot and Mohegan grant. The budget also anticipates several one-time revenue transfers, the most significant of which are as follows: (1) $250.1 million in additional federal revenue in fiscal year 2003-2004 due to the federal Jobs and Growth Tax Relief Reconciliation Act of 2003; (2) $144.0 million in fiscal year 2003-2004 from a securitization of a portion of the Energy Conservation and Load Management Fund; (3) $300 million in fiscal year 2004-2005 that may come from the securitization of a portion of tobacco related revenue from the Master Settlement Agreement with states; and (4) $25 million in each year of the biennium from a securitization of a portion of the Clean Energy Fund.

The most significant expenditure reductions from current services include: (1) savings of $153.3 million in fiscal year 2003-2004 and $140.4 million in fiscal year 2004-2005 due to an early retirement incentive program (ERIP) taken advantage of by approximately 3,500 general fund employees; (2) savings of $124.4 million in fiscal year 2003-2004 and $144.1 million in fiscal year 2004-2005 due to the layoff of approximately 2,000 general fund employees; (3) modifications to the Education Cost Sharing Grant, resulting in savings of $68.3 million in fiscal year 2003-2004 and $135.3 million in fiscal year 2004-2005; (4) savings of $67.3 million and $109.8 million, respectively, in fiscal year 2003-2004 and fiscal year 2004-2005, from the elimination of rate increases for certain medical providers; and (5) the removal of funding for unsettled collective bargaining contracts of $58.3 million in fiscal year 2003-2004 and $117.1 million in fiscal year 2004-2005.

See **Appendix III-E** for more information concerning fiscal years 2003-2004 and 2004-2005.

Fiscal Year 2003-2004 Operations:

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. Per section 3-115 of the Connecticut General Statutes, the State's fiscal position is reported monthly by the Comptroller. In the monthly report of the Comptroller dated December 1, 2003, as of October 31, 2003, General Fund revenues are estimated at $12,452.1 million, General Fund expenditures and miscellaneous adjustments are estimated at $12,503.8 million, and the General Fund deficit for the 2003-2004 fiscal year is estimated to be $51.7 million. The next monthly report of the Comptroller is anticipated on January 2, 2004.

See **Appendix III-E** for more information concerning fiscal year 2003-2004.

The above projections are only estimates and the information in **Appendix III-E**, in the monthly letter and estimates of the Office of Policy and Management to the Comptroller, and in the Comptroller's monthly report are only estimates and no assurances can be given that subsequent estimates or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2003-04 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 1999 through 2003 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 Ending June 30

	1999	2000	2001	2002	2003
Total General Fund Revenues[(a)]	$10,616.4	$11,213.6	$11,985.5	$10,845.4	$ 12,023.3
Net-Appropriations/Expenditures[(b)]	10,544.6	10,913.2	11,954.8[(c)]	11,662.5	12,119.9
Operating Surplus/(Deficit)	$ 71.8[(d)]	$ 300.4[(e)]	$ 30.7[(f)]	$ (817.1)[(g)]	$ (96.6)[(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) $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.
(e) $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.
(f) $30.7 million of the operating surplus was reserved for transfer to the Budget Reserve Fund.
(g) $594.7 million from the Budget Reserve Fund was applied to partially fund the deficit. The remaining deficit balance was financed through the issuance of economic recovery notes.
(h) The deficit balance will be financed through the issuance of economic recovery notes. In addition to the deficit balance, there is an estimated $25 million in lagged hospital service claims which will also be financed by 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 2003 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 Ending June 30

	1999	2000	2001	2002	2003
Modified Cash Basis Operating Surplus/(Deficit)	$ 71.8	$ 300.4	$ 30.7	$ (817.1)	(96.6)
Adjustments:					
Increases (decreases) in revenue accruals:					
Governmental Receivables	56.3	59.8	80.0 [a]	37.0	(3.9)
Other Receivables	(21.4)	15.5	(15.1)	9.0	(75.0)
(Increases) decreases in expenditure accruals:					
Accounts Payable and Other Liabilities	(49.7)	(161.5)	(115.8)[a]	69.4	59.6
Salaries and Fringe Benefits Payable	(33.7)	120.8	(14.1)	(15.6)	8.7
Increase (decrease) in Continuing Appropriations	294.1	(289.8)	334.0	(543.8)	(82.0)
Reclassification of equity adjustments	(142.5)	(118.1)	(266.5)	—	—
Proceeds of Recovery Notes					222.4
GAAP Based Operating Surplus/(Deficit)	$ 174.9	$ (72.9)	$ 33.2	$(1,261.1)	$ 33.2

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 Ending June 30

	1999	2000	2001	2002	2003
Operating Surplus/Deficit	$ 71.8	$300.4	$ 30.7	$ (817.1)	$ (96.6)
Fund Transfers and Reserves					
Transfers to Budget Reserve Fund	30.5	34.9	30.7	--	--
Transfers from Budget Reserve Fund	--	--	--	594.7	
Economic Recovery Note Debt Retirement	--	--	--	--	--
Reserve for Debt Service Appropriation	41.3	--	--	--	--
Reserve for Debt Avoidance	--	265.5	--	--	--
Total Transfers/Reserves	71.8	300.4	30.7	594.7	0
Unreserved Fund Balance					
Surplus/(deficit)	$ 0.0	$ 0.0	$ 0.0	$ (222.4)	$ (96.6)

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

General Fund

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

(In Millions)

Fiscal Years Ending June 30

	1999	2000	2001	2002	2003
Unreserved Fund Balance (Deficit)					
Modified Cash Basis	$ 0.0	$ 0.0	$ 0.0	$(222.4)	(96.6)
GAAP Based Adjustments					
Continuing Appropriations Available for GAAP Liabilities	141.8	35.0	25.4	—	—
Additional Assets					
Taxes Receivable					
Income Tax Accrual Reduction	(170.0)	(151.3)	(194.1)	(221.8)	(268.2)
Eliminate Corporation Accrual	(22.1)	(19.5)	(23.3)	(16.9)	(19.0)
Additional Taxes Receivable	5.0	4.0	7.0	9.3	15.2
Net Increase (Decrease) Taxes	(187.1)	(166.8)	(210.4)	(229.4)	(272.0)
Net Accounts Receivable	29.7	76.2	83.8	57.3	87.3
Federal and Other Grants Receivable[(a)]	428.4	435.7	525.8	582.0	478.2
Due From Other Funds	7.9	4.8	7.2	13.1	13.0
Total Additional Assets	$ 278.9	$ 349.9	$ 406.4	$423.0	$306.5
Additional Liabilities					
Salaries and Fringe Payable	(279.9)	(158.0)	(173.4)	(189.3)	(180.6)
Accounts Payable—Department of Social Services	(525.7)	(676.7)	(773.3)	(704.8)	(631.3)
Accounts Payable—Trade & Other	(142.1)	(175.6)	(191.2)	(180.7)	(162.4)
Payable to Local Governments	-	-	-	-	-
Payable to Federal Government	(72.0)	(48.8)	(72.6)	(62.0)	(49.5)
Due to Other Funds	(3.7)	(.8)	(3.1)	(7.8)	(28.4)
Total Additional Liabilities	$(1,023.4)	$(1,059.9)	$(1,213.6)	$(1,144.6)	$(1052.2)
Unreserved Fund Balance (Deficit)					
GAAP Basis	$ (602.7)	$ (675.0)	$ (781.8)	$ (944.0)	$ (842.3)

(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 Ending June 30

	1999	2000	2001	2002	2003
Reserved:					
Petty Cash	$ 1.1	$ 1.0	$ 1.0	$ 1.0	1.0
Budget Reserve	529.1	564.0	594.7	-	-
Loans & Advances to Other Funds	-	5.0	6.6	5.9	6.7
Restricted Purposes	-	265.5	249.3	283.2	249.3
Inventories	34.3	37.7	36.2	41.9	42.1
Continuing Appropriations	526.4	343.5	687.0	167.8	86.6
Debt Service	131.3	13.2	20.7	9.3	55.1
Total	1,222.2	1,229.9	1,595.5	509.1	440.8
Unreserved:	(602.7)	(675.0)	(781.8)	(944.0)	(842.3)
Total Fund Balance	$ 619.5	$ 554.9	$ 813.7	$ (434.9)	$ (401.5)

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.***

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, 2003 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 December 16, 2003 is described in the following table.

TABLE 7

Statutory Debt Limit as of December 16, 2003[(a)]

Total General Fund Tax Receipts	$8,624,000,000.00	
Multiplier	1.60	
Debt Limit		$13,798,400,000.00
Outstanding Debt [(b)]	$8,621,558,898.23	
Guaranteed Debt [(c)]	669,870,146.50	
Authorized Debt [(d)]	$2,967,759,193.00	
Total Subject to Debt Limit		$12,259,188,237.73
Less Debt Retirement Funds [(e)]	$26,159,324.04	
Aggregate Net Debt		$12,233,028,913.69
Debt Incurring Margin		$1,565,371,086.31

(a) Economic Recovery Notes are not included in calculations.

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

(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 for 2003-2004 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. The General Assembly has enacted two acts for the financing of projects at the University of Connecticut. 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.

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.

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.

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.

CCEDA Financing. 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 will be backed by State contractual assistance equal to annual debt service. In December 2003, the State Bond Commission approved up to $100 million of such bonds. Various other conditions and approvals remain to 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.

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. In 2003, the General Assembly authorized the Treasurer to issue notes of up to five years to fund (1) the amount required to pay any remaining retrospective reimbursements billed by hospitals for inpatient and outpatient services for services rendered to recipients of medical assistance in the State Administered General Assistance and General Assistance programs; and (2) the State's budget deficit for the fiscal year ending June 30, 2003.

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 December 16, 2003) 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 December 16, 2003
(In Thousands)

General Obligation Bonds	$8,753,789
UConn 2000 Bonds	674,331
Lease Financings	43,285
Tax Increment Financings	30,555
Long Term General Obligation Debt Total	9,501,960
Short Term General Obligation Debt Total	
Gross Direct General Obligation Debt	9,501,960
Deduct:	
University Auxiliary Services [(b)]	26,159
Net Direct General Obligation Debt	$9,475,801

(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)

	1999	2000	2001	2002	2003
Gross Direct Debt[(a)]	$7,176,905	$7,432,891	$7,920,531	$8,619,092	$9,289,485
Net Direct Debt[(a)]	$7,067,276	$7,315,945	$7,795,785	$8,492,234	$9,239,987
Ratio of Debt to Personal Income [(b)]					
Gross Direct Debt	5.50%	5.26%	5.44%	5.82%	6.27%
Net Direct Debt	5.41%	5.17%	5.36%	5.73%	6.23%
Ratio of Debt to Estimated Full Value[(c)]					
Gross Direct Debt	2.60%	2.51%	2.48%	2.39%	2.37%
Net Direct Debt	2.56%	2.47%	2.44%	2.36%	2.36%
Per Capita Debt[(d)]					
Gross Direct Debt	$2,120	$2,178	$2,306	$2,490	$2,684
Net Direct Debt	$2,087	$2,144	$2,270	$2,454	$2,670

(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: 1999—$130,579 million; 2000—$141,413 million; 2001—$145,548 million; 2002—$148,211 million; and 2003 ratio uses 2002 data.
(c) Full value estimated by Office of Policy and Management. Uses final equalized net grand lists: 1997— $276 billion; 1998 — $296 billion; 1999 – $320 billion; 2000—$360 billion; and 2001—392 billion. Property is assessed as of October 1 in each year for the tax levy effective the following July 1. The 1999 ratio uses 1997 data; 2000 ratio uses 1998 data; 2001 ratio uses 1999 data; 2002 ratio uses 2000 data; and 2003 uses 2001 data.
(d) See ***Appendix III-B, Table B-1***. State population: 1999—3,386,000; 2000—3,412,000; 2001—3,435,000; 2002—3,461,000; and 2003 ratio uses 2002 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 December 16, 2003. 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 December 16, 2003

Fiscal Year	Principal Payments [(b)]	Interest Payments [(b)-(g)]	Total Debt Service
2003-04	349,718,353	226,751,923	576,470,276
2004-05	761,566,775	475,732,608	1,237,299,383
2005-06	721,530,405	445,791,958	1,167,322,363
2006-07	710,675,140	421,400,754	1,132,075,894
2007-08	711,425,553	395,474,892	1,106,900,446
2008-09	623,093,493	405,802,791	1,028,896,284
2009-10	627,003,599	369,226,594	996,230,193
2010-11	593,164,105	280,448,772	873,612,878
2011-12	532,145,834	231,284,938	763,430,772
2012-13	473,522,960	186,478,712	660,001,671
2013-14	425,620,000	148,496,647	574,116,647
2014-15	409,321,365	118,746,608	528,067,973
2015-16	370,465,061	97,770,292	468,235,353
2016-2031	1,684,144,060	257,452,599	1,941,596,659
Totals	8,993,396,704	4,060,860,087	13,054,256,791

(a) Includes long-term general obligation debt as outlined in ***Table 8***. The future principal payments ($ 8,993,396,704), plus accreted interest ($508,562,951) on State and UConn 2000 capital appreciation bonds, total the amount of such long-term debt ($9,501,959,655) as shown in ***Table 8***. See footnotes (b) to (g) 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 2004-2014.

(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 3.75% 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 3.75% 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 4.25% average rate. The balance of the Bonds mature in the years 2005-2012.

(f) On December 19, 2002 the State issued $70,140,000 of General Obligation Economic Recovery Auction Notes of which $70,140,000 remain outstanding. The interest on these securities is estimated herein at a 3.50% average rate. The balance of the Bonds mature in the years 2006 and 2007.

(g) On April 15, 2003 the State issued $77,700,000 Floating Rate General Obligation Notes of which $77,700,000 remain outstanding. The interest on these securities is estimated herein at a 4.25% average rate. The balance of the Bonds mature in the years 2004-2013.

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
1992	5,235,879 (a)	5,118,368 (a)	1998	$6,981,212 (g)	6,865,905 (g)
1993	5,594,715 (b)	5,479,474 (b)	1999	7,176,905	7,067,276
1994	5,962,250 (e)	5,845,233 (c)	2000	7,432,891	7,315,945
1995	6,186,518 (d)	6,051,141 (d)	2001	7,920,531	7,795,785
1996	6,573,810 (e)	6,428,391 (e)	2002	8,619,092	8,492,234
1997	6,826,826 (f)	6,678,398 (f)	2003	9,289,485 (h)	9,239,987 (h)

(a) Includes $915,710,000 Economic Recovery Notes.
(b) Includes $705,610,000 Economic Recovery Notes.
(c) Includes $555,610,000 Economic Recovery Notes.
(d) Includes $315,710,000 Economic Recovery Notes.
(e) Includes $236,055,000 Economic Recovery Notes.
(f) Includes $157,055,000 Economic Recovery Notes.
(g) Includes $ 78,055,000 Economic Recovery Notes.
(h) Includes $219,235,000 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 December 16, 2003, 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, 2004.

TABLE 12

Authorized but Unissued Direct General Obligation Debt
as of December 16, 2003[(a)]
(In Thousands)

	State Direct Debt	UCONN 2000 [(b)]	Tax Increment[(c)]	Total
Bond Acts in Effect	$ 16,587,178	$ 918,427	$ 42,800	$ 17,548,405
Amount Authorized	14,937,281	918,427	42,800	15,898,508
Amount Issued	13,919,419	814,637	39,330	14,773,386
Authorized but Unissued	1,017,862	100,000	3,470	1,125,122
Available for Authorization	1,649,897	-	-	1,649,897

(a) Economic Recovery Notes are not included in calculations.
(b) 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. Amount Issued has been adjusted to reflect increases due to closing costs and decreases due to premiums.
(c) The amount of tax increment bonds authorized is based on the amount authorized by the State Bond Commission, since there is no statutory amount of authorization.

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

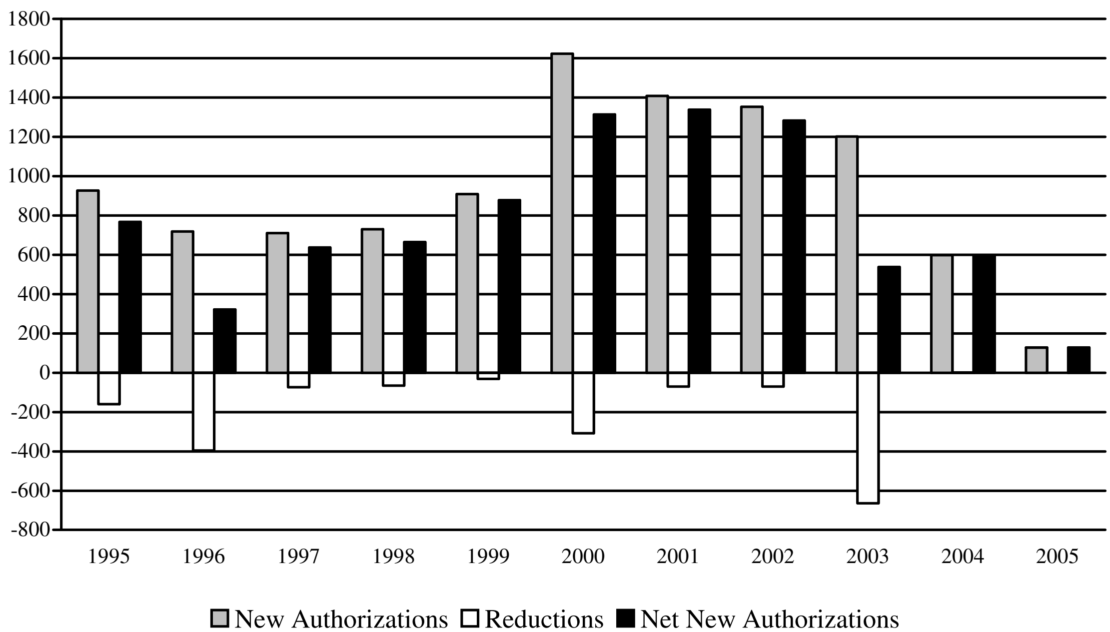
Statutory General Obligation Bond Authorizations and Reductions[(a)]
(In Millions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
New Authorizations	926.3	717.8	710.1	729.8	908.8	1,621.6	1,407.9	1,351.6	1,201.0	1,107.1	127.1
Reductions	(159.6)	(396.0)	(74.3)	(66.0)	(31.7)	(308.4)	(70.1)	(69.9)	(663.6)	0.0	0.0
Net New Authorizations	766.7	321.8	635.8	663.8	877.1	1,313.2	1,337.8	1,281.7	537.4	1,107.1	127.1

(a) Does not include lease financings, tax increment or cash flow borrowings. Includes amount for UConn 2000 available under the cap for 1997 through 2005, 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 2005.

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	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Policy & Management	$ 190,960	$ 179,921	$ 228,600	$ 210,600	$ 165,000	
Revenue Services	0	0	0	0	20,100	20,100
Comptroller	0	0	50,000	0	34,000	7,000
Administrative Services	0	0	53,000	0	0	0
Information Technology	0	0	4,500		5,000	0
Public Works	20,000	20,000	52,900	15,000	32,900	0
Public Safety (POST)	6,700	2,300	10,000	0	0	0
Motor Vehicles	0	0	0	0	1,000	0
Military	300	1,300	0	0	0	0
Agriculture	2,250	1,000	3,000	3,000	0	0
Environmental Protection	137,650	141,150	191,000	106,250	69,000	0
Economic and Community Development:						0
Housing	5,000	10,500	10,000	10,000	0	0
Economic Development	40,000	138,500	110,900	51,000	17,000	0
Other	14,000	0	0	0	0	0
Ct Innovations Inc.	0	10,000	10,000	10,000	5,000	0
Historical Commission	300	300	300	300	0	0
Public Health	0	0	12,500	1,000	0	0
Mental Retardation	4,000	4,000	2,500	1,500	0	0
Mental Health and Addiction Services	20,750	21,750	6,000	6,000	0	0
Social Services	5,000	6,000	3,500	0	0	0
Education	404,900	482,100	191,800	488,100	495,000	0
State Library	2,500	2,500	2,500	2,500	0	0
Arts	1,000	1,000	1,000	1,000	0	0
Regional Community-Technical Colleges	77,187	74,855	69,070	66,162	70,447	0
State University	85,537	88,352	88,550	95,658	39,756	0
Legislative Management	800	0	0	0	0	0
Children & Families	6,500	14,500	15,000	3,000	0	0
Judicial	62,000	20,500	56,500	27,500	32,888	0
CPTV	2,000	2,000	2,500	2,500	1,000	0
Corrections	10,000	35,000	50,000	0	10,000	0
UConn	2,000	20,000	0	0	0	0
UConn Health	4,250	3,400	0	0	2,000	0
UConn 2000 [(a)]	130,000	100,000	100,000	100,000	100,000	100,000
Hartford Econ Dev Projects	386,000	27,000	26,000	0	7,000	0
Totals	$1,621,584	$1,407,928	$1,351,620	$1,201,070	$1,107,091	$127,100

(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 the $1,250 million authorized for UConn 2000 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 1985-2008, which is to be met from federal, State, and local funds, is currently estimated at $17.6 billion. During fiscal years 1985-2004, $14.8 billion of the total infrastructure program was approved. The remaining $2.8 billion is required for fiscal years 2005-2008. The $2.8 billion is comprised of $663.2 million from the anticipated issuance of new special tax obligation bonds, $49.3 million in anticipated revenues, and $2.1 billion in anticipated federal funds. The State's share of the 1985-2008 infrastructure program costs, estimated at $6.3 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 1985-2008 to be financed by STO bonds is estimated at $5.7 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 certain 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 December 16, 2003. 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 December 16, 2003
(In Millions)[(a), (b)]

	New Money	Total
Amount Authorized	$5,601.4[(b)]	
Amount Issued	5,196.7	7,935.2
Amount Outstanding	1,400.3	3,176.8

(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 December 16, 2003 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, 2003, the Special Transportation Fund paid $17.3 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 2003-04 is $13.8 million.

Over the past decade, the Fund's revenues and expenses have undergone a variety of legislative changes. Several legislative actions during 2003 affect the revenues and expenditures of the Fund. Among other legislative changes, Public Act 03-1 (June 30 Spec. Sess.) altered the transfer of certain revenues into the Fund and Public Act 03-2 provided for a one-time transfer of $52 million from the Fund to the State's General Fund.

In addition, legislation passed in 2001 created the Connecticut Transportation Strategy Board ("TSB"). 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, the Commissioners of Transportation, Environmental Protection, Economic and Community Development, and Public Safety, and the Secretary of the Office of Policy and Management. The TSB's strategic goals are: 1) improve personal mobility within and through Connecticut; 2) improve the movement and goods and freight within and through Connecticut; 3) integrate transportation with economic, land use, environmental and quality of life issues; 4) develop policies and procedures that will integrate the state economy with regional, national and global economies; and 5) identify policies and sources that provide an adequate and reliable flow of funding necessary for a quality multi-modal transportation system. In January 2003, the TSB presented its recommendations to the Governor and the General Assembly. Legislation passed later in 2003 authorized bonding for TSB projects of $265 million during fiscal years 2004-2013. The legislation also approved the principles set forth in the TSB recommendations.

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 December 16, 2003, there were $252 million of Bradley International Airport Revenue Bonds (excluding refunded 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 either the full faith and credit of each such municipality is pledged, or the revenues of a municipal sewer system are pledged. As of December 16, 2003, $263.7 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, 2003, the Second Injury Fund had settled approximately 6,490 cases since January 1, 1995 at a cost of $453.1 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 2,285 cases remain open/active.

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 2011. As of December 16, 2003, the amount of bonds outstanding was $41.1 million and $70.1 million, respectively. The bonds 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.

Rate Reduction Bonds

The General Assembly has authorized the issuance of special obligation bonds ("Rate Reduction Bonds") to sustain funding of the conservation and load management and the renewable energy investment programs (the "Programs") established under sections 16-245m and 16-245n of the general statutes. The Rate Reduction Bonds will be secured by certain revenues ("RRB Revenues") collected through a non-bypassable charge imposed upon each customer of the electric utilities within the State. The RRB Revenues will be property of the State and will be pledged towards payment of debt service on the Rate Reduction Bonds and related costs. The Rate Reduction Bonds will be secured by a first priority lien on the RRB Revenues. The net proceeds of the bonds will be deposited in the General Fund. On October 28, 2003, the Department of Public Utility Control issued a financing order approving the imposition of the customer charge and the State's issuance of Rate Reduction Bonds. The State expects to issue approximately $220 million Rate Reduction Bonds in early 2004.

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, 2003 the assets in the Insurance Fund totaled $7.0 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, 2003, loans insured by the Insurance Fund totaled $8.0 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 have been secured by such a fund. As of December 16, 2003, $15.26 million of such bonds remain outstanding.

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

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

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

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

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

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

Connecticut Higher Education Supplemental Loan Authority ("CHESLA"). CHESLA provides financial assistance in the form of education loans to students in or from the State, their parents or others responsible for the cost of their education and provides an alternative method to enable institutions for higher education in the State to assist qualified students to attend such institutions. CHESLA is authorized to issue bonds the proceeds of which are used to fund education loans to applicants meeting certain eligibility requirements. The repayment of such loans service the debt on CHESLA bonds. CHESLA, in connection with the issuance of its bonds has made certain covenants with respect to such loans, including a covenant to do or cause to be done all such acts and things necessary to receive and collect all revenues due with respect to such loans. CHESLA bonds are further secured by a special capital reserve fund.

The Board of Directors of CHESLA is comprised of eight members including the State Treasurer, Secretary of the Office of Policy and Management and the Commissioner of Higher Education, serving ex officio, and five members appointed by the Governor based on their qualifications in the areas of higher education and/or public finance.

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

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

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

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

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

CRRA has approximately $168.8 million outstanding Special Capital Reserve Debt as of December 16, 2003 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. Enron filed for bankruptcy on December 2, 2001 and has not made its capacity or electricity payments since that time. 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 following the Enron bankruptcy, has increased tipping fees, is pursuing remedies in bankruptcy court and civil court with the Attorney General, and has entered into a two year-year electricity sales agreement with Select Energy. The agreement with Select Energy, a subsidiary of Northeast Utilities, provides for the sale to Select Energy of the output that would have been sold to Enron. 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 $25.3 million.

During August 2003, the General Assembly passed Public Act No. 03-5 which authorizes a loan by the State to the CRRA of up to $22 million for fiscal years ending June 30, 2003 and June 30, 2004, and, for subsequent fiscal years, an additional aggregate amount of $93 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. As of December 16, 2003, CRRA had borrowed from the State $6.3 million. CRRA anticipates borrowing additional amounts through June 30, 2004, for a total borrowing of approximately $16.5 million through the end of the fiscal year ending June 30, 2004. Interest on these loans accrues at a variable rate, and CRRA is required to make monthly payments of principal and interest. Final payment on the loans is scheduled to coincide with the expiration of the municipal service agreements and final maturity of the bonds issued to finance the Mid-Connecticut facility.

The Board of Directors of CRRA is comprised of eleven 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.

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 12/16/03	Minimum Capital Reserve Requirement As of 12/16/03
	–	–	–
INDEBTEDNESS SECURED BY SPECIAL CAPITAL RESERVE FUNDS			
Connecticut Development Authority			
Umbrella Bond Program	300.0	4.8	2.0
General Obligation Bond Program	30.6	15.3	2.4
Connecticut Health and Educational Facilities Authority			
Nursing Home Program	(a)	87.6	8.9
Connecticut State University System	(a)	286.4	25.2
Connecticut Higher Education Supplemental Loan Authority	170.0	121.5	8.5
Connecticut Housing Finance Authority			
Housing Mortgage Finance Program	(a)	3,029 (b)	256.5 (b)
Special Needs Housing Mortgage Finance Program	(a)	45.6	2.9
Connecticut Resources Recovery Authority (c)	725.0	240.3	33.7
University of Connecticut Student Fee Revenue Bonds	(a)	29.8	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) Between December 16, 2003 and December 31, 2003 Connecticut Housing Finance Authority expects to issue an aggregate of approximately $125 million in additional SCRF debt for its programs and for refunding, and to increase its Minimum Capital Reserve Requirement by approximately $5 million.

(c) Of the $240.3 million of outstanding SCRF or guaranteed debt as of December 16, 2003 of the Connecticut Resources Recovery Authority, approximately $168.8 million pertains to the Mid-Connecticut waste to energy plant in Hartford, Connecticut. Those bonds have a Minimum Capital Reserve Requirement of approximately $25.3 million. (See discussion above under ***Connecticut Resources Recovery Authority***).

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, 2003, the State is obligated to various cities, towns and regional districts for $792 million in aggregate installment payments and $235 million in aggregate interest subsidy, for a total of $1,027 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, 2003 the Commissioner estimates that grant payments under this program will be approximately $2,480 million. During a special legislative session in September 2003, an additional $468 million in grant commitments were authorized under this program.

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. The State has authorized a net increase in school construction grant commitments of $585.1 million which take effect in the 2003-2004 fiscal year.

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 $38.8 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, 2003 the future obligation to lottery prize winners is $488 million.

PENSION AND RETIREMENT SYSTEMS

State Employees' Retirement Fund

The State Employees' Retirement Fund is the largest system maintained by the State with approximately 47,100 active members, 1,600 inactive (vested) members and 37,000 retired members as of June 30, 2003. Generally employees hired before July 1, 1984 participate in the Tier I plan, which includes employee contributions. As of July 1, 2003 approximately 18.0% 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, 2003 approximately 55.0% 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, 2003 approximately 27.0% 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. As of June 30, 2003 the market value of the fund's investment assets was $6,987,179,350.

The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 8.01% on investment assets over the past ten years (fiscal year 1993-94 through fiscal year 2002-03) and an annualized net return of 2.78% over the past five years (fiscal year 1998-99 through fiscal year 2002-03).

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				
	1999	2000	2001	2002	2003
General Fund Contributions	$199,304,785	$212,947,331	$257,806,736	$284,527,059	$285,694,490
Transportation Fund Contributions	28,419,000	27,636,000	31,321,880	36,676,000	40,214,000
Federal and other (Reimbursements)	87,838,000	102,176,999	86,494,566	94,289,540	95,543,241
Employee Contributions	38,897,333	43,782,742	46,088,785	49,577,375	50,953,367
Total Contributions	$354,459,118	$386,543,072	$421,711,967	$465,069,974	$472,405,098
Investment Income[a]	$245,642,870	$286,587,354	$276,494,999	$271,253,981	$319,223,363
Net Realized Gains (Losses)	$1,350,241	$299,651,658	($2,140,298)	$1,341,884	$9,032,166
Benefits Paid	$572,003,425[b]	$596,333,139	$619,174,473	$651,201,069	$702,878,746

(a) Investment Income (exclusive of net realized gains and losses).
(b) 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, 2003, there were approximately 57,230 active and former employees with accrued and accruing benefits and approximately 22,770 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. As of June 30, 2003 the market value of the fund's investment assets was $9,846,014,159.

The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 8.08% on investment assets over the past ten years (fiscal year 1993-94 through fiscal year 2002-03) and an annualized net return of 2.81% over the past five years (fiscal year 1998-99 through fiscal year 2002-03).

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				
	1999	**2000**	**2001**	**2002**	**2003**
General Fund Contributions...............	$188,334,000	$204,445,443	$214,665,698	$204,511,460	$179,823,603
Employee Contributions[(a)]............	154,682,000	168,207,183	173,884,438	187,095,618	204,659,700
Total Contributions	$343,016,000	$372,652,626	$388,550,136	$391,607,078	$384,483,303
Investment Income[(b)].......	$347,734,968	$410,683,507	$399,305,587	$388,785,006	$453,002,988
Net Realized Gains (Losses)	$777,827	$461,947,176	($3,335,159)	$1,584,432	$11,694,321
Benefits Paid	$562,962,086	$630,885,706	$690,674,530	$754,655,476	$811,028,527

(a) Includes municipal contributions under early retirement incentive programs ($4,651,928 during the 2003 fiscal year); does not include employee contributions to the Teacher's Retirement Health Insurance Fund ($27,933,646 during the 2003 fiscal year).

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

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, 2003, there were approximately 218 active members of these plans and approximately 239 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, 2003, approximately 69,232 State employees were entitled to Social Security coverage. The amount expended by the State for Social Security coverage for fiscal year 2002-03 was $187.4 million. Of this amount, $174.9 million was paid from the General Fund and $12.4 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, 2003, a total of 37,233 retirees were eligible to receive such benefits; and a total of 35,280 retirees and 23,734 retirees, respectively, were actually receiving health care benefits and life insurance benefits. For the fiscal year 2002-03, $242.2 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 2003-04, $240.0 million was appropriated.

The State makes a General Fund appropriation to the Teachers' Retirement Fund to cover the portion of retiree health insurance costs which is not funded from the amounts available in the Teachers' Retirement Health Insurance Fund: $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; $11,367,016 was expended for fiscal year 2002-03; and $12,825,814 has been appropriated for fiscal year 2003-04. 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. Legislation which became effective July 1, 1998 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, 2001-02, 2002-03 and the total appropriation for fiscal year 2003-04, expenditures of $4,323,636 for fiscal year 1999-00, $4,454,670 for fiscal year 2000-01, $4,751,670 for fiscal year 2001-02 and $5,051,970 for fiscal year 2002-03 and an appropriation of $5,447,989 for fiscal year 2003-04 are attributable to this legislation. Since July 1, 1994, retiree health benefits have been self-insured.

Additional Information

The June 30, 2003 audited financial statements which are included as **Appendix III-C** hereto, and in particular notes 11 through 14 and note 16 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 23 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. Before the filing of briefs, the parties reached a settlement. The agreement was submitted to the General Assembly on January 26, 2003, and was deemed approved pursuant to Section 3-125a of the Connecticut General Statutes on February 25, 2003, when it was not rejected by 3/5 vote of both houses of the legislature. The Court approved the settlement on March 12, 2003.

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.

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. The appeal to the Supreme Court was heard in January 2003. A decision in the State's favor was rendered in September 2003. The Hospitals have indicated that they may seek review by the United States Supreme Court and will litigate the constitutionality of clarifying legislation regarding the tax.

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. The parties have filed cross-summary judgment motions, which are pending with the Court.

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 Disabilities Act, along with other federal law, by maintaining a waiting list for Medicaid services of approximately 1600 Medicaid eligible persons. The suit also alleges that the Department of Mental Retardation's placement of persons in quasi-institutional settings, without first allowing them to choose a more integrated community setting, violates federal law. The case seeks mandatory injunctive relief, attorneys' fees and costs. The District Court has granted plaintiff's motion for class certification and discovery is proceeding.

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 was dismissed as moot in April 2002. 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 Interior Board of Appeals. If federal recognition is upheld, the tribe could institute land claims against the State or others.

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 Superior Court dismissed the case once again for lack of standing, and the plaintiffs have appealed that second dismissal. That appeal remains pending in the Appellate Court.

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. The defendants have moved to dismiss the action, and that motion is currently pending.

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. On May 29, 2003, the Court denied the plaintiffs' motion for a preliminary injunction and entered summary judgment for the state defendants. The plaintiffs appealed to the United States Court of Appeals for the Second Circuit, which issued a stay in the form of an injunction enjoining the Commissioner from terminating the plaintiffs' continued receipt of Medicaid benefits under the Husky A for Families program until further order of that Court. The Court of Appeals heard argument on the merits of the case on August 4, 2003.

INDEX TO APPENDICES

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GOVERNMENTAL ORGANIZATION AND SERVICES

Introduction

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

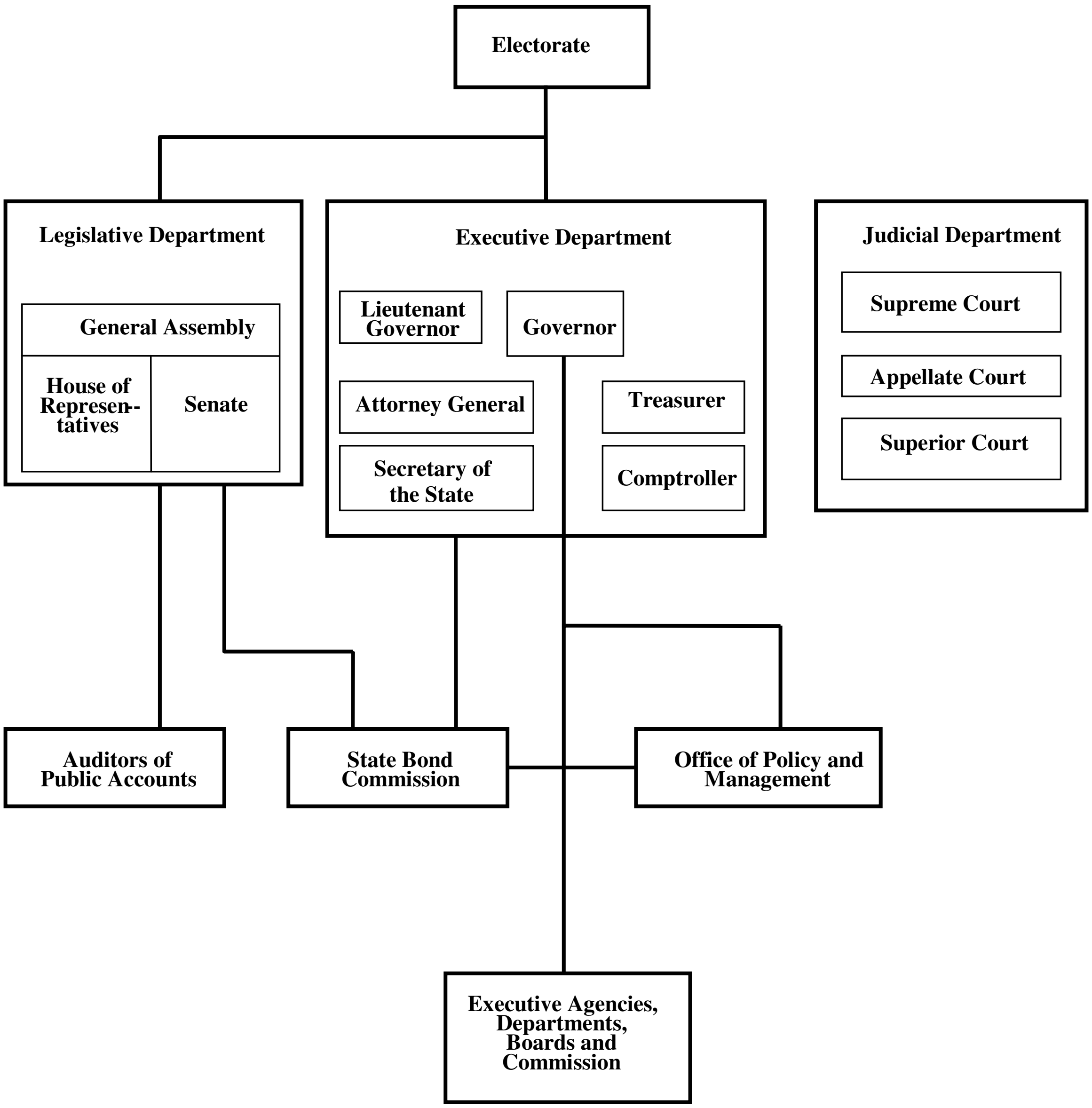
Under Connecticut law, all municipal governmental bodies have only the powers specifically granted to them by the State and the ancillary powers that are necessarily implied by powers explicitly granted. Municipalities which have the power to tax and to issue debt are explicitly denied the power by statute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

State Government Organization

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

TABLE A-1

Structure of State Government



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

General Assembly members are elected biennially at the general election in November in even numbered years and take office in the January following their election. Elections for the General Assembly were held in November 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 168 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 123 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)]	1999	2000	2001	2002	2003
Legislative	438	434	447	509	502
General Government	3,853	3,910	3,910	3,909	3,261
Regulation and Protection	4,319	4,550	4,592	4,620	3,950
Conservation and Development	1,420	1,463	1,457	1,496	1,261
Health and Hospitals	8,709	8,747	8,635	8,710	7,330
Transportation	3,610	3,643	3,626	3,631	2,918
Human Services	2,391	2,375	2,332	2,315	1,847
Education	14,130	14,357	14,921	15,331	14,384
Corrections	9,454	10,027	9,956	10,168	9,485
Judicial	3,068	3,224	3,342	3,369	3,769
Total	51,392	52,730	53,218	54,058	48,707

(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, 2003[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	502						502
General Government	2,560	9	8	348	24	312	3,261
Regulation and Protection	1,949	549	478	183	781	10	3,950
Conservation and Development	522		7	336	284	112	1,261
Health and Hospitals	6,874			60	347	49	7,330
Transportation		2,806		112			2,918
Human Services	1,548		12		276	11	1,847
Education	9,010			5,218	156		14,384
Corrections	9,326			85	74		9,485
Judicial	3,725			12	32		3,769
Total	36,016	3,364	505	6,354	1,974	494	48,707

[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
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		
Correction Officers	10.02%	Contract in place through 6/30/2004
Administrative Clerical	9.06%	Contract in place through 6/30/2002 [b]
Health Care Non-Professionals	8.74%	Contract in place through 6/30/2005
Maintenance and Service	7.37%	Contract in place through 6/30/2005
Social and Human Services	7.01%	Contract in place through 6/30/2002 [c]
Administrative and Residual	5.48%	Contract in place through 6/30/2003 [d]
Engineering, Scientific and Technical	4.71%	Contract in place through 6/30/2005
Health Care Professionals	4.40%	Contract in place through 6/30/2005
University Health Professionals (University of Connecticut Health Center)	3.97%	Contract in place through 6/30/2006
University of Connecticut Faculty	2.62%	Contract in place through 6/30/2007
Judicial Employees	2.57%	Contract in place through 6/30/2002 [d]
University of Connecticut Professional Employee Association	2.50%	Contract in place through 6/30/2007
State Police	2.38%	Contract in place through 6/30/2004
Connecticut State University Faculty	2.20%	Contract in place through 8/24/2007
Congress of Connecticut Community Colleges	2.19%	Contract in place through 6/30/2007
Vocational Technical School Teachers	2.10%	Contract in place through 8/28/2003 [d]
Judicial Professionals	1.73%	Contract in place through 6/30/2002 [d]
Education Professionals (Institutions)	1.65%	Contract in place through 6/30/2005
Protective Services	1.61%	Contract in place through 6/30/2004
Other Bargaining Units (13 units)	4.93%	Varies by Unit
Total Covered by Collective Bargaining	87.24%	
Not Covered by Collective Bargaining		
Auditors of Public Accounts	0.21%	Not Applicable
Other Employees	12.56%	Not Applicable
Total Not Covered by Collective Bargaining	12.76%	
Total Full-Time Work Force	100.00%	

(a) Percentage expressed reflects approximately 48,707 filled full-time positions as of June 30, 2003.
(b) The agreement for the successor four year contract has been issued by the arbitrator but has not yet been taken up by the General Assembly.
(c) The arbitration award for the successor four year contract has been issued by the arbitrator but has not yet been taken up by the General Assembly.
(d) 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
Permanent 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's Office
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 Labor
Office of the 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 and Consumer Protection
Department of Environmental Protection
Council on Environmental Quality
Connecticut Commission on Art, Tourism, Culture, History and Film
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
Connecticut State Department of Education
Board of Education and Services for the Blind
Connecticut Commission on the Deaf and Hearing Impaired
Connecticut State Library
Department of Higher Education
University of Connecticut
University of Connecticut Health Center
Charter Oak State College
Teachers' Retirement Board
Connecticut Community-Technical Colleges
Connecticut State University System

Corrections
Department of Correction
Department of Children and Families
Council to Administer the Children's Trust Fund

Judicial
Judicial Department
Division of Public Defender Services

(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, 2003.

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-2002 population in Connecticut was estimated at 3,460,503 up 0.8% from a year ago, compared to increases of 0.7% and 1.1% for New England and the United States, 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
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….	3,412	0.8	13,952	0.8	282,224	1.1
2001….	3,435	0.7	14,052	0.7	285,318	1.1
2002….	3,461	0.8	14,144	0.7	288,369	1.1

Note: 1940-2000, April 1 Census. Figures are for census comparison purposes.
1993-2002, Mid-year estimates.

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

The State is highly urbanized with a 2002 population density of 714 persons per square mile, as compared with 82 for the United States as a whole and 225 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 was available to all consumers except those who had already entered into special contracts with the electric companies. The legislation also provided a procedure allowing for the recovery of utility's stranded costs, including the issuance of revenue bonds.

Legislation passed in 2003 has extended the "standard offer" service, which expires on January 1, 2004. During the period of 2004 to 2007, a new "transitional standard offer" service will be available to all consumers except those who have already entered into special contracts with the electric companies. The total rates charged under the "transitional standard offer" shall not exceed the 1996 base rates, excluding specific rate reductions made in September 2002. The 2003 legislation also provides that proceeds from rate reduction revenue bonds may be used to sustain funding of conservation and load management and renewable energy investment programs by substituting disbursements to the General Fund from such proceeds for disbursements from the Energy Conservation and Load Management Fund and from the Renewable Energy Investment Fund.

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 Comcast, 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 1993 to 2002 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
1993	96,867	29,274	117.2	135.9
1994	99,788	30,093	116.1	134.7
1995	104,315	31,382	116.1	135.0
1996	109,354	32,770	115.6	135.0
1997	116,420	34,763	116.2	136.8
1998	124,880	37,111	116.6	138.0
1999	130,579	38,564	116.1	138.3
2000	141,413	41,446	114.5	139.3
2001	145,548	42,372	114.2	139.3
2002	148,211	42,823	114.2	138.9

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	3.3%	3.3%	4.1%	-1.5%	-1.5%	-0.7%
1993	3.0%	4.3%	5.0%	0.9%	2.1%	2.8%
1994	4.5%	4.9%	5.3%	2.4%	2.7%	3.2%
1995	4.8%	5.4%	5.6%	2.7%	3.3%	3.5%
1996	6.5%	6.3%	6.0%	4.6%	4.4%	4.1%
1997	7.3%	7.1%	7.1%	5.7%	5.5%	5.5%
1998	4.6%	5.2%	4.9%	3.1%	3.7%	3.4%
1999	8.3%	9.8%	8.0%	6.0%	7.5%	5.7%
2000	2.9%	3.2%	3.3%	0.6%	0.9%	1.0%
2001	1.8%	1.7%	2.5%	10.3%	10.2%	11.0%

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 2002.

TABLE B-4

Sources of Personal Income By Place of Residence
Calendar 2002
(In Millions)

	Conn.	Percent of Total	U.S.	Percent of Total
Wages in Non-manufacturing	74,482	50.25%	4,168,419	46.88%
Property Income (Div., Rents & Int.)	27,712	18.70%	1,653,541	18.60%
Wages in Manufacturing	13,005	8.77%	798,566	8.98%
Transfer Payments less Social Insurance Paid	10,606	7.16%	905,379	10.18%
Other Labor Income	9,923	6.70%	605,390	6.81%
Proprietor's Income	12,483	8.42%	759,797	8.55%
Personal Income—Total	148,211	100.0%	8,891,092	100.0%

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. The growth rates of both Connecticut and New England slowed in the first half of the 1990s, then improved and remained higher in the second half of the 1990s. The growth rates for Connecticut as well as the New England region and the United States, however, slowed in 2001 due to a recession.

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)

Year	Connecticut $	Connecticut % Growth	New England[(a)] $	New England[(a)] % Growth	United States[(b)] $	United States[(b)] % Growth
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	149,010	4.4	533,324	5.8	9,251,541	5.7
2000	161,929	8.7	582,874	9.3	9,891,187	6.9
2001	166,165	2.6	594,686	2.0	10,137,190	2.5

(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)

Year	Connecticut $	Connecticut % Growth	New England $	New England % Growth	United States $	United States % Growth
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	142,699	3.3	511,623	4.7	8,882,613	4.5
2000	151,987	6.5	549,341	7.4	9,298,227	4.7
2001	152,985	0.7	549,472	0.0	9,335,399	0.4

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 2001, Connecticut's output was concentrated in three areas: finance (31.0%), services (21.5%) and manufacturing (14.6%), 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 1992, Connecticut's outputs from these three areas were: finance, 25.6%; services, 20.2%; and manufacturing, 18.7%. 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	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Manufacturing	$19,452	$18,420	$18,983	$20,017	$21,233	$22,998	$24,151	$23,542	$24,825	$24,277
Construction[a]	3,493	3,594	3,670	3,904	3,929	4,285	4,661	5,319	5,763	6,027
Agriculture[b]	734	819	802	771	845	874	926	1,027	1,115	1,153
Utilities[c]	7,212	7,622	8,026	8,407	8,192	8,315	8,824	9,045	9,463	9,754
Wholesale Trade	7,013	7,008	7,377	7,747	8,136	9,126	9,305	9,492	10,218	10,004
Retail Trade	8,340	8,553	8,835	9,026	9,347	10,100	10,676	11,715	12,906	12,887
Finance[d]	26,607	29,173	29,797	32,221	34,073	37,892	40,812	43,073	49,513	51,458
Services[e]	20,995	22,488	24,205	25,577	27,063	29,652	31,164	33,212	34,598	35,654
Government	9,948	10,247	10,700	10,975	11,339	11,726	12,182	12,585	13,528	14,951
Total GSP	$103,794	$107,924	$112,395	$118,645	$124,157	$134,968	$142,701	$149,010	$161,929	$166,165

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 1993 and 2002. 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 1,675,900 persons employed, but began declining with the onset of the recession in the early 1990s. It was not until 1994 that the State's economy started to gain momentum, adding tens of thousands of new workers. In the third quarter of 2000, nonagricultural employment surpassed the previous peak with a total employment of 1,697,600. 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)

Calendar Year	Connecticut Employment	Connecticut Percent Growth	New England Employment	New England Percent Growth	United States Employment	United States Percent Growth
1993	1,531.2	(1.54)	6,080.4	0.63	110,835	2.07
1994	1,543.7	0.82	6,200.0	1.97	114,290	3.12
1995	1,561.6	1.16	6,326.6	2.04	117,313	2.65
1996	1,583.6	1.41	6,431.8	1.66	119,700	2.03
1997	1,612.5	1.82	6,575.2	2.23	122,778	2.57
1998	1,643.5	1.92	6,723.5	2.26	125,923	2.56
1999	1,669.2	1.56	6,855.3	1.96	128,990	2.44
2000	1,693.2	1.44	7,017.4	2.36	131,793	2.17
2001	1,681.1	(0.71)	7,026.5	0.13	131,835	0.03
2002	1,668.2	(0.77)	6,922.8	(1.48)	130,378	(1.11)

(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 2002. The table shows that Connecticut has a larger share of employment in services, manufacturing and finance than the nation as a whole.

TABLE B-9

Connecticut Non-agricultural Employment, 2002
(In Thousands)

	Connecticut		United States	
	Total	%	Total	%
Services[(a)]	650.0	38.96	49,515	37.98
Trade[(b)]	308.0	18.47	25,498	19.56
Manufacturing	212.9	12.76	15,305	11.74
Government	248.8	14.91	21,482	16.48
Finance[(c)]	143.0	8.57	7,845	6.02
Utilities[(d)]	41.1	2.47	3,420	2.62
Construction[(e)]	64.3	3.86	7,313	5.61
	1,668.2	100.0	130,378	100.0

(a) Covers a considerable variety of activities, including professional, business and personal services.
(b) Includes wholesale and retail trade, transportation, communication, electricity and gas.
(c) Includes finance, insurance, and real estate.
(d) Includes publishing, broadcasting, telecommunications, internet providers and data processing.
(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 2002, approximately 87% 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)]	Information[(d)]	Construction[(e)]	Total Non-agricultural Employment[(f)]
1993	261.54	288.14	542.18	210.68	140.30	39.64	48.71	1,531.19
1994	253.43	290.69	556.41	217.17	135.63	40.39	49.97	1,543.69
1995	248.51	294.80	572.40	220.84	132.39	41.49	51.17	1,561.60
1996	245.33	299.12	591.32	222.80	128.58	43.28	53.20	1,583.63
1997	245.39	302.49	607.77	225.73	130.13	44.49	56.55	1,612.55
1998	247.87	308.58	618.61	227.82	136.99	44.28	59.32	1643.47
1999	240.23	312.11	634.55	235.13	140.82	44.67	61.64	1,669.15
2000	235.72	317.47	643.33	241.86	143.05	46.24	65.35	1,693.02
2001	226.69	312.16	644.15	244.46	142.93	44.67	66.09	1,681.15
2002	212.93	308.04	649.98	248.84	143.00	41.14	64.30	1,668.23

(a) Includes wholesale and retail trade, transportation, communication, electricity and gas.
(b) Covers a considerable variety of activities, including professional, business and personal services.
(c) Includes finance, insurance and real estate.
(d) Includes publishing, broadcasting, telecommunications, internet providers and data processing.
(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 2002. Manufacturing has traditionally been of prime economic importance to Connecticut but has continued to trend down 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 share in the manufacturing sector is converging to the national average. Thus, Connecticut has been successful in diversifying itself away from dependence on just one type of industry. In calendar 2002, approximately 13% of the State's workforce, versus 12% 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
1993	261.5	(3.61)	983.8	(2.79)	16,778	(0.19)
1994	253.4	(3.10)	972.6	(1.14)	17,023	1.46
1995	248.5	(1.93)	967.8	(0.49)	17,245	1.30
1996	245.3	(1.29)	961.4	(0.66)	17,238	(0.04)
1997	245.4	0.04	965.1	0.38	17,418	1.04
1998	247.9	1.02	970.2	0.53	17,560	0.82
1999	240.2	(3.11)	944.8	(2.62)	17,323	(1.35)
2000	235.7	(1.87)	943.2	(0.17)	17,265	(0.33)
2001	226.7	(3.82)	899.9	(4.59)	16,440	(4.78)
2002	212.9	(6.09)	816.8	(9.23)	15,305	(6.90)

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, machinery and computer and electronics for the total number employed in 2002.

TABLE B-12

Manufacturing Employment
By Industry
(In Thousands)

Calendar Year	Transportation Equipment	Fabricated Metals	Computer & Electronics	Machinery	Other[a]	Total Manufacturing Employment
1993	65.37	39.87	23.87	25.02	107.41	261.54
1994	59.94	40.01	23.03	24.98	131.44	253.43
1995	55.50	41.08	22.92	24.84	129.26	248.51
1996	53.66	41.52	22.77	24.70	127.00	245.33
1997	51.49	41.57	23.50	25.46	127.79	245.39
1998	52.27	42.53	23.78	25.42	128.01	247.87
1999	49.86	40.90	22.49	23.99	126.15	240.23
2000	46.92	40.46	22.56	23.72	123.89	235.72
2001	48.86	38.02	20.94	22.42	119.01	226.69
2002	45.47	35.07	18.03	20.26	119.01	212.93

(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 1993 at 261,540 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 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 212,930 in 2002, after a rebound to 247,870 in 1998. The total number of manufacturing jobs dropped 48,610, or 18.6% for the ten year period since 1993.

Exports. In Connecticut, the export sector of manufacturing has assumed an 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 $8.3 billion in 2002, accounting for approximately 5.1% of Gross State Product. From 1998 to 2002, the State's export of goods grew at an average annual rate of 3.5%. The following table shows the growth in exports of manufacturing products.

TABLE B-13

Exports Originating in Connecticut
(In Millions)

	1998	1999	2000	2001	2002	% of 2002 Total	Average % Growth 1998-2002
A. Manufacturing Products							
Transportation Equipment	$2,665.3	$2,599.0	$3,168.5	$3,988.3	$4,098.7	49.3	12.0
Computer & Electronics	762.6	877.6	904.5	804.4	760.0	9.1	0.4
Machinery, Except Electronics	801.4	755.7	1,005.2	898.0	669.8	8.1	(2.2)
Fabricated Metal Production	312.9	328.5	369.8	391.5	427.4	5.1	8.1
Chemicals	557.0	547.7	612.8	567.3	499.9	6.0	(2.3)
Misc. Manufacturing	568.3	581.5	395.1	430.4	393.6	4.7	(7.3)
Electrical Equipment	237.5	242.9	292.9	259.8	316.3	3.8	8.3
Plastics & Rubber	159.6	153.1	144.5	152.0	141.2	1.7	(2.9)
Paper	134.1	139.6	150.8	139.5	174.9	2.1	7.5
Primary Metal Mfg.	182.1	191.1	247.0	210.1	167.6	2.0	(0.2)
Others	916.3	814.5	755.7	769.1	664.0	8.0	(7.6)
Total	$7,297.1	$7,231.2	$8,046.8	$8,610.4	$8,313.4	100.0	3.5
% Growth	3.4%	(0.9%)	11.3%	7.0%	(3.4%)		
B. Gross State Product[(a)]	$142,701	$149,010	$161,929	$166,165	$164,337		
Mfg Exports as a % of GSP	5.1%	4.9%	5.0%	5.2%	5.1%		

(a) In millions.
(b) Gross State Product for 2002 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 since the early 1980s. Connecticut has witnessed a marked reduction in the amount of federal spending earmarked for defense related industries in the State. In federal fiscal year 2002, Connecticut received $5.6 billion of prime contract awards. These total awards accounted for 3.6% of national total awards and ranked ninth in total defense dollars awarded and second in per capita dollars awarded among the 50 states. In fiscal year 2002, Connecticut had $1,629 in per capita defense awards, compared to the national average of $550. 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 2002, down from 3.4% of Gross State Product in fiscal year 1993. The increase in 2002 was primarily due to the procurement of helicopters and submarines.

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.
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
2001-02	$5,638,582	9th	32.1	17.4

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 87% by 2002. This trend has decreased the State's dependence on manufacturing. Over the course of the last ten years, there were approximately 185,700 jobs created in this sector, an increase of 14.6%. 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
1993	1,269.6	1.29	5,096.6	2.10	94,058	2.31
1994	1,290.2	1.62	5,227.4	2.57	97,268	3.41
1995	1,313.1	1.77	5,358.8	2.51	100,068	2.88
1996	1,338.3	1.92	5,470.4	2.08	102,463	2.39
1997	1,367.1	2.15	5,610.2	2.56	105,350	2.82
1998	1,395.6	2.08	5,753.3	2.55	108,363	2.86
1999	1,428.9	2.39	5,910.5	2.73	111,668	3.05
2000	1,457.5	2.00	6,074.2	2.77	114,528	2.56
2001	1,454.5	(0.21)	6,126.7	0.86	115,395	0.76
2002	1,455.3	0.06	6,106.0	(0.34)	115,073	(0.28)

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 1993, 2000, 2001 and 2002 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 1993 and 2002, service industry employment expanded by 107,800 workers, adding more than one out of every two jobs statewide, which registered an increase of 185,650 jobs. State and local governments expanded by 41,610 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. There are approximately 22,000 employees working at the State's two tribal casinos.

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

Industry	Calendar 1993	Calendar 2000	Calendar 2001	Calendar 2002	Percent Change 2001-02	Percent Change 1993-02
Construction[a]	48.71	65.35	66.09	64.30	(2.71)	32.01
Information	39.64	46.42	44.67	41.14	(7.90)	3.78
Transportation, Warehousing & Utilities	48.42	51.87	50.25	48.38	(3.72)	(0.08)
Wholesale Trade	63.92	68.17	67.38	65.59	(2.66)	2.61
Retail Trade	175.79	197.42	194.52	194.06	(0.24)	10.39
Finance, Insurance & Real Estate	140.30	143.05	142.93	143.00	0.05	1.92
Services[b]	542.18	643.33	644.15	649.98	0.91	19.88
Federal Government	24.62	23.46	21.62	21.17	(2.08)	(14.01)
State and Local Government	186.05	218.40	222.84	227.66	2.16	22.36
Total Non-manufacturing Employment[c]	1,269.63	1,457.47	1,454.45	1,455.28	0.06	14.62

(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 2002 totaled $43.9 billion, an increase of 4.0% from fiscal 2001. This increase reflects the sales improvement in those industries such as general merchandise, hardware stores and food products.

TABLE B-17

Retail Trade In Connecticut
(In Millions)

		Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	% Of Fiscal Year 2002 Total	Average % Growth Fiscal Year 1998-2002
SIC52	Hardware Stores	$1,512	$2,320	$2,418	$2,376	$2,751	6.3	17.9
SIC53	General Merchandise	3,793	3,742	3,744	3,024	4,002	9.1	3.0
SIC54	Food Products	6,479	6,922	7,139	7,521	8,127	18.5	5.8
SIC55	Automotive Products	7,654	7,963	8,712	8,531	8,605	19.6	3.1
SIC56	Apparel & Accessory	1,896	2,047	2,195	2,237	2,274	5.2	4.7
SIC57	Furniture & Appliances	4,333	4,011	4,299	3,971	3,629	8.3	(4.1)
SIC58	Eating & Drinking	2,799	2,966	3,148	3,327	3,374	7.7	4.8
SIC59	Misc. Shopping Stores	9,425	9,865	10,975	11,247	11,162	25.4	4.4
	Total[(a)]	$37,891	$39,836	$42,630	$42,234	$43,924	100.0	3.8
% Change from Previous Year		7.1	5.1	7.0	(0.9)	4.0		
Durables (SIC 52,55,57)		$13,499	$14,294	$15,429	$14,878	$14,986	34.1%	2.7%
% Change from Previous Year		6.7	5.9	7.9	(3.6)	0.7		
Non Durables (all other SICs)		$24,392	$25,542	$27,201	$27,356	$28,939	65.9%	4.4%
% Change from Previous Year		7.3	4.7	6.5	0.6	5.8		

(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 6.3% in 1993, which was below the New England average of 6.8% and the national average of 6.9%. Through calendar 2000, Connecticut's unemployment rate generally declined and mostly remained below the New England and the national average. Connecticut's unemployment rate of 5.0% for the first six months of 2003 is below the New England and national average of 5.1% and 6.0%, respectively, for the same period.

The following table compares the unemployment rate averages of Connecticut, New England and the United States between 1993 and the first half of 2003.

TABLE B-18

Unemployment Rate

Year	Unemployment Rate		
	Connecticut	New England	United States
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	4.3	4.8	5.8
2003	5.0	5.1	6.0

(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.

SOURCE: Connecticut State Labor Department
Federal Reserve Bank of Boston
United States Department of Labor, Bureau of Labor Statistics

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 10, 2004

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, 2003. The statements and the Independent Auditors' Report are extracted from the Comprehensive Annual Report of the State of Connecticut, which is prepared by my office in conformance with generally accepted accounting principles.

Sincerely,

Nancy Wyman

Nancy Wyman
State Comptroller

An Equal Opportunity Employer

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON

STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

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, 2003, 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:

Government-wide Financial Statements

- 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 59 percent of the assets and 50 percent of the revenues of the Business Type Activities;
- the financial statements of the discretely presented component units;

Fund Financial Statements

- the financial statements of the Special Transportation Fund account, which represents 98 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 100 percent of the assets and 100 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-Technical 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 59 percent of the assets and 50 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, 2003, 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 January 30, 2004, 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 23 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	Robert G. Jaekle
Auditor of Public Accounts	Auditor of Public Accounts

January 30, 2004
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.

FINANCIAL HIGHLIGHTS

Government-wide:
Assets of the state's governmental activities were $5.3 billion less than liabilities, a deterioration in financial position of $0.7 billion related to current year operations. Assets of the state's business type activities exceeded liabilities by $3.9 billion, an increase of $0.1 billion related to current year operations. In total, net assets went from negative $0.8 billion to a negative $1.4 billion, a decrease in total net assets of $0.6 billion.

As noted above, the liabilities of the state exceeded its assets by $5.3 billion as of June 30, 2003. Of this amount, the unrestricted net asset portion was a negative $9.2 billion. One reason for the negative balance is the state's reliance on issuing bonds to fund certain operating grants. General Obligation bonds outstanding as of June 30, 2003 that related to municipal school construction, and other operating grants and loans totaled $3.3 billion. Additionally, long-term obligations such as net pension, compensated absences, and worker's compensation obligations of $3.9 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 $1.6 billion was reserved leaving a negative unreserved balance of $0.1 billion. The unreserved undesignated fund balance of the General Fund was also negative at $0.8 billion at June 30, 2003.

Enterprise Fund assets exceeded liabilities resulting in total net assets of $3.9 billion, of which $3.8 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 $12.5 billion (see Note 16). In addition, $0.2 billion in Economic Recovery Notes was outstanding on June 30, 2003. Other long-term liabilities totaled $3.9 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 GASB 34 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 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 (page 37).

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 GASB 34 financial reporting model, as presented here, 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.

<u>General Fund</u>. 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.

<u>Transportation Fund.</u> 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.

<u>Debt Service Fund.</u> 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 GASB 34 financial reporting model brought three important changes to traditional practice.

- Budgetary comparisons 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 GASB 34 financial reporting model requires 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. In accordance with the requirements of the GASB 34 reporting model utilized in preparation of this report:

- 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 GASB 34 reporting model, such a distinction is no longer made. Three classifications are used under the GASB 34 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 has been 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 *Comprehensive Annual Financial Report* prior to Fiscal Year 2002.

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 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 $0.6 billion over the course of Fiscal Year 2003 operations. The net assets of governmental activities decreased $0.7 billion, while net assets from business-type activities increased $0.1 billion.

State Of Connecticut's Net Assets
(in Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
ASSETS:						
Current and Other Assets	$ 3,114.3	$ 3,373.4	$ 3,767.3	$ 3,940.4	$ 6,881.6	$ 7,313.8
Capital Assets	9,531.9	9,125.8	2,627.6	2,306.1	12,159.5	11,431.9
Total Assets	12,646.2	12,499.2	6,394.9	6,246.5	19,041.1	18,745.7
LIABILITES:						
Current Liabilities	2,344.8	2,535.4	555.4	488.4	2,900.2	3,023.8
Long-term Liabilities	15,648.4	14,568.4	1,964.4	1,948.7	17,612.8	16,517.1
Total Liabilities	17,993.2	17,103.8	2,519.8	2,437.1	20,513.0	19,540.9
NET ASSETS:						
Invested in Capital Assets, Net of Related Debt	2,622.4	2,348.4	2,092.6	1,847.5	4,715.0	4,195.9
Restricted	1,233.9	1,244.2	1,650.1	1,855.5	2,884.0	3,099.7
Unrestricted	(9,203.3)	(8,197.2)	132.4	106.4	(9,070.9)	(8,090.8)
Total Net Assets	$ (5,347.0)	$ (4,604.6)	$ 3,875.1	$ 3,809.4	$ (1,471.9)	$ (795.2)

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 2003.

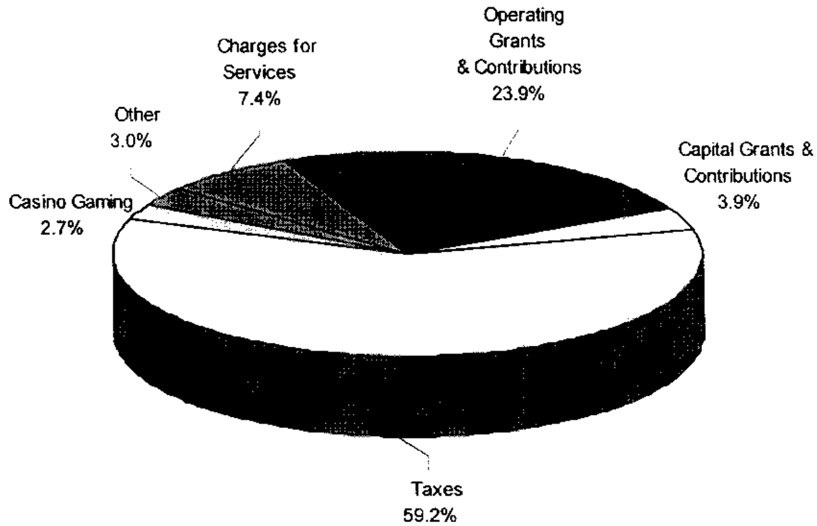
State of Connecticut's Changes in Net Assets
(Expressed in Millions)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
REVENUES						
Program Revenues						
Charges for Services	1,072.9	$ 941.9	$ 2,594.8	$ 2,409.7	$ 3,667.7	$ 3,351.6
Operating Grants and Contributions	3,489.2	3,320.1	456.2	447.7	3,945.5	3,767.8
Capital Grants and Contributions	562.6	509.1	10.2	37.8	572.8	546.9
General Revenues						
Taxes	8,644.7	8,292.6	-	-	8,644.7	8,292.6
Casino Gaming Payments	387.3	369.0	-	-	387.3	369.0
Other	208.5	229.5	111.3	98.8	319.8	328.3
Total Revenues	14,365.2	13,662.2	3,172.5	2,994.0	17,537.8	16,656.2
EXPENSES						
Legislative	80.2	80.2	-	-	80.2	80.2
General Government	1,145.6	1,340.0	-	-	1,145.6	1,340.0
Regulation and Protection	574.7	627.4	-	-	574.7	627.4
Conservation and Development	410.2	434.4	-	-	410.2	434.4
Health and Hospitals	1,711.1	1,664.1	-	-	1,711.1	1,664.1
Transportation	941.3	1,366.1	-	-	941.3	1,366.1
Human Services	4,138.9	3,882.7	-	-	4,138.9	3,882.7
Education, Libraries and Museums	3,090.6	3,000.3	-	-	3,090.6	3,000.3
Corrections	1,450.4	1,355.1	-	-	1,450.4	1,355.1
Judicial	555.8	538.4	-	-	555.8	538.4
Interest and Fiscal Charges	595.9	584.1	-	-	595.9	584.1
Higher Education	-	-	1,977.9	1,869.9	1,977.9	1,869.9
Bradley International Airport	-	-	54.3	50.4	54.3	50.4
CT Lottery Corporation	-	-	643.2	672.1	643.2	672.1
Employment Security	-	-	963.2	736.3	963.2	736.3
Second Injury & Compensation Assurance	-	-	-	61.2	-	61.2
Clean Water	-	-	29.4	30.9	29.4	30.9
Other	-	-	72.6	19.2	72.6	19.2
Total Expenses	14,694.7	14,872.8	3,740.7	3,440.0	18,435.4	18,312.8
Excess (Deficiency) Before Transfers and Special Items	(329.5)	(1,210.6)	(568.2)	(446.0)	(897.6)	(1,656.6)
Transfers	(640.2)	(657.0)	640.3	657.0	0.1	-
Special Items	227.3	-	(6.5)	(4.5)	220.8	(4.5)
Increase (Decrease) in Net Assets	(742.4)	(1,867.6)	65.6	206.5	(676.8)	(1,661.1)
Net Assets (Deficit) - Beginning (Restated)	(4,604.6)	(2,737.0)	3,809.4	3,602.9	(795.1)	865.9
Net Assets (Deficit) - Ending	(5,347.0)	$ (4,604.6)	$ 3,875.1	$ 3,809.4	(1,471.9)	$ (795.2)

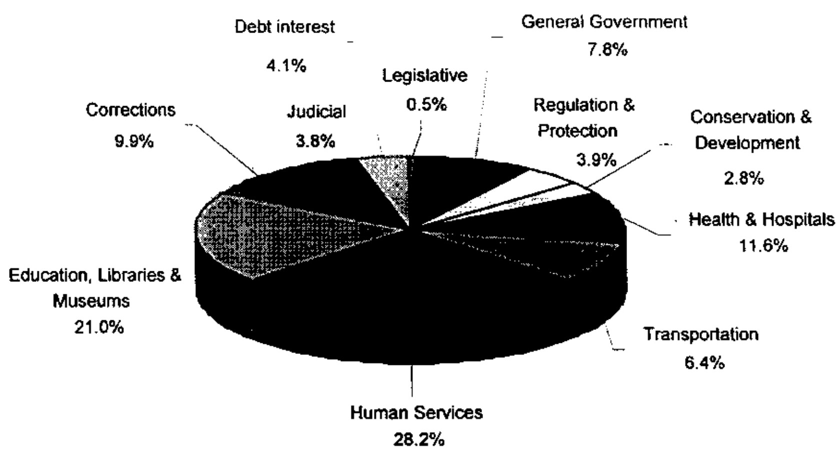
GOVERNMENTAL ACTIVITIES

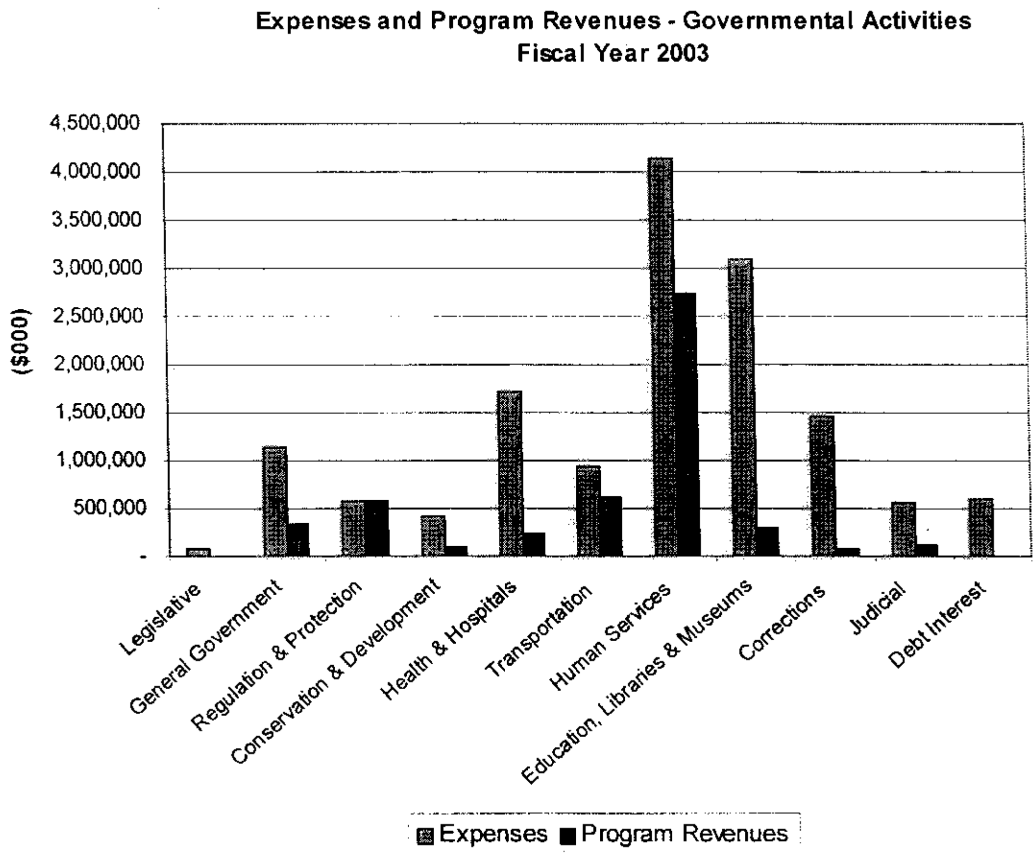
The following charts depict the distribution of revenues and expenses for Fiscal Year 2003.

Revenues - Governmental Activities
Fiscal Year 2003



Expenses- Governmental Activities
Fiscal Year 2003





Within governmental activities, Fiscal Year 2003 program revenue receipts were $9.5 billion less than expenses. General revenues supplemented the programmatic revenue shortfall. General revenues in governmental activities amounted to $9.4 billion in Fiscal Year 2003. During Fiscal Year 2003, budget projections indicated that a gap between revenues and expenses had developed in the General Fund and would accelerate. In an effort to improve the state's future operating results, revenue enhancements were enacted and appropriations reduced during the course of Fiscal Year 2003 as discussed in the General Fund section of this MDA that follows.

Business-type activities saw an increase of $0.1 billion or 1.8 percent through Fiscal Year 2003 operations. Higher-Education expenses accounted for 52.9 percent of business-type expenses and 39.1 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 2003 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 2003 operations had only a minor impact on the fund balance in governmental funds increasing the balance by $30.5 million.

General Fund

The General Fund is the chief operating fund of the state. At the end of Fiscal Year 2003, the General Fund had a negative fund balance of $0.4 billion of which $0.8 billion was unreserved. Fiscal Year 2003 operations increased the fund balance in the General Fund by $33.2 million. Tax increases and other revenue enhancements enacted by the legislature during Fiscal Year 2003 (Public Act 03-2) generated an estimated $485 million in additional revenue, and spending reductions introduced during the fiscal year were projected to save over $100 million (the estimates are on a budgetary basis or modified cash basis of accounting). These actions helped avert a large General Fund operating deficit in Fiscal Year 2003.

By the end of the first quarter of Fiscal Year 2003, budget based forecasts were showing a large deficit building for the year. In response, deficit mitigation legislation was enacted as referenced above. Specific tax changes included: an increase in the top personal income tax rate from 4.5 percent to 5 percent, a 20 percent surtax on corporate earnings, elimination of various sales tax exemptions and a 40 cent increase in the cigarette tax. The legislation also included an additional $72 million in one-time transfers to the General Fund to supplement the $284.1 million that had already been budgeted for such transfers in Fiscal Year 2003. Spending reductions included layoffs, an early retirement program, and various directed programmatic reductions.

Transportation Fund

The Transportation Fund ended Fiscal Year 2003 with a fund balance of $0.2 billion of which $0.1 billion was unreserved. Fund balance was reduced by $61.6 million through Fiscal Year 2003 operations. The majority of this reduction was due to the transfer of $52 million to the General Fund in accordance with Public Act 03-2.

Other Funds

The other funds category includes the state's special revenue funds. These funds had a balance of $1.1 billion on June 30, 2003 of which $0.7 billion was unreserved.

In Fiscal Year 2003, expenditures exceeded revenues by $1.2 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, 2003 amounts to $12.2 billion (net of accumulated depreciation). The increase in capital assets for governmental activities was 4.5% while the increase for business-type activities was 13.9%. Depreciation charges for the fiscal year totaled $0.7 billion.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Land	$ 911.8	$ 863.6	$ 44.8	$ 46.1	$ 956.6	$ 909.7
Buildings	879.9	701.4	1,712.0	1,311.6	2,591.9	2,013.0
Improvements Other than Buildings	63.2	45.4	230.0	198.8	293.2	244.2
Equipment	458.4	547.4	355.7	365.4	814.1	912.8
Infrastructure	5,481.8	5,719.7	-	-	5,481.8	5,719.7
Construction in Progress	1,736.9	1,248.3	285.1	384.2	2,022.0	1,632.5
Total	$ 9,532.0	$ 9,125.8	$ 2,627.6	$ 2,306.1	$ 12,159.6	$ 11,431.9

Additional information on the State of Connecticut's capital assets can be found in Note 10 on page 71 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 Primary Government	
	2003	2002	2003	2002	2003	2002
General Obligation Bonds	$ 9,216.4	$ 8,527.4	$ -	$ -	$ 9,216.4	$ 8,527.4
Transportation Related Bonds	3,205.8	3,174.9	-	-	3,205.8	3,174.9
Revenue Bonds	-	-	1,555.2	1,504.8	1,555.2	1,504.8
Total	$ 12,422.2	$ 11,702.3	$ 1,555.2	$ 1,504.8	$ 13,977.4	$ 13,207.1

In Fiscal Year 2003 the state increased net outstanding bonds by $0.8 billion. For the year, outstanding debt in governmental activities increased by 6.2 percent and for business-type activities the increase was 3.7 percent. It should also be noted that the state also issued $219.2 million in economic recovery notes (see note 17, page 76). The state's General Obligation bonds are rated Aa3, AA and AA by Moodys, Standard and Poors and Fitch respectively. Special Tax Obligation bonds are rated A1, AA-, AA- by Moodys, Standard and Poors and Fitch 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.

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, 2003

(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 245,597	$ 418,475	$ 664,072	$ 161,495
Deposits with U.S. Treasury	-	501,213	501,213	-
Investments	108,070	251,471	359,541	85,191
Receivables, (Net of Allowances)	1,722,305	493,451	2,215,756	50,589
Due from Component Units	195	163,602	163,797	-
Due from Primary Government	-	-	-	20,636
Inventories	60,278	11,315	71,593	3,607
Restricted Assets	-	9,799	9,799	1,149,670
Internal Balances	(109,943)	109,943	-	-
Other Current Assets	10,236	9,778	20,014	5,633
Total Current Assets	2,036,738	1,969,047	4,005,785	1,476,821
Noncurrent Assets:				
Cash and Cash Equivalents	-	120,772	120,772	260
Due From Component Units	1,805	-	1,805	-
Investments	-	421,279	421,279	11,773
Loans, (Net of Allowances)	427,351	542,464	969,815	164,010
Restricted Assets	622,082	643,839	1,265,921	3,572,747
Capital Assets, (Net of Accumulated Depreciation)	9,531,937	2,627,566	12,159,503	235,935
Other Noncurrent Assets	26,331	69,958	96,289	16,118
Total Noncurrent Assets	10,609,506	4,425,878	15,035,384	4,000,843
Total Assets	12,646,244	6,394,925	19,041,169	5,477,664
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	452,164	203,669	655,833	54,440
Due to Component Units	20,636	-	20,636	-
Due to Primary Government	-	-	-	163,797
Due to Other Governments	99,406	-	99,406	-
Escrow Deposits	-	-	-	18,122
Current Portion of Long-Term Obligations	1,051,039	170,078	1,221,117	141,766
Amount Held for Institutions	-	-	-	299,513
Deferred Revenue	35,787	100,243	136,030	380
Medicaid Liability	443,898	-	443,898	-
Liability for Escheated Property	68,073	-	68,073	-
Other Current Liabilities	173,780	81,445	255,225	14,558
Total Current Liabilities	2,344,783	555,435	2,900,218	692,576
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	15,648,445	1,964,418	17,612,863	3,673,077
Total Noncurrent Liabilities	15,648,445	1,964,418	17,612,863	3,673,077
Total Liabilities	17,993,228	2,519,853	20,513,081	4,365,653
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,622,372	2,092,633	4,715,005	43,632
Restricted For:				
Transportation	101,219	-	101,219	-
Debt Service	587,518	86,308	673,826	19,506
Capital Projects	119,259	79,093	198,352	-
Unemployment Compensation	-	646,399	646,399	-
Clean Water Projects	-	435,001	435,001	-
Bond Indenture Requirements	-	23,970	23,970	676,290
Other Purposes	331,805	135,170	466,975	56,511
Funds Held as Permanent Investments:				
Expendable	5,329	-	5,329	-
Nonexpendable	88,862	244,104	332,966	-
Unrestricted (Deficit)	(9,203,348)	132,394	(9,070,954)	316,072
Total Net Assets (Deficit)	$ (5,346,984)	$ 3,875,072	$ (1,471,912)	$ 1,112,011

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

Statement of Activities

For The Fiscal Year Ended June 30, 2003

(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services, Fees, Fines , and Forfeitures**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government				
Governmental Activities:				
Legislative	$ 80,176	$ 85	$ 292	$ -
General Government	1,145,613	186,206	156,989	-
Regulation and Protection	574,674	435,142	140,337	-
Conservation and Development	410,167	38,039	66,921	55
Health and Hospitals	1,711,076	57,144	185,903	-
Transportation	941,257	53,441	3,145	562,086
Human Services	4,138,932	151,330	2,585,437	-
Education, Libraries, and Museums	3,090,630	45,908	260,392	447
Corrections	1,450,392	14,240	63,776	25
Judicial	555,791	91,397	26,021	-
Interest and Fiscal Charges	595,949	-	-	-
Total Governmental Activities	14,694,657	1,072,932	3,489,213	562,613
Business-Type Activities:				
Higher Education	1,977,886	972,921	219,142	5,154
Bradley International Airport	54,323	49,594	-	5,041
CT Lottery Corporation	643,214	867,055	-	-
Employment Security	963,201	577,079	203,297	-
Clean Water	29,435	12,008	17,661	-
Other	72,633	116,109	16,139	-
Total Business-Type Activities	3,740,692	2,594,766	456,239	10,195
Total Primary Government	$ 18,435,349	$ 3,667,698	$ 3,945,452	$ 572,808
Component Units:				
Connecticut Housing Finance Authority (12-31-02)	$ 222,841	$ 223,386	$ -	$ -
Connecticut Resources Recovery Authority	169,970	156,258	-	-
Other	55,733	38,229	1,929	25,107
Total Component Units	$ 448,544	$ 417,873	$ 1,929	$ 25,107

General Revenues:
Taxes:
Personal Income
Corporate Income
Sales and Use
Other
Restricted for Transportation Purposes:
Motor Fuel
Other
Casino Gaming Payments
Tobacco Settlement
Unrestricted Investment Earnings
Other
Special Items:
Statutory Payment from Component Units
Transfer from Agency Fund
Statutory Payment to State
Other
Extraordinary Item-Loss on Early Retirement of Debt
Transfers-Internal Activities
Total General Revenues, Special Items, Extraordinary Item, and Transfers
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
$ (79,799)	$ -	$ (79,799)	$ -
(802,418)	-	(802,418)	-
805	-	805	-
(305,152)	-	(305,152)	-
(1,468,029)	-	(1,468,029)	-
(322,585)	-	(322,585)	-
(1,402,165)	-	(1,402,165)	-
(2,783,883)	-	(2,783,883)	-
(1,372,351)	-	(1,372,351)	-
(438,373)	-	(438,373)	-
(595,949)	-	(595,949)	-
(9,569,899)	-	(9,569,899)	-
-	(780,669)	(780,669)	-
-	312	312	-
-	223,841	223,841	-
-	(182,825)	(182,825)	-
-	234	234	-
-	59,615	59,615	-
-	(679,492)	(679,492)	-
(9,569,899)	(679,492)	(10,249,391)	-
-	-	-	545
-	-	-	(13,712)
-	-	-	9,532
-	-	-	(3,635)
3,593,080	-	3,593,080	-
390,012	-	390,012	-
2,938,341	-	2,938,341	-
1,208,083	-	1,208,083	-
-	-	-	-
450,696	-	450,696	-
64,524	-	64,524	-
387,255	-	387,255	-
137,915	-	137,915	-
54,741	111,336	166,077	61,756
15,855	-	15,855	-
100,000	-	100,000	-
127,256	-	127,256	-
-	-	-	(15,000)
-	(2,455)	(2,455)	(16,125)
-	(4,010)	(4,010)	-
(640,268)	640,268	-	-
8,827,490	745,139	9,572,629	30,631
(742,409)	65,647	(676,762)	26,996
(4,604,575)	3,809,425	(795,150)	1,085,015
$ (5,346,984)	$ 3,875,072	$ (1,471,912)	$ 1,112,011

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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 90.

Balance Sheet
Governmental Funds

June 30, 2003
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	$ -	$ -	$ 112,466	$ 123,018	$ 235,484
Investments	-	-	-	108,070	108,070
Securities Lending Collateral	-	-	-	9,750	9,750
Receivables:					
Taxes, Net of Allowances	761,905	-	40,898	-	802,803
Accounts, Net of Allowances	197,483	-	5,530	26,804	229,817
Loans, Net of Allowances	-	-	-	427,351	427,351
From Other Governments	562,792	-	9,220	81,414	653,426
Interest	-	4,969	150	-	5,119
Other	11,105	-	6,586	2	17,693
Due from Other Funds	12,974	-	9,156	595,496	617,626
Advances to Other Funds	4,700	-	-	-	4,700
Due from Component Units	2,000	-	-	-	2,000
Inventories	42,124	-	13,080	-	55,204
Restricted Assets	-	622,082	-	-	622,082
Total Assets	$ 1,595,083	$ 627,051	$ 197,086	$ 1,371,905	$ 3,791,125
Liabilities and Fund Balances					
Liabilities:					
Accounts Payable and Accrued Liabilities	$ 207,128	$ -	$ 19,772	$ 122,339	349,239
Due to Other Funds	626,709	4,968	1,060	67,407	700,144
Due to Component Units	189	-	-	20,447	20,636
Due to Other Governments	99,406	-	-	-	99,406
Deferred Revenue	389,858	-	17,978	36,706	444,542
Medicaid Liability	443,898	-	-	-	443,898
Liability For Escheated Property	68,073	-	-	-	68,073
Securities Lending Obligation	-	-	-	9,750	9,750
Other Liabilities	161,321	-	-	2,673	163,994
Total Liabilities	1,996,582	4,968	38,810	259,322	2,299,682
Fund Balances					
Reserved For:					
Petty Cash	991	-	-	-	991
Inventories	42,124	-	13,080	-	55,204
Loans	6,700	-	-	427,351	434,051
Continuing Appropriations	86,647	-	19,866	550	107,063
Debt Service/Issue Costs	55,097	622,083	-	-	677,180
Restricted Purposes	249,260	-	-	94,191	343,451
Unreserved Reported In:					
General Fund	(842,318)	-	-	-	(842,318)
Transportation Fund	-	-	125,330	-	125,330
Special Revenue Funds	-	-	-	443,507	443,507
Capital Project Funds	-	-	-	146,984	146,984
Total Fund Balances	(401,499)	622,083	158,276	1,112,583	1,491,443
Total Liabilities and Fund Balances	$ 1,595,083	$ 627,051	$ 197,086	$ 1,371,905	$ 3,791,125

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, 2003
(Expressed in Thousands)

Total Fund Balance - Governmental Funds		$	1,491,443
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	2,538,430		
Equipment	1,188,423		
Infrastructure	10,893,203		
Other Capital Assets	1,284,132		
Accumulated Depreciation	(6,435,185)		9,469,003
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.			26,294
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.			408,884
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.			33,393
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds (Note 16).			
Net Pension Obligation	(3,256,597)		
Worker's Compensation	(265,645)		
Capital Leases	(67,988)		
Compensated Absences	(342,349)		
Claims and Judgments	(7,612)		(3,940,191)
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 16).			
Economic Recovery Note	(219,235)		
Bonds Payable	(12,422,169)		
Unamortized Premiums	(233,093)		
Less: Deferred Loss on Refundings	127,974		
Accrued Interest Payable	(89,287)		(12,835,810)
Net Assets of Governmental Activities		$	(5,346,984)

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, 2003

(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Revenues					
Taxes	$ 8,202,454	$ -	$ 514,654	$ 10,394	$ 8,727,502
Licenses, Permits and Fees	182,532	-	296,584	45,882	524,998
Tobacco Settlement	-	-	-	137,915	137,915
Intergovernmental	3,393,386	-	84,200	551,054	4,028,640
Charges for Services	54,161	-	35,820	2,941	92,922
Fines, Forfeits and Rents	71,475	-	26,128	2,306	99,909
Casino Gaming Payments	387,255	-	-	-	387,255
Investment Earnings	6,160	25,806	4,136	14,857	50,959
Miscellaneous	264,737	-	11,079	87,655	363,471
Total Revenues	12,562,160	25,806	972,601	853,004	14,413,571
Expenditures					
Current:					
Legislative	77,307	-	-	-	77,307
General Government	893,009	-	2,403	219,851	1,115,263
Regulation and Protection	329,115	-	64,270	165,325	558,710
Conservation and Development	183,051	-	-	219,604	402,655
Health and Hospitals	1,677,490	-	-	9,209	1,686,699
Transportation	5,184	-	526,325	6,288	537,797
Human Services	4,062,911	-	-	26,178	4,089,089
Education, Libraries, and Museums	2,544,540	-	-	497,805	3,042,345
Corrections	1,409,189	-	-	13,524	1,422,713
Judicial	536,870	-	-	9,284	546,154
Capital Projects	-	-	-	871,029	871,029
Debt Service:					
Principal Retirement	592,268	296,315	15,082	993	904,658
Interest and Fiscal Charges	430,343	165,386	5,776	11,676	613,181
Total Expenditures	12,741,277	461,701	613,856	2,050,766	15,867,600
Excess (Deficiency) of Revenues Over Expenditures	(179,117)	(435,895)	358,745	(1,197,762)	(1,454,029)
Other Financing Sources (Uses)					
Bonds/Notes Issued	219,235	-	-	1,584,910	1,804,145
Premiums on Bonds Issued	4,628	35,115	-	84,863	124,606
Transfers In	706,976	404,653	26,210	144,324	1,282,163
Transfers Out	(819,416)	(26,564)	(446,571)	(503,993)	(1,796,544)
Capital Lease Obligations	866	-	-	211	1,077
Refunding Bonds Issued	-	745,669	-	-	745,669
Payment to Refunded Bond Escrow Agent	-	(776,597)	-	-	(776,597)
Total Other Financing Sources (Uses)	112,289	382,276	(420,361)	1,310,315	1,384,519
Special Item-Statutory Payment from Component Units	100,000	-	-	-	100,000
Net Change in Fund Balances	33,172	(53,619)	(61,616)	112,553	30,490
Fund Balances - Beginning (as restated)	(434,926)	675,702	221,671	1,000,030	1,462,477
Changes in Reserves for Inventories	255	-	(1,779)	-	(1,524)
Fund Balances - Ending	$ (401,499)	$ 622,083	$ 158,276	$ 1,112,583	$ 1,491,443

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, 2003

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 30,490
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	(1,804,145)	
Refunding Bonds Issued	(745,669)	
Premium on Bonds Issued	(124,606)	(2,674,420)
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	904,658	
Payments to Refunded Bond Escrow Agent ($4,668 reported in debt service)	781,265	
Capital Lease Payments	9,985	1,695,908
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	1,047,212	
Depreciation Expense	(639,576)	407,636
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.		(1,077)
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 consumption exceeded purchases of inventories.		(1,524)
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	1,106	
Increase in Interest Accreted on Capital Appreciation Debt	(5,929)	
Amortization of Bond Premium	14,099	
Amortization of Loss on Debt Refundings	(9,231)	
Increase in Compensated Absences Liability	(6,787)	
Increase in Workers Compensation Liability	(20,462)	
Decrease in Claims and Judgements Liability	113	
Increase in Net Pension Obligation	(139,248)	(166,339)
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.		(46,708)
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 internal service funds is reported with the governmental activities.		1,106
Debt issue costs are recorded as expenditures in the govenmental 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	14,069	
Amortization of Debt Issue Costs	(1,550)	12,519
Change in Net Assets of Governmental Activities		$ (742,409)

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, 2003
(Expressed in Thousands)

	General Fund			
	Budget			Variance with Final Budget
Revenues	Original	Final	Actual	Over (Under)
Budgeted:				
Taxes, Net of Refunds	$ 8,424,400	$ 8,424,400	$ 8,229,807	$ (194,593)
Operating Transfers In	406,000	406,000	400,801	(5,199)
Casino Gaming Payments	399,000	399,000	387,255	(11,745)
Licenses, Permits, and Fees	128,500	128,500	125,179	(3,321)
Other	268,400	268,400	303,806	35,406
Federal Grants	2,303,200	2,303,200	2,318,421	15,221
Transfer to the Resources of the General Fund	284,100	284,100	351,461	67,361
Refunds of Payments	(500)	(500)	(396)	104
Operating Transfers Out	(121,200)	(121,200)	(93,009)	28,191
Total Budgeted	12,091,900	12,091,900	12,023,325	(68,575)
Federal and Other Restricted	796,822	2,063,165	1,254,709	(808,456)
Total Revenues	12,888,722	14,155,065	13,278,034	(877,031)
Expenditures				
Budgeted:				
Legislative	65,075	59,680	57,340	2,340
General Government	481,488	471,426	420,241	51,185
Regulation and Protection	237,946	225,092	212,331	12,761
Conservation and Development	83,794	80,899	73,475	7,424
Health and Hospitals	1,255,077	1,245,652	1,222,978	22,674
Transportation	15,048	14,684	5,731	8,953
Human Services	3,702,899	3,769,694	3,724,789	44,905
Education, Libraries, and Museums	2,824,473	2,810,224	2,789,051	21,173
Corrections	1,135,337	1,130,166	1,111,416	18,750
Judicial	399,014	392,169	368,143	24,026
Non Functional	2,312,177	2,327,351	2,224,838	102,513
Total Budgeted	12,512,328	12,527,037	12,210,333	316,704
Federal and Other Restricted	796,822	2,063,165	1,254,709	808,456
Total Expenditures	13,309,150	14,590,202	13,465,042	1,125,160
Appropriations Lapsed	251,900	230,057	-	(230,057)
Excess (Deficiency) of Revenues Over Expenditures	(168,528)	(205,080)	(187,008)	18,072
Other Financing Sources (Uses)				
Prior Year Appropriations Carried Forward	168,624	168,624	168,624	-
Appropriations Continued to Fiscal Year 2003-2004	-	-	(86,647)	(86,647)
Miscellaneous Adjustments	-	-	8,416	8,416
Total Other Financing Sources (Uses)	168,624	168,624	90,393	(78,231)
Net Change in Fund Balance	$ 96	$ (36,456)	(96,615)	$ (60,159)
Budgetary Fund Balances (deficit) - July 1			744,088	
Changes in Reserves			145,181	
Budgetary Fund Balances - June 30			$ 792,654	

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

Transportation Fund

Budget Original	Budget Final	Actual	Variance with Final Budget Over (Under)
$ 539,300	$ 539,300	$ 514,996	$ (24,304)
-	-	-	-
-	-	-	-
339,000	339,000	341,421	2,421
33,700	33,700	30,033	(3,667)
3,300	3,300	3,305	5
-	-	-	-
(2,800)	(2,800)	(2,151)	649
(8,500)	(8,500)	(60,500)	(52,000)
904,000	904,000	827,104	(76,896)
205,047	297,259	93,759	(203,500)
1,109,047	1,201,259	920,863	(280,396)
-	-	-	-
2,457	2,457	2,402	55
61,957	61,957	52,038	9,919
-	-	-	-
-	-	-	-
378,513	378,513	351,868	26,645
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
503,427	503,437	485,871	17,566
946,354	946,364	892,179	54,185
205,047	297,259	93,759	203,500
1,151,401	1,243,623	985,938	257,685
15,000	34,319	-	(34,319)
(27,354)	(8,045)	(65,075)	(57,030)
28,192	28,192	28,192	-
-	-	(19,866)	(19,866)
-	-	15	15
28,192	28,192	8,341	(19,851)
$ 838	$ 20,147	(56,734)	$ (76,881)
		422,921	
		(9,873)	
		$ 356,314	

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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 International Airport
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.

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 112.

Statement of Net Assets
Proprietary Funds

June 30, 2003
(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	$ 362,038	$ 17,555	$ 25,634	$ -
Deposits with U.S. Treasury	-	-	-	501,213
Investments	203,884	-	47,587	-
Receivables:				
Accounts, Net of Allowances	157,024	4,322	9,566	139,318
Loans, Net of Allowances	3,721	-	-	-
Interest	-	-	16,063	-
From Other Governments	2,172	2,907	-	6,933
Due from Other Funds	124,415	-	-	4,726
Due from Component Units	163,602	-	-	-
Inventories	8,763	892	1,660	-
Restricted Assets	165	9,634	-	-
Other Current Assets	9,400	-	297	-
Total Current Assets	1,035,184	35,310	100,807	652,190
Noncurrent Assets:				
Cash and Cash Equivalents	120,772	-	-	-
Investments	-	-	384,020	-
Receivables, Net of Allowances	33,605	-	-	-
Loans, Net of Allowances	19,747	-	-	-
Restricted Assets	19,651	147,745	-	-
Capital Assets, Net of Accumulated Depreciation	2,288,799	303,785	1,392	-
Other Noncurrent Assets	16,972	6,631	4,835	-
Total Noncurrent Assets	2,499,546	458,161	390,247	-
Total Assets	3,534,730	493,471	491,054	652,190
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	155,911	12,700	9,825	-
Due to Other Funds	8,880	4,527	-	5,791
Current Portion of Long-Term Obligations	62,378	6,140	51,165	-
Deferred Revenue	97,822	997	987	-
Other Current Liabilities	33,869	3,494	41,999	-
Total Current Liabilities	358,860	27,858	103,976	5,791
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	639,897	251,151	384,020	-
Total Noncurrent Liabilities	639,897	251,151	384,020	-
Total Liabilities	998,757	279,009	487,996	5,791
Net Assets (Deficit)				
Invested in Capital Assets, Net of Related Debt	2,005,218	106,264	1,392	-
Restricted For:				
Debt Service	8,142	37,737	-	-
Unemployment Compensation	-	-	-	646,399
Clean Water Projects	-	-	-	-
Capital Projects	43,735	35,358	-	-
Nonexpendable Purposes	244,104	-	-	-
Other Purposes	93,469	23,970	3,058	-
Unrestricted	141,305	11,133	(1,392)	-
Total Net Assets (Deficit)	$ 2,535,973	$ 214,462	$ 3,058	$ 646,399

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

Business-Type Activities			Governmental
Enterprise Funds			Activities
Clean Water	Other Funds	Total	Internal Service Funds
$ 444	$ 12,804	$ 418,475	$ 10,113
-	-	501,213	-
-	-	251,471	-
-	18,370	328,600	13,447
103,457	22,725	129,903	-
6,095	647	22,805	-
131	-	12,143	-
-	-	129,141	4,781
-	-	163,602	-
-	-	11,315	5,074
-	-	9,799	-
-	81	9,778	486
110,127	54,627	1,988,245	33,901
-	-	120,772	-
-	37,259	421,279	-
-	-	33,605	-
502,847	19,870	542,464	-
419,038	57,405	643,839	-
-	33,590	2,627,566	62,934
5,699	2,216	36,353	37
927,584	150,340	4,425,878	62,971
1,037,711	204,967	6,414,123	96,872
8,642	16,591	203,669	6,718
-	-	19,198	39,126
35,276	15,119	170,078	243
-	437	100,243	129
2,083	-	81,445	36
46,001	32,147	574,633	46,252
507,958	181,392	1,964,418	17,227
507,958	181,392	1,964,418	17,227
553,959	213,539	2,539,051	63,479
-	(20,241)	2,092,633	24,183
-	40,429	86,308	-
-	-	646,399	-
435,001	-	435,001	-
-	-	79,093	-
-	-	244,104	-
-	38,643	159,140	-
48,751	(67,403)	132,394	9,210
$ 483,752	$ (8,572)	$ 3,875,072	$ 33,393

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

For The Fiscal Year Ended June 30, 2003
(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	$ 790,997	$ 36,687	$ 865,290	$ -
Assessments	-	-	-	570,968
Intergovernmental	209,752	-	-	203,297
Private Gifts and Grants	49,373	-	-	-
Interest on Loans	-	-	-	-
Other	96,916	-	373	6,111
Total Operating Revenues	1,147,038	36,687	865,663	780,376
Operating Expenses				
Cost of Sales and Services	152,893	-	594,973	-
Salaries, Wages and Administrative	1,333,053	31,254	11,026	-
Unemployment Compensation	-	-	-	963,201
Claims Paid	-	-	-	-
Depreciation and Amortization	126,609	12,913	839	-
Other	354,607	-	3,614	-
Total Operating Expenses	1,967,162	44,167	610,452	963,201
Operating Income (Loss)	(820,124)	(7,480)	255,211	(182,825)
Nonoperating Revenue (Expenses)				
Interest and Investment Income	13,532	6,692	33,222	33,772
Interest and Fiscal Charges	(10,724)	(10,156)	(32,762)	-
Other	45,025	12,907	1,392	-
Total Nonoperating Revenues (Expenses)	47,833	9,443	1,852	33,772
Income (Loss) Before Capital Contributions, Grants, Special Item, Extraordinary Item and Transfers	(772,291)	1,963	257,063	(149,053)
Capital Contributions	5,154	5,041	-	-
Federal Grants	-	-	-	-
Special Item-Loss on Disposal of Capital Assets	(2,455)	-	-	-
Extraordinary Item-Loss on Early Retirement of Debt	-	-	-	-
Transfers In	894,634	8,516	-	-
Transfers Out	-	-	(256,815)	(3,251)
Change in Net Assets	125,042	15,520	248	(152,304)
Total Net Assets (Deficit) - Beginning (as restated)	2,410,931	198,942	2,810	798,703
Total Net Assets (Deficit) - Ending	$ 2,535,973	$ 214,462	$ 3,058	$ 646,399

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

Business-Type Activities			Governmental
Enterprise Funds			Activities
Clean Water	Other Funds	Totals	Internal Service Funds
$ -	$ 17,546	$ 1,710,520	$ 122,135
-	88,713	659,681	-
-	-	413,049	-
-	-	49,373	-
12,008	931	12,939	-
-	8,919	112,319	937
12,008	116,109	2,957,881	123,072
-	9,169	757,035	80,076
481	9,553	1,385,367	32,304
-	-	963,201	-
-	40,402	40,402	-
-	1,006	141,367	9,848
-	-	358,221	-
481	60,130	3,645,593	122,228
11,527	55,979	(687,712)	844
20,897	3,221	111,336	83
(28,631)	(12,412)	(94,685)	-
(323)	(91)	58,910	-
(8,057)	(9,282)	75,561	83
3,470	46,697	(612,151)	927
-	-	10,195	179
17,661	16,139	33,800	-
-	-	(2,455)	-
-	(4,010)	(4,010)	-
6,161	7,320	916,631	-
(7,319)	(8,978)	(276,363)	-
19,973	57,168	65,647	1,106
463,779	(65,740)	#REF!	32,287
$ 483,752	$ (8,572)	#REF!	$ 33,393

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2003
(Expressed in Thousands)

	Business-Type Activities		
	Enterprise Funds		
	Higher Education	Bradley International Airport	Connecticut Lottery Corporation
Cash Flows from Operating Activities			
Receipts from Customers	$ 919,198	$ 36,120	$ 865,798
Payments to Suppliers	(214,387)	(14,296)	(18,926)
Payments to Employees	(1,293,101)	(11,930)	(9,256)
Other Receipts (Payments)	(25,883)	-	(576,122)
Net Cash Provided by (Used in) Operating Activities	(614,173)	9,894	261,494
Cash Flows from Noncapital Financing Activities			
Proceeds from Sale of Bonds	100,533	-	
Retirement of Bonds and Annuities Payable	(140)	-	(40,505)
Interest on Bonds and Annuities Payable	-	-	(34,121)
Transfers In	693,456	8,516	-
Transfers Out	-	-	(256,815)
Other Receipts (Payments)	25,511	-	-
Net Cash Flows from Noncapital Financing Activities	819,360	8,516	(331,441)
Cash Flows from Capital and Related Financing Activities			
Additions to Property, Plant and Equipment	(281,895)	(68,543)	(349)
Proceeds from Capital Debt	164,785	6,454	-
Principal Paid on Capital Debt	(54,921)	(5,775)	-
Interest Paid on Capital Debt	(39,094)	(14,159)	-
Transfer In	139,965	-	-
Capital Contributions	-	8,059	-
Other Receipts (Payments)	(54,434)	10,654	25
Net Cash Flows from Capital and Related Financing Activities	(125,594)	(63,310)	(324)
Cash Flows from Investing Activities			
Proceeds from Sales and Maturities of Investments	92	38,688	40,668
Purchase of Investment Securities	(102,053)	-	-
Interest on Investments	13,080	7,413	35,961
Other Receipts (Payments)	-	-	-
Net Cash Flows from Investing Activities	(88,881)	46,101	76,629
Net Increase (Decrease) in Cash and Cash Equivalents	(9,288)	1,201	6,358
Cash and Cash Equivalents -Beginning of Year	503,812	85,473	19,276
Cash and Cash Equivalents -End of Year	$ 494,524	$ 86,674	$ 25,634
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities			
Operating Income (Loss)	$ (820,124)	$ (7,480)	$ 255,211
Adjustments not Affecting Cash:			
Depreciation and Amortization	126,609	12,913	839
Others	41,805	-	465
Change in Assets and Liabilities:			
(Increase) Decrease in Receivables, Net	(21,538)	(245)	(436)
(Increase) Decrease in Due from Other Funds	33,428	-	-
(Increase) Decrease in Inventories and Other Assets	1,776	-	212
Increase (Decrease) in Accounts Payables & Accrued Liabilities	24,505	4,706	5,203
Increase (Decrease) in Due to Other Funds	(634)	-	-
Total Adjustments	205,951	17,374	6,283
Net Cash Provided by (Used In) Operating Activities	$ (614,173)	$ 9,894	$ 261,494
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets			
Cash and Cash Equivalents - Current	$ 362,038	$ 17,555	
Cash and Cash Equivalents - Noncurrent	120,772	-	
Cash and Cash Equivalents - Restricted	11,714	69,119	
	$ 494,524	$ 86,674	

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

Business-Type Activities Enterprise Funds Employment Security	Clean Water	Other	Totals	Governmental Activities Internal Service Funds
$ 767,849	$ 45,951	$ 118,532	$ 2,753,448	$ 120,459
(963,201)	-	(9,169)	(1,219,979)	(82,748)
-	(463)	(8,777)	(1,323,527)	(31,314)
(9,518)	(52,630)	(58,216)	(722,369)	-
(204,870)	(7,142)	42,370	(512,427)	6,397
-	-	-	100,533	-
-	(27,050)	(42,890)	(110,585)	-
-	(28,088)	(9,948)	(72,157)	-
-	-	6,844	708,816	-
(3,251)	(644)	(8,516)	(269,226)	-
-	(363)	(4,113)	21,035	(1,027)
(3,251)	(56,145)	(58,623)	378,416	(1,027)
-	-	(91)	(350,878)	(7,760)
-	-	-	171,239	-
-	-	-	(60,696)	-
-	-	(3,582)	(56,835)	-
-	-	-	139,965	-
-	17,602	16,483	42,144	179
-	-	(14)	(43,769)	-
-	17,602	12,796	(158,830)	(7,581)
174,349	18,319	2,472	274,588	-
-	-	-	(102,053)	-
33,772	22,287	4,358	116,871	83
-	-	(6,805)	(6,805)	-
208,121	40,606	25	282,601	83
-	(5,079)	(3,432)	(10,240)	(2,128)
-	5,523	16,236	630,320	12,241
$ -	$ 444	$ 12,804	$ 620,080	$ 10,113
$ (182,825)	$ 11,527	$ 55,979	$ (687,712)	$ 844
-	-	1,006	141,367	9,848
-	-	-	42,270	-
(8,447)	(18,669)	(16,202)	(65,537)	(2,495)
(4,079)	-	-	29,349	(116)
-	-	32	2,020	(803)
-	-	1,555	35,969	1,816
(9,519)	-	-	(10,153)	(2,697)
(22,045)	(18,669)	(13,609)	175,285	5,553
$ (204,870)	$ (7,142)	$ 42,370	$ (512,427)	$ 6,397

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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 120
Agency Funds, page 126

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2003
(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	$ 17,075	$ -	$ -	$ 155,650	$ 172,725
Receivables:					
Accounts, Net of Allowances	11,565	-	-	468	12,033
From Other Governments	477	-	-	-	477
From Other Funds	4,705	-	-	4,561	9,266
Interest	813	1,214	-	79	2,106
Investments	18,210,978	1,049,071	-	-	19,260,049
Inventories	-	-	-	881	881
Securities Lending Collateral	1,418,662	-	-	-	1,418,662
Other Assets	4,821	5	34,568	563,411	602,805
Total Assets	19,669,096	1,050,290	34,568	$ 725,050	21,479,004
Liabilities					
Accounts Payable and Accrued Liabilities	-	1,176	-	824	2,000
Securities Lending Obligation	1,418,662	-	-	-	1,418,662
Due to Other Funds	2,344	-	-	2	2,346
Other Liabilities	-	67	-	3,440	3,507
Funds Held for Others	-	-	-	720,784	720,784
Total Liabilities	1,421,006	1,243	-	$ 725,050	2,147,299
Net Assets					
Held in Trust For:					
Employees' Pension Benefits (Note 13)	18,212,368	-	-		18,212,368
Other Employee Benefits	35,722	-	-		35,722
Individuals, Organizations, and Other Governments	-	1,049,047	34,568		1,083,615
Total Net Assets	$ 18,248,090	$ 1,049,047	$ 34,568		$ 19,331,705

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, 2003
(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	$ 305,626	$ -	$ -	$ 305,626
State	622,769	-	-	622,769
Municipalities	19,450	-	-	19,450
Total Contributions	947,845	-	-	947,845
Investment Income	414,037	25,574	-	439,611
Less: Investment Expense	(66,225)	(540)	-	(66,765)
Net Investment Income	347,812	25,034	-	372,846
Escheat Securities Received	-	-	8,540	8,540
Transfers In	1,369	-	-	1,369
Other	497	-	-	497
Total Additions	1,297,523	25,034	8,540	1,331,097
Deductions				
Administrative Expense	1,441	-	-	1,441
Benefit Payments and Refunds	1,652,095	-	-	1,652,095
Escheat Securities Returned or Sold	-	-	30,130	30,130
Pool's Share Transactions	-	195,682	-	195,682
Distributions to Pool Participants	-	25,034	-	25,034
Other	1,508	-	4,610	6,118
Total Deductions	1,655,044	220,716	34,740	1,910,500
Change in Net Assets Held In Trust For:				
Pension and Other Employee Benefits	(357,521)	-	-	(357,521)
Individuals, Organizations, and Other Governments	-	(195,682)	(26,200)	(221,882)
Net Assets - Beginning	18,605,611	1,244,729	60,768	19,911,108
Net Assets - Ending	$ 18,248,090	$ 1,049,047	$ 34,568	$ 19,331,705

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

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Component Unit Financial Statements

Major Component Units

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 130.

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Combining Statement of Net Assets
Component Units

June 30, 2003
(Expressed in Thousands)

Assets	Connecticut Housing Finance Authority (12-31-02)	Connecticut Resources Recovery Authority	Other Component Units	Total
Current Assets:				
Cash and Cash Equivalents	$ -	$ 55,023	$ 106,472	$ 161,495
Investments	-	-	85,191	85,191
Receivables:				
Accounts, Net of Allowances	-	21,268	450	21,718
Loans, Net of Allowances	-	-	27,439	27,439
Other	-	-	1,432	1,432
Due from Primary Government	-	-	20,636	20,636
Inventories	-	3,607	-	3,607
Restricted Assets	651,957	16,689	481,024	1,149,670
Other Current Assets	-	1,446	4,187	5,633
Total Current Assets	651,957	98,033	726,831	1,476,821
Noncurrent Assets:				
Cash and Cash Equivalents			260	260
Investments	-	-	11,773	11,773
Loans, Net of Allowances	-	-	164,010	164,010
Restricted Assets	3,475,665	73,878	23,204	3,572,747
Capital Assets, Net of Accumulated Depreciation	2,710	213,219	20,006	235,935
Other Noncurrent Assets	-	10,341	5,777	16,118
Total Noncurrent Assets	3,478,375	297,438	225,030	4,000,843
Total Assets	4,130,332	395,471	951,861	5,477,664
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	21,696	29,424	3,320	54,440
Escrow Deposits	18,122	-	-	18,122
Current Portion of Long-Term Obligations	104,925	17,997	18,844	141,766
Amount Held for Institutions	-	-	299,513	299,513
Due to Primary Government	-	195	163,602	163,797
Deferred Revenue	-	-	380	380
Other Current Liabilities	4,718	1,330	8,510	14,558
Total Current Liabilities	149,461	48,946	494,169	692,576
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	3,293,652	229,036	150,389	3,673,077
Total Noncurrent Liabilities	3,293,652	229,036	150,389	3,673,077
Total Liabilities	3,443,113	277,982	644,558	4,365,653
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,710	26,456	14,466	43,632
Restricted:				
Debt Service	-	-	19,506	19,506
Bond Indentures	676,290	-	-	676,290
Other Purposes	8,219	43,042	5,250	56,511
Unrestricted	-	47,991	268,081	316,072
Total Net Assets	$ 687,219	$ 117,489	$ 307,303	$ 1,112,011

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

Statement of Activities
Component Units

For The Fiscal Year Ended June 30, 2003
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Connecticut Housing Finance Authority (12/31/02)	222,841	223,386	-	-
Connecticut Resources Recovery Authority	169,970	156,258	-	-
Other Component Units	55,733	38,229	1,929	25,107
Total Component Units	$ 448,544	$ 417,873	$ 1,929	$ 25,107

General Revenues
Investment Income(Loss)
Special Items:
Statutory Payment to State
Other
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 Housing Finance Authority (12-31-02)	Connecticut Resources Recovery Authority	Other Component Units	Totals
545	-	-	545
-	(13,712)	-	(13,712)
-	-	9,532	9,532
545	(13,712)	9,532	(3,635)
68,919	2,386	(9,549)	61,756
-	-	(15,000)	(15,000)
-	-	(16,125)	(16,125)
68,919	2,386	(40,674)	30,631
69,464	(11,326)	(31,142)	26,996
617,755	128,815	338,445	1,085,015
$ 687,219	$ 117,489	$ 307,303	$ 1,112,011

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Notes to the Financial Statements
June 30, 2003

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, 2002.

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.

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.

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 11 and 12.

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 2003 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 and Drinking Water funds (Enterprise funds) 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. These investments are held by the Combined Investment Funds and are reported at fair value in each fund's statement of net assets.

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 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. 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 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. 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.

Pursuant to Public Act No. 03-02 the General Assembly enacted an Early Retirement Incentive Program in order to mitigate the deficit of the General Fund. Under the provisions of this program any employee participating in the program shall be eligible for payment of accrued sick days and for the balance of unused vacation leave in accordance with the existing rules as stated above, with the exception of one modification. The modification provides that the balance of any compensated absences shall be paid in three equal installments beginning in fiscal year ending June 30, 2006. The State may, at its option, make the payment in one installment on or before July, 2005 if the amount of the payment is less than $2,000.

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 17).

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)	$ (96,615)	$ (56,734)
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	(78,949)	(4,429)
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	59,619	7,381
Salaries and Fringe Benefits Payable	8,706	492
Proceeds of Recovery Notes	222,388	-
Increases (decreases) in continuing appropriations	(81,977)	(8,326)
Net change in fund balances (GAAP basis)	$ 33,172	$ (61,616)

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, 2003, none of which constitutes a violation of statutory provisions (amounts in thousands).

Enterprise	
Second Injury & Compenstion Assurance	59,533
Bradley Parking Garage	10,318

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, 2003, the reported amount of the State's deposits was $(140.7) for the Primary Government and Fiduciary Funds (pooled deposits) and $15.0 for the Component Units. The corresponding bank balance for such deposits was $177.1 for the Primary Government and Fiduciary Funds and $16.7 for the Component Units. Of the bank balance for the Primary Government and Fiduciary Funds $118.9 was insured by the Federal Deposit Insurance Corporation or held in the State's name (Category 1) and $58.2 was uninsured and uncollateralized (Category 3). Of the bank balance for the Component Units, $3.3 was insured by the Federal Deposit Insurance Corporation or held in the Component Units' name (Category 1), and $13.4 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) in the fund's statement of net assets and are disclosed in this note.

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 in each fund's statement of net assets and are disclosed in this note.

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, 2003, investments consisted of the following (amounts in thousands):

	Primary Government			
	Governmental Activities	Business-Type Activities	Component Units	Fiduciary Funds
Equity in CIFS	$ 88,862	$ 566	$ -	$ 18,210,978
Other Investments	19,208	250,905	85,191	1,049,071
Total Investments-Current	$ 108,070	$ 251,471	$ 85,191	$ 19,260,049
Other Investments-Noncurrent	$ -	$ 421,279	$ 11,773	$ -
Other Investments-Restricted	$ 385,432	$ 479,827	$ 1,200,392	$ -

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, 2003. 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	$ 450,000	$ 450,060
Commercial Paper	1,392,846	1,392,842
Corporate Notes	342,951	342,951
Bankers' Acceptances	64,332	64,504
Bank Notes	402,932	402,932
Federal Agency Securities	102,648	102,851
Extendable Commercial Notes	280,961	280,964
Repurchase Agreements	239,482	239,482
Total Investments	$ 3,276,152	$ 3,276,586

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	$ -	$ 60,114	$ 60,114
Asset Backed Securities	788,036	-	788,036
U.S. Government and Agency Securities:			
Not on Securities Loan	1,687,615	-	1,687,615
On Securities Loan for Securities or			
Letter of Credit Collateral	-	150,024	150,024
Mortgage Backed Securities	739,456	-	739,456
Corporate Debt	3,247,622	1,192,946	4,440,568
Convertible Securities	61,098	-	61,098
U. S. Corporate Stock:			-
Not on Securities Loan	6,246,530	-	6,246,530
On Securities Loan for Securities or			
Letter of Credit Collateral	-	9,567	9,567
International Equity Securities:			
Not on Securities Loan	1,633,803	-	1,633,803
On Securities Loan for Securities or			
Letter of Credit Collateral	-	994	994
Short-term Investments	-	175,600	175,600
Preferred Stock	34,102	-	34,102
	$ 14,438,262	$ 1,589,245	$ 16,027,507
Investments not categorized			
because they are not evidenced by securities			
that exist in physical or book entry form.			
Real Estate Investment Trusts			67,885
Mutual Funds			46,092
Limited Liability Corporations			35,563
Trusts			49,684
Limited Partnerships			2,042,184
Annuities			12,401
Securities Held by Brokers-Dealers under Sec. Loans for Cash Collateral:			
U.S. Government and Agency Securities			621,220
U. S. Corporate Stock			347,361
International Equity Securities			274,857
Domestic Fixed Securities			133,225
International Fixed Securities			2,796
			$ 19,660,775

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	Reported Amount Total	Fair Value
Collateralized Investment Agreements	$ 310,236	$ 310,236	$ 310,236
State/Municipal Bonds	127,854	127,854	127,854
U.S. Government & Agency Securities	391,492	391,492	391,492
Common Stock	19,889	19,889	19,889
Corporate Bonds	51,938	51,938	51,938
Other	6,274	6,274	6,274
	$ 907,683	$ 907,683	$ 907,683
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:			
Annuity Contracts		431,606	431,606
Mutual Funds		126,504	126,504
Guaranteed Investment Contracts		81,052	81,052
Tax Exempt Proceeds Fund		62,989	62,989
Limited Partnerships		3,248	3,248
Money Market Funds		4,545	4,545
Other		2,013	2,013
Total Investments		$ 1,619,640	$ 1,619,640

The Transportation fund and the Clean Water fund own approximately 42 percent and 39 percent of the investments in Category 1, respectively.

Other Investments-Component Units
(amounts in thousands)

Investment Type	Reported Amount Category 1	Reported Amount Category 3	Total	Fair Value
U.S. Government & Agency Securities	$ 21,125	$ 3,093	$ 24,218	$ 24,204
Common Stock	58,696	-	58,696	58,696
Repurchase Agreements	109,481	-	109,481	109,481
Collateralized Investment Agreements	4,063	14,201	18,264	18,264
Mortgage Backed Securities and Obligations	557,910	-	557,910	557,910
Corporate Debt	19,963	-	19,963	19,963
Other	19,181	3,137	22,318	22,318
	$ 790,419	$ 20,431	810,850	810,836
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:				
Guaranteed Investment Contracts			121,180	121,180
Fidelity Funds			151,939	151,939
Limited Partnerships			4,235	4,235
Money Market Funds			172,207	172,207
Other			36,945	36,945
Total Investments			$ 1,297,356	$ 1,297,342

CHFA owns approximately 92 percent and CHESLA owns approximately 75 percent of the investments that are in categories 1 and 3, respectively.

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 63 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, 2003, receivables consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	$ 835,500	$ -	$ -
Accounts	1,170,479	356,358	21,806
Loans-Current Portion	-	129,903	30,439
Other Governments	653,426	12,143	-
Interest	5,119	22,805	1,432
Other	17,693	51,626	-
Total Receivables	2,682,217	572,835	53,677
Allowance for Uncollectibles	(959,912)	(79,384)	(3,088)
Receivables, net	$ 1,722,305	$ 493,451	$ 50,589

Note 6 Taxes Receivable
Taxes receivable consisted of the following as of June 30, 2003 (amounts in thousands):

	Governmental Activities		
	General Fund	Transportation Fund	Total
Sales and Use	$ 408,993	$ -	$ 408,993
Income Taxes	166,754	-	166,754
Corporations	69,863	-	69,863
Gasoline and Special Fuel	-	41,055	41,055
Various Other	148,835	-	148,835
Total Taxes Receivable	794,445	41,055	835,500
Allowance for Uncollectibles	(32,540)	(157)	(32,697)
Taxes Receivable, net	$ 761,905	$ 40,898	$ 802,803

Note 7 Loans Receivable
Loans receivable (noncurrent portion) for the primary government and its component units, as of June 30, 2003, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Industrial	-	-	98,406
Housing	206,672	-	-
Clean Water	46,322	502,847	-
Education	-	27,174	76,924
Other	178,461	19,870	-
Total Loans	431,455	549,891	175,330
Allowance for Uncollectibles	(4,104)	(7,427)	(11,320)
Loans Receivable, Net	$ 427,351	$ 542,464	$ 164,010

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 .92 percent to 12 percent. As of June 30, 2003, loans in the amount of $16.3 million (including loans of $6.5 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 $7.1 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, 2003, restricted assets were comprised of the following (amounts in thousands):

	Cash & Cash Equivalents	Investments	Loans, Net of Allowances	Other	Total Restricted Assets
Governmental Activities:					
Debt Service	$ 236,650	$ 385,432	$ -	$ -	$ 622,082
Total-Governmental Activities	$ 236,650	$ 385,432	$ -	$ -	$ 622,082
Business-Type Activities:					
Bradley International Airport	$ 69,119	$ 85,219	$ -	$ 3,041	$ 157,379
Clean Water	65,802	353,236	-	-	419,038
Other Proprietary	35,849	41,372	-	-	77,221
Total-Business-Type Activities	$ 170,770	$ 479,827	$ -	$ 3,041	$ 653,638
Component Units:					
CHFA	$ 461,635	$ 730,816	$ 2,858,014	$ 77,157	$ 4,127,622
CRRA	88,400	2,002	-	165	90,567
Other Component Units	31,100	467,574	-	5,554	504,228
Total-Component Units	$ 581,135	$ 1,200,392	$ 2,858,014	$ 82,876	$ 4,722,417

Note 9 Accounts Payable and Accrued Liabilities

As of June 30, 2003, accounts payable and accrued liabilities consisted of the following:

	Vendors	Salaries and Benefits	Interest	Other	Total Payables Accrued Liabilities
Governmental Activities:					
General	$ 70,759	$ 134,263	$ -	$ 2,106	$ 207,128
Transportation	11,676	6,653	-	1,443	19,772
Other Governemental	71,108	6,735	-	44,496	122,339
Internal Service	4,694	2,024	-	-	6,718
Reconciling amount from fund financial statements to government-wide financial statements	6,920	-	89,287	-	96,207
Total-Governmental Activities	$ 165,157	$ 149,675	$ 89,287	$ 48,045	$ 452,164
Business-Type Activities:					
Higher Education	$ 84,623	$ 68,894	$ 2,394	$ -	$ 155,911
Clean Water	-	-	8,642	-	8,642
Other Proprietary	34,176	-	4,940	-	39,116
Total-Business-Type Activities	$ 118,799	$ 68,894	$ 15,976	$ -	$ 203,669

Note 10 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	$ 863,602	$ 51,546	$ 3,394	$ 911,754
Construction in Progress-Infrastructure	997,893	445,367	166,653	1,276,607
Construction in Progress	250,443	451,868	242,040	460,271
Total Capital Assets not being Depreciated	2,111,938	948,781	412,087	2,648,632
Other Capital Assets:				
Buildings	2,357,825	242,040	60,649	2,539,216
Improvements Other than Buildings	295,720	33,485	17,815	311,390
Equipment	1,351,275	68,999	67,057	1,353,217
Infrastructure	9,050,755	166,653	-	9,217,408
Total Other Capital Assets at Historical Cost	13,055,575	511,177	145,521	13,421,231
Less: Accumulated Depreciation For:				
Buildings	1,656,466	63,480	60,649	1,659,297
Improvements Other than Buildings	250,284	15,749	17,815	248,218
Equipment	803,917	165,579	74,741	894,755
Infrastructure	3,331,042	404,614	-	3,735,656
Total Accumulated Depreciation	6,041,709	649,422 *	153,205	6,537,926
Other Capital Assets, Net	7,013,866	(138,245)	(7,684)	6,883,305
Governmental Activities, Captial Assets, Net	$ 9,125,804	$ 810,536	$ 404,403	$ 9,531,937

* Depreciation expense was charged to functions as follows:

Governmental Activities:	
Legislative	$ 5,323
General Government	42,896
Regulation and Protection	30,203
Conservation and Development	11,217
Health and Hospitals	10,947
Transportation	455,960
Human Services	3,141
Education, Libraries and Museums	32,188
Corrections	33,934
Judicial	13,767
Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets	9,846
Total Depreciation Expense	$ 649,422

	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities				
Capital Assets not being Depreciated:				
Land	$ 43,654	$ 1,122	$ 2	$ 44,774
Construction in Progress	385,252	300,706	400,819	285,139
Total Capital Assets not being Depreciated	428,906	301,828	400,821	329,913
Capital Assets being Depreciated:				
Buildings	1,973,763	440,002	7,285	2,406,480
Improvements Other Than Buildings	316,956	46,292	1,254	361,994
Equipment	666,786	79,888	26,540	720,134
Total Other Capital Assets at Historical Cost	2,957,505	566,182	35,079	3,488,608
Less: Accumulated Depreciation For:				
Buildings	630,332	69,815	5,631	694,516
Improvements Other Than Buildings	117,208	15,338	600	131,946
Equipment	329,277	55,475	20,259	364,493
Total Accumulated Depreciation	1,076,817	140,628	26,490	1,190,955
Other Capital Assets, Net	1,880,688	425,554	8,589	2,297,653
Business-Type Activities, Capital Assets, Net	$ 2,309,594	$ 727,382	$ 409,410	$ 2,627,566

b. Component Units

Capital assets of the component units consisted of the following as of June 30, 2003:

Land	$ 27,774
Buildings	189,832
Improvements other than Buildings	362
Machinery and Equipment	235,965
Construction in Progress	36
Total Capital Assets	453,969
Accumulated Depreciation	(218,034)
Capital Assets, net	$ 235,935

Note 11 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. 13.

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 6/30/2002	TRS 6/30/2002	JRS 6/30/2002
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 2003, the annual required contribution (ARC) was $221.2

million; however, the State contributed $179.8 million to the plan, reflecting a reduction of $41.4 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	$ 421,452	$ 221,236	$ 10,126
Interest on net pension obligation	171,495	93,476	3
Adjustment to annual required contribution	(107,420)	(59,716)	(2)
Annual pension cost	485,527	254,996	10,127
Contributions made	421,452	179,824	10,126
Increase (decrease) in net pension obligation	64,075	75,172	1
Net pension obligation beginning of year	2,017,588	1,099,721	40
Net pension obligation end of year	$ 2,081,663	$ 1,174,893	$ 41

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

	Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
SERS	2001	439,317	85.5%	1,953,580
	2002	479,501	86.7%	2,017,588
	2003	485,527	86.8%	2,081,663
TRS	2001	286,527	74.9%	1,057,828
	2002	246,404	83.0%	1,099,721
	2003	254,996	70.6%	1,174,893
JRS	2001	9,839	100%	39
	2002	9,599	100%	40
	2003	10,127	100%	41

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 $22.8 million and $36.0 million, respectively.

Note 12 Other Retirement Systems Administered by the State of Connecticut

The State acts solely as the administrator and custodian of the assets of 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. 13.

Plan Descriptions and Contribution Information

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

	CMERS 6/30/2002	CPJERS 12/31/2002
Retirees and beneficiaries receiving benefits	4,741	226
Terminated plan members entitled to but not receiving benefits	332	34
Active plan members	8,426	371
Total	13,499	631
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 13 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	$ 4,447	$ 827	$ 4	$ 190	$ 7	$ 75	$ 5,550
Receivables:							
Accounts, Net of Allowances	2,130	6,812	8	2,598	4	13	11,565
From Other Governments	-	477	-	-	-	-	477
From Other Funds	2,361	-	-	-	-	-	2,361
Interest	326	371	13	93	5	-	808
Investments	6,987,179	9,846,014	125,216	1,174,440	60,483	619	18,193,951
Securities Lending Collateral	544,420	771,017	9,335	87,987	4,903	42	1,417,704
Total Assets	7,540,863	10,625,518	134,576	1,265,308	65,402	749	19,632,416
Liabilities							
Securities Lending Obligation	544,420	771,017	9,335	87,987	4,903	42	1,417,704
Due to Other Funds	-	2,344	-	-	-	-	2,344
Total Liabilities	544,420	773,361	9,335	87,987	4,903	42	1,420,048
Net Assets							
Held in Trust For Employee Pension Benefits	6,996,443	9,852,157	125,241	1,177,321	60,499	707	18,212,368
Total Net Assets	$ 6,996,443	$ 9,852,157	$ 125,241	$ 1,177,321	$ 60,499	$ 707	$ 18,212,368

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	$ 50,953	$ 204,965	$ 1,407	$ 11,879	$ 296	$ 28	$ 269,528
State	421,452	179,824	10,126	-	-	-	611,402
Municipalities	-	3,491	-	15,959	-	-	19,450
Total Contributions	472,405	388,280	11,533	27,838	296	28	900,380
Investment Income	158,740	221,425	3,411	27,596	1,908	28	413,108
Less: Investment Expenses	(25,410)	(35,413)	(546)	(4,417)	(305)	(4)	(66,095)
Net Investment Income	133,330	186,012	2,865	23,179	1,603	24	347,013
Transfers In	-	-	-	-	1,369	-	1,369
Other	494	-	-	-	-	3	497
Total Additions	606,229	574,292	14,398	51,017	3,268	55	1,249,259
Deductions							
Administrative Expense	310	-	8	11	-	-	329
Benefit Payments and Refunds	702,879	825,554	14,436	61,007	2,271	46	1,606,193
Other	-	-	-	-	1,432	-	1,432
Total Deductions	703,189	825,554	14,444	61,018	3,703	46	1,607,954
Changes in Net Assets	(96,960)	(251,262)	(46)	(10,001)	(435)	9	(358,695)
Net Assets Held in Trust For Employee Pension Benefits:							
Beginning of Year	7,093,403	10,103,419	125,287	1,187,322	60,934	698	18,571,063
End of Year	$ 6,996,443	$ 9,852,157	$ 125,241	$ 1,177,321	$ 60,499	$ 707	$ 18,212,368

Note 14 Postemployment Benefits

In addition to the pension benefits described in Note 11, 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, 2003, 35,280 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, 2003, $242.2 million was paid in postretirement benefits.

Note 15 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):

2004	$	31,245
2005		26,191
2006		21,830
2007		21,897
2008		22,087
Thereafter		23,885
Total	$	147,135

Contingent revenues for the year ended June 30, 2003, were $3.0 million.

State as Lessee

Obligations under capital and operating leases as of June 30, 2003, were as follows (amounts in thousands):

	Noncancelable Operating Leases	Capital Leases
2004	$ 33,372	$ 11,642
2005	27,475	8,579
2006	18,525	7,683
2007	13,393	7,354
2008	9,804	6,391
2009-2013	21,107	27,921
2014-2018	-	10,167
2019-2023	-	6,147
2024-2028	-	6,118
2029-2033	-	3,650
Total minimum lease payments	$ 123,676	95,652
Less: Amount representing interest costs		27,664
Present value of minimum lease payments		$ 67,988

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, 2003, totaled $44.7 million.

Note 16 Changes in General Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2003, (amounts in thousands):

Governmental Activities	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Amounts due within one year
Bonds:					
General Obligation	$ 8,527,436	$ 1,698,671	$ 1,009,753	$ 9,216,354	$ 673,199
Transportation	3,174,903	637,837	606,925	3,205,815	236,830
	11,702,339	2,336,508	1,616,678	12,422,169	910,029
Plus/(Less) premiums and deferred amounts	55,202	56,088	6,171	105,119	-
Total Bonds	11,757,541	2,392,596	1,622,849	12,527,288	910,029
Economic Recovery Notes	-	219,235	-	219,235	43,720
Other Liabilities:					
Net Pension Obligation	3,117,349	750,649	611,401	3,256,597	-
Compensated Absences	341,039	21,824	14,930	347,933	12,466
Workers' Compensation	245,183	95,707	75,245	265,645	67,633
Capital Leases	76,896	1,078	9,986	67,988	12,360
Claims and Judgements	7,725	3,280	3,393	7,612	4,831
Contracts Payable	-	7,186	-	7,186	-
Total Other Liabilities	3,788,192	879,724	714,955	3,952,961	97,290
Governmental Activities Long-Term Liabilites	$ 15,545,733	$ 3,491,555	$ 2,337,804	$ 16,699,484	$ 1,051,039
In prior years, the General and Transportation funds have been used to liquidate other liabilities.					
Business-Type Activities					
Revenue Bonds	$ 1,504,799	$ 142,949	$ 92,587	$ 1,555,161	$ 77,014
Plus/(Less) premiums, discounts and deferred amounts	6,075	166	524	5,717	-
Total Revenue Bonds	1,510,874	143,115	93,111	1,560,878	77,014
Lottery Prizes	473,883	7,914	46,612	435,185	51,165
Compensated Absences	80,773	13,562	6,879	87,456	23,720
Other	52,118	2,863	4,004	50,977	18,179
Total Other Liabilities	606,774	24,339	57,495	573,618	93,064
Business-Type Long-Term Liabilities	$ 2,117,648	$ 167,454	$ 150,606	$ 2,134,496	$ 170,078

Note 17 Bonded Debt

Economic Recovery Notes

In December 2002, $219.2 million of General Obligation Economic Recovery Notes were issued to fund the deficit for the 2001-2002 fiscal year.

Economic recovery notes outstanding at June 30 were $219.2 million. These notes mature on various dates through 2008 and bear interest rates from 2.0% to 4.0%.

Future amounts needed to pay principal and interest on economic recovery notes outstanding at June 30, 2003, were as follows:

Year Ending June 30,	Principal	Interest	Total
2004	$ 43,720	$ 6,507	$ 50,227
2005	44,155	5,541	49,696
2006	43,920	3,816	47,736
2007	43,720	2,205	45,925
2008	43,720	663	44,383
Total	$ 219,235	$ 18,732	$ 237,967

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, 2003, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital Improvements	2003-2023	2-7.525%	$ 2,694,496	$ 267,792
School Construction	2003-2022	2-7 441%	1,547,684	76,421
Municipal & Other Grants & Loans	2003-2022	3-7.513%	1,724,625	633,306
Elderly Housing	2003-2011	7-7.5%	17,366	-
Elimination of Water Pollution	2003-2023	4.1-7.525%	289,637	101,919
General Obligation Refunding	2003-2019	2.4-6.14%	2,270,467	-
Miscellaneous	2003-2031	3.5-6.75%	143,428	8,034
			8,687,703	$ 1,087,472
Accretion-Various Capital Appreciation Bonds			528,651	
		Total	$ 9,216,354	

Future amounts (in thousands) needed to pay principal and interest on general obligation bonds outstanding at June 30, 2003, were as follows:

Year Ending June 30,	Principal	Interest	Total
2004	$ 675,129	$ 467,569	$ 1,142,698
2005	689,771	452,115	1,141,886
2006	651,292	424,792	1,076,084
2007	640,315	402,577	1,042,892
2008	640,564	379,116	1,019,680
2009-2013	2,722,534	1,405,397	4,127,931
2014-2018	1,786,694	466,248	2,252,942
2019-2023	865,394	99,316	964,710
2024-2028	11,450	2,818	14,268
2029-2033	4,560	294	4,854
Total	$ 8,687,703	$ 4,100,242	$ 12,787,945

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, 2003, 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%	$ 11,228	$ 4,066
Infrastructure Improvements	2005-2022	3-8 0%	3,186,117	357,663
General Obligation Other	2008-2013	4.6-7.525%	500	1
			3,197,845	$ 361,730
Accretion-Various Capital Appreciation Bonds			7,970	
		Total	$ 3,205,815	

Future amounts (in thousands) required to pay principal and interest on transportation related bonds outstanding at June 30, 2003, were as follows:

Year Ending June 30,	Principal	Interest	Total
2004	$ 236,830	$ 152,541	$ 389,371
2005	234,490	140,432	374,922
2006	258,575	128,341	386,916
2007	246,378	121,373	367,751
2008	254,273	108,961	363,234
2009-2013	1,143,238	325,926	1,469,164
2014-2018	599,540	102,656	702,196
2019-2023	224,521	20,465	244,986
Total	$ 3,197,845	$ 1,100,695	$ 4,298,540

Variable-Rate Demand Bonds

As of June 30, 2003, variable-rate demand bonds included in bonded debt were as follows (amounts in thousands).

Bond Type	Outstanding Principal	Issuance Year	Maturity Year
Special Tax Obligation	$ 142,900	1990	2010
General Obligation	100,000	1997	2014
Special Tax Obligation	100,000	2000	2020
General Obligation	100,000	2001	2021
Special Tax Obligation	421,980	2003	2022
Total	$ 864,880		

The State entered into various Remarketing and Standby Bond Purchase agreements with certain brokerage firms and banks upon the issuance of the bonds.

The bonds were issued bearing a weekly interest rate, which is determined by the State's remarketing agents. The State has the option of changing at any time the weekly interest rate on the bonds to another interest rate, such as a flexible rate or a daily rate. Bonds bearing interest at the weekly rate are subject to purchase at the option of the bondholder at a purchase price equal to principal plus accrued interest, if any, on a minimum seven days' notice of tender to the State's agent. In addition, the bonds are subject to mandatory purchase upon (1) conversion from the weekly interest rate to another interest rate and (2) substitution or expiration of the Standby Bond Purchase agreements. The State's remarketing agent is responsible for using its best efforts to remarket bonds properly tendered for purchase by bondholders from time to time. The State is required to pay the Remarketing agents a quarterly fee of .05 percent per annum of the outstanding principal amount of the bonds.

The Standby Bond Purchase agreements require the banks to purchase any unremarketed bonds bearing the weekly interest rate for a price not to exceed the amount of bond principal and accrued interest, if any. The State is required to pay the banks a quarterly fee ranging from .065 percent to .20 percent per annum of the outstanding principal amount of the bonds plus interest. These fees would be increased if the credit rating for the bond insurers was to be downgraded, suspended, or withdrawn.

The Standby Bond Purchase agreements expire as follows:

1990 STO expires in the year 2005 and could be extended for another five years,
1997 GO expires in the year 2004 and could be extended annually for another year,
2000 STO expires in the year 2014 and could be extended for another seven years,
2001 GO expires in the year 2008, and
2003 STO expires in the year 2008 and could be extended for another five years.

These agreements could be terminated at an earlier date if certain termination events described in the agreements were to occur.

Interest Rate Swaps

Objective of the swaps

As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance, the State has entered six separate pay-fixed, receive-variable interest rate swaps at a cost less than what the State would have paid to issue fixed-rate debt. Two of the swaps were executed in December 1990, one was executed in June 2001 and the other three were executed in January 2003.

Terms, fair values, and credit risk

The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2003, are as follows. The notional amount of the swaps match the principal amount of the associated debt. The State's swap agreements, except for the June 2001 swap, contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated debt. For the June 2001 swap, the swap agreement and associated debt are non-amortizing and mature on June, 2012.

Associated Bond Issue	Notional Amounts (000's)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values (000's)	SWAP Termination Date	Counterparty Credit Rating
1990 STO	$ 85,800	12/19/1990	5.746%	65% of LIBOR (1)	(13,481)	12/1/2010	Aaa/AAA/AAA
1990 STO	57,100	12/19/1990	5.709%	65% of LIBOR (1)	(8,924)	12/1/2010	A3/BBB
2001 GO	20,000	6/28/2001	4.616%	CPI (3) plus 1.43%	(1,832)	6/15/2012	Aa3/A+/AA-
2003 STO	120,385	1/23/2003	3.293%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	(6,101)	2/1/2022	Aa1/AA-/AA
2003 STO	100,000	1/23/2003	3.288%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	(4,985)	2/1/2022	Aa1/AA/AA+
2003 STO	201,595	1/23/2003	3.284%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	(10,773)	2/1/2022	Aa2/AA+/AA+
Total	$ 584,880				$ (46,096)		

(1) London Interbank Offered Rate
(2) The Bond Market Association Municipal Swap Index.
(3) Consumer Price Index

Fair value

Because interest rates have declined, all swaps had a negative fair value as of June 30, 2003. The negative fair values may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the State's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payment required under the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date each future net settlement on the swaps.

As of June 30, 2003, the State was not exposed to credit risk on any of its outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the State would be exposed to credit risk in the amount of the swaps' fair value.

The swap agreements contain varying collateral agreements with the counterparties. All three of the swap agreements executed in 2003 require collateralization of the fair value of the swap in cash or government securities should the counterparty's credit rating fall below Aa3 as issued by Moody's Investors Service or AA- as issued by Standard & Poor's Ratings or Fitch Ratings. One of the swaps executed in 1990 requires collateral of cash or securities if the counterparty credit rating falls below A1/A+. The other swap agreements do not have any provisions for posting of collateral. The State is not required to post collateral for any of the swaps.

Because, the State has not entered into more than one derivative transaction with any one counterparty, master netting agreements have not been needed.

All of the six swaps are executed with different counterparties. The largest, approximately 34 percent of the notional amount of swaps outstanding, is held with one counterparty, rated Aa2/AA+. One of the December 1990 swaps, approximately 10% of the notional amount of swaps outstanding, is held with the lowest rated counterparty, rated A3/BBB. All other swaps are held with separate counterparties who are rated Aa1/AA or better.

Basis Risk

The State's variable-rate bond coupon payments are equivalent to the BMA index rate, or the CPI plus 1.43% rate (2001 GO bonds only). For those swaps for which the State receives a variable-rate payment other than BMA or CPI, the State is exposed to basis risk should the relationship between LIBOR and BMA converge. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2003, the BMA rate was 0.98 percent, whereas 65 percent of LIBOR was 0.86 percent. The State recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal 2003, the state budgeted $1,500,000 in basis risk for all six swap agreements.

Termination Risk

The State or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any of the swaps is terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the State would be liable to the counterparty for a payment equal to the swap's fair value. Under the 2003 swap agreements, the State has up to 270 days to fund any required termination payment. Under the 1990 swap agreements, the State may fund any required termination payment over a five-year period.

Rollover Risk

Because all of the swap agreements terminate when the associated debt is fully paid, the State is only exposed to rollover risk if an early termination occurs. Upon an early termination, the State will not realize the synthetic rate offered by the swaps on the underlying debt issues.

Swap Payments and Associated Debt

Using rates as of June 30, 2003, debt service requirements of the State's outstanding variable-rate bonds and net swap payments are as follows (amounts in thousands). As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year	Variable-Rate Bonds		Interest Rate	
Ending June 30,	Principal	Interest	SWAP, Net	Total
2004	$ 16,920	$ 6,754	$ 16,337	$ 40,011
2005	18,025	6,570	15,557	40,152
2006	19,135	6,374	14,726	40,235
2007	20,350	6,165	13,373	39,888
2008	21,665	5,944	11,779	39,388
2009-2013	140,100	26,205	44,704	211,009
2014-2018	286,465	10,701	21,009	318,175
2019-2023	62,220	871	1,710	64,801
Total	$ 584,880	$ 69,584	$ 139,195	$ 793,659

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, 2003, were as follows:

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
Higher Education	2003-2030	2.1-7%	$ 565,197
Bradley International Airport	2012-2031	3.25-7.65%	258,160
Second Injury	2012-2015	4.5-6%	111,130
Clean Water	2011-2022	3.45-11%	537,260
Other:			
Bradley Parking Garage	2006-2024	6.125-8%	53,800
Drinking Water	2022	4-5.5%	29,614
Total Revenue Bonds			1,555,161
Plus/(Less) premiums, discounts and deferred amounts:			
Bradley International Airport			(869)
Clean Water			5,973
Other			613
Revenue Bonds, net			$ 1,560,878

Bradley Airport has issued various revenue bonds to finance costs of improvements to the airport. As of June 30, 2003, the following bonds were outstanding:

a) Airport Revenue Refunding Bonds in the amount of $46.6 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) Bradley International Airport Revenue Bonds in the amount of $192.6 million and Bradley International Airport Refunding Bonds in the amount of $18.9 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 a parking garage at the airport.

Future amounts (in thousands) needed to pay principal and interest on revenue bonds outstanding at June 30, 2003, were as follows:

Year Ending June 30,	Principal	Interest	Total
2004	77,015	78,437	155,452
2005	86,410	74,563	160,973
2006	83,175	71,165	154,340
2007	81,413	65,378	146,791
2008	93,191	62,139	155,330
2009-2013	397,456	239,497	636,953
2014-2018	276,097	151,755	427,852
2019-2023	222,489	87,760	310,249
2024-2028	133,705	42,760	176,465
2029-2033	96,560	11,856	108,416
2034	7,650	191	7,841
Total	$ 1,555,161	$ 885,501	$ 2,440,662

c. Component Units

Component units' revenue bonds outstanding at June 30, 2003, were as follows:

Component Unit	Final Maturity Date	Interest Rates	Amount Outstanding (000's)
CT Development Authority	2004-2019	4.75-8.75%	$ 48,625
CT Housing Finance Authority	2003-2045	1.37-9.36%	3,299,365
CT Resources Recovery Authority	2004-2016	5.125-7.7%	224,010
Other:			
CT Higher Education Supplemental Loan Authority	2004-2021	4-7.5%	114,260
CT Health and Educational Facilities Authority	2004-2004	4.32-14.94%	1,960
Total Revenue Bonds			3,688,220
Less discount on CDA bonds			(56,563)
Revenue Bonds, net			$ 3,631,657

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, 2003 were $8.1 million. Assets totaling $7.2 million are pledged under the terms of the bond resolution for the payment of principal and interest on these bonds until such time as it is determined that there are surplus funds as defined in the bond resolution. Bonds issued under the Self-Sustaining Bond Program are discussed in the no-commitment debt section of this note. In addition, the Authority had $40.6 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, 2002, bonds outstanding under the bond resolution and the indenture were $3,253.3 million and $46.1 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 ($277.2 million at 12/31/02) on all outstanding bonds. In addition, all assets of the Authority's general and capital reserve funds ($4,074.2 million) are restricted until such time as they are determined to be "surplus funds." As of December 31, 2002, the Authority has entered into interest rate swap agreements for $740.8 million of its variable rate bonds. These agreements are similar in nature to agreements discussed in the interest rate swaps section of this note.

Connecticut Resources Recovery Authority's revenue bonds are issued to finance the design, development and construction of resources recovery and recycling facilities and landfills throughout the State. These bonds are paid solely from the revenues generated from the operations of the projects and other receipts, accounts and monies pledged in the bond indentures.

Connecticut Higher Education Supplemental Loan Authority's revenue bonds are issued to provide loans to students, their parents, and institutions of higher education to assist in the financing of the cost of higher education. These loans are issued through the Authority's Bond fund. According to the bond resolutions, the Authority internally accounts for each bond issue in separate funds, and additionally, the Bond fund includes individual funds and accounts as defined by each bond resolution.

Connecticut Health and Educational Facilities Authority's revenue bonds are issued to assist certain health care institutions, institutions of higher education, and qualified for-profit and not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to programs for these institutions. Prior to July 1, 1979, the Authority issued general obligation bonds for which the Authority is ultimately responsible for the payment of principal and interest when due. After July 1, 1979, the Authority has issued only special obligation bonds, which are discussed in the no-commitment debt section of this note. At year-end, the Authority had $2.0 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 $194.4 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, 2003, were as follows:

Year Ending June 30,	Principal	Interest	Total
2004	258,961	364,101	623,062
2005	145,311	182,616	327,927
2006	152,099	175,037	327,136
2007	144,707	167,047	311,754
2008	30,755	13,697	44,452
2009-2013	844,997	697,684	1,542,681
2014-2018	697,276	482,584	1,179,860
2019-2023	525,244	311,991	837.235
2024-2028	538.715	171,325	710,040
2029-2033	297,385	61,543	358,928
2034-2038	32,975	8,459	41,434
2039-2043	16,640	3,379	20,019
2044-2048	3.155	221	3,376
Total	$ 3,688,220	$ 2,639,684	$ 6,327,904

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, 2003 were $1,058.1 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, 2003 were $224.6 million. Of this amount, $65.1 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, 2003, were $4,541.3 million, of which $386.0 million was secured by special capital reserve funds.

The State may be contingently 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 $748.7 million of general obligation, special tax obligation refunding, and revenue refunding bonds with an average interest rate of 4.52% to advance refund $715.3 million of general obligation, special tax obligation refunding, and revenue refunding bonds with an average interest rate of 5.26%. 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 $68.5 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 $65.9 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of $42.5 million. As of June 30, 2003, $2,583.0 million of outstanding general obligation, special tax obligation, and revenue bonds (including prior year's refundings) are considered defeased.

Note 18 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 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 6-30-01	$ 326,417	$ 9,551
Incurred claims	5,845	384
Paid claims	(87,079)	(580)
Balance 6-30-02	245,183	9,355
Incurred claims	95,707	351
Paid claims	(75,245)	(1,206)
Balance 6-30-03	$ 265,645	$ 8,500

Note 19 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2003, were as follows (amounts in thousands):

	Balance due to fund(s)								
Balance due from fund(s)	General	Transportation	Other Governmental	Higher Education	Employment Security	Internal Services	Fiduciary	Component Units	Total
General	-	-	550,003	61,165	4,726	4,009	6,806	189	626,898
Transportation	288	-	-	-	-	772	-	-	1,060
Other Governmental	3,206	4,968	951	63,250	-	-	-	20,447	92,822
Higher Education	8,880	-	-	-	-	-	-	-	8,880
Employment Security	-	-	5,791	-	-	-	-	-	5,791
Other Proprietary	339	4,188	-						4,527
Internal Services	4,961	-	38,751	-	-	-	114	-	43,826
Fiduciary	-	-	-	-	-	-	2,346	-	2,346
Component Units	2,000	-	-	163,602	-	-	-	-	165,602
Total	$ 19,674	$ 9,156	$ 595,496	$ 288,017	$ 4,726	$ 4,781	$ 9,266	$ 20,636	$ 951,752

Interfund receivables and payables arose because of interfund loans and other interfund balances outstanding at year end. $550 million owed to other governmental funds by the General fund resulted from a loan made by various governmental funds to eliminate a cash overdraft in the General fund. $6.5 million owed to the General fund by the Internal Services funds and Component Units is noncurrent.

Note 20 Interfund Transfer

Interfund transfers for the fiscal year ended June 30, 2003, consisted of the following (amounts in thousands):

	Amount transferred to fund(s)							
Amount transferred from fund(s)	General	Debt Service	Transportation	Other Governmental	Higher Education	Other Proprietary	Fiduciary	Total
General	$ -	$ 1,746	$ -	93,159	724,511	-	-	$ 819,416
Debt Service	387	-	25,781	396	-	-	-	26,564
Transportation	52,000	386,071	-	8,500	-	-	-	446,571
Other Governmental	270,518	16,836	429	38,557	170,123	6,161	1,369	503,993
Connecticut Lottery	256,815	-	-	-	-	-	-	256,815
Other Proprietary	-	-	-	3,712	-	15,836	-	19,548
Fiduciary	127,256	-	-	-	-	-	-	127,256
Total	$ 706,976	$ 404,653	$ 26,210	$ 144,324	$ 894,634	$ 21,997	$ 1,369	$ 2,200,163

Transfers were made to (1) move revenues from the fund that budget or statute requires to collect them to the fund that budget or statute requires to expend them and (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due. During 2003, transfers received by the General fund from the Transportation fund, other Governmental funds ($67,705), and Fiduciary funds (Agency fund) were for deficit reduction.

Note 21 Restatement of Net Assets/Fund Balances

As of June 30, 2003, the beginning net assets/fund balances for the following funds and activities were restated as follows (amounts in thousands):

	Balance 6-30-02 Previously Reported	Fund Reclass	Correction of Reported Assets/ Liabilities	Balance 6-30-02 as Restated
Governmental Funds and Activities				
Major Funds:				
Debt Service	$ 670,771	$ -	$ 4,931	$ 675,702
Total Governmental Funds	$ 670,771	-	4,931	$ 675,702
Governmental Activities				
Net assets of Internal Service Funds	32,729	-	(442)	32,287
Deferred Debit on Bond Refundings	60,793	-	7,895	68,688
Net Assets of Governmental Activities	$ (4,616,959)	$ -	$ 12,384	$ (4,604,575)
Proprietary Funds and Business-Type Activities				
Major Funds:				
Higher Education	$ 2,401,539	$ -	$ 9,392	$ 2,410,931
Second Injury	(96,075)	96,075	-	-
Clean Water	464,138	(359)	-	463,779
Non-Major funds:				
Second Injury	-	(96,075)	-	(96,075)
Drinking Water	38.495	359	-	38,854
Unadjusted Fund	(8,519)	-	-	(8,519)
Total Non-Major Funds	29,976	(95,716)	-	(65,740)
Total Proprietary Funds	$ 2,799,578	-	9,392	$ 2,808,970
Business-Type Activities				
Net Assets of Business-Type Activities	$ 3,800,033	$ -	$ 9,392	$ 3,809,425
Component Units				
Connecticut Development Authority	$ 170,061	$ (170,061)	$ -	$ -
Connecticut Resources Recovery Authority	130,920	-	(2,105)	128,815
Other Component Units				
Connecticut Development Authority	-	170,061	-	170,061
Unadjusted Component Units	168,384	-	-	168,384
Total Other Component Units	168,384	170,061	-	338,445
Net Assets of Component Units	$ 1,087,120	$ -	$ (2,105)	$ 1,085,015

Note 22 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 23 Commitments and Contingencies

A. Commitments

At June 30, 2003, 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 $1,884.3 million of which $1,145.7 million is expected to be reimbursed by federal grants or other payments.

2) School construction and alteration grants with various towns for $3,272 million and interest costs of $235 million for a total of $3,507 million. Funding for these projects is expected to come from bond sales.

3) Loan commitments, mortgage and grant programs, and loan guarantees total approximately $609.3 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, 2003, the Authority had drawn $2 million on these funds.

5) Under a settlement reached between the parties in the Sheff vs. O'Neill lawsuit, the State is committed to spend $45 million, exclusive of school renovation/construction costs, over the next four years to open two new magnet schools in the Hartford area each year and to substantially increase the voluntary inter-district busing program in the Hartford area.

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.

In 2002 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 17 – 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 24 Special and Extraordinary Items
Special items are significant transactions or other events within management's control that are either unusal in nature or infrequent in occurrence. Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. At the beginning of the fiscal year new State law was enacted to reduce the accumulated General fund deficit. The act required the one time transfer of resources from three of the State's Component Units to the benefit of the General fund. The transfers to the General fund were as follows (amounts in million):

Connecticut Housing Finance Authority	$85.0
Connecticut Innovations, Incorporated	7.5
Connecticut Development Authority	7.5

The $85 million from the Connecticut Housing Finance Authority was paid in April 2003, four months after the year-end for this Component Unit.

During the fiscal year, the State, also, transferred $127.3 million from its Anthem Demutualization Fund (an Agency fund) to reduce the General fund deficit. These resources originated from the sale of shares received from Anthem Blue Cross and Blue Shield, after the company converted its ownership from being a mutual company owned by its participating policyholders to a stock company owed by stockholders.

During the year, the Second Injury fund (an Enterprise fund) used $33.8 million in excess cash to retire $29.8 million of its special revenue bonds.

Note 25 Subsequent Events
In July, $338.6 million of special tax obligation refunding bonds for transportation infrastructure programs were issued. These bonds will mature through September, 2010 and bear interest rates ranging from 2% to 5%.

In August, $215.6 million of general obligation refunding bonds were issued. The bonds will mature in years 2004 through 2010 and bear interest rates ranging from 3% to 6%.

In October, $200 million of general obligation and general obligation refunding bonds were issued. The bonds will mature August 15, of the years 2004 through 2023 and bear interest rates ranging from 2% to 5.25%.

In November, $200 million of general obligation bonds and $166 million of general obligation refunding bonds were issued. The general obligation bonds will mature October 15, of the years 2004 through 2023 and bear interest rates ranging from 2% to 5.25%. The general obligation refunding bonds will mature March 15, of the years 2004 through 2011 and bear interest rates ranging from 2% to 5%.

In November, $200 million of special tax obligation bonds were issued. The bonds will mature on January 1, of the years 2005 through 2015 and bear interest rates ranging from 2% to 5%.

In January 2004, $314.8 million of University of Connecticut general obligation and general obligation refunding bonds were issued. The bonds will mature in years 2005 through 2024 and bear interest rates ranging from 2% to 5%.

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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						
6/30/1998	$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%
6/30/2003 *	-	-	-	-	-	-
*No actuarial valuations were performed as of June 30, 1999 and June 30, 2003						
TRS						
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%
6/30/2003 *	-	-	-	-	-	-
*No actuarial valuations were performed as of June 30, 1999, 2001 and 2003						
JRS						
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%
6/30/2003 *	-	-	-	-	-	-
*No actuarial valuation was performed as of June 30, 2003						
MERS						
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)%
6/30/2002	$1,403.4	$1,319.7	$(83.7)	106.3%	$321.8	(26.0)%

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
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%	$-	-
2003	$421.5	100.0%	$221.2	81.3%	$10.1	100.0%	$16.0	100.0%	$-	-

Note: During 2000, 2001, 2002 and 2003 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	6/30/2002	12/31/2002
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	7-24 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 18, 2004

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, 1999-2003. 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 reports of the Auditors of Public Accounts with respect to the balance sheets and related statements for the fiscal years ending June 30, 1999-2003.

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 and in accordance with the governing statutory requirements 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, 1999, 2000, 2001, 2002 and 2003 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, 1999, 2000, 2001, 2002 and 2003, 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, 2003
State Capitol
Hartford, Connecticut

GENERAL FUND[(a)]

Balance Sheet
As of June 30
(In Thousands)

	1999	2000	2001	2002	2003
Assets					
Cash and Short-Term Investments	$ 263,256	$ 150,871	$ 178,428	$ --	$ --
Accrued Taxes Receivable	664,504	667,036	751,329	731,462	759,320
Accrued Accounts Receivable	24,378	26,285	30,897	31,726	35,139
Federal and Other Grants Receivable and Unexpended	704,982	656,289	745,655	839,676	886,205
Investments	54,867	47,705	50,460	40,813	--
Due from Other Funds	4,753	4,692	4,499	594,698	--
Total Assets	$ 1,716,740	$ 1,552,878	$ 1,761,268	$2,238,375	$1,680,664
Liabilities, Reserves and Surplus					
Liabilities					
Deficiency in Cash and Short-Term Investments	$ -	$ -	$ -	$ 1,071,882	$ 553,657
Accounts Payable[(b)]				85,032	--
Deferred Restricted Accounts and Federal and Other Grant Revenue	319,484	266,260	301,801	320,716	333,324
Due to Other Funds	13,643	13,707	15,254	16,656	1,029
Total Liabilities	$ 333,127	$ 279,967	$ 317,055	$1,494,286	$888,010
Reserves					
Petty Cash Funds	$ 1,088	$ 1,092	$ 1,043	$ 1,031	$ 991
Statutory Surplus Reserves	71,759	300,435	30,660	--	--
Appropriations Continued to Following Year	1,310,766	971,384	1,412,510	965,446	888,278
Total Reserves	$ 1,383,613	$ 1,272,911	$ 1,444,213	$ 966,477	$889,269
Unappropriated Surplus (Deficit)	0	0	0	(222,388)	(96,615)
Total Liabilities, Reserves and Surplus	$ 1,716,740	$ 1,552,878	$ 1,761,268	$2,238,375	$1,680,664

(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, real property conveyance taxes, 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. Public Act 03-2 extended the date for corporation business tax accruals from July 31st to August 15th, expanded the categories of income tax subject to July 31st accruals, revised the accrual date for personal income tax to August 15, and added the real estate conveyance tax to the July 31st accrual.

(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)

	1999	2000	2001	2002	2003
Unappropriated Surplus (Deficit), July 1	$ - 0 -	$ - 0 -	$ -0-	$ - 0 -	$ (222,388)
Resources from Reserve for Debt Avoidance/ERN[i]			265,474		222,388
Total Revenues (per Appendix III-D-6)	11,360,260[a]	12,151,287[c]	12,885,980[e]	11,943,683[g]	13,278,035 [j]
Total Expenditures (per Appendix III-D-7)	10,994,680[b]	12,138,545[d]	12,783,210[f]	13,285,284[h]	13,465,043 [k]
Operating Balance	365,580	12,742	368,244	(1,341,601)	(187,008)
Reserved for Prior Year Appropriations Less Appropriations Carried Forward	(294,077)	289,764	(333,999)	543,806	81,977
Transferred (Out) or Reserved for:					
Budget Reserve Fund	(30,474)	(34,960)	(30,660)	--	--
Reserve for Debt Retirement/Avoidance	(41,285)	(265,474)	--	--	--
Other Adjustments	256	(2,072)	(3,585)	(19,291)	8,416
Subtotal	-0-	-0-	-0-	(817,086)	(96,615)
Transferred from Budget Reserve Fund	-0-	-0-	-0-	594,698	--
Unappropriated Surplus (Deficit), June 30	$ - 0 -	$ - 0 -	$ - 0 -	$(222,388)	$(96,615)

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

(b) 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).

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

(d) 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.

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

(f) 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).

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

(h) 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.

(i) Under the provisions of Special Act 02-1, Section 111, May 9, 2002 Special Session, the deficit of $222.4 million is financed through the issuance of economic recovery notes (ERN).

(j) Total Revenues includes Restricted Accounts and Federal and Other Grants in the amount of $1,254,709.

(k) Total Expenditures includes Restricted Accounts and Federal and Other Grants in the amount of $1,254,709 and prior year appropriations less appropriations carried forward to the next fiscal year in the amount of $82,268.

GENERAL FUND

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

	1999	2000	2001	2002	2003
Taxes:					
Personal Income	$ 3,820,837	$ 4,238,228	$ 4,744,233	$4,265,912	$4,263,070
Sales and Use	2,932,191	3,096,780	3,125,078	2,997,766	3,025,743
Corporations	619,539	587,756	550,509	380,985	507,975
Insurance Companies	196,195	201,225	191,107	217,371	239,358
Inheritance and Estate	237,573	228,072	252,802	153,092	184,320
Alcoholic Beverages	40,281	40,965	41,145	41,619	42,490
Cigarettes	123,345	122,045	119,476	160,904	256,052
Admissions, Dues, Cabaret	26,942	26,716	25,811	26,905	31,696
Oil Companies	22,170	54,285	64,497	24,309	117,451
Public Service Corporations	167,704	166,263	180,547	166,597	197,959
Real Estate Conveyance	106,813	114,565	112,282	120,717	149,317
Hospital Gross Receipts	128,079	69,180	-	--	--
Miscellaneous	40,635	40,227	35,088	26,267	33,731
Refunds of Taxes	(645,000)	(713,359)	(735,482)	(829,558)	(808,209)
R&D Credit Exchange	--	--	--	(21,933)	(11,148)
Other Revenue:					
Licenses, Permits, Fees	122,062	127,544	124,331	137,518	125,179
Sales of Commodities and Services	30,110	32,941	31,312	30,479	32,869
Transfer – Special Revenue	280,529	259,785	258,181	277,589	262,776
Investment Income	60,856	53,371	67,868	23,828	7,083
Transfers — To Other Funds	(90,000)	(180,000)	(85,400)	(147,685)	(93,009) [a]
Fines, Escheats and Rents	55,763	45,659	48,228	47,620	81,490
Miscellaneous	112,962	125,498	125,594	114,273	182,364
Refunds of Payments	--	--	--	(373)	(397)
Federal Grants	1,938,271	2,078,914	2,237,045	2,142,269	2,318,421
Indian Gaming Payments	288,532	318,986	332,418	368,954	387,256
Statutory Transfers From Other Funds	--	78,000	138,800	120,000 [b]	489,486
Total Unrestricted Revenue	10,616,389	11,213,646	11,985,470	10,845,425	12,023,326
Restricted Accounts and Federal and Other Grants	743,871	937,641	900,510	1,098,258	1,254,709
Total Revenues[c]	$ 11,360,260	$ 12,151,287	$ 12,885,980	$ 11,943,683	$ 13,278,035

(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)

	1999	2000	2001	2002	2003
Legislative	$ 50,978	$ 54,541	$ 55,406	$ 58,095	$ 57,340
General Government					
Executive	8,731	9,929	10,018	9,569	8,650
Financial Administration	532,374	495,118	438,800	451,738	346,282
Legal	53,742	61,263	62,612	65,980	65,309
Total General Government	594,847	566,310	511,430	527,287	420,241
Regulation and Protection of Persons and Property					
Public Safety	107,942	129,216	130,051	141,830	138,450
Regulative	61,764	77,785	73,427	80,660	73,881
Total Regulation and Protection	169,706	207,001	203,478	222,490	212,331
Conservation and Development					
Agriculture	8,885	10,026	10,500	11,015	10,521
Environment	39,138	45,621	47,668	42,716	40,837
Historical Sites, Commerce and Industry	22,737	22,508	25,486	24,733	22,117
Total Conservation and Development	70,760	78,155	83,654	78,464	73,475
Health and Hospitals					
Public Health	70,334	79,445	82,225	85,058	80,171
Mental Retardation	579,290	627,435	654,698	701,343	719,964
Mental Health	255,905	298,353	355,438	411,934	422,843
Total Health and Hospitals	905,529	1,005,233	1,092,361	1,198,335	1,222,978
Transportation	-	-	34,857	37,653	5,731
Human Services	3,231,095	3,430,561	3,537,462	3,589,653	3,724,789
Education, Libraries and Museums					
Department of Education	1,683,536	1,825,305	2,169,762	1,995,545	1,989,531
Education of the Blind and Deaf	14,618	16,052	16,757	15,978	14,864
University of Connecticut	234,464	260,972	271,378	265,854	265,450
Higher Education and the Arts	39,385	55,326	61,888	66,425	47,511
Libraries	13,729	14,326	14,800	17,439	13,126
Teachers Retirement	201,105	215,396	226,663	217,762	193,780
Community—Technical Colleges	105,064	115,432	115,587	129,262	126,664
State University	119,578	134,709	130,556	139,276	138,125
Total Education, Libraries and Museums	2,411,479	2,637,518	3,007,391	2,847,541	2,789,051
Corrections	845,239	957,555	999,052	1,068,183	1,111,416
Judicial	266,043	309,319	338,568	376,813	368,143
Non-Functional					
Debt Service	848,391	926,365	973,554	992,071	986,130
Miscellaneous	856,742	1,028,346	1,045,487	1,190,441	1,238,708
Total Non-Functional	1,705,133	1,954,711	2,019,041	2,182,512	2,224,838
Totals	10,250,809	11,200,904	11,882,700	12,187,026	12,210,333
Restricted Accounts and Federal and Other Grants	743,871	937,641	900,510	1,098,258	1,254,709
Total Expenditures[(a)]	$ 10,994,680	$ 12,138,545	$ 12,783,210	$13,285,284	$13,465,043

(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
ESTIMATED ACTUAL BUDGET FOR FISCAL YEAR 2002-03
BIENNIAL BUDGET FOR FISCAL YEARS 2003-04 AND 2004-05
ESTIMATED BUDGET FOR FISCAL YEAR 2003-04
(In Millions)

	Actual Budget 2002-03[d]	**Budget 2003-04**[l]	**Estimated Budget 2003-04**[p]	**Budget 2004-05**[l]
Revenues				
Taxes				
Personal Income Tax	$4,263.0	$4,475.9	$4,475.9	$4,795.7
Sales & Use	3,025.7	3,092.1	3,092.1	3,271.1
Corporation	508.0[e]	607.5	607.5	601.7
Public Service	198.0	182.8	182.8	183.3
Inheritance & Estate[a]	184.3	140.1	140.1	161.6
Insurance Companies	239.4[f]	247.9	247.9	255.3
Cigarettes	256.1[f]	300.8[f]	300.8[f]	296.3[f]
Real Estate Conveyance	149.3	130.4	130.4	125.4
Oil Companies	117.5[g]	97.5	97.5	84.2
Alcoholic Beverages	42.5	44.1	44.1	44.1
Admissions and Dues	31.7	30.6	30.6	32.2
Miscellaneous	33.7	32.3	32.3	33.9
Total Taxes	$9,049.2	$9,382.0	$9,382.0	$9,884.8
Less Refunds of Taxes	(808.2)	(744.0)	(744.0)	(759.0)
Less R&D Credit Exchange	(11.2)	(14.0)	(14.0)	(14.0)
Net Taxes	$8,229.8	$8,624.0	$8,624.0	$9,111.8
Other Revenues				
Transfers- Special Revenues	262.8	269.6	269.6	274.1
Indian Gaming Payments	387.3	410.0	410.0	430.0
Licenses, Permits, Fees	125.2	149.5	149.5	138.1
Sales of Commodities & Services	32.8	31.0	31.0	34.0
Rents, Fines & Escheats	81.5[h]	77.3	77.3	77.3
Investment Income	7.1	12.5	12.5	20.0
Miscellaneous	182.3	118.0	118.0	119.0
Less Refunds of Payments	(0.4)	(0.5)	(0.5)	(0.5)
Total Other Revenue	$1,078.6	$1,067.4	$1,067.4	$1,092.0
Other Sources				
Federal Grants	2,318.4	2,527.0[m]	2,527.0[m]	2,382.8[m]
Transfers to the Resources of the G.F.	351.5[i]	207.7[n]	207.7[n]	354.5[n]
Transfers from Tobacco Settlement Funds	138.0	111.0	111.0	111.0
Transfers to Other Funds[b]	(93.0)	(85.0)	(85.0)	(85.0)
Total Other Sources	$2,714.9	$2,760.7	$2,760.7	$2,763.3
Total Unrestricted Revenues	$12,023.3	$12,452.1	$12,452.1	$12,967.1
Restricted Federal & Other Grants	1,254.7[j]	750.0[j]	750.0[j]	750.0[j]
Total Revenue	$13,278.0	$13,202.1	$13,202.1	$13,717.1

	Actual Budget 2002-03[d]	Budget 2003-04[l]	Estimated Budget 2003-04[p]	Budget 2004-05[l]
Appropriations/Expenditures				
Legislative	$53.0	$62.0	$62.0	$65.9
General Government	413.4	413.8	417.1	431.3
Regulation & Protection	207.5	213.1	213.1	219.5
Conservation & Development	64.3	69.3	69.3	68.3
Health & Hospitals	1,216.5	1,256.8	1,258.8	1,290.6
Transportation	(0.5)	0.0	0.0	0.0
Human Services	3,721.9	3,767.1	3,798.5	3,901.1
Education, Libraries & Museums	2,783.2	2,826.6	2,826.6	2,851.6
Corrections	1,108.9	1,172.0	1,184.0	1,197.0
Judicial	365.1	390.3	390.3	402.5
Non-Functional				
Debt Service	986.1	1,164.2	1,164.2	1,337.5
Miscellaneous	1,208.9	1,377.1	1,377.1	1,509.0
Subtotal	$12,128.3	$12,712.3	$12,761.0	$13,274.3
Unallocated Lapse	0.0	(260.3) [o]	(260.3) [o]	(307.4) [o]
Net Appropriations/Expenditures	$12,128.3	$12,452.0	$12,500.7	$12,966.9
Surplus (or Deficit) from Operations	($105.0)	0.1	(48.6)	0.2
Miscellaneous Adjustments	8.4	0.0	(3.1)	0.0
Balance[c]	($96.6)[k]	$0.1	$(51.7)	$0.2

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, Public Act No. 03-1 of the June Special Session, and changes to the federal estate pick-up tax pursuant to federal law P.L. 107-16. The imposition of a temporary estate tax is estimated to raise $55 million in fiscal year 2005 if the State fails to receive extraordinary federal assistance similar to that contained in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.

(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 ten 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) Figures from the Comptroller's annual report dated December 31, 2003 based on information for the period ending June 30, 2003. The line item expenditures exclude expenditures of appropriations carried over from the prior fiscal year and include expenditures carried over to the next fiscal year, as determined by the Office of Policy and Management.

(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 so that tax liability will not be reduced 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. 03-2, the increase in Cigarette Tax from $1.11 per pack to $1.51 per pack effective March 15, 2003 is estimated to yield $ 70.9 million in fiscal year 2004 and $70.9 million in fiscal year 2005 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 year 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) The figure reflected for Restricted Accounts and Federal & Other Grants reflects an estimate for the Budgets and Estimated Budget for 2003-04 and 2004-05. 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.

(k) Per Public Act No. 03-1 of the September 8 Special Session of 2003, the unfunded balance of the estimated $96.8 million and the $25 million estimated lagged hospital service claims will be financed by the issuance of five-year economic recovery notes.

(l) Per Public Act No. 03-1 of the June 30 Special Session, Public Act No. 03-3 of the June 30 Special Session, Public Act No. 03-4 of the June 30 Special Session and Public Act No. 03-6 of the June 30 Special Session which constitute the budget for fiscal year 2004 and fiscal year 2005. Per the budget, major revenue changes include:

(i) The reduction of property tax credit against personal income tax from $500 per household to $350 and the elimination of the minimum $100 credit is estimated to yield $112.0 million in fiscal year 2004 and $112.2 million in fiscal year 2005.

(ii) The elimination of the sales tax on hospital services, newspapers and magazines, and advertising or public relation services is estimated to reduce revenue by $123.4 million in fiscal year 2004 and $139.2 million in fiscal year 2005.

(iii) The imposition of a 25% surcharge on corporations in income year 2004 and increasing the preference tax is estimated to raise $90 million in fiscal year 2004 and $68 million in fiscal year 2005.

(iv) The imposition of a temporary estate tax is estimated to raise $55 million in fiscal year 2005 if the State fails to receive extraordinary federal assistance similar to that contained in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.

(m) Per the Federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (PL 108-27), the State will receive $115.8 million of flexible grants and $134.3 million due to a temporary increase in the federal medical assistance percentage (FMAP) for medical expenses.

(n) Per the budget, funds being transferred in fiscal year 2004 include: $144 million from a securitization of a portion of the Energy Conservation and Load Management Fund, $25.0 million from a securitization of a portion of the Clean Energy Fund, $17.5 million from quasi-public agencies, and approximately $9 million from miscellaneous accounts. In fiscal year 2005, transfers include $300 million from the securitization of a portion of tobacco funds, $25.0 million from a securitization of a portion of the Clean Energy Fund, and $17.5 million from quasi-public agencies.

(o) Per the budget, among other items, the lapse in each fiscal year anticipates $75 million unallocated lapses, $14 million under General Personal Services Reductions, $11 million under General Other Expenses Reductions, and $5 million in Fleet Reductions. Moreover, the lapse in each fiscal year anticipates savings from the Governor's Early Retirement Incentive Plan of $153.3 million in fiscal year 2004 and $140.4 million in fiscal year 2005. In addition, $55 million is anticipated for the Governor's extraordinary rescission authority in fiscal year 2005.

(p) Per the Comptroller's monthly report dated December 1, 2003 for the period ending October 31, 2003, with presentation modifications as to certain line items as determined by the Office of Policy and Management. See also page III-23 (see discussion under STATE GENERAL FUND – Fiscal Year 2003-2004 Operations). The next monthly report of the Comptroller is anticipated on January 2, 2004.

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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STATE OF CONNECTICUT • GENERAL OBLIGATION ECONOMIC RECOVERY NOTES • (2004 SERIES) (AUCTION NOTES)

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