NEW ISSUE—Book Entry Only *(See "Ratings" herein)*

$96,210,000
THE UNIVERSITY OF CONNECTICUT
General Obligation Bonds, 2003 Series A

Dated: March 1, 2003 **Due: February 15, as shown on inside cover**

The University of Connecticut General Obligation Bonds, 2003 Series A (the "2003 Series A Bonds") are general obligations of The University of Connecticut (the "University"), a body politic and corporate constituting a public instrumentality and agency of the State of Connecticut (the "State") and are issued pursuant to Public Act No. 95-230, January 1995 Session of the General Assembly of the State, as amended (the "UConn 2000 Act") and the General Obligation Master Indenture of Trust, as supplemented by certain supplemental indentures, including the Ninth Supplemental Indenture of the University, for the purpose of providing funds for the UConn 2000 Infrastructure Improvement Program. The 2003 Series A Bonds are additionally secured by a pledge of and payable from amounts of the State Debt Service Commitment equal to the interest and principal due on the 2003 Series A Bonds appropriated out of the resources of the State General Fund and mandated and obligated to be paid by the State Treasurer to U. S. Bank National Association (as successor to State Street Bank and Trust Company), as the Trustee under such Indenture, when due. In the opinion of Bond Counsel, such appropriation and mandate and obligation of payment from the State General Fund are valid and do not require further legislative approval.

The issuance of the 2003 Series A Bonds by the University does not obligate the State or any municipality or political subdivision to levy or pledge any form of taxation. The University has no taxing power. See "NATURE OF OBLIGATION AND SOURCE OF REPAYMENT" herein.

The 2003 Series A Bonds are issuable only as fully-registered bonds, without coupons, and when issued 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 2003 Series A Bonds. Purchases of the 2003 Series A Bonds will be made in book-entry form, in the denomination of $5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the 2003 Series A Bonds. So long as Cede & Co. is the Bondowner, 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 2003 Series A Bonds. See "DESCRIPTION OF THE 2003 SERIES A BONDS—Book-Entry-Only System" herein. Principal of and interest on the 2003 Series A Bonds will be paid directly to DTC by the Trustee, as Paying Agent, so long as DTC or its nominee, Cede & Co., is the Bondowner. Interest on the 2003 Series A Bonds will be payable semiannually on February 15 and August 15, in each year, commencing August 15, 2003. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

(See inside front cover for maturities, interest rates and prices or yields.)

Payment of the principal and interest on the 2003 Series A Bonds with stated maturities of February 15, 2014 through 2023, inclusive (the "Insured Bonds") when due (other than by reason of optional or mandatory redemption or acceleration thereof resulting from default or otherwise) will be insured by a financial guaranty insurance policy to be issued concurrently with the delivery of the 2003 Series A Bonds by MBIA Insurance Corporation. See "BOND INSURANCE" herein and Appendix I-F herein.

The 2003 Series A Bonds are subject to redemption prior to maturity as more fully described herein.

In the opinion of Pullman & Comley, LLC, under existing statutes and court decisions, interest on the 2003 Series A Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, interest on the 2003 Series A Bonds is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations, but is, however, included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed with respect to such corporations. See "Tax Exemption" herein for a description of certain other Federal tax consequences of ownership of the 2003 Series A Bonds.

In the opinion of Pullman & Comley, LLC, under existing statutes, interest on the 2003 Series A Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates; and interest on the 2003 Series A Bonds 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 2003 Series A Bonds are offered when, as, and if issued and received by the Underwriters, subject to the approval of legality by Pullman & Comley, LLC, Hartford, Connecticut, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their Counsel, Robinson & Cole LLP, Hartford, Connecticut. Certain legal matters will be passed upon for the State by its Disclosure Counsel, Day, Berry & Howard LLP, Hartford, Connecticut. It is expected that the 2003 Series A Bonds in definitive form will be available for delivery at The Depository Trust Company in New York, New York on or about March 26, 2003.

A.G. Edwards & Sons, Inc.

Advest, Inc. **First Albany Corporation** **JPMorgan** **Wachovia Bank, National Association**

Belle Haven Investments L.P. **David Lerner Associates, Inc.** **Fidelity Capital Markets**
Herbert J. Sims & Co., Inc. **Jackson Securities** **M.R. Beal & Company**
Prudential Securities **Quick & Reilly, Inc.** **Raymond James & Associates, Inc.**
Roosevelt & Cross, Inc. **UBS PaineWebber Inc.**

Dated: March 18, 2003

$96,210,000
THE UNIVERSITY OF CONNECTICUT
General Obligation Bonds, 2003 Series A

MATURITY SCHEDULE

Year	Principal Amount	Interest Rate	Yield	CUSIP
2004	$5,000,000	2.000%	1.073%	914233HN4
2005	1,790,000	2.000	1.230	914233HP9
2005	2,930,000	3.000	1.230	914233JJ1
2006	5,000,000	2.000	1.550	914233HQ7
2007	3,855,000	2.000	1.960	914233HR5
2007	865,000	2.750	1.960	914233JK8
2008	5,000,000	2.300	2.330	914233HS3
2009	3,945,000	2.650	2.680	914233HT1
2009	780,000	3.000	2.680	914233JL6
2010	3,265,000	2.900	3.000	914233HU8
2010	1,460,000	3.400	3.000	914233JM4
2011	5,000,000	3.200	3.230	914233HV6
2012	755,000	3.350	3.420	914233HW4
2012	3,970,000	5.250	3.420	914233JN2
2013	720,000	3.500	3.540	914233HX2
2013	4,015,000	5.250	3.540	914233JY8
2014*	2,450,000	5.250	3.640†	914233JP7
2014*	2,290,000	3.600	3.640	914233HY0
2015*	4,435,000	5.250	3.750†	914233JQ5
2015*	305,000	3.700	3.750	914233HZ7
2016*	4,675,000	5.250	3.860†	914233JR3
2016*	75,000	3.800	3.860	914233JA0
2017*	4,680,000	5.250	3.970†	914233JS1
2017*	80,000	3.950	3.970	914233JB8
2018*	4,345,000	5.125	4.070†	914233JT9
2018*	425,000	4.000	4.070	914233JC6
2019*	2,420,000	5.125	4.160†	914233JU6
2019*	2,350,000	4.125	4.160	914233JD4
2020*	4,385,000	5.125	4.250†	914233JV4
2020*	390,000	4.200	4.250	914233JE2
2021*	4,725,000	5.125	4.350†	914233JW2
2021*	50,000	4.300	4.350	914233JF9
2022*	4,610,000	5.125	4.400†	914233JX0
2022*	170,000	4.350	4.400	914233JG7
2023*	5,000,000	4.400	4.450	914233JH5

* Payment of the principal and interest on such maturities of the 2003 Series A Bonds will be insured under a financial guaranty insurance policy to be issued concurrently with the delivery of such bonds by MBIA Insurance Corporation.

† Priced to the call date of February 15, 2013 assuming redemption at par.

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 2003 Series A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from The University of Connecticut and the State of Connecticut and other sources which are believed to be reliable but is not guaranteed as to its accuracy or completeness. 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 circumstance, create any implication that there has been no change in the affairs of said University or the State since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2003 SERIES A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

In making an investment decision, investors must rely on their own examination of the security for the 2003 Series A Bonds and terms of this offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commissioners or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

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CONTENTS OF OFFICIAL STATEMENT

This Official Statement of the University of Connecticut, including the cover and inside cover pages, Part I, Part II and Part III, the Appendices and Schedules thereto, is provided for the purpose of presenting certain information relating to the University in connection with the sale of $96,210,000 aggregate principal amount of its 2003 Series A Bonds.

Part I of this Official Statement, including the cover and inside front cover pages and the Appendices thereto, contains information relating to the 2003 Series A Bonds. Appendix I-A of this Official Statement contains certain information concerning the University as of its date, except as otherwise provided therein. Part II of this Official Statement is the Information Supplement of the State of Connecticut which contains information which supplements as of its date certain information contained in the most recent Annual Information Statement of the State. Part III of this Official Statement, including the Appendices thereto, is the most recent Annual Information Statement of the State and contains certain information about the State as of its date. The cover page, inside cover page, Parts I, II, and III and the Appendices and Schedules thereto should be read collectively and in their entirety.

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OFFICIAL STATEMENT
relating to

$96,210,000

THE UNIVERSITY OF CONNECTICUT

General Obligation Bonds, 2003 Series A

INTRODUCTORY STATEMENT

This Official Statement, including the cover page, the inside cover page, the appendices and schedules attached hereto, is provided for the purpose of presenting certain information in connection with the offering and sale of $96,210,000 General Obligation Bonds, 2003 Series A (the "2003 Series A Bonds") of The University of Connecticut (the "University"). The 2003 Series A Bonds are authorized pursuant to The University of Connecticut 2000 Act, Sections 10a-109a to 10a-109y inclusive of the General Statutes of Connecticut, as amended ("the Act" or the "UConn 2000 Act") and are authorized, issued and secured under the provisions of a General Obligation Master Indenture of Trust, dated as of November 1, 1995 (the "Master Indenture"), as supplemented and amended by certain supplemental indentures, including the Ninth Supplemental Indenture dated as of March 1, 2003 (the "Ninth Supplemental Indenture"). The Master Indenture and supplements thereto, including the Ninth Supplemental Indenture, are collectively referred to herein as the "Indentures." All series of bonds issued under the Master Indenture are herein called the "Bonds" or "General Obligation Bonds." The Indentures were each approved by the Board of Trustees of the University (the "Board") and entered into with U. S. Bank National Association (successor to State Street Bank and Trust Company) of Hartford, Connecticut, as Trustee thereunder.

The Act establishes the University as a body politic and corporate and instrumentality and agency of the State of Connecticut (the "State") and enables the University to borrow money in its own name on behalf of the State for the purpose of providing sufficient funds for a special capital improvement program for the University (the "UConn 2000 Infrastructure Improvement Program" or "UConn 2000"). See "UCONN 2000 INFRASTRUCTURE IMPROVEMENT PROGRAM" below.

The Act was originally enacted in 1995 as a ten year program. In 2002 the General Assembly enacted and the Governor signed into law Public Act No. 02-3, An Act Concerning 21st Century UConn (the "21st Century UConn Act"). The 21st Century UConn Act extended the UConn 2000 financing program that was scheduled to end in 2005, to run for an additional 10 years to June 30, 2015. It also authorized additional projects for phase III UConn 2000 for an estimated cost of $1,348 million. The UConn 2000 program, including phases I, II and III is estimated to cost $2,598 million.

The Act provides for a plan of financing UConn 2000 projects that includes for phase I and phase II $962 million and for phase III $1,300 million of general obligation bonds of the University secured by the State Debt Service Commitment (the "State Debt Service Commitment"). See "NATURE OF OBLIGATION AND SOURCES OF REPAYMENT" below. An additional $18 million of UConn 2000 phase I and phase II projects were funded through the issuance of State general obligation bonds. The balance of the estimated cost of UConn 2000 projects which is not to be financed by the University's Bonds secured by the State Debt Service Commitment or the State's bonds may be met by the issuance of special obligation bonds ("Special Obligation Bonds") of the University, or from gifts or other revenue or borrowing resources of the University, or through the deferring of projects or achieved savings. See "UCONN 2000 INFRASTRUCTURE IMPROVEMENT PROGRAM" below. To date, the University has outstanding $598,667,147 of its General Obligation Bonds, secured by the State Debt Service Commitment and $198,980,000 of its Special Obligation Bonds, the proceeds of which have funded UConn 2000 projects. See Appendix I-A "UNIVERSITY FINANCES - University Indebtedness and Capitalized Lease Obligations."

The 2003 Series A Bonds represent the eighth series of General Obligation Bonds being issued pursuant to the Act and the Master Indenture. To date, pursuant to the Indentures, $812,000,000 of General Obligation Bonds have been authorized to be issued for UConn 2000 projects, of which $712,000,000 have been issued (excluding Costs of Issuance), resulting in an unissued balance of $100,000,000 prior to the issuance of the 2003 Series A Bonds. See "UCONN 2000 INFRASTRUCTURE IMPROVEMENT PROGRAM."

All references herein to the Act, the Indentures and the Bonds are qualified in their entirety by reference to the definitive documents. Capitalized terms have the meaning given to them in this Official Statement, including Appendix I-E of Part I hereof.

NATURE OF OBLIGATION AND SOURCE OF REPAYMENT

The Bonds (including the 2003 Series A Bonds) are general obligations of the University for the payment of which, in accordance with their terms, the full faith and credit of the University are pledged. The 2003 Series A Bonds are additionally secured by the pledge of and a lien upon the State Debt Service Commitment. The State Debt Service Commitment is defined by the Act and the Master Indenture as the commitment by the State to pay an annual amount for the punctual payment of Special Debt Service Requirements on securities issued as general obligations of the University, as the same shall arise and shall become due and payable. Special Debt Service Requirements include, among other things, the principal on serial Current Interest Bonds or sinking fund installments on term Current Interest Bonds (the "Principal Installments") and interest thereon and the Maturity Amounts on Capital Appreciation Bonds.

As part of the contract of the State with the holders of the Bonds, including the 2003 Series A Bonds, the Act provides that appropriation of all amounts of the State Debt Service Commitment shall be made out of the resources of the General Fund of the State and that the Treasurer of the State of Connecticut (the "Treasurer") shall pay such amount in each fiscal year to the paying agent on the Bonds so secured or otherwise as the Treasurer shall provide. The Master Indenture provides for such amount to be deposited by the Treasurer directly to the Trustee for deposit into the Debt Service Fund on or before the Interest Payment Date with respect to interest, and the Principal Installment Date with respect to principal or sinking fund installments, on any Current Interest Bonds and on or before the Maturity Date with respect to the Maturity Amount on any Capital Appreciation Bonds.

In the opinion of Bond Counsel, the State has validly appropriated all amounts of the State Debt Service Commitment and the Treasurer has the duty and is validly mandated and obligated to pay such amounts to the Trustee, and such appropriation and mandate and obligation of payment do not require further legislative approval.

The Master Indenture provides that the Bonds shall be secured by the pledge of and a lien upon the Trust Estate which includes the proceeds of the Bonds, the Debt Service Fund (including moneys on deposit in or payable thereto) and the Redemption Fund. The Ninth Supplemental Indenture provides for the pledge of and a lien upon the State Debt Service Commitment. Assured Revenues, as more particularly defined by the Act and Master Indenture, include general revenues from fees, tuition and other like charges, grants and gifts, all to the extent not otherwise pledged, as well as annual State appropriations for operating expenses and the annual amounts of the State Debt Service Commitment. The 2003 Series A Bonds are general obligations of the University for which its full faith and credit are pledged and are payable from all Assured Revenues. The University, consistent with the Act, is relying upon the receipt of the annual amount of the pledged State Debt Service Commitment for the payment of the 2003 Series A Bonds and, accordingly, is not planning to budget any of the other Assured Revenues for the payment of the Bonds, including the 2003 Series A Bonds. Under the Master Indenture, the University has reserved the right and expects to issue Additional Bonds to finance UConn 2000 projects secured by the State Debt Service Commitment upon the terms and conditions set forth therein (See Appendix I-B "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL OBLIGATION MASTER INDENTURE OF TRUST"). The Act currently limits the maximum amount of Bonds so secured during fiscal years ending June 30, 1996 to June 30, 2005 to $1,012 million and during fiscal years ending June 30, 2006 to June 30, 2015 to $1,250 million, in each case exclusive of any amounts borrowed to refund Bonds, plus amounts necessary to finance Costs of Issuance on each Series of Bonds.

Pursuant to the Act, upon their issuance, securities of the University shall be conclusively presumed to be fully and duly authorized and issued under the laws of the State, and any person shall be estopped from questioning their authorization, sale, issuance, execution or delivery. Any pledge made by the University shall be deemed a statutory lien which shall be valid and binding from the time when the pledge is made against all parties having claims against the University. Neither the Act, the indenture or resolution, nor any other instrument by which a pledge is created need be recorded. Any revenues or other receipts, funds, moneys so pledged and thereafter received by the University shall be subject immediately to the lien of the pledge without any physical delivery thereof or further act and such lien shall have priority over all other liens. See Appendix I-B "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL OBLIGATION MASTER INDENTURE OF TRUST."

The covenants of the University with respect to the Bonds are set forth in the Master Indenture. The Act provides for, and the Master Indenture includes, remedies available to the Trustee for protection and enforcement of any and all rights granted under the financing provisions of the Act, including by mandamus to enforce and compel performance of any duty required to be performed by any officer of the State mentioned in said provisions (including the Treasurer) and the University. See Appendix I-B "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL OBLIGATION MASTER INDENTURE OF TRUST."

Pursuant to the Act, the University is authorized to include and has included the following State covenant in the Master Indenture as a contract of the State: The State covenants with holders of any securities issued under the Act, in consideration of the acceptance of and payment for the securities until the securities, together with the interest thereon, with interest on any unpaid installment of interest and all costs and expenses in connection with any action or proceeding on behalf of the owners, are fully met and discharged or unless expressly permitted or otherwise authorized by the terms of each contract and agreement made or entered into by or on behalf of the University with or for the benefit of such owners, that the State: (1) will not create or cause to be created any lien or charge on the assets or revenues pledged to secure such securities, other than a lien or pledge created thereon pursuant to the Act; (2) will not in any way impair the rights, exemptions or remedies of the owners; and (3) will not limit, modify, rescind, repeal or otherwise alter the rights or obligations of the University to take such action as may be necessary to fulfill the terms of the resolution authorizing the issuance of the securities; provided nothing in the Act shall preclude the State from exercising its power, through a change in law, to limit, modify, rescind, repeal or otherwise alter the Act if and when adequate provision shall be made by law for the protection of the holders of outstanding securities, pursuant to the resolution or indenture under which the securities are issued.

As required by the Act, the form of the Master Indenture for the Bonds secured by the State Debt Service Commitment was approved by the State Bond Commission on December 21, 1995. As required by the Act and provided for in the Master Indenture, any substantive amendment of the Master Indenture must also be approved by the State Bond Commission.

As required by the Act, the Board of Trustees' resolution approving each Supplemental Indenture for the issuance of Bonds must be submitted to the Governor. The Governor may, not later than thirty days after such submission, disapprove the same by notifying the Board of Trustees and the reasons for it. If the Governor does not act within thirty days, the resolution is deemed approved. The resolution approving the issuance of the 2003 Series A Bonds and the Ninth Supplemental Indenture was submitted to the Governor on May 3, 2002 and was approved by the Governor on May 15, 2002.

Pursuant to the Act, the Bonds, including the 2003 Series A Bonds, do not constitute a debt or liability of the State or any municipality thereof and neither the faith and credit nor taxing power of the State or any municipality is pledged to the payment of principal of or interest on the 2003 Series A Bonds. The issuance of the 2003 Series A Bonds by the University does not obligate the State or any municipality or political subdivision to levy or pledge any form of taxation to the payment of principal of or interest on the 2003 Series A Bonds. The University has no taxing power.

However, pursuant to the Act, the 2003 Series A Bonds, for purposes of the State's statutory debt limit computation, are deemed to be indebtedness of the State. Reference is made to Part III of this Official Statement under the heading STATE DEBT - *Types of Direct General Obligation Debt - UConn 2000 Financing* wherein the State identifies the financings by the University secured by the State Debt Service Commitment for treatment as direct debt of the State. As noted therein, the Act requires that the State include a certain amount of University securities secured by the State Debt Service Commitment in each fiscal year from 1996 to 2015 in the computation of the statutory limitation on indebtedness of the State pursuant to Section 3-21 of the Connecticut General Statutes, as amended.

The University under the Master Indenture has reserved the right to pledge and place a lien upon particular Assured Revenues, other than the State Debt Service Commitment, to secure securities, other than the Bonds secured by the State Debt Service Commitment, issued to finance UConn 2000 or other University projects. See Appendix I-B "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL OBLIGATION MASTER INDENTURE OF TRUST."

BOND INSURANCE

Concurrently with the issue of the 2003 Series A Bonds, MBIA Insurance Corporation ("MBIA") will issue its Municipal Bond Insurance Policy to insure the 2003 Series A Bonds with stated maturities of February 15, 2014 through 2023, inclusive (collectively the "Insured Bonds").

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA for use in this Official Statement. Reference is made to Appendix I-F for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due and there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Insured Bond. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of an Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U. S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Insured Bonds or presentment of such other proof of ownership of the Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Insured Bonds in any legal proceeding related to payment of insured amounts on the Insured Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Insured Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding MBIA's policy and MBIA set forth under the heading "BOND INSURANCE." Additionally, MBIA makes no representations regarding the 2003 Series A Bonds or the advisability of investing in the Insured Bonds.

MBIA Information

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

(1) the Company's Annual Report on Form 10-K for the year ended December 31, 2001; and

(2) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Insured Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or any other subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002), are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington, D.C.; (iii) over the Internet at the Company's web site at http://mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA has admitted assets of $8.5 billion (audited), total liabilities of $5.6 billion (audited), and total capital and surplus of $2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2002, MBIA has admitted assets of $9.0 billion (unaudited), total liabilities of $5.9 billion (unaudited), and total capital and surplus of $3.1 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Insured Bonds. MBIA does not guaranty the market price of the Insured Bonds nor does it guaranty that the ratings on the Insured Bonds will not be revised or withdrawn.

This Policy is not covered by the Connecticut Insurance Guaranty Association specified in Article 7 of the Connecticut Financial Guaranty Act.

DESCRIPTION OF THE 2003 SERIES A BONDS

The 2003 Series A Bonds

The 2003 Series A Bonds are issuable only as fully registered bonds, in book-entry-only form (as described herein), in the denomination of $5,000 or any integral multiple thereof.

The 2003 Series A Bonds will be dated March 1, 2003, and will mature on February 15, in each of the years and in the amounts and will bear interest payable semiannually on February 15 and August 15 in each year, commencing August 15, 2003, at the rates per annum set forth on the inside cover page of this Official Statement, calculated on the basis of a 360-day year of twelve 30 day months. Interest will be payable to the registered owners as of the close of business on the last day of January and July in each year.

Principal of and interest on the 2003 Series A Bonds will be paid directly to The Depository Trust Company ("DTC") by U. S. Bank National Association, Hartford, Connecticut, as Paying Agent, so long as DTC or its nominee, Cede & Co., is the Bondowner. See "Book-Entry-Only System."

Optional Redemption. The 2003 Series A Bonds maturing on and after February 15, 2014 will be subject to redemption prior to their maturity, at the election of the University upon the direction of the Treasurer at any time, on or after February 15, 2013, in whole on any date or in part, on any interest payment date (each herein the "Redemption Date") from time to time, and in such maturity or maturities (but by lot within a maturity among bonds bearing the same interest rate) as the Treasurer shall determine, at a redemption price equal to 100% of the principal amount thereof, together with interest accrued and unpaid on the Redemption Date.

Notice of Redemption. Notice of redemption shall be mailed not less than thirty (30) nor more than sixty (60) days prior to the redemption date, by registered mail, to the registered owner of such bond at such Bondowner's address as it appears on the books of registry or at such address as may have been filed with the registrar for that purpose. So long as Cede & Co., as nominee of DTC, is the registered owner of the 2003 Series A Bonds, all notices of redemption will be sent only to DTC.

Sources and Uses of Proceeds of the 2003 Series A Bonds

The University expects to apply the proceeds from the sale of the 2003 Series A Bonds as follows:

Sources:

Par Amount of the 2003 Series A Bonds	$ 96,210,000.00
Accrued Interest	264,139.84
Original Issuance Premium	4,733,791.05
Original Issue Discount	(110,608.30)
Total Sources	$101,097,322.59

Uses:

Construction Account	$100,000,000.00
Costs of Issuance Account	300,549.39
Bond Insurance	131,000.00
Underwriters' Discount	665,773.20
Total Uses	$101,097,322.59

Pursuant to the Master Indenture, amounts in the Construction Account and Costs of Issuance Account may be invested by the Trustee at the direction of the University, or the Treasurer, respectively, in such Investment Obligations permitted by the Master Indenture and paragraph (f) of Section 3-20 of the Connecticut General Statutes, as amended.

Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2003 Series A Bonds. The 2003 Series A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered 2003 Series A Bond certificate will be issued for each maturity of each series of the 2003 Series A Bonds, each in the aggregate principal amount of such maturity of such series, 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 2003 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2003 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2003 Series A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations 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 2003 Series A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in any series of the 2003 Series A Bonds, except in the event that use of the book-entry system for a Series of the 2003 Series A Bonds is discontinued.

To facilitate subsequent transfers, all 2003 Series A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2003 Series A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2003 Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2003 Series A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within a maturity of a series of the 2003 Series A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2003 Series A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to the Trustee 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 2003 Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the 2003 Series A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Paying Agent, the University or the State subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the University, the State or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The University, the State and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the 2003 Series A Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the 2003 Series A Bonds, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the 2003 Series A Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. The University, the State and the Trustee shall not have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the 2003 Series A Bonds under or through DTC or any Participant, or any other person which is not shown on the registration books of the University, the State (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Participant; the payment by DTC or any Participant of any amount in respect of the principal, redemption premium, if any, or interest on the 2003 Series A Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the University; or other action taken by DTC as registered owner. Interest, redemption premium, if any, and principal will be paid by the Trustee to DTC, or its nominee. Disbursement of such payments to the Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Participants or the Indirect Participants.

For every transfer and exchange of beneficial ownership of any of the 2003 Series A Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may discontinue providing its services as depository with respect to a Series of the 2003 Series A Bonds at any time by giving reasonable notice to the University and discharging its responsibilities with respect thereto under applicable law, or the University may terminate its participation in the system of book-entry transfer through DTC at any time by giving notice to DTC. In either event, the University may retain another securities depository for a Series of the 2003 Series A Bonds or may direct the Trustee to deliver bond certificates in accordance with instructions from DTC or its successor. If the University directs the Trustee to deliver such bond certificates, such 2003 Series A Bonds of a series may thereafter be exchanged for an equal aggregate principal amount of 2003 Series A Bonds of such series in any other authorized denominations and of the same maturity as set forth in the Resolution, upon surrender thereof at the principal corporate trust office of the Trustee, who will then be responsible for maintaining the registration books of the University.

Unless otherwise noted, certain of the information contained in the preceding paragraphs of this subsection "Book-Entry-Only System" has been extracted from information given by DTC. Neither the University, the State, the Trustee nor the Underwriters make any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

NEITHER THE UNIVERSITY, THE STATE NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS. PAYMENTS MADE TO DTC OR ITS NOMINEE SHALL SATISFY THE UNIVERSITY'S AND THE STATE'S OBLIGATION UNDER THE ACT AND THE RESOLUTION TO THE EXTENT OF SUCH PAYMENTS.

So long as Cede & Co. is the registered owner of the 2003 Series A Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the 2003 Series A Bonds (other than under the captions "Tax Exemption" and "Continuing Disclosure" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2003 Series A Bonds.

Effect of Discontinuance of Book-Entry System. The following procedures shall apply if the book-entry system is discontinued with respect to the 2003 Series A Bonds.

Principal and Interest Payments. Principal of the 2003 Series A Bonds will be payable at the corporate trust office of the Trustee in Hartford, Connecticut, and interest on the 2003 Series A Bonds will be payable to the registered owner thereof on each interest payment date by check mailed to such registered owner at the address shown on the bond register maintained by the Trustee, or on the special record date established for the payment of defaulted interest. However, registered owners of $1,000,000 or more in aggregate principal amount of 2003 Series A Bonds may be paid interest by wire transfer upon written request filed with the Trustee on or before the Record Date for the applicable interest payment date.

Registration and Transfer. The Trustee will keep or cause to be kept, at its corporate office in Hartford, Connecticut, sufficient books for the registration and transfer of the 2003 Series A Bonds, and, upon presentation of 2003 Series A Bonds for each purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer, or cause to be registered or transferred, on such books such 2003 Series A Bonds. Any 2003 Series A Bond may, in accordance with its terms, be transferred upon such books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such registered 2003 Series A Bond for cancellation, accompanied by delivery of a written instrument of transfer executed in a form approved by the Trustee. Whenever any 2003 Series A Bond shall be surrendered for transfer, the University shall execute and the Trustee shall authenticate and deliver a new 2003 Series A Bond and maturity and for a like aggregate principal amount. The Trustee is not required to transfer or exchange any 2003 Series A Bond during the period 15 days before the mailing of a notice of redemption. The Trustee shall require the Bondholder requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such transfer or exchange and may require the payment of any reasonable sum to cover expenses incurred by the Trustee or University in connection with such exchange.

UCONN 2000 INFRASTRUCTURE IMPROVEMENT PROGRAM

Introduction

The UConn 2000 Infrastructure Improvement Program established by the Act is designed to modernize, rehabilitate and expand the physical plant of the University. The Act provides for a twenty year capital budget program in three phases. In 1995, the General Assembly authorized the phase I and phase II projects which were estimated to cost $1,250 million and were to be financed over a ten year period. In 2002, the General Assembly enacted and the Governor signed into law Public Act No. 02-3, An Act Concerning 21st Century UConn which amended the original Act to extend the UConn 2000 program for an additional ten year period and authorized additional phase III UConn 2000 projects estimated to cost an additional $1,348 million. The UConn 2000 program, including phases I, II and III is estimated to cost $2,598 million.

Phase I and phase II of the UConn 2000 program is to be funded in the amount of $962 million and phase III of the UConn 2000 program is to be funded in the amount of $1,300 million by the proceeds of General Obligation Bonds of the University, secured by the State Debt Service Commitment. See "NATURE OF OBLIGATION AND SOURCE OF REPAYMENT." An additional $18 million of UConn 2000 phase I and phase II projects have been funded through the issuance of State general obligation bonds. The balance of the estimated cost of UConn 2000 projects which is not to be financed by the University's Bonds secured by the State Debt Service Commitment or the State's bonds may be met by the issuance of Special Obligation Bonds, by gifts or other revenue or borrowing resources of the University, or by the deferring of projects or achieved savings. For fiscal years 1996-1999, the Act authorizes General Obligation Bonds totaling $382,000,000, for fiscal years 2000-2005 the Act authorizes General Obligation Bonds totaling $630,000,000, and for fiscal years 2006-2015 the Act authorizes $1,250,000,000 General Obligation Bonds, in each case exclusive of any amounts borrowed to refund Bonds, plus Cost of Issuance not otherwise provided for.

The 2003 Series A Bonds represent the eighth series of General Obligation Bonds being issued pursuant to the Act and the Master Indenture. To date, pursuant to the Indentures, $812,000,000 of General Obligation Bonds have been authorized to be issued for UConn 2000 projects, of which $712,000,000 have been issued (excluding Costs of Issuance), resulting in an unissued balance of $100,000,000 prior to the issuance of the 2003 Series A Bonds.

The Act

Powers. The Act enables the University to borrow money and enter into financing transactions in its own name and expands the authority of the University to directly supervise construction of its projects including all UConn 2000 projects. In order for the University to construct the UConn 2000 projects and issue securities for UConn 2000, the Act, among other things, provides the University with the following powers: (a) to have perpetual succession as a body politic and corporate and an instrumentality and agency of the State; (b) to contract, to sue, to be indemnified, and to defend any action; (c) to indemnify parties and to be sued by the holders of its securities on an express contract; (d) to retain or employ architects, accountants, engineers, legal and securities counsel; (e) to plan, acquire, construct, renovate, equip, own, operate, maintain, dispose of and demolish any project; (f) to acquire, hold or dispose of any interest in real or personal property and to hold, sell, assign, lease, rent or encumber, other than by mortgage, any such interest; (g) to receive money from Federal and State governments or others; and (h) to fix and collect fees, tuition, charges, rentals and other charges for enrollment and attendance at and use of the University.

The University may revise, delete and add projects to the list of UConn 2000 projects, provided a material addition or deletion must be approved by a legislative act of the Connecticut legislature. No revision, addition or deletion can reduce the amount of any State Debt Service Commitment. The University may determine the sequencing and timing of projects, revise estimates of cost and reallocate funds among projects, so long as it has found that all projects not otherwise deleted can be completed.

The Act provides that the principal amount of the securities authorized to be issued for a project is deemed an appropriation and allocation of such amount for such project and approval by the Governor is deemed the allotment by the Governor of such capital outlays. Upon such approval, the University may award contracts, and issue and sell securities respecting expenditures under such contracts which will be paid within the year following issuance of such securities and to provide for costs of UConn 2000 of not more than twenty percent in excess of such expenditures. Certain Costs of Issuance may be added to the amount of securities so issued.

Rate Covenant. The Act contains a rate covenant for the benefit of bondholders and the State wherein the University agrees to charge, collect and increase from time to time, tuition, fees and charges for services provided by the University, which together with other Assured Revenues such as those from the Minimum State Operating Provision and the State Debt Service Commitment shall be sufficient to permit the University to operate and maintain itself as an institution dedicated to excellence in higher education, to operate and maintain the physical University plant in sound operating condition and to cover the Special Debt Service Requirements on Outstanding

Bonds. See Appendix I-B "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL OBLIGATION MASTER INDENTURE OF TRUST."

Minimum State Operating Provision. Pursuant to the Act, the State commits to appropriate, annually, an amount for operations of the University, after consideration of other amounts available to the University for its operations, which amount shall be consistent with the University (including the UConn 2000 projects) continuing to operate in furtherance of and pursuant to the provisions of the Constitution of the State and applicable law as an institution dedicated to excellence in higher education. However, nothing in the Act shall be construed to preclude the State from appropriating a lower or higher amount than the amount appropriated in the previous fiscal year so long as the appropriation act provides and determines that the University can continue to operate as an institution dedicated to excellence in higher education and such amount so appropriated shall then constitute the Minimum State Operating Provision.

Special Capital Reserve Fund. The Act permits the issuance of special obligation securities of the University which may be further secured with one or more State supported reserve funds to be known as Special Capital Reserve Funds or a debt service reserve fund. To date, the University has issued four series of Special Obligation Bonds: but only one series, its Student Fee Revenue Bonds 1998 Series A, issued on February 4, 1998, was secured by a Special Capital Reserve Fund, $30,525,000 of which remain outstanding. See Appendix I-A "UNIVERSITY FINANCES-University Indebtedness and Capitalized Lease Obligations." A Special Capital Reserve Fund is not available to secure the 2003 Series A Bonds or any other general obligation bonds of the University.

Special External Gift and Endowment Funds. The Act creates two funds designed to encourage private sector gifts to fund UConn 2000 projects and to increase endowment funds of the University.

The Special External Gift Fund is created to receive Special Eligible Gifts from the private sector, in furtherance of UConn 2000. Special Eligible Gifts and interest or other income earned on the Special External Gift Fund are to be used to pay costs of any UConn 2000 project.

The Endowment Fund is dedicated to endowed professorships, scholarships and programmatic enhancements. To provide an incentive for gifts to the Endowment Fund, the State has agreed to make matching grants to the Endowment Fund in the form of the Endowment Fund State Grants. See Appendix I-A "UNIVERSITY FINANCES - Gifts to the University of Connecticut Foundation, Inc."

Construction of Projects. The UConn Infrastructure Improvement Program currently comprises approximately 130 projects ranging in cost from under $1,000,000 to over $200,000,000. Phase I and phase II projects are proposed for several of the University's campuses, with the preponderance of expenditures currently earmarked for the main campus at Storrs. Phase III projects include projects for the Storrs and regional campuses as well as several projects to be located at the Health Center. The University is authorized to assume the responsibility and supervision of any project including preparation of detailed plans and specifications for each project. Subject to applicable law, the University maintains construction standards for all projects, including provisions relating to materials and equipment, and health and safety. The Act provides an expedited permitting process for the issuance of any license, permit, approval and administrative action required in connection with any University project.

The Act provides that each contract let in accordance with the Act must provide that payment is limited to, and the State and the University shall have no liability beyond, the amount provided therein.

UConn 2000 Performance Review Report to the General Assembly. The Act provides for semi-annual reporting to certain committees of the General Assembly as well as for periodic performance reviews (due January 15, 1999, January 15, 2006 and January 15, 2011). On January 15, 1999, the University, as required by the Act, submitted to the Governor and to the Joint Standing Committees of the General Assembly having cognizance of matters relating to education and finance, revenue and bonding, a four year UConn 2000 performance review report detailing certain information specified in the Act for each project undertaken to date under the UConn 2000 Program. The Act provides for the committees to consider the report and determine whether there has been insufficient progress in implementation of UConn 2000 or whether there have been significant cost increases over original estimates as a result of actions taken by the University. If so, the committees may make recommendations for appropriate action to the University and to the General Assembly. On March 10, 1999, the committees determined that the University is managing the UConn 2000 capital projects, discharging its responsibilities, and achieving and implementing the UConn 2000 goals, in full accord with the intent of the Act.

Report of Legislative Program Review and Investigations Committee

In the summer of 2001, the General Assembly's Program Review and Investigations Committee initiated a study to assess the University's construction management process in connection with the UConn 2000 program. The staff findings and recommendations were released on December 18, 2002 which provide, in pertinent part, that, based on its examination of the University process for managing the construction phase of its UConn 2000 projects and a review of model construction management practices, the University process incorporates industry best practices for controlling costs, schedule and quality.

LITIGATION

University

There is no litigation of any nature pending or threatened against the University restraining or enjoining the issue, sale, execution or delivery of the 2003 Series A Bonds, or in any way contesting or affecting the validity of the 2003 Series A Bonds or any proceedings of the University taken with respect to the issuance or sale thereof, the application of the proceeds of the 2003 Series A Bonds or of amounts appropriated as the State Debt Service Commitment out of the resources of the State General Fund under the UConn 2000 Act for the payment of the 2003 Series A Bonds or the existence or powers of the University. The University is defending several suits against it in state and federal court. The Assistant Attorney General for the University is of the opinion that none of those suits, either individually or collectively, place the assets of the University at any significant risk.

State

There is no litigation pending or threatened against the State contesting or affecting the obligation of the State with respect to the State Debt Service Commitment for the payment of the 2003 Series A Bonds. However, the State, its officers and employees are defendants in numerous lawsuits. The Attorney General's Office has reviewed the status of such pending lawsuits. See "LITIGATION" in Part II and Part III hereto for a description of such litigation.

COVENANT OF THE STATE

Under the Act, the State has pledged and agreed with the holders of any bonds and notes issued under the Act, including the 2003 Series A Bonds, that the State will not limit or alter the rights vested in the University until such obligations, together with the interest thereon, are fully met and discharged, provided that nothing shall preclude such limitation or alteration if and when adequate provision shall be made by law for the protection of the holders of such bonds and notes.

LEGALITY FOR INVESTMENT

The Act provides that the 2003 Series A Bonds shall be legal investments and public bodies of the State and its political subdivisions, all municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, banking associations, trust companies, savings banks and savings associations, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, board of trustees and other fiduciaries, and all other persons whatsoever who are now or may be authorized to invest in securities of the State, may properly and legally invest funds, including capital, in their control, or belonging to them. Those securities are also made securities which may properly and legally be deposited with and received by all public officers and bodies of the State or any agency or political subdivision and all municipalities and public corporations for any purpose for which the deposit of securities of the State is now or may be authorized by law.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters related to the authorization, issuance and sale of the 2003 Series A Bonds are subject to the approval of Pullman & Comley, LLC, Hartford, Connecticut, Bond Counsel to the University. Bond Counsel proposes to deliver their approving opinions with respect to the 2003 Series A Bonds substantially in the forms set forth in Appendix I-C hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, Robinson & Cole LLP, Hartford, Connecticut. Robinson & Cole LLP has served previously as Bond Counsel to the State. Certain legal matters will be passed upon for the State by its Disclosure Counsel, Day, Berry & Howard LLP, Hartford, Connecticut.

TAX EXEMPTION

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to delivery of the 2003 Series A Bonds in order that interest on the 2003 Series A Bonds not be included in gross income of the owners thereof for Federal income tax purposes under Section 103 of the Code. The Tax Regulatory Certificate of the University and the State which will be delivered concurrently with the delivery of the 2003 Series A Bonds will contain representations, covenants and procedures relating to compliance with such requirements of the Code. Pursuant to the Tax Regulatory Certificate, the University and the Treasurer agree and covenant that each shall at all times perform all acts and things necessary or appropriate under any valid provision of law in order to ensure that such amounts shall not be included in the gross income of the owners thereof for Federal income tax purposes under the Code.

In the opinion of Pullman & Comley, LLC, under existing statutes and court decisions and assuming continuing compliance by the University and the Treasurer with their representations and covenants contained in the Tax Regulatory Certificate, interest on the 2003 Series A Bonds is not included in gross income for Federal income tax purposes pursuant to Section 103 of the Code, and such interest is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax imposed under the Code with respect to individuals or corporations. However, interest on the 2003 Series A Bonds is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. For other Federal tax information, see "Original Issue Discount", "Original Issue Premium" and "Certain Additional Federal Tax Consequences" herein.

State Taxes

In the opinion of Pullman & Comley, LLC, under existing statutes, interest on the 2003 Series A Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the Federal alternative minimum tax.

Owners of the 2003 Series A Bonds should consult their tax advisors with respect to the applicable state and local tax consequences of ownership of the 2003 Series A Bonds (other than with respect to the exclusion of the interest on the 2003 Series A Bonds from the Connecticut income tax on individuals, trusts and estates) and the disposition of the 2003 Series A Bonds.

Original Issue Discount

The initial public offering prices of certain maturities of the 2003 Series A Bonds (the "OID Bonds") are less than their stated principal amounts. Under existing law, the difference between the stated principal amount and the initial offering price of each maturity of the OID Bonds to the public (excluding bond houses and brokers) at which a substantial amount of such maturity of the OID Bonds is sold will constitute original issue discount ("OID"). The offering prices relating to the yields set forth on the inside front cover page of this Official Statement for the OID Bonds are expected to be the initial offering prices to the public at which a substantial amount of each maturity of the OID Bonds are sold. Under existing law OID on the 2003 Series A Bonds accrued and properly allocable to the owners thereof under the Code is not included in gross income for Federal income tax purposes if interest on the Bonds is not included in gross income for Federal income tax purposes.

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

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

Original Issue Premium

The initial public offering prices of certain maturities of the 2003 Series A Bonds (the "OIP Bonds") are more than their stated principal amounts. An owner who purchases an OIP Bond at a premium to its principal amount must amortize bond premium as provided in applicable Treasury Regulations, and amortized premium reduces the owner's basis in the OIP Bond for Federal income tax purposes. Prospective purchasers of OIP Bonds should consult their tax advisors regarding the amortization of premium and the effect upon basis.

Certain Additional Federal Tax Consequences

The following is a brief discussion of certain Federal income tax matters with respect to the 2003 Series A Bonds under existing statutes. It does not purport to deal with all aspects of Federal taxation that may be relevant to particular owner of a 2003 Series A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the 2003 Series A Bonds.

As noted above, interest on the 2003 Series A Bonds may be taken into account in computing the tax liability of corporations subject to the Federal alternative minimum tax imposed by Section 55 of the Code. Interest on the 2003 Series A Bonds may also be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Prospective owners of the 2003 Series A Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, and individuals otherwise eligible for the earned income tax credit, and to taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes.

Legislation affecting municipal bonds generally 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 2003 Series A Bonds will not have an adverse effect on the tax-exempt status or market price of the 2003 Series A Bonds.

RATINGS

The 2003 Series A Bonds with stated maturities of February 15, 2004 through February 15, 2013, inclusive, have been rated "Aa2" by Moody's Investors Service ("Moody's"), 99 Church Street, New York, New York, "AA" by Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's"), 55 Water Street, New York, New York and "AA-" by Fitch Ratings ("Fitch"), One State Street Plaza, New York, New York. The 2003 Series A Bonds with stated maturities of February 15, 2014 through February 15, 2023, inclusive, have been rated "Aaa" by Moody's, "AAA" by Standard & Poor's, and "AAA" by Fitch, with the understanding that upon delivery of the 2003 Series A Bonds with stated maturities of February 15, 2014 through February 15, 2023, inclusive, the Insurer's policy will be issued by MBIA Insurance Corporation insuring such stated maturities. The ratings assigned by Moody's, Standard & Poor's and Fitch express only the view of such rating agencies. The explanation and significance of the ratings can be obtained from Moody's, Standard & Poor's and Fitch, respectively. Such ratings are not intended as a recommendation to buy or own the 2003 Series A Bonds. There is no assurance that any ratings will continue for any period of time or that they will not be revised or withdrawn. Any revision or withdrawal of any of such ratings on the 2003 Series A Bonds may have an adverse effect on the market price thereof.

CONTINUING DISCLOSURE UNDERTAKING

Public Act No. 95-270 gives the University and 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"). Pursuant to Article XV of the Master Indenture, the University as issuer of the 2003 Series A Bonds under the Rule has included an article (the "Continuing Disclosure Article", a summary of which is set forth in Appendix D to this Part I), which article shall constitute the University's written undertaking for the benefit of the beneficial owners of the Bonds and which shall apply to all Bonds of the University under the Master Indenture. The State as the obligated person under the Rule will enter into an agreement with the Trustee with respect to the Bonds additionally secured by the State Debt Service Commitment (including the 2003 Series A Bonds), for the benefit of the beneficial holders of such Bonds, substantially in the form of the Continuing Disclosure Agreement also attached as Appendix I-D to this Part I. Under this Article with respect to the University, and under this Continuing Disclosure Agreement with respect to the State (such Article and such Agreement herein called the "Continuing Disclosure Undertaking"), the University and the State, respectively, agree to provide or cause to be provided, in accordance with the requirements of the Rule, (i) certain annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the Bonds and (iii) timely notice of a failure to provide the required annual financial information on or before the date specified in the Continuing Disclosure Undertaking. The Underwriters' obligation to purchase the 2003 Series A Bonds shall be conditioned upon their receiving, at or prior to the delivery of the 2003 Series A Bonds, an executed copy of the Continuing Disclosure Undertaking.

The intent of such undertaking is to provide on a continuing basis the information described in the Rule. Accordingly, there is reserved the right to modify the disclosure thereunder or format thereof so long as any such modification is made in a manner consistent with the Rule. Furthermore, to the extent that the Rule no longer requires the issuers of municipal securities to provide all or any portion of such information to be provided under such undertaking, the obligation pursuant to the Rule to provide such information also shall cease immediately.

The purpose of such undertaking is to conform to the requirements of the Rule and not to create new contractual or other rights other than the remedy of specific performance in the event of any actual failure by the University or the State to comply with its written undertaking. Furthermore, the Continuing Disclosure

Undertaking shall provide that any failure by the University or the State to comply with any provisions of such undertaking shall not constitute an Event of Default with respect to the Bonds under the Master Indenture.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions precedent, to purchase all, but not less than all, of the 2003 Series A Bonds from the University at an aggregate purchase price of $100,167,409.55 (representing the par amount of the 2003 Series A Bonds plus net original issue premium of $4,623,182.75 and less Underwriters' discount of $665,773.20) plus accrued interest. The 2003 Series A Bonds may be reoffered and sold to certain dealers (including unit investment trusts and other affiliated portfolios of certain underwriters and other dealers depositing the 2003 Series A Bonds into investment trusts) at prices lower than those stated on the inside cover page of this Official Statement and such public offering prices may be changed, from time to time, by the Underwriters.

FINANCIAL ADVISOR

P.G. Corbin & Company, Inc., Two Commerce Square, 2001 Market Street, Suite 3420, Philadelphia, Pennsylvania 19103, is serving as financial advisor in connection with the issuance of the 2003 Series A Bonds.

FINANCIAL STATEMENTS OF THE UNIVERSITY AND THE STATE

Included in Appendix I-A of Part I is various financial information relating to the University. The audited financial statements of the University (excluding the Health Center, the University of Connecticut Foundation and the University of Connecticut Law School Foundation) contained in Schedule 1 have been included herein in reliance upon the Certificate of Audit of the Auditors of Public Accounts of the State dated February 6, 2003.

Included in Appendices III-C and III-D of Part III is various financial information relating to the State. The audited financial statements and supplementary information contained in Appendices III-C and III-D have been included herein in reliance upon the Certificate of Audit of the Auditors of Public Accounts of the State.

ADDITIONAL INFORMATION

Periodic public reports relating to the financial condition of the University and its various operations are prepared by officers of the University and provided to the Board of Trustees at its regular monthly meetings. In addition, the University regularly reports to the Governor, the Secretary of the Office of Policy and Management and various committees of the State legislature and regularly receives reports from consultants, commissions and special task forces relating to various aspects of the University's financial affairs.

The University will make available copies of its official statements relating to the issuance of its securities under the Master Indenture from time to time upon request through the Office of the State Treasurer or the University's Vice President for Financial Planning and Management.

Additional information concerning the University may be obtained upon request of the President, Philip E. Austin, Attn.: Lorraine M. Aronson, Vice President for Financial Planning and Management, 352 Mansfield Road, U-2122, Storrs, Connecticut 06269, (860) 486-5115.

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

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 representation of fact. No representation is made that any of such statements will be realized. This Official Statement is not to be construed as a contract or agreement between the University and the State and the purchasers or holders of any of the 2003 Series A Bonds.

This Official Statement is submitted only in connection with the issuance and sale of the 2003 Series A Bonds by the University and may not be reproduced or used in whole or in part for any other purpose.

Dated: March 18, 2003

Pursuant to the UConn 2000 Act, the 2003 Series A Bonds described above have been sold by the Treasurer of the State of Connecticut in conjunction with the University, and the inclusion of Part II and Part III has been authorized by, the

TREASURER OF THE STATE OF CONNECTICUT

By: ________________________
Denise L. Nappier
State Treasurer

THE UNIVERSITY OF CONNECTICUT

By:_________________________________
Lorraine M. Aronson
Vice President for Financial Planning and Management

APPENDIX I-A
UNIVERSITY OF CONNECTICUT
INFORMATION CONCERNING THE UNIVERSITY

TABLE OF CONTENTS TO APPENDIX I-A

APPENDIX A
UNIVERSITY OF CONNECTICUT

March 26, 2003

This Appendix A, furnished by the University of Connecticut (the "University") contains information through March 26, 2003, except as expressly provided herein. This Appendix A and the schedules attached hereto should be read collectively and in their entirety.

Board of Trustees

UNIVERSITY OF CONNECTICUT

INTRODUCTION

The University of Connecticut was established and exists as an institution for the education of residents of the State of Connecticut. The University of Connecticut, originally established in 1881, is one of the nation's nine colonial land grant colleges. Since it was established, the University has consistently expanded its academic program and physical plant to meet the higher educational needs of State residents. In April 1881, the Connecticut General Assembly established the Storrs Agricultural School after accepting a gift of 170 acres of land, several buildings, and money from Charles and Augustus Storrs. The School opened on September 28, 1881, with twelve students in the first class. Before the turn of the century there were two name changes, to Storrs Agricultural College in 1893 and to Connecticut Agricultural College in 1899. In 1933, it became Connecticut State College, reflecting its steady advances and broadened mission. In 1939, the General Assembly designated it the University of Connecticut, reflecting its graduate and professional education, research and public service programs. In 1965, the University became the flagship institution of higher education in the State under the new Constitution of the State of Connecticut which in Article VIII, Section 2 provides that the State shall maintain a system of higher education including the University of Connecticut, dedicated to excellence in higher education.

As of October 2002, the University had over 162,000 alumni and 25,842 students (including the Health Center) studying in 17 colleges and schools offering 106 undergraduate and 87 graduate and professional degree programs. In addition to the main campus in Storrs, there are five undergraduate regional campuses (one of which also houses the graduate School of Social Work), a School of Law and a complex of health and educational facilities (sometimes referred to herein as the "University of Connecticut Health Center" or "Health Center"). The Health Center consists of the School of Medicine, the School of Dental Medicine, medical and dental clinics and the John Dempsey Hospital. The University campuses comprise 4,266 acres of land and 214 major buildings, and are strategically located throughout the State. The University competes with public and private institutions for students.

The State's support for the University reflects the status of the University as the flagship institution of the State system of higher education.

GOVERNANCE, ACADEMIC PROGRAMS AND CAMPUSES

Board of Trustees

Composition. The Board of Trustees of the University of Connecticut consists of 18 persons. The Governor and the Commissioner of Education are ex-officio members of the Board of Trustees. The Governor is the ex-officio President of the Board of Trustees and is authorized to appoint twelve members of the Board of Trustees who reflect the State's geographic, racial and ethnic diversity. Two members of the Board of Trustees are to be elected by the University alumni; and two are to be elected by the students enrolled at the institutions under jurisdiction of the Board of Trustees.

Although governed by a single Board of Trustees with one Chief Executive Officer, the University and the Health Center maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and State appropriations. The University has a Chancellor and Provost for University Affairs and the Health Center has an Executive Vice President for Health Affairs. Pursuant to Section 35 of Public Act No. 01-173, the Board of Trustees has created a board of directors for the governance of the Health Center, and has determined such duties and authority, as it deems necessary and appropriate to delegate to said board of directors. Information concerning the Health Center is included under the heading "UNIVERSITY OF CONNECTICUT HEALTH CENTER" below in this Appendix A.

Membership as of March 1, 2003. The name, term, position and affiliation or profession of each member of the Board of Trustees is as follows:

Name	Term Ends	Position	Affiliation/Profession
The Honorable John G. Rowland		President ex-officio	Governor of the State of Connecticut
The Honorable Bruce Gresczyk		Member ex-officio	Acting Commissioner of Agriculture
The Honorable Theodore S. Sergi		Member ex-officio	Commissioner of Education
Roger A. Gelfenbien	2003	Chair	Retired Partner, Accenture
Louise M. Bailey	2003	Secretary and Vice-Chair	Government Affairs Consultant
James F. Abromaitis	2007	Member	Commissioner of Economic and Community Development, State of Connecticut
Philip P. Barry	2005	Member	Retired University Employee and Former Member of Mansfield Town Council
William R. Berkley	2005	Vice-Chair	Chairman, CEO, W. R. Berkley Corporation
Michael C. Cicchetti, Esq.	2007	Member	Attorney, Cicchetti & Tansley
Linda P. Gatling	2003	Member	Teacher, Southington Public Schools
Christopher S. Hattayer	2003	Member	Former student, University of Connecticut
Dr. Lenworth M. Jacobs, Jr.	2007	Vice-Chair	Surgeon, Hartford Hospital
Claire R. Leonardi	2005	Vice-Chair	Private Equity Investment Partner
Michael J. Martinez	2005	Member	President, Martinez & Associates, LLC
Frank A. Napolitano	2003	Member	Management Consultant
Denis J. Nayden	2007	Vice-Chair	Chairman & CEO, GE Capital Corp.
David W. O'Leary	2003	Member	Lobbyist, The O'Leary Group
Richard Treibick	2005	Vice-Chair	Chairman of the Board, Alexcom, Inc.
Richard Twilley	2004	Member	Law Student, University of Connecticut

Duties of the University of Connecticut Board of Trustees. Subject to Statewide policy and guidelines established by the Board of Governors for Higher Education, the Board of Trustees of the University is authorized to establish rules and general policies for the governance of the University, including its mission, regional campuses, degrees and academic programs. The Board of Trustees appoints the President, manages the investments and directs the expenditures of the University. The Board of Trustees is required by law to review and approve University budget requests and propose facility, planning and capital expenditure budget priorities. The Board of Trustees may employ the faculty and other personnel needed to operate and maintain the University. Within the limitation of appropriations from the General Assembly, the Board of Trustees is authorized to fix the compensation of University personnel, establish terms and conditions of their employment and prescribe their duties and qualifications. The Board of Trustees is authorized to constitute its professional staff and establish compensation and classification schedules for such personnel.

Officers of the Board of Trustees. The officers of the Board of Trustees, apart from the Governor, who is President ex-officio, are the Chair, Vice-Chairs and Secretary. The Chair is privileged to make or discuss motions, and to vote on all questions. The Chair may designate a Vice-Chair to act in his or her absence.

Committees of the Board of Trustees. The Board of Trustees acts as a committee of the whole on all matters requiring action. The Board of Trustees is authorized by the Act to adopt a resolution delegating to the finance committee of its Board, any officer, official or trustee of such committee or other authorized officer or employee of the University such matters relating to the issuance and sale of securities in the name of the University on behalf of the State as it may determine appropriate, except the authorization of the amount of, the nature of, and property to be financed by, such securities; provided that, the Board of Trustees must retain overall control, responsibility and supervision.

University Administration

Administration. The Board of Trustees is authorized by law to appoint a President of the University. The President is the chief executive officer of the University. The President is responsible for carrying out the policies and enforcing the rules adopted by the Board of Trustees. In furtherance of its February 10, 1995 strategic plan, the Board of Trustees adopted a central management structure. Under this structure, the Board of Trustees may appoint two chancellors, each of whom also serves as a provost, and vice presidents. The President reports directly to the Board of Trustees. The Executive Vice President for Health Affairs is the chief operating and academic officer of the Health Center. The Chancellor/Provost for University Affairs is the chief operating and academic officer of the Storrs campus, the School of Law, the School of Social Work and the regional campuses. The Executive Vice President for Health Affairs, the Chancellor/Provost for University Affairs and the Vice President for Financial Planning and Management report directly to the President of the University.

The Board of Trustees appointed Philip E. Austin, former Chancellor of the University of Alabama System as the 13th President of the University of Connecticut on July 19, 1996. President Austin earned his Doctorate in Economics from Michigan State University. He served as President of Colorado State University and Chancellor of the Colorado State University System from 1984 to 1989 and prior to that served as an economics professor and provost and vice president for academic affairs at the City University of New York’s Bernard Baruch College. He also headed a doctoral program at George Washington University from 1977 to 1978. In the early to mid-1970s he was the deputy assistant secretary for education with the U.S. Department of Health, Education and Welfare.

The names and backgrounds of the other principal administrative officers of the University are as follows:

Name	Position	Background
John D. Petersen	Chancellor/Provost for University Affairs	Ph.D., University of California (Santa Barbara), 16 years administrative experience including Wayne State and Clemson University.
Peter J. Deckers, M.D.	Executive Vice President for Health Affairs and Dean of School of Medicine, Health Center	M.D., Boston University School of Medicine, over 15 years administrative and clinical experience served at the University of Connecticut Health Center.
Lorraine M. Aronson	Vice President for Financial Planning and Management	B.A., Radcliffe College, Harvard University; J.D., Boston University School of Law. Over 25 years administrative experience served at the Connecticut State Department of Education, the Connecticut Department of Social Services (formerly known as the Connecticut Department of Income Maintenance), the Connecticut Office of Policy and Management and the University of Connecticut.

Legal Services. The University receives legal services from the Office of the State Attorney General. Two Assistant Attorneys General are in residence at the Storrs campus. The University also retains private counsel on occasion through the Office of the Attorney General. The Act authorizes the University to use legal services of any private attorney in connection with the construction, operation or maintenance of any UCONN 2000 Project at its discretion. Pursuant to the Act, the University has retained attorneys in connection with the construction of UCONN 2000 Projects.

Strategic Planning

Adopted on February 10, 1995, the Strategic Plan now serves as the Board of Trustees' blueprint for the University's future. It describes a University on the road to educational pre-eminence.

> The University of Connecticut aspires to be the outstanding public university in the nation...a center for lifelong learning which excels in both teaching and research...a diverse community whose values promote mutual respect, inspire intellectual curiosity and encourage service to society...an environment that fosters academic and artistic achievement as well as productive and responsible student life...an institution with a global perspective that recognizes its special obligation to enhance the quality of life and economic well-being of Connecticut.

The Strategic goals approved by the Board of Trustees are as follows:

1. Provide a challenging and supportive learning environment that fosters achievement and intellectual interaction among undergraduates, graduate students and faculty members and promotes excellence in research, scholarship and artistic creativity.

2. Recruit and retain outstanding students, faculty and staff.

3. Create a physical environment that reflects our expectation of excellence and encourages interaction among a diverse population.

4. Enhance our sense of community by increasing and valuing interaction while developing a strong sense of pride and ownership.

5. Allocate and develop resources on the basis of mission value and performance. Hold the community of students, faculty and staff accountable for the success of the University.

6. Streamline administrative functions.

7. Promote the University's role in fulfilling the needs of the State, its citizens and its economic institutions.

8. Foster a sense of partnership with the State.

Just as UCONN 2000 is the General Assembly's blueprint for transforming the physical infrastructure, the Strategic Plan is the blueprint for reshaping UConn's scholastic and social environment. These blueprints may be separate, but they are interdependent; while it is the Board's vision of renewal that sets the context and direction for the capital building program, it is the legislature's support that turns the vision into the bricks and mortar of lecture halls, research labs and residential and recreational facilities.

Detailed below is a summary report highlighting some of the progress that has been made to date with respect to the UCONN 2000 Program and the Strategic Plan.

- Student Recruitment and Enrollment: Student enrollment has increased in size, diversity and academic skill. Since Fall 1995, freshman enrollment at the main campus has increased 58 percent and minority enrollment is up 61 percent. The average SAT score of the freshman class for Fall 2002 was 37 points higher than the entering class of Fall 1996. The number of Honors Scholars has increased from 207 in Fall 1995 to 268 in Fall 2002, which reflects a growth of 29 percent and the number of out-of-state freshmen has increased from 436 in 1995 to 1045 in Fall 2002, which reflects a growth of 140 percent.

- Investments in regional campus facilities have supported the establishment of new degree programs including the Bachelors in Business in Stamford and Tri-Campus (Hartford, Torrington and Waterbury), Coastal Studies at Avery Point, and Urban and Community Studies at Tri-Campus.

- The UCONN 2000 endowment matching program has proven to be a tremendous incentive for private giving by alumni and other benefactors to the University. The initial three-year $20 million matching grant initiative was fully subscribed in only 18 months. Annual gift receipts have risen from $8.2 million in 1995 to $43.3 million in fiscal year 2002. Based on the success of this program, the General Assembly extended the match through calendar year 2012 resulting in new matching funds of $115 million.

- Having new, state-of-the-art facilities and equipment has greatly enhanced the University's ability to recruit a world-class faculty. In response to the goal of attracting and retaining top quality students and faculty, the University was able to hire 70 new full-time faculty in the fall of 2002.

- Linda Otis, a Health Center faculty member, is part of a team whose invention of an ultra-high resolution dental imaging system is included in an international listing of the 100 most significant technological developments of 1998. Only nine of the 100 inventions were developed by universities including four from the Massachusetts Institute of Technology.

- In southwestern Connecticut, GE Capital and the Connecticut Information Technology Institute (CITI) have partnered in the creation of EdgeLab, an $11 million state of the art information technology advanced development facility. Graduate and undergraduate students work with GE staff on industry-defined projects, enhancing the student's educational experience and the company's product development process.
- Over 80% of the first year students participate in the First Year Experience (FYE) seminars aimed at helping first year students make a comfortable and meaningful transition to college life. These seminars are taught by volunteers from the staff, administration and faculty. The FYE program has demonstrated its utility in forming bonds between the entering students and the University.
- The Institute for Teaching and Learning and the Department of Accounting have worked together in the development of an online Masters of Science in Accounting program, employing the latest instructional technology as well as leading edge instructional design methodologies. This program will serve as the prototype for the future development of online programs and of the department-wide application of instructional design techniques.
- The University has constructed a living/learning environment for first year students at the Northwest quad. Special programming takes place in the residence halls to involve new students in the academic and co-curricular life of the University.
- The Honors program is developing new residential environments for Honors students in conjunction with Residential Life. Honors instructional and outreach programming will be offered in the focused honors setting.
- Chancellor Petersen has formed an Academic Planning Task Force to assess the University's strengths and align facilities and capital infrastructure planning with academic initiatives. The results of the planning effort will permit budgeting decisions to be made in accordance with academic priorities.

Status of UCONN 2000 Projects

The following table lists the status of UCONN 2000 Projects by funding source for which bonds have been issued to date:

Projects Authorized	**Project Status**
General Obligation Bonds	
Agricultural Biotechnology Facility	Completed August 2002
Avery Point Marine Science Research Center	Completed December 2001
Avery Point Renovation	In Design
Benton State Art Museum Addition	In Construction
Business School Renovations	In Construction
Central Warehouse - New	Completed December 2000
Chemistry Building	Completed November 1998
Deferred Maintenance & Renovation Lump Sum-Phase I & II	Continuing
Equipment, Library Collections & Telecommunications-Phase I & II	Continuing
Gant Plaza Deck	Completed September 2001
Gentry Renovations	In Construction
Heating Plant Upgrade	Completed January 2001
Hilltop Dormitory Renovations	Completed October 2001
Horticulture Conversion	Completed September 2001
Ice Rink Enclosure	Completed November 1998
International House Conversion	Completed May 2001
Litchfield Agricultural Center	Completed August 2001
Mansfield Apartments Renovation	Completed September 2002
Monteith Renovations	Completed September 2001
Music Drama Addition	Completed September 1999
North Superblock Site & Utilities	Completed November 1997
Northwest Quadrant Renovation	Completed October 2000
Parking Garage-North	Completed January 1998
Pedestrian Walkways/(a.k.a. Fairfield Road Pedestrian Mall)	Completed December 1998
School of Business – New	Completed September 2001
School of Pharmacy	In Design
Stamford Downtown Relocation	Completed December1998
Student Union Addition	In Construction
Technology Quadrant-Phase IA	In Construction
Technology Quadrant-Phase II[1]	In Construction
Underground Steam & Water Upgrade	Completed January 2001
Waring Building Conversion	Completed September 2001
Waterbury Property Purchase	Completed January 1999
White Building Renovation	Completed May 1999
Wilbur Cross Building Renovation	Completed August 2002
Special Obligation Student Fee Revenue Bonds	
Alumni Quadrant Renovations[2]	In Construction
East Campus North Renovations[2]	In Design
Hilltop Housing Complex[3]	Completed September 2001
North Campus Renovations (including Suites & Apartments)[2]	In Construction
Parking Garage-South[3]	Completed November 2002
Shippee/Buckley Renovations[2]	Completed September 2002
South Campus Complex[4]	Completed January 1999
Towers Renovations (including Greek Housing)[2]	In Construction

[1] On February 9, 2000 construction was halted on the Biological Sciences building and the University terminated its relationship with the general contractor for the project, HRH/Atlas Construction, due to concerns with the contractor's performance. Since then, the University and the holder of the payment and performance bonds, Liberty Mutual, have signed a Fronting Agreement whereby Liberty Mutual has agreed to pay the University $25.3 million to complete the project ($20 million has been paid to date). Turner Construction Company has begun the work and completion is scheduled for July 2003.

[2] Partially funded with proceeds from the University's General Obligation Bonds and partially funded with the proceeds of the UConn Student Fee Revenue Bonds, 2002 Series A.

[3] The Hilltop Housing Complex is comprised of the Hilltop Dormitory New and the Hilltop Student Rental Apartments and was funded with the proceeds of Student Fee Revenue Bonds, 2000 Series A.

[4] Partially funded with proceeds from the University's General Obligation Bonds and partially funded with UConn Student Fee Revenue Bonds, 1998 Series A.

The Board of Governors for Higher Education

The University, including the Health Center, is a constituent unit of the State system of higher education. The Board of Governors for Higher Education is the statewide policy-making body for the State system of higher education. For a discussion of the Board of Governor's role in presenting the University's budget, see "UNIVERSITY FINANCES - Budget and Budgeting Procedures of the University" below in this Appendix A.

Campuses and Physical Plant

General Information. Of the eight campuses, Storrs is the largest campus with 4,104 acres and 142 major buildings. Additionally, as of March 2003, there are 73 residence halls, including the Hilltop Housing Complex, all on the Storrs campus, serviced by eight large dining halls and four small unit dining facilities designed to provide room and board for approximately 10,000 graduate and undergraduate students. There are five undergraduate regional campuses strategically located throughout the State at Avery Point in Groton, Stamford, Torrington, Waterbury and West Hartford. In addition to the regional campuses, the University includes the University of Connecticut School of Law, located in West Hartford, and the Health Center, located in Farmington. Collectively these campuses are serving a student body of over 25,000 in the 2002-2003 academic year. The University is involved in over a $1 billion construction program for Phase I and Phase II of UCONN 2000 for which the proceeds of the 2003 Series A Bonds will be used. See "UCONN 2000 INFRASTRUCTURE IMPROVEMENT PROGRAM," in this Official Statement. In 2002, the General Assembly enacted and the Governor signed into law 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 authorized additional projects for a total estimated cost of $1,348 million for Phase III of UCONN 2000 and increases UConn's bonding authority secured by the State's Debt Service Commitment in 2005 from $50 million to $100 million.

Academic Programs and Degrees Conferred

The University offers a broad spectrum of liberal arts and sciences, professional and graduate education degree programs through its 17 colleges and schools, including the School of Dental Medicine, School of Medicine and School of Law. The University confers eight kinds of undergraduate degrees in 106 majors, 12 graduate degrees in 82 fields of study and five graduate professional programs. The University also offers individualized majors and interdisciplinary fields of study. The University has several special facilities and programs, including its Connecticut Information Technology Institute, Advanced Technology Institute, Marine Sciences Program, the Center for Survey Research and Analysis, the Institute of Materials Science, Connecticut Global Fuel Cell Center, Center for Regenerative Biology, Biotechnology Center, Thomas J. Dodd Research Center, Connecticut Center for Economic Analysis and the Neag Center for Gifted Education and Talent Development.

COMPETITION AND COMPETITIVENESS

Accreditation and Ranking

The New England Association of Schools and Colleges and several other accreditation bodies for specific schools and programs accredit the University.

The National Science Foundation in research and development spending ranks the University 45 out of 330 public universities in the country. The Carnegie Foundation classifies the institution with only 101 other public institutions nationwide as an Extensive Doctoral/Research University. To qualify for this classification, universities must offer a full range of baccalaureate programs, be committed to graduate education through the doctorate and give high priority to research. Additionally, universities must award 50 or more doctoral degrees annually across at least 15 disciplines.

The quality of the University's diverse graduate programs is enhanced by the presence of exceptional graduate students. Of the 5,200 matriculated graduate students at both the master's and doctoral levels in academic year 2002-2003, approximately 2,000 were supported on merit based graduate assistantships and approximately 700 on merit based pre-doctoral and other fellowships. This support was awarded in 82 fields of study in the arts and sciences and professional disciplines. These assistantships and fellowships have made it possible for the University to compete for quality graduate students.

Student Enrollment and Admission

Enrollment. In academic year 2002-03 undergraduate degree enrollment increased by 5.7% (including an 3.5% increase in freshmen); graduate degree student enrollment increased by 9.4%; and undergraduate and graduate non-degree students, whom account for 7.4% of total enrollment, increased 14.2%. Law school enrollment increased by 5.5%. Planned freshman enrollment growth for the near future will be more modest for Storrs as the University approaches enrollment capacity. Freshman enrollment growth is planned for the Regional Campuses.

Total Enrollment Data
(Head Count Excluding Health Center)[1]
Fall 1998-2002

	1998	1999	2000	2001	2002
Undergraduates					
Storrs	11,682	12,325	13,208	14,030	14,693
Regional Campuses[2]	3,173	3,416	3,473	3,600	3,969
TOTAL	14,855	15,741	16,681	17,630	18,662
Graduates/Professionals	6,543	6,500	6,254	5,950	6,711
TOTAL	**21,398**	**22,241**	**22,935**	**23,580**	**25,373**

[1] Includes non-degree and part-time students.
[2] Includes miscellaneous locations.

Percentage of Enrollment by Residence Status
Storrs Campus
Fall 1998-2002

	Undergraduate Percent		Graduate Percent[1]	
Fall	**In-State**	**Out-of-State**	**In-State**	**Out-of-State**
1998	83.3%	16.7%	75.6%	24.4%
1999	81.2%	18.8%	76.2%	23.8%
2000	79.0%	21.0%	74.9%	25.1%
2001	76.9%	23.1%	72.7%	27.3%
2002	76.0%	24.0%	69.0%	31.0%

[1] Includes Professional Pharmacy (PharmD) Program beginning in 2002.

Schedule of Freshmen Enrollment - All Campuses
Fall 1998-2002

Fall	Freshmen Applications	% Change in Applications	Accepted	Enrolled	% Change in Enrolled	Enrolled as a % of Accepted
1998	11,311	5.4%	8,978	3,225	16.9%	35.9%
1999	12,642	11.8%	9,878	3,645	13.0%	36.9%
2000	12,969	2.6%	9,816	3,585	-1.6%	36.5%
2001	13,673	5.4%	10,357	3,897	8.7%	37.6%
2002	14,677	7.3%	10,412	4,035	3.5%	38.8%

Admissions. The University of Connecticut is rated as 'very competitive' by Barron's Profiles of American Colleges, Edition 25. For the past seven years, the Scholastic Aptitude Test (SAT) scores for students entering the University consistently exceeded the statewide and national SAT score averages.

Average Total SAT Scores
Fall 1997 – 2001

Fall	Storrs Campus	Regional Campuses	State of Connecticut Average	National Average
1998	1120	1007	1019	1017
1999	1136	1016	1019	1016
2000	1140	1020	1017	1019
2001	1140	1008	1019	1020
2002	1149	1012	1018	1020

Tuition and Other Fees

Pursuant to State law, the Board of Trustees is authorized to adopt a comprehensive schedule of tuition and other fees, which is expected to prevail during the following fiscal year.

Tuition. For the academic year 2003, students classified as full-time undergraduate residents of Connecticut pay tuition of $4,730. Full-time out-of-state undergraduates pay $14,425 per year. In the 2002 academic year, total tuition revenues were $101,222,489 of which $42,412,386 were out-of-state tuition revenues. Undergraduates accounted for 86.3% of tuition revenues in 2002 academic year. In August 2002, the Board of Trustees approved a mid-year tuition increase (over the FY 2002 rate) of 8.75% effective Spring 2003. Also, the Board of Trustees approved a tuition rate increase of 8.7% over the Spring 2003 semester rate for academic year 2004.

Mandatory Fees. For academic year 2003, undergraduate students must pay a General University Fee of $1,032 per year. Students also pay $392 per year in other fees, of which $94 is for various student-controlled organizations, $268 is for infrastructure maintenance and $30 is a transit fee. For academic year 2002, the General University fee generated $14.8 million of revenue. Commencing in 1998 and again in 2000 and 2002, certain fees have been pledged for the payment of debt service on the University's Special Obligation Bonds, 1998 Series A, 2002 Series A and 2002 Series A Refunding. See "UNIVERSITY FINANCES - University Indebtedness and Capitalized Lease Obligations" in this Appendix A. In August 2002, the Board of Trustees approved increases in mandatory fees for academic year 2004, to the following amounts: General University Fee - $1,092 and other fees - $460.

Other Fees. There are numerous optional fees at the University. The primary optional fees for the academic year 2003 are the room and board fee, which includes the new charge for technology services ($250) and parking and transportation. In August 2002, the Board of Trustees approved an increase in the Board Fee for 2004 to $3,218 and the Room Fee to $3,670.

Annual Cost of an Undergraduate In-State Student Enrolled at the University Academic Years 2000-2005

	2000	2001	2002	2003	2004	2005
Tuition	$4,158 [1]	$4,282	$4,448	$4,730	$5,260	$5,720
Room & Board	5,660	6,062 [2]	6,298	6,542	6,888	7,300
General University Fee	932	958	994	1,032	1,092	1,116
Other Fees[3]	314	356	382	392	460	502
Total:	**$11,064**	**$11,658**	**$12,122**	**$12,696**	**$13,700**	**$14,638**

[1] Reflects tuition freezes as approved by the Governor, Legislature and University Board of Trustees with foregone tuition added to the University's State appropriation.

[2] In academic year 2001, the University increased the Room Fee by $250 to reflect the inclusion of service for Internet, telephone and cable television, which had previously been paid by the students to the individual service providers.

[3] Other Fees includes fees collected by the University on behalf of various student-controlled organizations. The Student Union Building Fee ($26) to support the renovation and expansion of the Student Union is included in 2004 and 2005.

Undergraduate In-State and Out-of-State Tuition, Fees, Room and Board for the University's Top 10 Competitors, for Fiscal Year 2002-2003

School	In-State	Out-of-State
Boston University	$ 36,392	$ 36,392
Syracuse University	35,222	35,222
Boston College	35,200	35,200
Northeastern University	33,749	33,749
Providence College	30,390	30,390
Quinnipiac College	28,870	28,870
University of Rhode Island	14,068	23,538
University of New Hampshire	13,547	23,247
University of Connecticut	***12,696***	***22,391***
University of Massachusetts	12,500	21,500
University of Delaware	11,462	20,992

Student Financial Aid

The University provides financial aid and counseling. The University has a policy of admitting students without regard to financial ability and a policy of providing assistance to those admitted who demonstrate need. During academic year 2002, approximately 12,772 students received some form of University administered student aid, not including the tuition waivers discussed below.

Scholarships, Grants and Work-Study. There are a number of State, Federal and private student financial aid programs available, including the Federal Pell Grant of $400 to $3,750 and the Federal Supplemental Education Opportunities Grant (SEOG) of up to $2,000. Both are awarded annually based on need. In addition, the University offers a number of scholarships. The University also offers Federal Work-Study employment, which is need-based, and Student Labor employment, which is available to all students.

Loan Programs. There are several loan programs at the University. The Federal Perkins Loan Program and the Subsidized Federal Stafford Loan are based on financial need. Unsubsidized Federal Stafford Loans are available to students who do not qualify for the Subsidized Federal Stafford Loans. Additionally, there is the Federal Parent Loan to Undergraduate Students (PLUS) program. The University also provides funds to students through University loans, primarily for short-term emergency situations.

Tuition Waivers and Graduate Assistantships. The University is required by law to waive tuition for certain veterans and children of veterans, certain students over the age of 62 and graduate assistants. The University is required by collective bargaining agreements to waive tuition for dependents of certain employees. The foregone revenue resulting from such waivers in the 2002 academic year was $23,522,067, of which 81.1% were provided to graduate assistants.

Financial Aid to University Students from All Sources
For Fiscal Years 1998-2002

	1998	1999	2000	2001	2002
Scholarships/Grants					
Institutional	$ 19,597,503	$ 19,274,031	$ 22,837,475	$ 21,538,333	$ 23,641,238
State - CT	3,409,993	5,457,252	7,184,256	8,173,545	8,683,447
State - Non CT	89,200	97,245	109,860	122,775	138,725
Federal Funds	4,829,126	5,563,886	6,035,420	6,716,856	8,110,336
Private	5,540,706	7,139,542	7,579,949	9,299,653	12,409,479
Total Scholarships/Grants	33,466,528	37,531,956	43,746,960	45,851,162	52,983,225
Loans					
Private	1,680,330	1,737,269	1,789,388	1,843,070	1,898,362
Federal	44,115,256	47,242,151	51,374,234	49,840,439	56,348,898
Total Loans	45,795,586	48,979,420	53,163,622	51,683,509	58,247,260
Student Employment					
University Student	7,028,035	7,314,049	8,564,241	8,879,451	9,537,588
Federal Work Study	1,268,445	1,471,692	1,339,723	1,321,277	1,231,242
Total Student Employment	8,296,480	8,785,741	9,903,964	10,200,728	10,768,830
GRAND TOTAL	$ 87,558,594	$ 95,297,117	$ 106,814,546	$ 107,735,399	$121,999,315

UNIVERSITY FINANCES

Financial Management

As noted earlier, the University's Board of Trustees has the authority for fiscal oversight of the University. The two Chancellors are the Chief Operating Officers of the University and the Vice President for Financial Planning and Management is the Chief Financial Officer of the University. In addition to the State appropriation, the University receives tuition, fees and grants and contract revenues. Some of these revenues may be restricted or dedicated as to use by the terms of the appropriation, gift, grant or contract.

The authority granted to the University in the Act builds upon the successful implementation of the operational autonomy and responsibility provided in several pieces of legislation known as the Flexibility Acts, enacted in the early 1990's. Unprecedented for Connecticut State government, the University became responsible and accountable for its operational decisions independent of many of the previously imposed regulatory requirements. The responsibilities assigned to the University included a block grant State appropriation, check-writing authority, position control, purchasing authority and management of capital projects not exceeding $2 million. This dollar limitation has been eliminated with the passage of UCONN 2000. The enactment of UCONN 2000 was an extension of the authority vested in the University by the Flexibility Acts, and the result, in part, of the University's documented effectiveness in using the powers granted to it thereby.

Financial Statements of the University

The audited financial statements of the University (excluding the Health Center, the University of Connecticut Foundation, Inc. and the University of Connecticut Law School Foundation, Inc.) for the fiscal year ended June 30, 2002 are included as Schedule 1 to this Official Statement. See FY 2002 Explanatory Note below for information regarding the FY 2002 reporting format.

Below is a four-year presentation of Current Funds Revenues, Expenditures and Other Changes in Fund Balances for the University. See "UNIVERSITY OF CONNECTICUT HEALTH CENTER" below in this Appendix A for a similar display.

University of Connecticut
Statement of Current Fund Revenues, Expenditures, and Other Changes in Fund Balances
for the Fiscal Years 1998-2001

	1998	1999	2000[4]	2001
Revenues				
Tuition and Fees[1]	$ 105,461,417	$ 110,742,558	$ 122,141,197	$ 134,465,735
State Appropriations	204,171,237	213,181,741	234,872,559	238,381,846
Federal Grants & Contracts	38,099,889	45,728,277	48,111,674	57,982,340
State Grants & Contracts	14,816,736	10,904,297	20,339,588	19,909,298
Local Grants & Contracts	2,000	2,000	16,000	2,000
Private Gifts, Grants & Contracts	14,766,990	18,382,763	23,071,543	23,234,698
Investment Income	4,709,550	5,017,256	5,956,148	6,467,580
Sales & Service of Educational Activities	8,762,226	9,997,841	11,508,457	12,411,491
Sales & Service of Auxiliary[2]	57,836,323	62,533,837	67,681,421	78,055,811
Other Sources	7,317,795	7,292,726	7,149,818	9,320,834
Total Current Revenues	**455,944,163**[3]	**483,783,296**	**540,848,405**	**580,231,633**
Expenditures & Mandatory Transfers				
Education and General				
Instruction	138,601,130	145,897,909	157,545,658	171,004,504
Research	53,342,628	54,848,000	64,796,851	62,086,721
Public Service	20,170,164	21,046,960	22,650,386	29,015,612
Academic Support	50,180,995	60,510,462	63,745,185	61,724,033
Student Services	14,159,558	16,366,173	17,465,140	17,149,855
Institutional Support	36,258,733	36,166,331	43,835,480	42,236,499
Scholarships & Fellowships	29,201,146	31,173,310	36,452,073	41,270,209
Plant Operations	27,961,610	32,565,413	34,439,472	40,732,089
Total E & G Expenditures	**369,875,964**	**398,574,558**	**440,930,245**	**465,219,522**
Mandatory Transfer for Debt Retirement	4,132,095	4,694,996	8,706,751	13,918,507
Total Education and General	**374,008,059**	**403,269,554**	**449,636,996**	**479,138,029**
Auxiliary Services Expenditures	69,318,925	78,725,389	83,907,813	91,379,252
Total Expenditures & Mandatory Transfers	**443,326,984**	**481,994,943**	**533,544,809**	**570,517,281**
Other Transfers & Additions (Deductions)				
Excess of Restricted Receipts Over				
Transfers to Revenues	3,409,161	(1,846,489)	1,851,590	(1,748,585)
Transfers From:				
Unrestricted Funds	131,190	181,311	311,286	(691,774)
Restricted Funds				691,774
Loan Funds			225	12,163
Endowment Principal				
Transfers To:				
Unrestricted Funds		(181,311)	(311,286)	
Restricted Funds	(131,190)			
Endowment Principal	(21,429)	(194,052)	(57,637)	
Loan Funds	152,000		3,627	(116,909)
Plant Funds	(1,659,148)	(6,125,955)	(3,564,624)	(7,005,645)
Total Other Transfers & Additions (Deductions)	**1,880,584**	**(8,166,496)**	**(1,766,819)**	**(8,858,976)**
Net Income (Dec) in Fund Balance	**14,497,763**[3]	**(6,378,143)**		
Current Funds Fund Balance	**$ 55,135,039**	**$ 48,756,896**	**$ 54,293,673**	**$ 55,149,049**

[1] Commencing in 1998, certain fees have been pledged for the payment of debt service of the University's Student Fee Revenue Bonds 1998 Series
[2] Auxiliary Enterprise Revenues consist primarily of room and board fees and Athletic Department income.
[3] Includes $4.8 million grant from the State, received late in FY 1998, for Year 2000 conversion costs. Expenditure of these funds occurred in FY 1998-99.
[4] The comparative figures for fiscal 2000 included in Exhibit C to Section 1 hereto have been restated for comparison purposes to reflect the cumulative effect of the adoption of GASB Statement No. 33 that became effective with fiscal 2001. The amounts listed in this table have not been restated for fiscal 2000 or prior fiscal years.

FY 2002 Explanatory Note

The Governmental Accounting Standards Board (GASB) has significantly changed the financial reporting format and underlying concepts for reporting with the issuance of Statements 34 and 35. With these changes the *Statement of Revenues, Expenses, and Changes in Net Assets* replaces the *Statement of Changes in Fund Balances* and the *Statement of Current Funds Revenues, Expenditures and Other Changes in Fund Balances*. In the first year of adoption of the new GASB reporting standards the GASB does not require restatement of prior periods and therefore the schedule above is not restated for FY 1998 – FY 2001. The new reporting format changes this statement significantly and the following provides an overview of some of the more significant changes and issues related to the new *Statement of Revenues, Expenses, and Changes in Net Assets* which is shown below.

- This statement differentiates between operating and nonoperating revenues and expenses, and displays the net income or loss from operations. A section that includes capital addition and deductions describes revenue and expenses related to capital items. The change or increase/decrease in net assets is the final section of this statement.

- Intra-agency transactions are eliminated. Fund additions/deductions, not considered revenues or expenses and transfers between funds are not included in the statement.

- Tuition and fee revenues are reduced by scholarship amounts that already have been recognized as revenues. This change results in most student aid expense being eliminated.

- Revenues and expenses for summer sessions were allocated between years based on when the revenue is earned; expenses were matched with the revenue. This change is reflected in a restatement to beginning Net Assets.

- Two options are available for presenting expenses: natural classification (e.g., salaries and fringe benefits, scholarships and fellowships, utilities, supplies and other services, and depreciation) or functional expense classifications (e.g. instruction, research, and public service). The University has used functional expense in the face of the statement.

- Expenditures for capital assets do not show in this statement. Depreciation expense is recorded in the statement.

- Nonoperating revenues and expenses include appropriations, gifts, investment income, and interest expense. An operating loss will always result from this change since state appropriations are mandated as nonoperating.

- All investment income, as well as realized gains and losses, are reported as part of the investment income line in the nonoperating section of the statement.

UNIVERSITY OF CONNECTICUT
Statement Of Revenues, Expenses, And Changes In Net Assets
For the Year Ended June 30, 2002

OPERATING REVENUES	
Student tuition and fees (net of scholarship allowances of $46,734,320. Revenues totaling approximately $19,978,000 are used as security for revenue bonds)	$ 102,200,333
Federal grants & contracts	67,753,605
State and local grants & contracts	17,859,232
Non governmental grants & contracts	12,760,474
Sales & services of educational departments	12,020,682
Sales & services of auxiliary enterprises (net of scholarship allowance of $ 824,538. Revenues totaling approximately $9,522,000 are used as security for revenue bonds)	81,002,139
Other sources (Revenues totaling approximately $2,066,000 are used as security for revenue bonds)	10,442,761
Total Operating Revenues	304,039,226
OPERATING EXPENSES	
Educational and general	
Instruction	182,182,600
Research	65,421,675
Public service	22,722,484
Academic support	64,337,083
Student services	19,406,736
Institutional support	46,376,708
Operations and maintenance of plant	35,543,569
Depreciation	50,624,858
Student aid	313,276
Auxiliary enterprises	96,882,863
Total Operating Expenses	583,811,852
Operating Loss	(279,772,626)
NONOPERATING REVENUES (EXPENSES)	
State appropriation	259,447,742
State debt service commitment for interest	25,907,563
Gifts	16,202,233
Investment income (Income totaling approximately $1,077,000 are used as security for revenue bonds)	5,572,628
Interest expense	(33,955,787)
Other nonoperating revenues (expense), net	(2,715,738)
Net Nonoperating Revenues	270,458,641
Loss Before Capital Additions (Deductions)	(9,313,985)
CAPITAL ADDITIONS (DEDUCTIONS)	
State debt service commitment for principal	100,000,000
Capital grants and gifts	12,316,127
Disposal of property and equipment, net	(3,102,251)
Capital other	13,357,569
Total Capital Additions (Deductions)	122,571,445
Increase in Net Assets	$ 113,257,460
NET ASSETS	
Net Assets-beginning of year	1,203,523,254
Cumulative effects of changes in accounting principle	(88,057,517)
Net Assets-beginning of year, as adjusted	1,115,465,737
Net Assets-end of year	$ 1,228,723,197

Budget and Budgeting Procedure of the University

The University submits separate biennial operating and capital budgets to the Governor and General Assembly through the Board of Governors for Higher Education. The operating budget request sets forth a proposed expenditure plan for the amount necessary to meet cost increases while providing a constant level of services. It may also include an amount for new or expanded programs. The operating budget includes various revenue sources including the State appropriation and tuition and fees as well as other revenue sources. The Health Center submits separate operating and capital budgets and receives a separate appropriation and allotment. For discussion of the Health Center, see "UNIVERSITY OF CONNECTICUT HEALTH CENTER" below in this Appendix A.

The University's Board of Trustees annually approves separate Unrestricted Operating Budgets for the University and the Health Center. With certain exceptions for fiscal year 2003, the Governor may reduce State agency allotments by not more than five percent unless approved by the Appropriations Committee of the General Assembly. Allotment reductions shall be applied by the Board of Governors for Higher Education among the appropriations to the boards of trustees of the constituent units. The Board of Governors for Higher Education shall apply such reductions after consultation with the Secretary of the Office of Policy and Management and the State Higher Education constituent unit boards of trustees. Any reductions of more than five percent of the appropriations of any constituent units shall be submitted to the Appropriations Committee of the General Assembly, which shall, within ten days, approve or reject such reduction.

During each fiscal year, the Board of Trustees of the University must submit to the General Assembly, through the Department of Higher Education and the Office of Policy and Management, a report of the actual expenditures of the University of Connecticut Operating and Research Funds and Health Center Operating Fund containing such relevant information as the Board of Governors for Higher Education may require. Currently, the University submits a quarterly report of annual budgeted and actual year-to-date revenues and expenditures for the Operating (including the State appropriation) and Research Funds. Effective July 1, 1996, the General Fund, which consisted of the State appropriations, was merged into and became part of the Operating Fund at the University.

The University is required to submit its biennial budget request on forms prescribed by the Office of Policy and Management (Governor's fiscal office) and the Department of Higher Education. The budget request reflects the use of Department of Higher Education formulas for calculation of instruction, library and physical plant current services.

The General Assembly appropriates and allocates funds directly to the University and Health Center separately. The University's Capital Budget request process has been replaced by the Act beginning in fiscal year 1996. The Act provides for a ten year Capital Budget program of the University and authorizes projects estimated to cost $1,250 million. In accordance with the Act, the University, by affirmative vote of its Board of Trustees, made material revisions to the UCONN 2000 projects based on findings and determinations that such revisions are consistent with the intent and purpose of the original projects and that such revisions do not affect the University's ability to complete the UCONN 2000 projects out of the remaining funds to be allocated to such projects. Such revisions increased the estimated cost of UCONN 2000 projects from $1,250 million to $1,352 million of which $962 million is to be financed by bonds of the University, secured by the State debt service commitment and $18 million has been funded by State general obligation bonds. Gifts or other revenue may finance the balance unless projects are deferred or savings are achieved. With respect to the $962 million, Phase I is for fiscal years 1996-99 and totals $382 million, and Phase II is for fiscal years 2000-05 and totals $580 million. Rather than annual requests, the University is required to provide a semi-annual update as to the progress of capital projects approved as part of UCONN 2000. In 2002, the General Assembly enacted and the Governor signed into law 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 authorized additional projects for a total estimated cost of $1,348 million for Phase III of UCONN 2000 and increases UConn's bonding authority in 2005 from $50 million to $100 million.

University Budget

Fiscal Year 2003.

The fiscal year 2003 spending plan was presented to the Board of Trustees for approval on August 13, 2002. The proposed spending plan assumed a projected growth in undergraduate degree seeking students of 4.7%. The spending plan includes total revenue of $650.5 million and total expenditures of $650.5 million resulting in a balanced budget.

Revenue. For fiscal year 2003 State support was budgeted at a level of $261.1 million (comprised of the appropriation of $193.7 million; $2.3 million from non-recurring funds appropriated in fiscal year 2002 from the fiscal year 2001 surplus and allocated to fiscal year 2003; $0.1 million of the fiscal year 2002 rescission allocated to fiscal year 2003; and fringe benefits of $65.2 million). The $261.1 million incorporates a reduction of $13.8 million (including fringe benefits) from the original State appropriation for FY 2003. In October 2002, the University was notified by the Office of Policy and Management of $1.5 million of State support, which is not included in the above amount, to cover a shortfall due to a retroactive arbitration award for the statewide Maintenance Worker's Union. In February 2003, a revised State budget was adopted by both chambers of the General Assembly and signed by the Governor. The revised budget reduces the University's appropriation by $1.2 million. State support, in the form of the State appropriation and fringe benefits, is the University's largest single source of revenue, representing 40.2% of the budgeted fiscal year 2003 projected revenue.

Tuition (excluding waivers) and fee revenue is budgeted at $166.1 million, an increase of $17.2 million or 11.6% over the fiscal year 2002 amount. This increase is predicated on a 3.9% tuition increase for Fall 2002 and a mid-year increase (over the FY 2002 rate) of 8.75% effective Spring 2003. The growth in tuition income also projects an increase in degree seeking undergraduate students of 4.7%. The annual tuition rate increase over fiscal year 2002 is 6.3%

Auxiliary Enterprise Sales/Services revenue is projected to be $91.2 million, which is an increase of $5.8 million or 6.8% over the fiscal year 2002 amount. Residence halls and rental properties ($40.2 million), dining services ($30.3 million) and athletics ($18.0 million) generate most of the Auxiliary Enterprise Revenue. The increased revenue reflects an approved rate increase for dormitory and dining fees of 3.9%, as well as higher ticket prices for certain Athletic department events.

Expenditures/Transfers. Total fiscal year 2003 expenditures and transfers of $650.5 million are budgeted to increase by $24.6 million or 3.9% over the fiscal year 2002 amount. Overall, personal services and fringe benefits are the largest expenditure at $421.1 million. This is an increase of $15.7 million or 3.9% over fiscal year 2002. The increase is caused primarily by additional collective bargaining costs for settled contracts. The spending plan includes the implementation of $19.6 million in reductions/reallocations that address the reduction in State support from the original State appropriation, as well as the demands of growing enrollment. Presently, hiring and expenditure controls are in effect University-wide. The reductions and cost cutting are being implemented in such a way as to not adversely affect the quality of the student academic experience and also to support strategic priorities. The spending plan and the biennial budget offers budgetary enhancements as follows:

- Add faculty in key areas of student demand.
- Improve undergraduate academic advising.
- Support and enhance diversity initiatives.
- Address needs in areas important to the research program.
- Continue the enhancement of the regional campuses.
- Assure financial aid to students in need.

Financial Aid expenditures are projected to be $54.8 million, which is an increase of $5.7 million or 11.6% over the fiscal year 2002 amount. The University's Research Fund, which represents funding provided by Federal and State governments and private entities for specific research projects is budgeted to grow by 4.9%.

FY 2003 Current Funds Budget

	Educational & General	Auxiliary	Total	Unrestricted	Restricted
Revenues					
State Support[1]	$ 261.3	$	$ 261.3	$ 261.3	$
Tuition & Fees	147.1	19.0	166.1	166.1	
Grants & Contracts	102.3	10.4	112.7	19.5	93.2
Auxiliary Enterprises		91.2	91.2	91.2	
Other Revenue	19.4		19.4	18.8	0.6
Total Revenues	$ 530.1	$ 120.6	$ 650.7	$ 556.9	$ 93.8
Expenditures/Transfers					
Educational & General	$ 530.1	$ 0.0	$ 530.1	$ 436.3	$ 93.8
Auxiliary Enterprises	0.0	120.6	120.6	120.6	0.0
Total Expenditures/Transfers	$ 530.1	$ 120.6	$ 650.7	$ 556.9	$ 93.8
Net Gain / (Loss)	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0

[1] Reflects all State support adjustments to date.

Fiscal Year 2004.

The preliminary fiscal year 2004 budget was presented to the Board of Trustees for approval on August 13, 2002. This budget will be updated and presented to the Board of Trustees for final approval in June 2003. The proposed budget assumes a projected growth in undergraduate degree seeking students of 2.1%. The proposed budget includes total revenue of $697.2 million and total expenditures of $696.3 million resulting in a net gain of $0.9 million, which will be used to repay a draw down of the University's reserves in fiscal year 2002. The draw down of $11.5 million in reserves approved by the Board of Trustees in November 2001 is being used to partially finance the construction of the Towers Dining Center and the renovated Student Union.

Revenue. For fiscal year 2004, State support is being requested at a level of $275.4 million (appropriation/allotments $204.8 million; fringe benefits $70.6 million). The State support budget assumes "current services" levels from the State, which includes funding for settled collective bargaining contracts and operating funds for the opening of new buildings. The Governor's recommended biennial budget for the State was presented in March 2003. The Legislature will consider the Governor's recommendation before approving a State appropriation; the legislative session is scheduled to end in June 2003.

Tuition (excluding waivers) and fee revenue is budgeted at $184.6 million, an increase of $18.5 million or 11.1% over the fiscal year 2003 amount. This increase is predicated upon an 8.7% tuition increase over the Spring 2003 semester rate and a projected increase in degree seeking undergraduate students of 2.1%.

Auxiliary Enterprise Sales/Services revenue is projected to be $100.1 million, which is an increase of $8.9 million or 9.8% over the fiscal year 2003 amount. Residence halls and rental properties ($47.4 million), dining services ($31.4 million) and athletics ($18.9 million) generate most of the Auxiliary Enterprise Revenue. The increased revenue reflects an approved rate increase for dormitory and dining fees of 5.3%.

Expenditures/Transfers. Total fiscal year 2004 expenditures and transfers of $696.3 million are budgeted to increase by $45.8 million or 7.0% over the fiscal year 2003 amount. The University's Operating Fund is budgeted to increase by 7.3%. The largest Operating Fund increase for personal services ($20.5 million) and fringe benefits ($6.1 million) is being driven by scheduled collective bargaining increases and a projected increase in State mandated fringe benefit rates. Financial Aid expenditures are projected to be $58.6 million, which is an increase of $3.8 million or 6.9% over the fiscal year 2003 amount. The fiscal year 2004 budget also reflects the rollout of the strategic priorities initially incorporated in the fiscal year 2003 budget. The University's Research Fund, which represents funding provided by federal and state governments and private entities for specific research projects is budgeted to grow by 3.9%.

FY 2004 Current Funds Budget

	Educational & General	Auxiliary	Total	Unrestricted	Restricted
Revenues					
State Support	$ 275.4	$	$ 275.4	$ 275.4	$
Tuition & Fees	164.6	20.0	184.6	184.6	
Grants & Contracts	104.6	11.9	116.5	20.9	95.6
Auxiliary Enterprises		100.1	100.1	100.1	
Other Revenue	20.6		20.6	20.0	0.6
Total Revenues	$ 565.2	$ 132.0	$ 697.2	$ 601.0	$ 96.2
Expenditures/Transfers					
Educational & General	$ 564.3	$ 0.0	$ 564.3	$ 468.1	$ 96.2
Auxiliary Enterprises	0.0	132.0	132.0	132.0	0.0
Total Expenditures/Transfers	$ 564.3	$ 132.0	$ 696.3	$ 600.1	$ 96.2
Net Gain / (Loss)	$ 0.9	$ 0.0	$ 0.9	$ 0.9	$ 0.0

Fiscal Year 2005.

The preliminary fiscal year 2005 budget was presented to the Board of Trustees for approval on August 13, 2002. This budget will be updated and presented to the Board of Trustees for final approval in June 2004. The proposed budget assumes a projected growth in undergraduate degree seeking students of 2.3%. The proposed budget includes total revenue of $739.6 million and total expenditures of $738.7 million resulting in a net gain of $0.9 million, which will be used to repay a draw down of the reserves in fiscal year 2002.

Revenue. For fiscal year 2005, State support is being requested at a level of $292.1 million (appropriation/allotments $215.8 million; fringe benefits $76.3 million). The State support budget assumes "current services" levels from the State, which includes funding for settled collective bargaining contracts and operating funds for the opening of new buildings. The Governor's recommended biennial budget for the State was presented in March 2003. The Legislature will consider the Governor's recommendation before approving a State appropriation; the legislative session is scheduled to end in June 2003.

Tuition (excluding waivers) and fee revenue is budgeted at $200.7 million, an increase of $16.1 million or 8.7% over the fiscal year 2004 amount. This increase is predicated upon an 8.75% tuition increase and a projected increase in degree seeking undergraduate students of 2.3%.

Auxiliary Enterprise Sales/Services revenue is projected to be $105.5 million, which is an increase of $5.4 million or 5.4% over the fiscal year 2004 amount. Residence halls and rental properties ($50.0 million), dining services ($33.3 million) and athletics ($19.6 million) generate most of the Auxiliary Enterprise Revenue. The increased revenue reflects an approved rate increase for dormitory and dining fees of 6.0%.

Expenditures/Transfers. Total fiscal year 2005 expenditures and transfers of $738.7 million are budgeted to increase by $42.4 million or 6.1% over the fiscal year 2004 amount. The University's Operating Fund is budgeted to increase by 6.3%. The largest Operating Fund increase for personal services ($20.1 million) and fringe benefits ($5.9 million) is being driven by scheduled collective bargaining increases and a projected increase in State mandated fringe benefit rates. Financial Aid expenditures are projected to be $62.2 million, which is an increase of $3.6 million or 6.1% over the fiscal year 2004 amount. The fiscal year 2005 budget also reflects the rollout of the strategic priorities initially incorporated in the fiscal year 2003 budget. The University's Research Fund, which represents funding provided by Federal and State governments and private entities for specific research projects is budgeted to grow by 4.0%.

FY 2005 Current Funds Budget

	Educational & General	Auxiliary	Total	Unrestricted	Restricted
Revenues					
State Support	$ 292.1	$	$ 292.1	$ 292.1	$
Tuition & Fees	179.7	21.0	200.7	200.7	
Grants & Contracts	108.0	12.5	120.5	21.0	99.5
Auxiliary Enterprises		105.5	105.5	105.5	
Other Revenue	20.8		20.8	20.2	0.6
Total Revenues	$ 600.6	$ 139.0	$ 739.6	$ 639.5	$ 100.1
Expenditures/Transfers					
Educational & General	$ 599.7	$ 0.0	$ 599.7	$ 499.6	$ 100.1
Auxiliary Enterprises	0.0	139.0	139.0	139.0	0.0
Total Expenditures/Transfers	$ 599.7	$ 139.0	$ 738.7	$ 638.6	$ 100.1
Net Gain / (Loss)	$ 0.9	$ 0.0	$ 0.9	$ 0.9	$ 0.0

State Support of the University - Appropriations

The State of Connecticut develops a biennial budget, which contains the University budget. However, the appropriations are applicable to each specific year and the second year's appropriation is subject to review and adjustment. The University has historically received a substantial percentage of its operating revenue from the State General Fund Appropriation. In the State system of higher education, the University of Connecticut receives more State support than any other State institution of higher education. The University has in its mission teaching, research and public service components. The annual State appropriation the University receives is in the form of a block grant and is allocated biweekly. The University has independent authority to purchase goods and services, hire, to fire and promote administrators, faculty and staff, and plan, design and construct capital projects.

The University's State appropriation for the current fiscal year ending June 30, 2003 is $193,667,047. The original State appropriation was $203,860,050 and this was reduced by $10,193,003 as a mid-term adjustment by the General Assembly. Additionally, $2,292,022 (net of a $135,492 FY 2002 rescission) from funds appropriated in fiscal year 2002 from the fiscal year 2001 surplus has been allocated to fiscal year 2003 Also, the University was allocated $50,000 from a one-time carry forward allotment for the Veterinary Diagnostic Lab, but has been subsequently notified by the Office of Policy and Management that it is subject to rescission. Furthermore, the University was notified by the Office of Policy and Management of $1,471,956 of State support to cover a shortfall due to a retroactive arbitration award for the statewide Maintenance Worker's Union. In February 2003, a revised State budget was adopted by both chambers of the General Assembly and signed by the Governor. The revised budget reduces the University's appropriation by $1.2 million. For fiscal years 2004 and 2005, the University requested State appropriations of $207.8 million and $218.7 million respectively to maintain current services. On March 4, 2003, the Governor, as part of his State budget message, recommended fiscal year appropriations of $197.7 million and $202.1 million for the University. The Legislature is expected to consider both the University's request and the Governor's proposal. Finally, the State allocates fringe benefits to the University (FY 2003 - $65,176,950) from central State accounts. The University also received a grant of $7,500,000 from the State Department of Higher Education for the Endowment State Matching Grant Program. The actual amount available after deducting for a State imposed rescission of 2.46% is $7,319,711. For a discussion of the Endowment State Matching Grant Program, see "Gifts to the University of Connecticut Foundation, Inc." below in this Appendix A.

Schedule of State Operating and Endowment Support and Estimated Fringe Benefits to the University For Fiscal Years 2001-2005

Fiscal Year	Operating Appropriations[1] and Allotments	Estimated Fringe Benefits	Operating Total	Endowment Matching Program
2001	$ 182,670,207	$ 59,300,846	$ 241,971,053	$ 5,000,000
2002	188,403,560[2]	67,925,021	256,328,581	7,058,261[3]
2003	196,135,114[4]	65,176,950	261,312,064	7,319,711
2004	204,819,514	70,583,055	275,402,569[5]	7,600,000
2005	215,760,620	76,367,914	292,128,534[5]	7,500,000

1 Excludes State general obligation bonds issued to fund University capital projects.
2 Includes $5,246,443 in rescissions. Reflects allocation of $2,156,530 of the FY 2002 appropriation to FY 2003 by the University.
3 Includes $441,739 for State-imposed rescission.
4 Includes $2,292,022 (net of a $135,492 FY 2002 rescission) of the FY 2002 appropriation, a one-time FY 2002 carry forward, $50,000 allotment for the Veterinary Diagnostic Lab, $1,471,956 for a shortfall due to the NP-2 maintenance arbitration award and all State support adjustments to date..
5 Requested State support.

State Support of the University - Bond Issuance

In addition to appropriating funds for the general operating support of the University, the State has authorized its general obligation bonds to fund capital projects of the University. Certain of those State bonds are categorized as self-liquidating, meaning the University reimburses the State for the principal and interest on such bonds from revenues generated by the University from the operation of the projects funded with the proceeds of the State bonds. For further discussion of the University's liability to the State with respect to these self-liquidating State general obligation bonds, see "University Indebtedness and Capitalized Lease Obligations" below in this Appendix A. See "UNIVERSITY OF CONNECTICUT HEALTH CENTER - Recent Events" below in this Appendix A for a discussion of State support to fund capital projects of the Health Center.

In May 2000, the State authorized its general obligation bonds in the amount of $91,200,000 for the construction of a State-owned football stadium for use by the University's football team and for other events. The University does not have any repayment obligations with respect to the bonds issued by the State for the football stadium and is not responsible for the stadium operating budget. The University's obligations and opportunities as a tenant of the stadium are outlined in a Memorandum of Understanding with the State Office of Policy and Management.

State Legislative Bond Authorizations for the University
(excluding the Health Center other than 21st Century UConn)
For Fiscal Years 1996-2015

Fiscal Year	State General Obligations Bonds	UConn 2000[1]	Total
1996	$ 18,000,000	$ 112,542,000	$ 130,542,000
1997	9,400,000	112,001,000	121,401,000
1998		93,146,000	93,146,000
1999		64,311,000	64,311,000
2000	2,000,000[2]	130,000,000	132,000,000
2001	20,000,000[2]	100,000,000	120,000,000
2002		100,000,000	100,000,000
2003		100,000,000	100,000,000
2004		100,000,000	100,000,000
2005[3]		100,000,000	100,000,000
2006		79,000,000	79,000,000
2007		89,000,000	89,000,000
2008		120,000,000	120,000,000
2009		155,000,000	155,000,000
2010		160,500,000	160,500,000
2011		161,500,000	161,500,000
2012		138,100,000	138,100,000
2013		129,500,000	129,500,000
2014		126,500,000	126,500,000
2015		90,900,000	90,900,000

[1] Secured by State Debt Service Commitment

[2] For the development of a new downtown campus for the University of Connecticut in Waterbury.

[3] For FY 2005, $50,000,000 has been authorized under UCONN 2000 and an additional $50,000,000 has been authorized under 21st Century UConn. FY's 2006-15 represent additional authorizations under 21st Century UConn, including up to $305,400,000 for Health Center projects.

Grants and Contracts

Revenue from Federal, State, local and non-governmental grants and contracts totaled $98.4 million in fiscal year 2002, representing 32.4% of total operating revenues reported by the University in the Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2002, included in this Appendix A. Revenue from Federal, State and local governmental grants and contracts, including financial aid and recovery of indirect costs, totaled $85.6 million for this time period, which represented 28.2% of total operating revenues.

Governmental Grants and Contracts
For Fiscal Years 1998-2002
(in Millions of Dollars)

Fiscal Year	Amount
1998	$ 52.9
1999	56.6
2000	68.4
2001	77.9
2002	85.6

Research occurs in traditional department settings, established centers and emerging centers. Several emerging centers are of particular note.

- The Center for Health/HIV Intervention and Prevention (CHIP) is an emerging research center dedicated to the study of the dynamics of health risk behavior and processes of health behavior change in individuals and targeted at-risk populations.

- The mission of the emerging Connecticut Center for Regenerative Biology is to develop a world-class center of research excellence by fostering teamwork and multi-disciplinary research collaboration and to nurture business development in Connecticut by developing advanced technologies and building partnership with Connecticut businesses in the area of regenerative biology and medicine.

- The emerging Center for Drug Discovery (CDD) at the University of Connecticut is dedicated to the discovery of novel medications and to the development of approaches and technologies aimed at improving the discovery of new therapeutic drugs.

- The Neag Center for Gifted Education and Talent Development is dedicated to research and the preparation of educational personnel that focuses on all aspects of the identification and development of talent potential in persons from all social-economic and ethnic groups and across all age levels, areas of the curriculum and nations around the world.

- The emerging University of Connecticut Center of Excellence for Vaccine Research (CEVR) is built on research expertise in the studies of molecular microbiology, elucidation of disease mechanisms, immune responses to pathogenic microbes, and the development of vaccines specific for bacterial and viral diseases in poultry, cattle and swine. CEVR is part of a triumvirate consortium including the University of Missouri-Columbia Program for Prevention of Animal Infectious Disease (PPAID) and the USDA Agricultural Research Service Plum Island Animal Disease Center (ARS-PIADC).

Continuing important research centers include Institute of Materials Science (IMS), Environmental Research Center (ERI), Marine Sciences and Technology Center (MSTC), and Booth Engineering Center for Advanced Technology (BECAT).

Gifts to the University of Connecticut Foundation, Inc.

Charitable donations from private sources for the University of Connecticut, including gifts made to the University of Connecticut Foundation, Inc., totaled $43.3 million (receipts only) during fiscal year 2002, as compared to $8.2 million in 1995. The endowment has also increased dramatically. From June 30, 1995 to 2002, total endowment assets have grown from $50 million to $197 million. Total assets of the University of Connecticut Foundation reached $244 million at June 30, 2002. The University's 23% alumni giving rate places it among the best public universities in the country.

On May 3, 2001, the University publicly announced the $300 million Campaign UConn. The Campaign, the largest ever undertaken by any public university in New England, seeks to raise $75 million each for scholarships and faculty support and $150 million for program support and select facility enhancements. As of October 31, 2002, the Campaign has received $224.8 million in gifts and commitments, which represents 75% of the goal.

These results reflect the continued growth and improvement of the capabilities of the Foundation featuring sophisticated annual fund, deferred giving, major donor, corporation and foundation fundraising capabilities together with asset management.

In 1995, the state of Connecticut appropriated $20 million in matching grants for private donations to endowments. This program was such a resounding success that it has been extended twice. The most recent extension, granted in June 2001, runs through calendar year 2012. The resulting $115 million in new matching funds will generate a potential $230 million in private endowments, for a target total of $345 million to support the University – a substantial return on the state's investment.

The state endowment matching gift program and the infrastructure programs of UCONN 2000 and 21st Century UConn, have generated a level of excitement about the University, which has proven to be an incentive for private giving by alumni and other benefactors of the University. Over the past three years, the University has received the following state endowment match eligible gifts:

- Sandra Dobrowolsky '81 and Steven Perlman committed $200,000 to establish the Dobrowolsky Family Day of Pride Scholarship Fund. This prestigious scholarship will provide financial support to help recruit and retain academically talented students for the University.

- Mrs. Jan Youngblood Hall pledged $125,000 to establish the John M. Hall Memorial Athletic Scholarship Fund in memory of her late husband. The scholarship will provide financial support for student-athletes participating in varsity intercollegiate athletics in the University's Division of Athletics.

- Sudhakar V. Shenoy '73 committed $100,000 to provide additional seed money within the School of Business for a number of important initiatives in technological entrepreneurship.

- The estate of Alice Norian is providing more than $440,000 for the Armenian Studies Program within the School of Social Work. The funds will be used to support a lecture and student-faculty exchange program.

- The estate of Samuel "Sy" Birnbaum is providing $250,000 to fund the Ida, Louis and Richard Blum/Samuel "Sy" Birnbaum Endowed Chair in Psychiatry at the UConn Health Center.

- Robert Cizik '53 committed an additional $250,000 to the Robert Cizik Manufacturing and Technology Management Fund to support an endowed chair and professorship in the School of Business. These endowments will foster the development of business leaders with solid technology, manufacturing, and business decision-making skills; bring University faculty together who have multi-disciplinary expertise and overlapping interest in technology and manufacturing; and advance UConn's emergence as a leader in this discipline.

- Roger Tamer committed $245,000 to establish the Tamer Family Endowment for Women's Basketball. Funds from this general endowment will be used to meet the specific priorities of the program.

- Leslie and Stephen Rothenberg committed $100,000 toward the UConn Orthodontic Alumni/Ravi Nanda Endowment Fund. The fund will provide financial support for an endowed chair in orthodontics within the UConn Health Center's School of Dental Medicine.

- Wilda Van Dusen committed $1,000,000 to establish an endowment in support of the Albert and Wilda Van Dusen Chair in Academic Medicine at the UConn Health Center's School of Medicine.

- The Berkley Foundation, Inc. has committed $200,000 to establish the W.R. Berkley Endowment Fund for the Program for Talented Teens. Its purpose is to support programs designed to pair secondary students with education mentors in the University's Neag School of Education. The programs will work toward encouraging the students to apply their powers of intellectual creativity toward solving "real world" problems.

- An anonymous donor committed $400,000 to fund a Nutmeg Scholarship and a Day of Pride Scholarship for incoming freshmen. These scholarships are the most prestigious offered by UConn.

- Dr. Charles J. Burstone, retired head of the UConn Health Center School of Medicine's Orthodontics Department, endowed a professorship with $500,000 to advance research and education in orthodontics at the School of Dental Medicine. His gift will help recruit a senior faculty member with clinical experience to prepare more qualified professionals to enter the field.

- Daniel Flynn '62, his wife Barbara, and the John G. Martin Foundation together pledged $1 million to create the Flynn-Martin Fund for Excellence at the UConn School of Law. The fund's resources will enable faculty to participate in high-profile activities (assuming leadership roles in those circles), and will sponsor prominent legal scholars and other speakers who visit the school.

- The Kim Family Fund has committed $250,000 to provide financial support for programs at the University's Department of Neuroscience within the School of Medicine. The Dean of the School shall determine specific uses for the income allocated to this fund.

- The University established several significant educational partnerships within the General Electric family. Collectively, the GE Fund, GE Capital, and GE Industrial Systems have pledged $11 million to help catalyze UConn's emergence as an educational leader in e-business and e-engineering and to bolster the University's diversity initiatives. These funds represent the largest single corporate investment in the University and will support the Schools of Engineering and Business.

The GE family investment has funded:

- the construction and equipping of 18,000 square feet at the Stamford campus, including the creation of a 10,000-square-foot state-of-the art GE Capital e-lab, in which students and faculty will work with GE Capital staff to analyze e-projects and explore new e-commerce models;
- the development of an e-engineering center, including cutting-edge joint research projects with GE Industrial Systems to prepare students for the integrated, global, team-based engineering used in industry today;
- new "e-learning" approaches to incorporate information technology into effective teaching and learning practices; and
- programs to support increased enrollment and success of under-represented minority engineering and business students.

- The Andrew W. Mellon Foundation awarded a $665,000 grant to support the partnership between the University and the African National Congress (ANC). The grant will fund the recording and transcriptions of the oral histories of some 200 ANC party members and leaders, many of them now elderly. The histories will then be made available to scholars for research and study at the

Thomas J. Dodd Research Center and at the University of Fort Hare, located in Alice, South Africa. The grant will also support the archives project.

- The University received a $460,000 grant from the United Negro College Fund for a linkage with Fort Hare University in South Africa's Eastern Cape Province, the oldest and most illustrious historically black institution in South Africa. The three-year Tertiary Education Linkages Project (or TELP) grant enables University faculty, staff, and administrators from across the institution to form a mutually beneficial partnership with colleagues at the historically black university. Academic links will be forged in the areas of comparative human rights, education and agriculture. Other priorities identified by Fort Hare include training for top management, advice on improving fundraising, communications strategies, enrollment and retention of students and college readiness for less academically gifted students, as well as faculty and student exchanges.

- United Technologies Corporation (UTC) committed $4 million to the School of Engineering to support new engineering education initiatives. The UTC gift is the largest ever to the School of Engineering and the largest corporate gift ever to a public school of engineering in New England. As the largest gift UTC has ever given to an educational institution, it will be used to endow three chaired faculty positions, establish the Advanced Technology Clinic, sponsor four junior faculty positions and establish an endowment for the undergraduate scholarships.

- The Ford Foundation donated $500,000 to the Accelerated Schools Program, which came to the University last spring to enhance the Neag School of Education. The Accelerated Schools Program is a national reform movement dedicated to turning schools, particularly those with large at-risk populations, into places where all students are brought into the academic mainstream.

- The Kresge Foundation awarded a $750,000 challenge grant to the School of Business to help fund construction of the new School of Business building and provide new impetus to broaden the school's donor base. The new 10,000 square foot facility will be home to the school's five business departments: accounting, finance, management, marketing, and operations and information management. It will also include full-time undergraduate, MBA and Ph.D. programs.

- Aetna Financial Services committed more than $2.7 million to the School of Business. The Aetna Center for Financial Services will conduct research on long-term savings, investment, and income management, and will seek to inform relevant public policy debate. Fundamental to the center's mission will be the creation of a financial services database, to be sustained by and available to academic and corporate subscribers. Part of Aetna's gift will be used to endow the Aetna Chair in Financial Services, a new faculty position.

- Other significant gifts included a $1.3 million commitment for the Visitors Center, a $1 million gift from the Treibeck Family Foundation to establish the Treibeck Family Chair for the Connecticut Information Technology Institute (CITI), a $1.5 million dollar gift to establish the James L. and Shirley A. Draper Chair in American History, and a $1 million gift from Sam Orr to establish scholarships for students from his hometown.

Private investment at the level of magnitude seen at the University of Connecticut is a function of loyalty or generosity of donors, as well as the outcome of a rational assessment of University goals, the University's level of performance, the state's commitment of ongoing support for University transformation, and the University's decision to invest resources to fund raising efforts.

The overwhelming majority of private gifts made for the benefit of the University are contributed to The University of Connecticut Foundation, Inc. Established in 1964, the Foundation is an independent, privately governed, non-profit corporation chartered under the laws of the state of Connecticut and designated as a 501(c)(3) organization by the Internal Revenue Service. The Foundation accepts and administers gifts of tangible personal property, real estate, securities, cash and deferred gifts whether restricted or unrestricted.

The University of Connecticut Foundation, Inc.
Summary of Total Assets, Revenue and Expenditures
for Fiscal Years 1998-2002

	1998 $000's	1999 $000's	2000 $000's	2001 $000's	2002 $000's
Endowment Funds	$122,911	$175,744	$183,756	$169,745	$161,179
All Other	30,904	33,747	79,759	81,350	83,196
Total Assets	153,815	209,491	263,515	251,095	244,375
Support and Revenue					
Contributions & Educational Support	32,544	39,051	42,427	39,148	38,334
Payment from the University	3,604	3,300	3,150	3,300	3,200
Investment Income & Other Revenues, Net	22,909	29,413	29,319	(24,000)	(16,630)
Total Support & Revenue	59,057	71,764	74,896	18,448	24,904
Expenditures					
Disbursements to & on behalf of the University	10,372	12,752	18,668	20,322	22,327
General Administration & Development	5,699	6,418	8,295	10,382	10,846
Total Expenditures	16,071	19,170	26,963	30,704	33,173
Excess of Support and Revenues over Expenditures	$ 42,986	$ 52,594	$ 47,933	$ (12,256)	$ (8,269)

University Indebtedness and Capitalized Lease Obligations

The State of Connecticut issues certain general obligation bonds categorized as self-liquidating bonds. Self-liquidating bonds are issued to fund the construction and renovations of revenue-generating capital projects. The University reimburses the State in the amount equal to the debt service on self-liquidating bonds issued to fund the construction and renovation of revenue-generating capital projects on University campuses. The University reimburses the State with revenue from student fee charges. As of the date of delivery of the 2003 Series A Bonds, the State of Connecticut had issued an outstanding $13,169,362 of self-liquidating bonds for University capital projects. The University also has outstanding $598,667,147 of its general obligation bonds secured by the State Debt Service Commitment, excluding the 2003 Series A Bonds. Additionally, the University has outstanding $1,811,945 of unsecured debt to the U.S. Department of Education which matures on February 1, 2027.

Currently, the University has outstanding approximately $4.2 million capital lease obligations subject to annual appropriation payable on various dates through 2007. In addition, the University has solicited, received, and evaluated competitive proposals for design and construction of a combined heat and power plant, which could generate substantially all its needs for electrical power, heating and cooling on the main campus at Storrs. Subject to negotiation of contracts, receipt of necessary permits, the approvals of its Board of Trustees and the State Treasurer, the University anticipates financing such heat and power plant with a tax-exempt lease. The equipment and construction is estimated to cost approximately $75 million. The University expects consequent energy savings will exceed the amounts needed to service the associated financing lease.

On February 4, 1998, the University issued its first series of Special Obligation Bonds, Student Fee Revenue 1998 Series A, in the original principal amount of $33,560,000 with a 30-year maturity, the proceeds of which were used to partially finance a new dormitory and dining facility. In May 2000, the University issued its $89,570,000 Student Fee Revenue Bonds, 2000 Series A to finance an additional parking garage, dormitories and an apartment style student living complex, which were refunded by the University's Student Fee Revenue Bonds, 2002 Refunding Series A on February 27, 2002. On February 14, 2002, the University issued its $75,430,000 Student Fee Revenue Bonds, 2002 Series A to finance renovations and improvements to existing dormitories, new student suites and apartments and new housing for sororities and fraternities. As of the date of delivery of the 2003 Series A Bonds the amount of Special Obligation Bonds outstanding is $198,980,000.

The following schedule sets forth the debt service payments to be made in each University fiscal year on the General Obligation Bonds issued and outstanding as of the date of delivery of the 2003 Series A Bonds:

The University of Connecticut
Debt Service on General Obligation Bonds[1]

	Outstanding General Obligation Bonds			This Issue General Obligation Bonds			
FY Ending June 30th	Principal[2]	Interest[3]	Subtotal	Principal	Interest	Subtotal	Total Debt Service
2003	$ 25,680,000.00	$ 9,818,155.63	$ 35,498,155.63				$ 35,498,155.63
2004	37,925,000.00	26,788,596.26	64,713,596.26	$ 5,000,000.00	$ 3,634,564.26	$ 8,634,564.26	73,348,160.52
2005	38,575,000.00	25,251,658.76	63,826,658.76	4,720,000.00	3,703,613.76	8,423,613.76	72,250,272.52
2006	37,530,000.00	23,622,733.76	61,152,733.76	5,00,000.00	3,579,913.76	8,579,913.76	69,732,647.52
2007	37,530,000.00	21,984,108.76	59,514,108.76	4,720,000.00	3,479,913.76	8,199,913.76	67,714,022.52
2008	35,818,792.00	23,224,688.00	59,043,480.00	5,000,000.00	3,379,026.26	8,379,026.26	67,422,506.26
2009	38,308,639.65	22,026,390.35	60,335,030.00	4,725,000.00	3,264,026.26	7,989,026.26	68,324,056.26
2010	34,017,274.20	19,598,098.30	53,615,372.50	4,725,000.00	3,136,083.76	7,861,083.76	61,476,456.26
2011	35,107,440.65	18,228,005.61	53,335,446.26	5,000,000.00	2,991,758.76	7,991,758.76	61,327,205.02
2012	34,055,000.00	14,264,851.26	48,319,851.26	4,725,000.00	2,831,758.76	7,556,758.76	55,876,610.02
2013	32,055,000.00	12,617,593.76	44,672,593.76	4,735,000.00	2,598,041.26	7,333,041.26	52,005,635.02
2014	35,365,000.00	10,983,297.52	46,348,297.52	4,740,000.00	2,362,053.76	7,102,053.76	53,450,351.28
2015	35,525,000.00	9,156,962.52	44,681,962.52	4,740,000.00	2,150,988.76	6,890,988.76	51,572,951.28
2016	33,525,000.00	7,321,155.02	40,846,155.02	4,750,000.00	1,906,866.26	6,656,866.26	47,503,021.28
2017	29,025,000.00	5,555,616.26	34,580,616.26	4,760,000.00	1,658,578.76	6,418,578.76	40,999,195.02
2018	25,525,000.00	4,048,026.26	29,573,026.26	4,770,000.00	1,409,718.76	6,179,718.76	35,752,745.02
2019	21,550,000.00	2,729,548.76	24,279,548.76	4,770,000.00	1,170,037.50	5,940,037.50	30,219,586.26
2020	16,550,000.00	1,611,512.50	18,161,512.50	4,775,000.00	949,075.00	5,724,075.00	23,885,587.50
2021	10,000,000.00	737,500.00	10,737,500.00	4,775,000.00	707,963.76	5,482,963.76	16,220,463.76
2022	5,000,000.00	250,000.00	5,250,000.00	4,780,000.00	463,657.50	5,243,657.50	10,493,657.50
2023	0.00	0.00	0.00	5,000,000.00	220,000.00	5,220,000.00	5,220,000.00
Totals	$598,667,146.50	$ 259,818,499.29	$ 858,485,645.79	$96,210,000.00	$ 45,597,640.66	$ 141,807,640.66	$1,000,293,286.45

[1] Secured by State Debt Service Commitment.
[2] Principal payments on General Obligation Bonds include aggregate initial values of capital appreciation bonds.
[3] Interest payments on General Obligation Bonds include the difference between the aggregate stated initial values and the aggregate maturity amounts of capital appreciation bonds.

The following table sets forth all bonds of the University outstanding as of the date of delivery of the 2003 Series A Bonds:

THE UNIVERSITY OF CONNECTICUT
Total Bonds Outstanding

	Amount Issued Originally	Amount Outstanding Currently	Dated Date[1]
General Obligation Bonds			
1996 Series A	$83,929,715	$53,899,715	January 1, 1996
1997 Series A	$124,392,432	$91,892,432	April 1, 1997
1998 Series A	$99,50,000	$79,600,000	June 1, 1998
1999 Series A	$79,735,000	$68,000,000	March 1, 1999
2000 Series A	$130,850,000	$110,275,000	March 1, 2000
2001 Series A	$100,000,000	$95,000,000	March 15, 2001
2002 Series A	$100,000,000	$100,000,000	April 1, 2002
2003 Series A	$96,210,000	$96,210,000	March 1, 2003
	$814,637,147	$694,877,147	
Student Fee Revenue Bonds			
1998 Series A	$33,560,000	$30,525,000	January 1, 1998
2002 Series A	$75,430,000	$75,430,000	January 15, 2002
2002 Series A Refunding[2]	$96,130,000	$93,025,000	February 1, 2002
	$205,120,000	$198,980,000	

[1] The General Obligation Bonds issued in 1996 and 1997 include capital appreciation bonds, which were dated their date of delivery.
[2] The SFR 2002-A Refunding Bonds refunded all of the outstanding $89,570,000 SFR Series 2000-A Bonds.

Employee Data

Faculty and Staff. As of October 2002, the University had 4,590 full-time equivalent ("FTE") employees. Faculty accounted for 1,188 FTE employees. The University also employs 403 FTE graduate assistants included in the total employee number above. Additionally, the University hires adjunct lecturers on a semester-by-semester basis, as needed who are not included in the above employee count. In Fall 2002, 70% of full-time teaching faculty were tenured, 19% were tenure track and the remaining were non-tenure track faculty. The average age of full-time faculty was 49.

Nine bargaining units represented approximately 3,837 FTE union members as of October 2002. Approximately 16% of University faculty and staff were non-union employees. The University bargains with two units covering 2,731 FTE employees; the American Association of University Professors and the University of Connecticut Professional Employees Association, both of which have settled contracts that expire on June 30, 2006 and June 30, 2005, respectively. Law school faculty, University exempt (management) and graduate assistants, and certain temporary and part-time employees are not represented by bargaining units. The remaining seven unions covering 1,106 FTE employees bargain directly with the State and have settled contracts with expiration dates ranging from June 30, 2003 to June 30, 2005. There are two unions that do not have a settled contract.

Pension Plans. Most State employees receive pension benefits under a State pension plan. The State pays directly to plan providers the cost of providing such pension benefits to University employees. The University reimburses the State for the cost of providing pension benefits under State pension plans to University employees, to the extent that their salary is not paid out of the State General Fund Appropriation. Various retirement plans are available for University employees none of which are administered by the University. Approximately 45% of University employees are covered under the State pension plan and the balance are covered under private pension plans.

Insurance

The University, as an agency of the State, is self-insured, for general liability purposes, on an unreserved basis. The State purchases blanket policies covering other risks, including property, casualty and hazard insurance for all State agencies. The State pays all premiums for such insurance policies. The University reimburses the State for the cost of coverage of items purchased with other than State appropriation funds. The University may request an allotment of insurance proceeds resulting from the loss of University property. The Act authorizes the University to purchase insurance for its assets, actions and activities. The University directly purchases workers' compensation insurance as part of an owner-controlled insurance program (OCIP) for most UCONN 2000 projects.

UNIVERSITY OF CONNECTICUT HEALTH CENTER

General

An academic and organizational unit of the University of Connecticut, the Health Center is a comprehensive State-owned training, patient care and research facility located in a complex of buildings in suburban Farmington, Connecticut. The Health Center was established in 1961 and is currently comprised of the School of Medicine, the School of Dental Medicine, the John Dempsey Hospital, and related ambulatory clinic facilities, research laboratories, health sciences library, medical library and administrative and other support facilities. The Health Center operates more than 400 clinical and educational programs throughout Connecticut. The Health Center is a referral center for persons with certain illnesses requiring complex patient care. As of fall 2002, the Health Center has 469 professional students in the Schools of Medicine and Dental Medicine, 456 graduate students in Masters and Doctoral programs, and 724 residents, interns and postdoctoral fellows. The Health Center submits separate operating and capital budgets to the Governor and the General Assembly and receives its appropriation and allotment separate from the University. See "UNIVERSITY FINANCES-Budget and Budgeting Procedures" in this Appendix A.

Academic Programs of the School of Medicine and School of Dental Medicine

Post Baccalaureate Programs. The Schools of Medicine and Dental Medicine each conducts a four-year post baccalaureate program leading to the M.D. and D.M.D. degrees, respectively.

Residency. The School of Medicine and the School of Dental Medicine each offers residency programs, which provide the advanced training in preparation for licensure practice and certification within a field of specialization.

Graduate Programs. Programs leading to either a Ph.D. or Master's degree in medically related sciences are offered in nine biomedical sciences and in community health and dental sciences. There are also programs of post-doctoral education of biomedical scientists.

Continuing Education. The schools provide facilities and/or opportunities for the practicing professionals to continue their education by offering a wide variety of courses, lectures, seminars, and visiting lectureships.

Research. The faculty of the School of Medicine is generally expected to develop an active research program, both to advance knowledge within their field of expertise and to enhance the quality of the educational program. Approximately $64 million is generated by the research activities of the various faculties which supplements appropriations from the State of Connecticut.

University of Connecticut Clinical Operations

The faculty practices of the Health Center are the key components of the Health Center's integrated health care delivery system administratively designated the “University of Connecticut Clinical Operations” (“Clinical Operations”). Clinical Operations is a vehicle of the Health Center through which the Health Center provides patient care and supports medical and dental training. Clinical Operations is also the vehicle through which the Health Center contracts with managed care and other health care payors, engages in joint ventures and other arrangements. Clinical Operations also does business through the University of Connecticut Hospital Finance Corporation (the “Finance Corporation”), a statutory corporation authorized to enter into joint ventures, other affiliations and contracts in furtherance of the operations of the clinical programs.

The John Dempsey Hospital. The John Dempsey Hospital has 224 beds (204 general acute care beds and 20 nursery beds), and is located in Farmington, a suburb of Hartford. It serves as the primary teaching hospital for the Schools of Medicine and Dental Medicine, and participates in the clinical education of students from other health profession education programs. As the primary teaching hospital, it contains a full range of services, including surgery, medicine, cardiac care, psychiatry, and obstetrics and gynecology. The Hospital is also the focus of specialized programs, including programs dealing with arthritis, lupus, alcoholism, cancer, hemophilia, high-risk pregnancies, newborn intensive care, dental diseases in the handicapped, and taste and smell deficiencies.

UConn Medical Group and University Dentists. UConn Medical Group (UMG) and University Dentists include an extensive array of ambulatory clinics representing the range of specialty and primary fields that comprise medicine and dentistry operated by UMG and University Dentists.

School of Dental Medicine - Dental Clinics. The Dental Clinics offer comprehensive dental care provided by dental students (pre-doctoral students) in multidisciplinary clinics or by dental residents (postdoctoral students) receiving advanced or specialty training under the supervision of licensed clinical faculty. The Predoctoral Teaching Program is designed to train dental students to be future general dentists or specialists. Dental care provided in the pre-doctoral program is provided by students under the supervision of experienced dentists. The Postdoctoral Teaching Program is a practice comprised of licensed dentists who spend 2 to 6 years under intensive training to be specialists in endodontics, periodontics, oral surgery, orthodontics, pediatric dentistry, prosthodontics, or advance education general dentistry (AEGD).

Strategic Plan Initiative

In June 2000, The UConn Board of Trustees adopted a new Strategic Plan for the Health Center. The Plan articulated the following mission for the Health Center:

> *University of Connecticut Health Center will provide outstanding medical, dental and graduate education, research and clinical care. The Health Center will deliver a highly innovative educational curriculum that will be coordinated with focused areas of research excellence and clinical programs that are an essential part of community health services which benefit Connecticut’s population and enhances the vitality of the region.*

The Integrated Strategic Plan incorporated the Education and Research Plans with a new Clinical Plan. The primary focus of the Integrated Strategic Plan is in five areas; Brain and Human Behavior, Cancer, Musculoskeletal Disease, Connecticut Health (initiatives promoting the health of Connecticut citizens) and Cardiology.

Market Assessment and Regional Planning

The Health Center employs a variety of means to assess the market. Using data available from the Connecticut Hospital Association and the Office of Health Care Access, John Dempsey Hospital assesses its performance relative to other hospitals, and in terms of market share. Both John Dempsey Hospital and UConn Medical Group use publicly available and purchased data sets relative to population and disease trends, utilization rates for services, physician and service demand. Health Center Executives and product line leaders, both physician and non-physician staff, through professional associations, networking with peers and patient interactions, supply data, information and expertise that is used for assessment and planning. Public input is sought through formal and informal interactions with the Health Center Board of Directors of the Board of Trustees, the State Legislature, Town of Farmington, Connecticut officials, community leaders, patients and the many people who attend the public programs of the Health Center. Strategic plans are developed given the market assessment, in combination with an assessment of the strengths of the Health Center programs and staff. The Health Center has focused efforts on programs that integrate the academic, research, and clinical strengths of the institution to serve the health care needs of the citizens of the State of Connecticut. In order best to extend the access to the Health Center services, it has established and continues to seek relationships with other health care providers including and especially primary care providers.

The Health Center is expected to continue to be pressured as managed care penetration in the region continues. The Health Center has adopted a strategy of actively monitoring the market and pursuing agreements with all managed care payors. The Health Center has entered into participation agreements with most of the major HMOs and PPOs. Payors are increasingly interested in shared risk arrangements with providers. The Health Center has executed a number of risk agreements and will likely be pressured to do more. The Health Center is actively developing the programs and systems necessary to accept and manage risk.

Professional Liability, Insurance and Litigation

Professional Liability. As a State agency, the Health Center is immune under the doctrine of sovereign immunity from suit and liability, unless such sovereign immunity is expressly waived by an act of, or pursuant to power granted by, the General Assembly. Fetterman v. University of Connecticut 192 Conn. 539 (1984). The General Assembly has not enacted a general waiver of the sovereign immunity; however, the General Assembly has granted power to the State Claims Commissioner to grant permission to sue the State for the acts and omissions of State, including its agencies (such as the Health Center) if the Claims Commissioner finds it just and equitable and where a claimant has presented a question of law or fact under which the State, were it a private person, could be liable. The Health Center is not legally obligated to satisfy judgments resulting from damages ordered as a result of such suits. In addition, the State has statutorily granted immunity to and obligated itself to protect and save harmless State officers, employees and students enrolled at the Health Center who are engaged in a supervised program of clinical practice for credit, which is part of the curriculum of the Health Center, unless such person acted in a wanton, reckless or malicious manner in the discharge of their duties or function.

Insurance. The Health Center operates a statutorily created insurance fund designated the "Malpractice Insurance Fund" (the "Fund"). The Fund is a separate trust fund of the Finance Corporation. The Fund is required by State law to be established and actuarially funded and operated by the Corporation and to be held by the State Treasurer. The Fund is charged with all payments required to satisfy claims against the Health Center arising from the delivery of health care services. Since the Fund was established in 1987, the Health Center has not maintained private professional liability insurance. The Fund has paid all claims against the Health Center and the State for professional liability since 1987. The Hospital Group has implemented quality assurance, risk assessment and peer review processes to mitigate, identify and evaluate risks. The sufficiency of the amount of money in the Fund is determined quarterly and deposits are made to the Fund as needed to assure that the amount of money in the Fund is actuarially sufficient. At June 30, 2002, the Fund had a balance of $10,151,653.

Litigation. The Health Center is currently defending several suits in state and federal court. The Assistant Attorney General for the Health Center is of the opinion that none of those suits, individually or collectively, place the assets of the Health Center at a significant risk.

Employment

The Health Center employs 477 full-time faculty and 3,326 full-time staff personnel. Health Center employees are State employees. See "Pension and Retirement System" in Part III of this Official Statement for information pertaining to the employees of the Health Center. The terms and conditions of employment of 3,259 employees are governed by collective bargaining agreements. The State bargains with all bargaining units representing Health Center employees except the University Health Professions (the "UHP"), which negotiates directly with the Health Center.

Recent Events

In November 1999, the Health Center reported that it projected operating losses of approximately $21.2 million for the fiscal year ending June 30, 2000. As with academic medical centers across the country, the deficit was primarily due to federal funding cuts and changes caused by managed care. Since December 1999, the University has implemented annual cost reduction and revenue enhancement plans. These operating efficiencies and revenue improvements, coupled with a one-time special State appropriation of $16.9 million ($12.5 million in fiscal year 2000 and $4.4 million in fiscal year 2001), have resulted in the Health Center closing its last two fiscal years in balance. In fact, for the Fiscal Year ended June 30, 2002, the Health Center has a total increase in net assets of $9,073,931.

HEALTH CENTER FINANCES

Financial Statements of the Health Center

Following is a four-year presentation of Current Fund Revenues, Expenditures and Other Changes in Fund Balance for the Health Center.*

* Note that although governed by a single Board of Trustees with one Chief Executive Officer, the University and the Health Center maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and State appropriations. Pursuant to Section 35 of Public Act No. 01-173, the Board of Trustees has created a board of directors for the governance of the Health Center, and has determined such duties and authority, as it deems necessary and appropriate to delegate to said board of directors.

University of Connecticut Health Center

Statement of Current Fund Revenues, Expenditures and Other Changes in Fund Balances for the Fiscal Years 1998 through 2001

	1998	1999	2000	2001
Revenues				
Student Fees and Tuition	$ 6,900,706	$ 6,831,902	$ 7,553,607	$ 7,846,259
State Appropriations	89,590,360	98,760,048	122,516,470	112,486,860
Federal Grants & Contracts	31,121,163	32,186,869	36,990,744	39,290,688
State Grants & Contracts	2,273,002	2,316,869	2,711,618	2,884,444
Private Gifts, Grants & Contracts	11,588,561	12,633,977	15,194,714	16,134,460
Investment Income	346,804	806,577	920,945	1,670,339
Sales & Services of Auxiliary Enterprises	34,723,495	38,988,759	41,528,460	45,237,600
Patient Revenues	206,789,575	231,295,395	232,610,067	239,505,184
Other Sources	1,499,597	787,510	574,385	946,109
Total Revenues	**384,833,263**	**424,607,906**	**460,601,010**	**466,001,943**
Less Patient Revenues and Independent Operations	**206,789,575**	**231,295,395**	**232,610,067**	**239,505,184**
Education and General Revenues	**178,043,688**	**193,312,511**	**227,990,943**	**226,496,759**
Expenditures and Mandatory Transfers				
Education and General:				
Instruction	69,391,590	69,557,479	94,668,196	86,025,280
Research	33,735,852	33,911,556	39,428,482	43,560,535
Public Service	4,018,221	4,543,717	13,770,343	1,039,211
Academic Support	9,330,575	8,820,564	12,143,899	9,906,838
Student Services	1,011,526	939,316	881,894	682,041
Institutional Support	43,378,243	45,088,786	30,759,133	38,384,165
Operation and Maintenance of Plant	9,220,305	9,651,457	14,338,898	12,806,379
Scholarships & Fellowships	1,366,437	1,306,684	1,141,689	1,192,769
Educational and General Expenditures	171,452,749	173,819,559	207,132,534	193,597,218
Mandatory Transfers For:				
Principal and Interest	378,425	547,636	353,913	356,298
Total Education and General	171,831,174	174,367,195	207,486,447	193,953,516
Other Expenditures - Patient Care	222,716,635	250,998,301	255,134,816	281,597,322
Total Expenditures and Mandatory Transfers	**394,547,809**	**425,365,496**	**462,621,263**	**475,550,838**
Other Transfers and Additions (Deductions)				
Excess of restricted Receipts Over Transfers to Revenues	2,058,231	1,330,121	1,409,836	3,305,709
Excess of Employee Advances Over Payments				
Refunded to Grantors	(191,046)	(231,844)	(268,716)	(300,072)
Subsidy Transfer				
Interest Transfer				
Research Project Award				
Grant Funding Transfer				
Administrative Programs				
Non-Mandatory Transfers		(447,438)	(590,963)	(302,087)
State Transfer				
Loan Transfer				
Student Activities Fund Transfer				
Total Other Transfer Additions (Deductions)	1,867,185	650,839	550,157	2,703,550
Net Increase (Decrease) in Fund Balance	**$ (7,847,361)**	**$ (106,751)**	**$ (1,470,096)**	**$ (6,845,345)**

FY 2002 Explanatory Note

The Governmental Accounting Standards Board (GASB) has significantly changed the financial reporting format and underlying concepts for reporting with the issuance of Statements 34 and 35. With these changes the *Statement of Revenues, Expenses, and Changes in Net Assets* replaces the *Statement of Changes in Fund Balances* and the *Statement of Current Funds Revenues, Expenditures and Other Changes in Fund Balances*. In the first year of adoption of the new GASB reporting standards the GASB does not require restatement of prior periods and therefore the schedule above is not restated for FY 1998 – FY 2001. The new reporting format changes this statement significantly and the following provides an overview of some of the more significant changes and issues related to the new *Statement of Revenues, Expenses, and Changes in Net Assets* which is shown below.

- This statement differentiates between operating and nonoperating revenues and expenses, and displays the net income or loss from operations. A section that includes capital addition and deductions describes revenue and expenses related to capital items. The change or increase/decrease in net assets is the final section of this statement.

- Intra-agency transactions are eliminated. Fund additions/deductions, not considered revenues or expenses and transfers between funds are not included in the statement.

- Tuition and fee revenues are reduced by scholarship amounts that already have been recognized as revenues. This change results in most student aid expense being eliminated.

- Revenues and expenses for summer sessions were allocated between years based on when the revenue is earned; expenses were matched with the revenue. This change is reflected in a restatement to beginning Net Assets.

- Two options are available for presenting expenses: natural classification (e.g., salaries and fringe benefits, scholarships and fellowships, utilities, supplies and other services, and depreciation) or functional expense classifications (e.g. instruction, research, and public service). The University has used functional expense in the face of the statement.

- Expenditures for capital assets do not show in this statement. Depreciation expense is recorded in the statement.

- Nonoperating revenues and expenses include appropriations, gifts, investment income, and interest expense. An operating loss will always result from this change since state appropriations are mandated as nonoperating.
- All investment income, as well as realized gains and losses, are reported as part of the investment income line in the nonoperating section of the statement.

UNIVERSITY OF CONNECTICUT HEALTH CENTER
Statement of Revenue, Expenses, and Changes in Net Assets
for the Year Ended June 30, 2002

	Primary Institution	John Dempsey Hospital
REVENUES		
Operating Revenues		
Student tuition and fees (net of scholarship allowances of $1,085,674)	$ 6,955,067	$
Patient Services (net of charity care of $108,502)	142,344,535	144,876,889
Federal grants and contracts	43,780,059	
State and local grants and contracts	398,532	
Non-governmental grants and contracts	19,386,097	
Auxiliary expenses:		
Bookstore	826,018	
Contract and other operating revenues	41,394,499	2,534,136
Total operating revenues	255,084,807	147,411,025
EXPENSES		
Operational Expenses		
Educational and General		
Instruction	96,621,606	
Research	43,732,174	
Patient services	162,871,054	141,310,076
Academic support	14,161,084	
Student services	45,241	
Institutional support	34,070,524	
Operations and maintenance of plant	14,461,468	
Depreciation	13,298,407	5,095,426
Loss on disposal	497,497	218,138
Student aid	189,326	
Auxiliary enterprises:		
Residential life	180,222	
Bookstore	851,346	
Other expenditures		
Total operating expenses	380,979,949	146,623,640
Operating income (loss)	(125,895,142)	787,385
NONOPERATING REVENUES (EXPENSES)		
State appropriations	115,696,025	
Gifts	506,526	
Interest income (net of investment expense of $68,315 for the primary institution)	1,417,910	418,800
Interest on capital asset – related debt	(124,658)	(117,869)
Other nonoperating revenues		
Net nonoperating revenues	$ 117,495,803	$ 300,931
Income before other revenues, expenses, gains or losses	(8,399,339)	1,088,316
Capital appropriations	16,384,954	
Total other revenues	16,384,954	
Increase in net assets	7,985,615	1,088,316
NET ASSETS		
Net assets-beginning of year	164,662,434	50,925,942
Cumulative effect of change in accounting principle	(9,296,531)	
Net assets-beginning of year as restated	155,365,903	
Net assets-end of year	$ 163,351,518	$ 52,014,258

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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

The Board of Trustees of the
University of Connecticut

We have audited the accompanying statement of net assets of the University of Connecticut (University) as of June 30, 2002, and the related statement of revenues, expenses and changes in net assets and statement of cash flows for the year then ended. The University is a component unit of the University of Connecticut system, which includes the University of Connecticut, the University of Connecticut Health Center, the University of Connecticut Foundation, Inc. and the University of Connecticut Law School Foundation, Inc. These financial statements are the responsibility of the University'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2002, and the changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in note 1, the University has implemented a new financial reporting model to comply with Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis – for Public Colleges and Universities, an amendment to Statement No. 34, Basic Financial Statements – Management's and Discussion and Analysis – for State and Local Governments, as well as Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus, and Statement No. 38, Certain Financial Statement Note Disclosures.

The Management Discussion and Analysis on pages 4 through 11 is a not 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 principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sincerely,

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

February 6, 2003
State Capitol
Hartford, Connecticut

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MANAGEMENT'S DISCUSSION & ANALYSIS

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Management's Discussion and Analysis

Introduction
The University of Connecticut (University) has adopted Governmental Accounting Standards Board (GASB) Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities, an amendment to Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures, effective July 1, 2001. The adoption of these standards resulted in the conversion from fund accounting statements to statements presented in a single-column format that enhance the usefulness and comprehension of financial reports by external users. The multi-column format is no longer required and "Fund Balance" is replaced by "Net Assets." Statements No. 34 and 35 also add Management's Discussion and Analysis and a Cash Flow Statement.

The following elements are included with these general-purpose financial statements, as required by the new standards:

- Management's Discussion and Analysis
- Basic financial statements which include a Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows
- Notes to the financial statements

The following *Management's Discussion and Analysis* (MD&A) is required supplemental information. Its purpose is to provide users of the basic financial statements with a narrative introduction, overview, and analysis of those statements. It is designed to assist readers in understanding the accompanying financial statements required by new standards of the GASB adopted by the University this year. This discussion, which is unaudited, includes an analysis of the financial condition and results of activities of the University for the fiscal year ended June 30, 2002 based on currently known facts, decisions, or conditions. In the first year of adoption of the new reporting standards, public institutions are not required to restate prior periods for providing comparative data for the MD&A. However, information explaining the changes between fiscal 2002 and 2001 has been provided for key financial statement elements. In future years a comparative analysis will be presented in the MD&A. As the MD&A presentation includes highly summarized information, it should be read in conjunction with the accompanying financial statements and related notes to the financial statements. The financial statements, notes to the financial statements, and this MD&A are the responsibility of management.

The University is a component unit of the University of Connecticut system, which includes the University, the University of Connecticut Health Center, the University of Connecticut Foundation, Inc. (Foundation), and the University of Connecticut Law School Foundation, Inc. The financial statements represent the transactions and balances of the University only. The University offers undergraduate and graduate degrees and does research at several locations in the state. The Foundation raises funds to promote, encourage, and assist education and research at the University and the University Health Center. The Foundation operates exclusively for charitable and educational purposes to promote and assist the University of Connecticut System. It solicits and accepts donations of properties, monies, and securities and invests and administers these gifts. The Foundation's financial statements are not part of the University's financial statements.

Financial Highlights and Economic Outlook
The University submits separate biennial operating and capital budgets to the Governor and General Assembly through the Board of Governors for Higher Education. The General Assembly appropriates and allocates funds directly to the University. The University's spending plan reflects a balanced budget. With certain exceptions for fiscal year 2003, the Governor may reduce State agency allotments by not more than 5% unless approved by the Appropriations Committee of the General Assembly.

The newly formatted financial statements contained herein show an operating loss of $279.8 million for the year ending June 30, 2002 (fiscal year 2002). The measure more indicative of normal and recurring activities is net income before capital addition (deductions), which includes revenue from state appropriations. The University experienced a loss before capital additions (deductions) of $9.3 million. Contributing to this loss were the state reductions and rescissions of $5.4 million in fiscal year 2002 and a $5.9 million reduction in investment income, due to short-term rate reductions concurrent with multiple rate adjustments by the Federal Reserve Board and market declines. Also, the Statement of Revenue, Expenses, and Changes in Net Assets includes depreciation expense of $50.6 million not previously included in the old Statement of Current Fund Revenues, Expenditures, and Other Changes in Fund Balances.

Sources of recurring operating and nonoperating revenues were strong in 2002 and most are expected to remain strong in 2003, including tuition and fees revenue, grants and contracts revenue, sales and services of educational departments, net sales and services of auxiliary enterprises, and state debt service commitment for interest. In fiscal year 2002, undergraduate enrollment at the University increased to 17,630 students, a 5.7% increase over the prior year and when combined with a tuition and fee increase of 3.98%, resulted in an increase in tuition and fee revenue, before scholarship allowance, of 10.7%. A record undergraduate enrollment was reached in the fall of 2002 with 18,662 undergraduate students, enabling the University to reach its total enrollment goal of approximately 25,000 students three years ahead of schedule. Investment income experienced a significant decline, as discussed above. State support increased 8.8% from the prior year, even with reductions in allotments explained above.

From a fiscal perspective, the most significant economic factor for the foreseeable future is the impact of the state's current difficult financial status. State appropriations are likely to be further reduced from the previously approved biennial budgets as the state faces significant budget deficits in fiscal years 2003 and 2004. The situation is extremely difficult and prospects for an early turnaround in the state's economy do not appear bright. The impact on the University's operating budget, both in fiscal year 2003 and in the upcoming biennium will be significant. Fiscal year 2003 opened with a $13.8 million reduction from the previously approved state appropriation. The state budget's constraints likely mean that the share of state support for the University will continue to decline.

The realities of the state's budget environment mean that the University's other significant income streams will continue to play an increasingly important role in the financial health of the University. These sources include private support through the Foundation (also suffering from the effects of the troubled national financial markets), research funding (increasing University-wide), tuition and fees, and room and board fees.

The University has established a planning process designed to address the impact of reduced appropriations. Operating expenses, including staffing, will likely be reduced to achieve a balanced budget. Other considerations include enrollment targets, enhanced productivity and class coverage, and tuition and fee increases.

Even with the state's current budget issues, in July 2002 the Governor signed into law "21st Century UConn" a $1.3 billion, 11-year initiative that expands and builds on the success of UCONN 2000 (see Note 4). 21st Century UConn provides $1 billion for facilities improvements at Storrs, the regional campuses, and the School of Law, and $300 million for improvements at the University of Connecticut Health Center (not part of the accompanying financial statements) in support of the medical and dental education programs and research.

Given the tremendous impact of UCONN 2000 in the past seven years, this new state commitment provides one of the most far-reaching transformations in American public higher education. The physical impact on the statewide campus is evident, and it has been accompanied by enhanced excellence in our research, teaching, and student life programs. Even after completion of UCONN 2000, a significant number of existing classrooms, residence halls, research and recreational facilities will still require attention. This new commitment, in light of the state's budget deficit, provides long-term funds for capital enhancement and preservation.

Changes to the Financial Statements

The University's adoption of the new GASB reporting model is a significant change from prior reporting. The financial statements differ significantly in form (single column versus multiple fund columns), content, and accounting principles utilized from financial statements presented in prior years. The prior year financial statements focused on the accountability for funds, whereas this year's statements focus on the financial condition, results of operations, and cash flows of the University, more similar to corporate financial statements. The three new basic financial statements are the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. These statements are summarized and analyzed in the sections that follow. Other significant changes to financial reporting include the following:

- The unrestricted net assets category on the Statement of Net Assets is defined by GASB to include funds not restricted by third-parties, including all unrestricted funds formerly included in the balances of unrestricted current funds, retirement of indebtedness funds, and plant funds. Unrestricted net assets consist of various designated and committed funds. GASB prohibits a breakout of designated unrestricted funds on the face of the Statement of Net Assets.

- Revenues and expenses are now classified as operating, nonoperating, or capital additions (deductions) according to definitions prescribed by GASB. Significant recurring sources of nonoperating revenue utilized in balancing the operating budget each year include state appropriations for general operations and the state debt service commitment for interest, noncapital gifts, and short-term investment income. By its very nature, a state funded institution does not receive tuition and fee and room and board revenue sufficient to support the operations of the University. Therefore, these nonoperating revenues are essential to the programs and services provided by the University. Under the new reporting principles, unless a significant increase in tuition and fees and room and board revenues occurs, the University will always show a loss from operations. Other changes in revenue and expenses include:

    - Certain restricted research grants that are now recorded as deferred revenue were previously recorded as fund additions.

    - Tuition and fees and sales of services of auxiliary enterprises are required to be reported net of scholarship allowances (these allowances were previously recorded as financial aid and other expenditures in the old reporting format), including student aid funded by approximately $5 million of gifts now reported as nonoperating revenue.

    - Governmental advances for revolving loan programs that would be returned to the federal government upon cessation of the student loan program are recorded as a liability, but previously were included in loan funds as assets with no offsetting liability.

    - Even though the University has recorded depreciation on most of its capital assets since fiscal year 1998, library books were depreciated for the first time in fiscal 2002.

    - Certain revenues and expenses associated with summer sessions that were reported in the subsequent reporting period have been recorded when the revenues are earned and expenses incurred.

    - All significant interdepartmental transactions previously recorded both as revenues and expenditures have been eliminated.

- With the elimination of the Statement of Changes in Fund Balances, expenditures for capital assets are not reported in the results of operations. In the new financial statements, depreciation expense is now shown as an operating expense and property and equipment expenditures are recorded as additions to assets in the Statement of Net Assets. Mandatory transfers for debt service, which were reported in the Statement of Changes in Fund Balance, are not reported in the Statement of Revenues, Expenses, and Changes in Net Assets. Only interest expense is recorded, as a nonoperating expense.

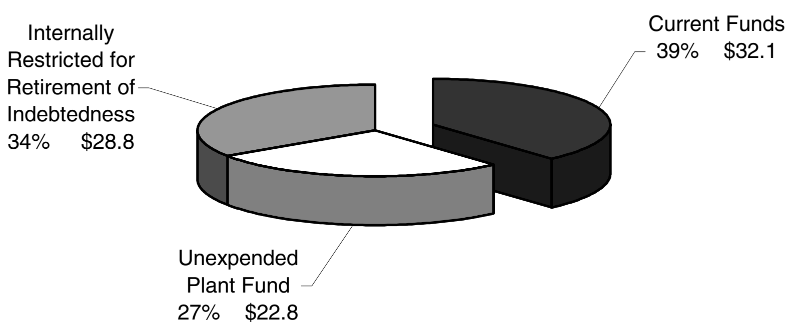
Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year, June 30. The Statement of Net Assets is a point of time financial statement – a snapshot – and a measure of the financial condition of the University. This statement presents end-of-year data concerning assets, classified as current (those available for use within one year) and noncurrent (those available beyond one year) and liabilities, categorized as current (liabilities maturing and due within one year) and noncurrent (maturing and due after one year), and net assets that represent the difference between total assets and total liabilities. Assets are what is owned by or what is owed to the University. Assets also include payments made to others before a service was received. Assets are recorded at their current value, except for property and equipment that is recorded net of accumulated depreciation. Liabilities represent what is owed to others or what has been received from others prior to the University service being provided. Current assets less current liabilities represents working capital.

Readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the University. The net asset value of the University is the residual interest or equity in the University's assets after liabilities are deducted. Readers are also able to determine how much the University owes vendors, investors, and lending institutions.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the University's equity in property and equipment. The category, restricted net assets, is divided into two categories, nonexpendable and expendable. The corpus of restricted nonexpendable resources is only available for investment purposes and in the University's Statement of Net Assets this amount represents endowment assets. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the University for any lawful purpose of the institution. The University has internally designated $28.8 million of its total $83.7 million in unrestricted assets for use in retirement of indebtedness and $22.8 million relates to unexpended plant assets. The pie chart below illustrates the components of unrestricted net assets:

UNRESTRICTED NET ASSETS ($ in millions)
TOTAL: $83.7



The total assets of the University increased by $263.1 million over the prior year, after restatement for changes resulting from the adoption of the new accounting principles. The increase was primarily due to $133.4 million of additions to property and equipment, net of accumulated depreciation, an increase of unexpended plant assets including bond proceeds totaling $61.5 million, and a $69.1 million net increase in the state debt service commitment.

The total liabilities for the year increased by $149.8 million, after restatement, primarily due to newly acquired debt through the sale of general obligation bonds totaling $100 million and special revenue bonds totaling $75.4 million, and the reduction of prior year debt through payment of principal on existing bonds and loans of $37 million. The combination of the increase in total assets of $263.1 and total liabilities of $149.8 million yields an increase in total net assets of $113.3 million.

Statement of Revenues, Expenses, and Changes in Net Assets

While the Statement of Net Assets presents the financial condition at a point in time, the Statement of Revenues, Expenses, and Changes in Net Assets represents the activity for a period of time – one year. This statement presents either an increase or decrease to net assets, based on the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the University.

Generally, operating revenues are earned when providing goods and services to the various customers of the University. Operating expenses are incurred in the normal operation of the University and represent those expenses paid to acquire or produce the goods and services provided in return for the operating revenues. Operating expenses also include the provision for estimated depreciation of property and equipment. The difference between operating revenues and operating expenses is the operating income or loss. As a state funded agency, the University is expected to experience an operating loss each year.

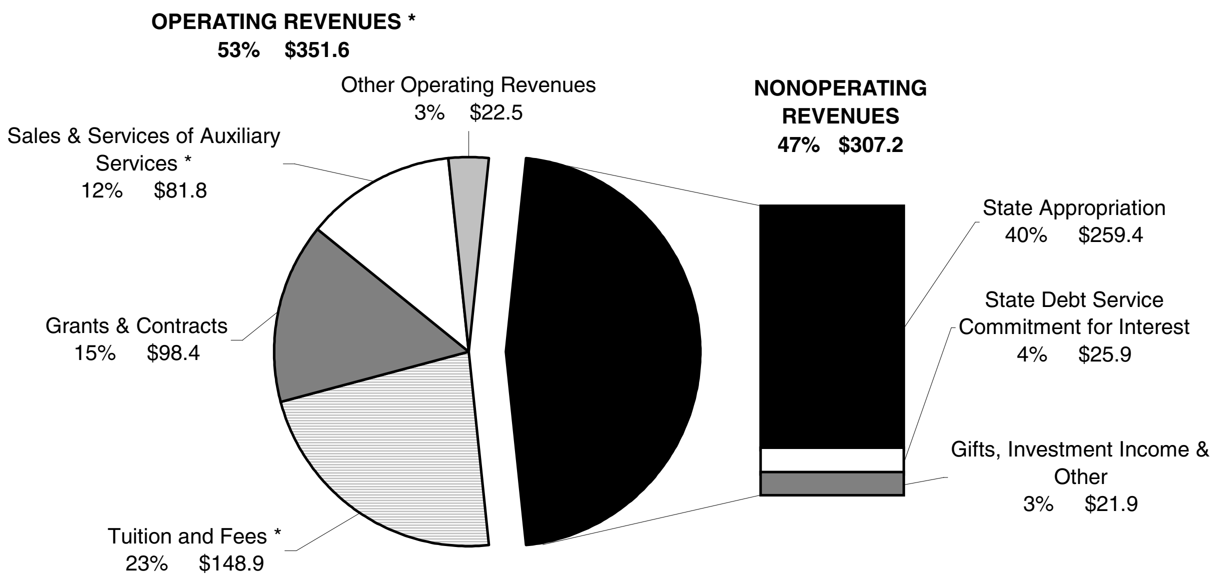
Nonoperating revenues are revenues received for which goods and services are not provided, including state appropriations and state debt service commitment for interest. Such revenues are provided by the state to the

University without the state directly receiving commensurate goods and services for those revenues. Nonoperating revenues (expenses) also include noncapital gifts, investment income, and interest expense.

Capital additions (deductions) are comprised of the state's debt service commitment for principal payments on general obligation bonds used for capital purposes, capital grants and gifts, the disposal of property and equipment, and other capital related items. The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the year of $113.3 million.

Revenues
Revenues, excluding capital additions, came from a variety of sources and are illustrated in the following graph:

REVENUES ($ in Millions)
Total: $658.8



* Shown here at gross amounts, not netted for student financial aid.

Revenue highlights for the year ending June 30, 2002, including operating and nonoperating revenues and capital additions, presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- Student tuition and fees, net of scholarship allowances, increased approximately 9% (10.7% before scholarship allowance) over the prior year due, in part, to a 5.7% increase in undergraduate enrollment and an increase of 3.98% for tuition and fees charged to undergraduate students.

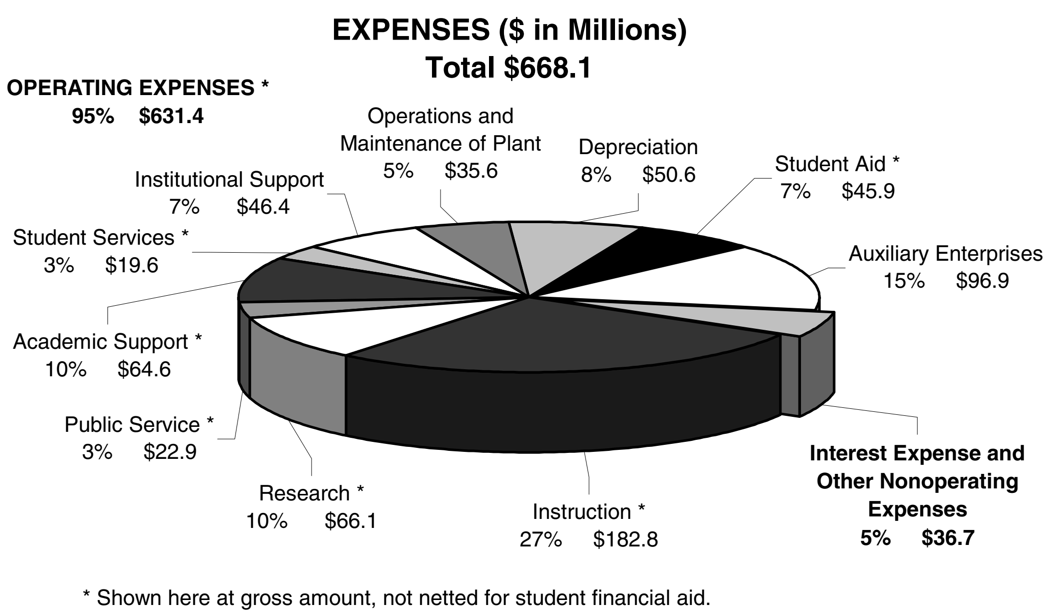
- Revenues associated with residential life, net of scholarship allowances, included in the sales and services of auxiliary enterprises category, increased approximately 14% during the year. This increase is consistent with the increase in available on-campus housing and the number of students living on campus. Room fee-paying students and board fee-paying students increased 13.6% and 2.8% respectively in 2002, and fees charged for both room and board increased approximately 3.9% over 2001.

- The largest source of revenue was the state appropriation, which is included in nonoperating revenues, including fringe benefits, which totaled $259.4 million. This represents an 8.8% increase over the prior year of $21.1 million, even after state reductions and rescissions of $5.4 million. The state also provides state debt service commitment for the interest payments made annually on general obligation bonds. State debt commitment for interest revenue totaling $25.9 million is included in nonoperating revenues and effectively offsets a significant portion of interest expense that totaled $34.0 million in fiscal year 2002. Also, as general obligation bonds are issued (see Note 4) the state commits to the repayment of the future principal amounts and a receivable is recorded on the Statement of Changes in Net Assets to reflect this commitment, resulting in revenue that totaled $100 million in fiscal year 2002.

- Gift revenue, both capital and noncapital, is derived from gifts made directly to the University and from the Foundation. These spendable funds are provided to the University for educational, cultural, recreational, research activities, and facilities. The Foundation operates exclusively to assist the University of Connecticut System. The Foundation disburses funds to the University as requests are made, provided the request is in accordance with donor restrictions, if any. These gifts totaled approximately $16 million in fiscal year 2002. The Foundation also paid approximately $3.7 million to third parties on behalf of the University. This amount is not reflected in the University's financial statements. The University receives gifts directly, including philanthropic research grants. Total capital and noncapital gift revenue to the University from all sources amounted to $28.5 million in fiscal year 2002.

- Capital other, included in the capital additions (deductions) section, includes $25.3 million of insurance proceeds from a performance bond related to a significant construction project at the University. This amount is recorded net of a $10.3 million reduction in property and equipment recorded due to impairment in the related construction project asset. See Note 4 for further discussion of the treatment of these proceeds. The remaining amount of capital other related to expenses incurred in fiscal year 2002 for capital activities of the University.

Expenses
Operating Expenses totaled $583.8 million in fiscal year 2002 (netted for scholarship aid totaling $47.6 million). Operating expenses are classified by function. Note 14 to the financial statements details operating expenses by natural classification. The pie chart below illustrates operating expenses by function, including interest expense and student aid. The latter has a significant portion reflected on the Statement of Revenues, Expenses, and Changes in Net Assets as an allowance against tuition and fees revenue and sales and services of auxiliary enterprises:



Highlights of expenses including operating and nonoperating expenses and capital deductions presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

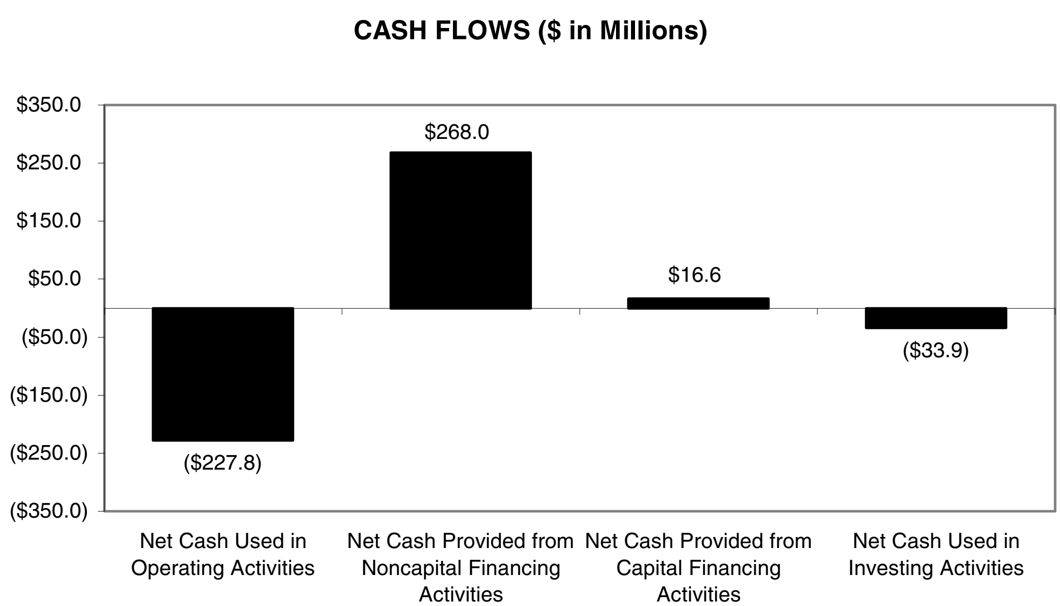
- Instruction, the University's largest operating expense, increased approximately 8.3% or $14 million. The increase reflects an average pay raise for faculty of the University of 5.2% with the associated fringe benefits and an increase of 9 full-time faculty positions.

- During fiscal year 2002, the seventh year of UCONN 2000 (see Note 4) the University recorded additions of close to $184 million in property and equipment. These significant additions contributed to a 21.7% increase in depreciation expense over 2001, totaling $9 million.

- Interest expense, net of the state debt service commitment for interest, increased 7.9%, which is consistent with additional borrowings explained above in the *Statement of Net Assets* section.

Statement of Cash Flows
The Statement of Cash Flows presents detailed information about the cash activity of the University during the year. The first section of this statement, cash flows from operating activities, will always be different from the Statement of Revenues, Expenses, and Changes in Net Assets' operating loss amount. The difference results from noncash items such as depreciation expense and the use of the accrual basis of accounting in preparation of the Statement of Revenues, Expenses, and Changes in Net Assets. That Statement shows revenues and expenses when incurred, not necessarily when cash is received or used, as is the case for the Statement of Cash Flows. The statement has four additional sections including: cash flows from noncapital financing activities including state appropriations, gifts and other nonoperating revenue and expenses; cash flows from capital financing activities that reflects the cash received and used by the University for financing, principally capital in nature, capital grants and gifts, and state debt service commitments for principal and interest; cash flows from investing activities showing the purchases, proceeds and interest received from investing activities; and a reconciliation of operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets to net cash used in operating activities.

The following bar graph shows the cash flows from and used by major categories described in the preceding paragraph:



Net cash used in operating activities was $227.8 million and is consistent with the operating loss discussed earlier. GASB requires that cash flows from noncapital financing activities include state appropriations and noncapital gifts. Cash flows from these activities totaled $268 million. Cash flows from capital financing activities was a positive $16.6 million. It included cash used to purchase property and equipment totaling $170.3 million and $70.6 million of principal and interest paid on debt. Cash provided from these financing activities included proceeds from bonds of $175.4 million and the state debt service commitment paid for principal and interest on general obligation bonds totaling $57.4 million. Cash of $33.9 million was used in investing activities, primarily because of transfers of $40.4 million to the bond trustee as required by bond indenture agreements, and interest income received on investments of $6 million. Total cash and cash equivalents increased $23 million as a result of these activities.

Capital and Debt Activities

During fiscal year 2002, the University recorded additions to property and equipment totaling $184 million, of which $140.4 million related to buildings and construction in progress. This unprecedented growth of the University's property and equipment is a direct result of the UCONN 2000 program that runs through fiscal year 2005. As discussed in the *Financial Highlights and Economic Outlook* section above, the Governor signed into law 21st Century UConn, an 11-year initiative that expands and builds on the success of UCONN 2000 and provides $1 billion for facilities improvements at the University. In 2002, the University received bond proceeds of $100 million from the sale of general obligation bonds. The state has made a commitment to fund the University for all principal and interest payments due on both the UCONN 2000 and the future 21st Century UConn general obligation debt.

During fiscal year 2002, the University issued $75.4 million of the Student Fee Revenue Bond 2002 Series A to fund five UCONN 2000 projects including: Alumni Quadrant Renovations, Shippee/Buckley Renovations, East Campus North Renovations, Towers Renovations (including Greek Housing), and North Campus Renovations. The bonds have a final maturity of May 15, 2030 and various revenue sources are pledged toward this obligation.

On February 27, 2002, the 2000 Series A bonds dated May 15, 2000 were refunded in advance of maturity with the issuance of Student Fee Revenue Bonds 2002 Refunding Series A in the amount of $96.1 million. The refunding bonds have a final maturity of November 15, 2029. Proceeds from the refunding bonds totaled $96.8 million. The present value savings realized by the University on the refunding was approximately $2.4 million, enabled by the current low tax-exempt interest rate environment.

See Notes 3 to 6 to of the Financial Statements for further information on capital and debt activities.

FINANCIAL STATEMENTS

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UNIVERSITY OF CONNECTICUT
STATEMENT OF NET ASSETS
As of June 30, 2002

ASSETS	
Current Assets	
Cash and cash equivalents	$ 124,212,445
Accounts receivable	41,061,276
Student loans receivable, net	1,968,986
Due from State of Connecticut	44,688,601
Due from related agencies	1,660
State debt service commitment	44,918,611
Inventories	2,088,378
Deposit with bond trustee	156,361,821
Deferred charges	794,651
Other assets	42,457
Total Current Assets	416,138,886
Noncurrent Assets	
Cash and cash equivalents	1,457,356
Investments	6,969,192
Student loans receivable, net	9,793,256
State debt service commitment	572,987,146
Property and equipment, net of accumulated depreciation	1,178,649,007
Deferred charges	10,335,635
Total Noncurrent Assets	1,780,191,592
Total Assets	$ 2,196,330,478
LIABILITIES	
Current Liabilities	
Accounts payable and accrued liabilities	$ 38,474,733
Deferred income	22,917,215
Wages payable	26,679,045
Compensated absences	13,664,623
Due to the State of Connecticut	7,420,575
Due to related agencies	9,225
Current portion of long-term debt and bonds payable	44,305,913
Other current liabilities	8,843,129
Total Current Liabilities	162,314,458
Noncurrent Liabilities	
Compensated absences	5,159,200
Deposits held for others	2,530,028
Long-term debt and bonds payable	788,000,301
Refundable for federal loan program	9,603,294
Total Noncurrent Liabilities	805,292,823
Total Liabilities	$ 967,607,281
NET ASSETS	
Invested in capital assets, net of related debt	$ 1,020,536,235
Restricted nonexpendable	6,674,263
Restricted expendable	
Research, instruction, scholarships and other	12,907,097
Loans	3,044,756
Capital projects	89,436,633
Debt service	12,457,244
Unrestricted (See Note 15)	83,666,969
Total Net Assets	$ 1,228,723,197

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

UNIVERSITY OF CONNECTICUT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2002

OPERATING REVENUES	
Student tuition and fees (net of scholarship allowances of $46,734,320. Revenues totaling approximately $19,978,000 are used as security for revenue bonds. See Note 4)	$ 102,200,333
Federal grants & contracts	67,753,605
State and local grants & contracts	17,859,232
Nongovernmental grants & contracts	12,760,474
Sales & services of educational departments	12,020,682
Sales & services of auxiliary enterprises (net of scholarship allowance of $ 824,538. Revenues totaling approximately $9,522,000 are used as security for revenue bonds. See Note 4)	81,002,139
Other sources (Revenues totaling approximately $2,066,000 are used as security for revenue bonds. See Note 4)	10,442,761
Total Operating Revenues	304,039,226
OPERATING EXPENSES	
Educational and general	
Instruction	182,182,600
Research	65,421,675
Public service	22,722,484
Academic support	64,337,083
Student services	19,406,736
Institutional support	46,376,708
Operations and maintenance of plant	35,543,569
Depreciation	50,624,858
Student aid	313,276
Auxiliary enterprises	96,882,863
Total Operating Expenses	583,811,852
Operating Loss	(279,772,626)
NONOPERATING REVENUES (EXPENSES)	
State appropriation	259,447,742
State debt service commitment for interest	25,907,563
Gifts	16,202,233
Investment income (Income totaling approximately $1,077,000 are used as security for revenue bonds. See Note 4)	5,572,628
Interest expense	(33,955,787)
Other nonoperating revenues (expense), net	(2,715,738)
Net Nonoperating Revenues	270,458,641
Loss Before Capital Additions (Deductions)	(9,313,985)
CAPITAL ADDITIONS (DEDUCTIONS)	
State debt service commitment for principal	100,000,000
Capital grants and gifts	12,316,127
Disposal of property and equipment, net	(3,102,251)
Capital other	13,357,569
Total Capital Additions (Deductions)	122,571,445
Increase in Net Assets	113,257,460
NET ASSETS	
Net Assets-beginning of year	1,203,523,254
Cumulative effects of changes in accounting principle	(88,057,517)
Net Assets-beginning of year, as adjusted	1,115,465,737
Net Assets-end of year	$ 1,228,723,197

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

UNIVERSITY OF CONNECTICUT
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 104,725,776
Research grants and contracts	93,336,670
Payments to suppliers	(127,059,963)
Payments to employees	(315,716,189)
Payments for benefits	(91,379,591)
Loans issued to students and employees	(1,851,167)
Collection of loans to students and employees	2,018,806
Auxiliary enterprise charges	82,944,867
Sales and services of educational departments	11,839,919
Other receipts (payments)	13,368,000
Net Cash used in Operating Activities	(227,772,872)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	258,485,108
Gifts	16,771,387
Other nonoperating revenue (expense)	(7,216,318)
Net Cash Provided from Noncapital Financing Activities	268,040,177
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Proceeds from bonds	175,430,000
State debt service commitment	57,447,563
Purchases of property and equipment	(170,279,419)
Principal paid on debt and bonds payable	(37,051,423)
Interest paid on debt and bonds payable	(33,542,921)
Capital grants and gifts	11,920,339
Capital other	12,720,811
Net Cash Provided from Capital Financing Activities	16,644,950
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from investments, net	499,383
Interest on investments	6,022,604
Deposits with bond trustee	(40,397,631)
Net Cash Used in Investing Activities	(33,875,644)
INCREASE IN CASH AND CASH EQUIVALENTS	23,036,611
BEGINNING CASH AND CASH EQUIVALENTS	102,633,190
ENDING CASH AND CASH EQUIVALENTS	$ 125,669,801

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating Loss	$ (279,772,626)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:	
Depreciation expense	50,624,858
Changes in Assets and Liabilities:	
Receivables, net	(2,167,654)
Inventories	44,222
Other assets	1,664
Accounts payable	31,308
Deferred revenue	3,557,713
Deferred charges	264,968
Deposits	670,044
Due from state	(1,418,650)
Due from related agencies	260,737
Other liabilities	(37,095)
Loans to students and employees	167,639
Net Cash Provided (Used) in Operating Activities	$ (227,772,872)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS	
Cash and cash equivalents classified as current assets	$ 124,212,445
Cash and cash equivalents classified as noncurrent assets	1,457,356
	$ 125,669,801

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

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NOTES TO FINANCIAL STATEMENTS

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University of Connecticut
Notes to Financial Statements June 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related Entities
The University of Connecticut (University) is a component unit of the University of Connecticut system, which includes the University, the University of Connecticut Health Center, the University of Connecticut Foundation, Inc., and the University of Connecticut Law School Foundation, Inc. The financial statements represent the transactions and balances of the University only. The University offers undergraduate and graduate degrees and does research at several locations in the State of Connecticut. The University of Connecticut Health Center offers medical and dentistry degrees and operates a teaching and research hospital. The University of Connecticut Foundation, Inc. and The University of Connecticut Law School Foundation, Inc. raise funds to promote, encourage, and assist education and research at the University, the University Health Center, and the Law School.

New Accounting Standards and Financial Statement Presentation
In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, followed by Statement No. 35 in November 1999. Both statements became effective at the beginning of fiscal 2002. These statements provide accounting and financial reporting guidelines and enhance the usefulness and comprehension of financial reports by external users. Statements No. 34 and 35 change the financial statement format, eliminating multiple column fund reporting, and adding Management's Discussion and Analysis and a cash flow statement.

The University has adopted GASB Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities, an amendment to Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as well as Statement No. 37, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus, and Statement No. 38, Certain Financial Statement Note Disclosures, effective July 1, 2001. These standards are collectively referred to hereafter as "GASB 35".

The following elements are included with these general-purpose financial statements, as required by GASB 35:

- Management's Discussion and Analysis (required supplemental information; detailed comparative information is not required in the first year of adoption of GASB 35).
- Basic financial statements which include a Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows
- Notes to the financial statements

The University follows the "business-type activities" (BTA) requirements of GASB 35. BTAs are defined as those that are financed in whole or in part by fees charged to external parties for goods or services.

The financial statements are presented in a single-column format. The multi-column format is no longer required. "Fund balance" is replaced by "net assets." The new standard for public colleges and universities is to classify resources into the following net asset categories:

- **Invested in capital assets, net of related debt**: Capital assets, net of accumulated depreciation, and reduced by outstanding principal balances of bonds (net of state debt service commitment) and notes that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted Nonexpendable:** Represents endowment and similar type assets in which donors or outside sources have stipulated as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may be expended or reinvested in principal.
- **Restricted Expendable:** Net assets that are expendable but where the University is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external third parties.
- **Unrestricted:** Consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." These assets are not subject to externally imposed stipulations. These assets, while not restricted, are generally designated to support instruction, research, auxiliary enterprises, capital projects, and retirement of indebtedness (See Note 15).

The net cumulative effect of the change in accounting principles resulting from the adoption of GASB 35 is described below. The effect of the changes is recorded as a restatement to beginning net assets on the Statement of Revenue, Expenses and Changes in Net Assets. In implementing GASB 35, the University has (1) reclassified governmental advances for revolving loan programs from fund balance to liabilities, (2) recorded depreciation on library books, the only category not depreciated since the University began depreciating capital assets in fiscal 1998 (see Note 3), (3) recorded the fair market value of certain historical collections not previously recognized, (4) recorded deferred revenue for certain research grants previously recorded as fund additions, and (5) recorded certain summer sessions when the revenues are earned and expenses incurred.

The following is a reconciliation of the June 30, 2001 fund balance previously reported to the restated net asset total:

Fund balance, June 30, 2001	$1,203,523,254
Reclassified loan program	(9,566,254)
Library book adjustment	(101,936,489)
Historical collections	31,068,901
Deferred revenue for grants	(9,352,336)
Summer session change	1,728,661
Net Assets, as restated, June 30, 2001	$1,115,465,737

Basis of Accounting
The financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with principles generally accepted in the United States of America and as prescribed by the GASB. For financial reporting purposes the University is considered a special-purpose governmental agency engaged in business-type activities. All significant intra-agency transactions have been eliminated.

The University has the option to apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless the FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts of the University are maintained internally in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accord with specified activities or objectives.

Cash Equivalents
For the purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested in the State of Connecticut Treasurer's Short Term Investment Fund are considered cash equivalents.

Investments
The University accounts for its investments at fair value in accordance with GASB Statement No. 3. Changes in unrealized gain (loss) on the carrying value are recorded with investment income in the accompanying Statement of Revenue, Expenses, and Changes in Net Assets. Noncurrent investments are externally restricted by donors, or outside sources, that have stipulated as a condition of the gift instrument that the principal be maintained inviolate and in perpetuity (see Note 2). Noncurrent investments also include amounts restricted by creditors for certain debt service payments (see Note 4).

Accounts Receivable
Accounts receivable consists of tuition, fees, and auxiliary enterprises service fees charged to students, faculty and staff, amounts due from state and federal governments for grants and contracts, and insurance proceeds (see Note 3). Accounts receivable are recorded net of an estimated allowance for uncollectible accounts.

Inventories
Consumable supplies are expensed when received with the exception of certain central inventories. Cost of inventory is determined by various methods, including the first-in, first-out method.

Deposit with Bond Trustee (See Note 4)
Tax-exempt bond proceeds are deposited to various accounts held by the Trustee Bank as required by certain trust indentures. The funds are invested and disbursed as directed by the University. The University's bond proceeds investment policy is to balance an appropriate risk-return level, heavily weighted towards safety of assets, as defined and permitted under the relative indentures and Connecticut General Statutes.

The University directs the Trustee Bank to invest UCONN 2000 construction fund proceeds in the State Treasurer's Short Term Investment Fund. Similarly, the University has directed the Trustee Bank to invest new proceeds from Special Obligation Bonds in dedicated Short Term Investment Fund accounts, with the exception of the 1998 Special Obligation Special Capital Reserve Fund which is invested in longer term federal agency fixed income Investment Obligations as defined in the Special Obligation Indenture of Trust. The Special Obligation Student Fee Revenue Refunding Series 2002-A proceeds, other than the cost of issuance and debt service accounts that are invested in the Short Term Investment Fund accounts, are held by the Trustee Bank in an irrevocable escrow fund and invested in U.S. Treasury, State, and Local Government Securities and cash in accordance with the Escrow Agreement.

Investment earnings from UCONN 2000 bond proceeds are retained by the State Treasurer's Office and do not flow to the University or to the Trustee Bank. The Student Fee Revenue Bonds investment earnings are part of the Pledged Revenues and are directly retained by the Trustee Bank to pay debt service on the bonds or other indenture permitted purposes. The investment earnings on the Special Obligation Student Fee Revenue Series 2002-A Escrow Account flow to the irrevocable escrow and are used by the Trustee Bank to meet debt service payments on the defeased bonds.

Deferred Charges – Current and Noncurrent

Current deferred charges consist of payments made in advance of a program's revenue being earned. Noncurrent deferred charges represent the cost of issuance and discounts on certain bond issues, which will be amortized over the terms of the respective bond issues.

Noncurrent Cash and Cash Equivalents

Noncurrent cash and cash equivalents are related to endowment assets and are externally restricted as to use.

Property and Equipment

Capital assets are reported at cost at date of acquisition or market value at date of donation, in the case of gifts. Renovations that significantly increase the value or useful life of an asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year the expenditure was incurred.

Building components and non-structural improvements have estimated useful lives from 2 years to 60 years. Equipment has estimated useful lives of 5 years to 30 years.

Deferred Income

Deferred income includes amounts received for services rendered in a future accounting period including tuition and fee revenues. It also includes amounts received for certain restricted research grants that are included in revenue when the funds are expended. See Note 11.

Compensated Absences

Employee vacation and sick leave is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as compensated absences in the Statement of Net Assets and in the various expense functions on the Statement of Revenues, Expenses, and Changes in Net Assets. The liability for compensated absences is also classified as current and noncurrent based on the amount estimated to be paid to employees in one year and beyond one year.

Noncurrent Liabilities

Noncurrent liabilities include the long-term portion of compensated absences, deposits held for others that are included in the assets of the University, principal payments due on bonds, loans and capital leases with a maturity of more than one year, and governmental advances for revolving loan programs that would be returned to the federal government upon cessation of the student loan program.

Scholarship Allowances

GASB 35 requires that revenues be reported net of discounts and allowances. As a result, certain amounts previously reported as student aid expenditures and included in other expense categories are reported as an allowance against tuition and fees revenue and sales and services of auxiliary enterprises revenue.

Revenues and Expenses

Operating revenues consist of tuition and fees, state and federal grants and contracts, sales and services of educational activities, auxiliary enterprise revenues and other sources of revenue. Operating expenses are reported using functional classification including those under educational and general and auxiliary enterprises. See Note 14 for operating expenses by object. All other revenues and expenses of the University are reported as nonoperating revenues and expenses including state appropriations and debt service commitment, noncapital gifts, investment income, interest expense, and capital additions and deductions. Revenues are recognized when earned and expenses are recognized when incurred.

GASB Statement No. 33, Accounting and Financial Reporting For Nonexchange Transactions, was released in December 1998 and adopted during fiscal 2001. Statement No. 33 describes in which fiscal year nonexchange transactions involving cash and other financial and capital resources should be recorded. Nonexchange transactions are those where a government, corporation or individual gives value to another party without receiving equal value in exchange, or receives value from another party without directly giving equal value in exchange. Statement No. 33 requires recipients of government-mandated and voluntary nonexchange transactions to recognize revenue when all applicable eligibility requirements are met for these transactions. Restricted grant revenue that does not meet the nonexchange transaction definition is recognized to the extent expended or in the case of fixed price contracts, when the contract terms are met or completed.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Statement No. 3 of the GASB requires governmental entities to categorize deposits and investments to give an indication of the level of credit risk assumed by the University at year-end. Category 1 includes investments that are insured or registered, or for which securities are held by the University or its agent in the name of the University. Category 2 includes uninsured and unregistered investments for which securities are held by the broker's or dealer's trust department or agent in the name of the University. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the University's name. Investments that are not evidenced by securities are not categorized.

The University's cash and cash equivalents, current and noncurrent balance as of June 30, 2002 was $125,669,801, and included $98,178,606 in cash balances maintained by the State of Connecticut Treasurer, $19,743,073 invested in the State of Connecticut Investment Pool, and $6,829,290 in short-term corporate notes. The remaining $918,832 consisted primarily of deposits with financial institutions and is considered uninsured and uncollateralized (category 3 investments).

Collateralized deposits are deposits protected by Connecticut statute. Under this statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal at least to a certain percentage of its public deposits. The applicable percentage is determined based on the bank's risk-based capital ratio - a measure of the bank's financial condition. The collateral is kept in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank. Portions of the bank balance of the State of Connecticut were insured by the Federal Deposit Insurance Corporation or collateralized. As a State agency, the University benefits from this protection, though the extent to which the deposits of an individual State agency such as the University are protected cannot be readily determined.

The University's cash management investment policy authorizes the University to invest in the State of Connecticut Treasurer's Short Term Investment Fund, United States Treasury bills, United States Treasury notes and bonds, United States Government Agency obligations, banker's acceptances, certificates of deposit (including EURO Dollars), commercial paper, money market funds, repurchase agreements, and savings accounts.

The University designated The University of Connecticut Foundation, Inc. (Foundation) as the manager of the University's endowment funds. The Foundation makes spending allocation distributions to the University for each participating endowment. The spending distribution is spent by the University in accordance with the respective purposes of the endowments and the policies and procedures of the University and in accordance with State of Connecticut statutes the University's governing board may appropriate for expenditure for the uses and purposes for which the endowment fund was established a portion of the realized or unrealized appreciation in the fair value of the endowment fund over the historic dollar value of the fund as is prudent.

The Foundation's pooled endowment portfolio is professionally managed on a total return basis. Each quarter, an amount equal to 5% of the prior twelve-quarter average market value will be distributed for spending in accordance with the respective purposes of the individual endowment funds. Spending distributions may be made from current or accumulated investment return, and calculations for individual endowment funds will be performed on a unitized basis. If an individual endowment fund does not have sufficient funds to support its computed spending allocation from current period net total return and/or from accumulated gains from prior period, the amount allocated for spending will be limited to the interest and dividends of the fund.

Effective July 1, 2000 University endowment investments managed by the Foundation were moved from Fleet Investment Services to the Foundation's pooled portfolio, which is actively managed by professional investment managers as determined by the Investment Committee of the Foundation's Board of Directors. The Foundation has established asset allocation guidelines for its pooled investment portfolio, which provides that the maximum exposure with any one manager would be 15%. The portfolio guidelines in effect through June 7, 2002 provided for a target asset class allocation as follows:

Asset Class	Percentage
Fixed Income	25% - 40%
Equities	60% - 75%

Effective on June 7, 2002 the Foundation Board of Directors adopted a new asset allocation policy for the long-term pooled investment portfolio. The Foundation expects that cash equivalents will be kept to a minimum level, and that portfolios will be invested in only the assets described below and not above or below the individual asset class percentage and its total percentage by group, unless otherwise specified by its Investment Committee.

Asset Class	Percentage
Fixed Income	
Fixed Income	15% - 30%
Treasury Inflation Protected Securities	0% - 10%
Total Fixed Income Class	20% - 40%
Equities	
U.S. Equities	25% - 50%
Non - U.S. Equities	10% - 25%
Total Equities Class	40% - 75%
Alternatives	
Hedge Funds	5% - 15%
Private Capital	0% - 15%
Real Estate	0% - 10%
Total Alternatives Class	5% - 35%

The University's investments, which are carried at fair value and classified as noncurrent assets, totaled $6,969,192 as of June 30, 2002 and included the following:

	Cost	Fair Value
Endowments:		
Foundation Managed		
(Category 1)	$4,362,835	$5,203,676
Corporate Bonds		
(Category 1)	13,000	12,230
Other:		
U.S. Government Agency Securities		
(see Note 4)		
(Category 1)	1,750,000	1,753,286
Total Investments	$6,125,835	$6,969,192

Certain funds are held by outside fiscal agents and are not under the direct control of the University. Accordingly, the assets of these funds are not included in the financial statements. The fair value amount of these funds at June 30, 2002 was $12,101,345. Investment income earned on these assets is transferred to the University in accordance with the applicable trust agreement. Income received from those sources for the year ended June 30, 2002 was $589,757.

3. PROPERTY AND EQUIPMENT

Land, buildings, non-structural improvements, and equipment (including library materials) are reported at cost at date of acquisition or market value at date of donation, in the case of gifts.

Beginning with fiscal year 2002, GASB Statements Nos. 34 and 35 require recognition of depreciation on buildings, non-structural improvements and equipment. The University has recorded depreciation expense since fiscal 1998 for all property and equipment with the exception of library materials, as allowed for by GASB Statement No. 8. Depreciation has been recorded on a straight-line basis over the estimated useful lives of the respective assets.

Building components and non-structural improvements have estimated useful lives from 2 years to 60 years. Equipment has estimated useful lives of 5 years to 30 years.

In fiscal 2002, the implementation of GASB 35 resulted in recording depreciation on library materials and recognizing certain historical collections at their estimated fair market values at the time of donation. The estimated useful life of library materials was determined to be fifteen years. To record the cumulative effect of prior year depreciation, library materials were written down to reflect fifteen years of library purchases. In subsequent years, depreciation will be recorded on a straight-line basis. The implementation of this accounting principal resulted in an adjustment to reduce library materials and the beginning of the year net asset balance by $101,936,489. The net book value of library materials is $53,411,936 at June 30, 2002 and is included in equipment in the following table of the changes in property and equipment.

Historical collections, not previously recorded in the financial records of the University, were recognized in fiscal year 2002 as non-depreciable capital assets. The valuation of this asset was derived based on a general appraisal of the collections. The value of the historical collections increased by $31,068,901 and is recorded as an adjustment to beginning net assets. Historical collections and art totaled $38,560,944 at June 30, 2002 and is included in equipment in the analysis of changes in property and equipment.

The cumulative effect of theses changes was $70,867,588. This amount is shown as a portion of the cumulative effects of changes in accounting principle in the Statement of Revenues, Expenses, and Changes in Net Assets.

During fiscal year 2002, the University recognized revenues totaling $25,350,000 from an insurance company for surety payments to complete a bonded building project. These amounts are included as revenue in the Capital Additions (Deductions) section of the Statement of Revenues, Expenses, and Changes in Net Assets in capital other. Upon review of this project the University determined that an impairment to the asset resulted from long delays in and quality of construction. An estimated loss to the building has been recognized totaling $10,350,000 and is recorded in capital other in the Statement of Revenues, Expenses, and Changes in Net Assets. The insurance proceeds are considered by management to be adequate to complete the project as originally designed and to cover this loss. Also, property and equipment has been reduced by the same amount. This is reflected in the table below as a reduction to construction in progress in the "transfer/other" column.

The following table describes the changes in property and equipment for the year ended June 30, 2002. The cumulative effect of the changes noted above for library books and historical collections is reflected as an adjustment to the beginning balance of equipment.

Changes in Property and Equipment for the Year Ended June 30, 2002

	Beginning Balance	Additions	Retirements	Transfers/Other	Ending Balance
Property and equipment:					
Land	$ 12,241,568	$ 40,000	$ (246,068)	$ -	$ 12,035,500
Non-structural Improvements	101,456,940	12,216,437	(266,146)	11,989,764	125,396,995
Buildings	760,361,218	57,448,729	(3,335,829)	94,797,580	909,271,698
Equipment	293,215,656	31,305,650	(7,036,079)	-	317,485,227
Construction in Progress	201,264,585	82,977,767	-	(117,137,344)	167,105,008
Total property and equipment	1,368,539,967	183,988,583	(10,884,122)	(10,350,000)	1,531,294,428
Less accumulated depreciation:					
Non-structural Improvements	30,644,994	4,523,331	(188,102)	-	34,980,223
Buildings	159,478,511	24,318,646	(1,175,246)	-	182,621,911
Equipment	119,313,277	21,782,881	(6,052,871)	-	135,043,287
Total accumulated depreciation	309,436,782	50,624,858	(7,416,219)	-	352,645,421
Property and equipment, net:					
Land	12,241,568	40,000	(246,068)	-	12,035,500
Non-structural Improvements	70,811,946	7,693,106	(78,044)	11,989,764	90,416,772
Buildings	600,882,707	33,130,083	(2,160,583)	94,797,580	726,649,787
Equipment	173,902,379	9,522,769	(983,208)	-	182,441,940
Construction in Progress	201,264,585	82,977,767	-	(117,137,344)	167,105,008
Property and equipment, net:	$1,059,103,185	$ 133,363,725	$ (3,467,903)	$ (10,350,000)	$1,178,649,007

4. UCONN 2000 CAPITAL IMPROVEMENTS

Public Act No. 95-230 enables the University to borrow money in its own name for a special ten year capital improvement program (UCONN 2000) designed to modernize, rehabilitate, and expand the physical plant of the University. It authorizes projects estimated to cost $1,250,000,000, of which $962,000,000 is to be financed by bonds of the University; $18,000,000 is to be funded by State General Obligation bonds; and the balance of $270,000,000 may be financed by gifts, other revenue, or borrowing resources of the University.

General obligation bonds issued as of June 30, 2002 are:

1996 Series A	$ 83,929,715
1997 Series A	124,392,432
1998 Series A	99,520,000
1999 Series A	79,735,000
2000 Series A	130,850,000
2001 Series A	100,000,000
2002 Series A	100,000,000

These bonds are general obligations of the University, for which its full faith and credit are pledged, and are payable from all assured revenues. The bonds are additionally secured by the pledge of and a lien upon the State Debt Service Commitment. The State Debt Service Commitment is the commitment by the State to pay an annual amount of debt service on securities issued as general obligations of the University. The University, consistent with the Act, is relying upon the receipt of the annual amount of the pledged State Debt Service Commitment for the payment of the bonds and, accordingly, is not planning to budget any of the other revenues for the payment of the bonds. Under the master indenture, the University expects to issue additional bonds to finance UCONN 2000 projects secured by the State Debt Service Commitment. The University recorded revenue totaling $100,000,000 for the year ended June 30, 2002, representing the increase in the State of Connecticut's debt service commitment for principal as a result of the issuance of the 2002 Series A bonds. In addition, $25,907,563 was recorded as revenue for the State of Connecticut's debt service commitment for interest on general obligation bonds for the year ending June 30, 2002.

The University may also issue Special Obligation bonds backed by certain pledged revenues of the University. On February 4, 1998, the University issued $33,560,000 of the Student Fee Revenue Bonds 1998 Series A to fund $30,000,000 of the South Campus Project; $2,126,425 of a Special Capital Reserve Fund held by the Trustee Bank, $1,753,286 of which is included in noncurrent investments; and the remainder to pay costs of issuance, including the underwriters' discount. The bonds have a final maturity of November 15, 2027.

The 2000 Series A bonds dated May 15, 2000 represented the second series of Special Obligation bonds issued in the amount of $89,570,000. Bond proceeds funded three UCONN 2000 projects: Hilltop Dormitory at $21,000,000, Hilltop Student Rental Apartments at $42,000,000, and Parking Garage South at $24,000,000. These bonds were refunded in advance of maturity in fiscal 2002 with the issuance of Student Fee Revenue Bonds 2002 Refunding Series A. The University issued the refunding bonds on February 27, 2002 in the amount of $96,130,000. The difference between the carrying amount of the defeased debt and its reacquisition price (refunding bonds) will be amortized over the remaining life of the debt similar to a bond discount. The refunding bonds have a final maturity of November 15, 2029. Proceeds from the refunding bonds of $96,830,821, representing the face value, plus the net premium and less the costs of issuance, were deposited with the Trustee bank in an irrevocable escrow fund, which are sufficient together with escrow earnings to satisfy future debt service and call premiums on the prior issue. The escrow is invested in United States Treasury Securities State, Local Government Securities and cash.

On February 14, 2002, the University issued $75,430,000 of the Student Fee Revenue Bond 2002 Series A to fund five UCONN 2000 projects: Alumni Quadrant Renovations at $7,000,000, Shippee/Buckley Renovations at $5,000,000, East Campus North Renovations at $1,000,000, Towers Renovations (including Greek Housing) at $14,180,000, and North Campus Renovations at $45,000,000. The bonds have a final maturity of May 15, 2030.

The Special Obligation bonds are secured by certain gross and net pledged revenues of the University, which totaled approximately $32,643,000 in fiscal year 2002 and are disclosed on the face of the Statement of Revenues, Expenses, and Changes in Net Assets by revenue sources. Gross pledged revenues include the infrastructure maintenance fee and the general University fee plus investment income on the bond accounts held by the Trustee Bank, prior to any payments, deductions, offsets, or provisions. Net pledged revenues include the residential life room fee, student apartment rentals, Greek housing fee, the board (dining) fee, the parking and transportation fee after providing for the cost of maintaining, repairing, insuring, and operating the facilities for which the fees are imposed. In addition to securing revenue bonds, the gross and net pledged revenues available are also pledged toward certain other debt including the U.S. Department of Education loan and self-liquidating debt. The University has covenanted to collect in each fiscal year fees representing pledged revenues so that the sum of gross and net revenue amounts is equal to no less than 1.25 times the debt service requirements in such fiscal year. During fiscal year 2002, Special Obligation bond investment earnings amounted to approximately $1,077,364. The Student Fee Revenue Bonds investment earnings are part of the pledged revenues and are directly retained by the Trustee Bank to pay debt service on the bonds.

5. LONG-TERM DEBT PAYABLE

Long-term debt activity, including refunding of debt (note 4), for the year ended June 30, 2002 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Current Portion
Self Liquidating Bonds	$ 14,837,149	$ 4,259,724	$ (5,525,709)	$ 13,571,164	$ 1,167,012
General Obligation Bonds	542,177,147	100,000,000	(31,540,000)	610,637,147	37,650,000
Revenue Bonds	121,380,000	171,560,000	(91,750,000)	201,190,000	3,665,000
U.S. Dept. of Ed. Towers Loan	1,881,542	-	(33,855)	1,847,687	35,742
Installment Loans	7,160,899	-	(2,100,683)	5,060,216	1,788,159
Total long-term debt	$ 687,436,737	$ 275,819,724	$(130,950,247)	$ 832,306,214	$ 44,305,913

Debt principal outstanding for self-liquidating bond issues, UCONN 2000 bond issues, revenue bonds, and other loans as of June 30, 2002, is as follows:

Issue Date		Balance
Bonds:		
March 1992	original	$ 1,175,037
March 1993	original	594,125
October 1993	refund	924,743
March 1994	original	315,148
August 1994	original	45,359
March 1995	original	255,207
March 1995	refund	183,135
October 1995	original	383,431
November 1996	refund	355,334
March 1997	original	2,344,786
September 1997	refund	322,845
February 1998	refund	996,873
June 2001	refund	1,415,418
November 2001	refund	3,578,275
June 2002	refund	681,448
Total self-liquidating bond		13,571,164
GO 1996 Series A	original	58,404,715
GO 1997 Series A	original	91,892,432
GO 1998 Series A	original	79,600,000
GO 1999 Series A	original	68,000,000
GO 2000 Series A	original	117,740,000
GO 2001 Series A	original	95,000,000
GO 2002 Series A	original	100,000,000
Total general obligation bonds		610,637,147
Rev 1998 Series A	original	31,180,000
Rev 2002 Ref. Series A	refund	94,580,000
Rev 2002 Series A	original	75,430,000
Total revenue bonds		201,190,000
Loans:		
U.S. Dept. Ed. Towers Loan		1,847,687
Installment Purchases		5,060,216
Total bonds, loans and installment purchases		832,306,214
Less: current portion		44,305,913
Total noncurrent portion		$788,000,301

Long-term debt including revenue bonds and general obligation bonds are scheduled to mature in the following years as of June 30:

	Long-Term Debt Except General Obligation Bonds			General Obligation Bonds			Total Obligations		
Year(s)	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2003	$6,634,413	$10,647,298	$17,281,711	$37,650,000	$28,329,921	$65,979,921	$44,284,413	$38,977,219	$83,261,632
2004	6,893,145	10,377,173	17,270,318	37,925,000	26,788,596	64,713,596	44,818,145	37,165,769	81,983,914
2005	6,807,730	10,070,075	16,877,805	38,575,000	25,251,659	63,826,659	45,382,730	35,321,734	80,704,464
2006	5,672,356	9,812,654	15,485,010	37,530,000	23,622,734	61,152,734	43,202,356	33,435,388	76,637,744
2007	5,679,932	9,591,606	15,271,538	37,530,000	21,984,109	59,514,109	43,209,932	31,575,715	74,785,647
2008-2012	28,483,110	44,084,045	72,567,155	177,307,147	97,342,033	274,649,180	205,790,257	141,426,078	347,216,335
2013-2017	33,916,227	36,849,989	70,766,216	165,495,000	45,634,625	211,129,625	199,411,227	82,484,614	281,895,841
2018-2022	41,105,826	27,361,590	68,467,416	78,625,000	9,376,588	88,001,588	119,730,826	36,738,178	156,469,004
2023-2027	52,776,328	15,691,030	68,467,358	-	-	-	52,776,328	15,691,030	68,467,358
2028-2030	33,700,000	2,817,338	36,517,338	-	-	-	33,700,000	2,817,338	36,517,338
Total	$221,669,067	$177,302,798	$398,971,865	$610,637,147	$278,330,265	$888,967,412	$832,306,214	$455,633,063	$1,287,939,277

6. BOND FINANCED ALLOTMENTS

The University recognizes an asset when an allotment is processed for State General Obligation bonds or when bonds to be funded from University resources are sold.

7. RETIREMENT PLAN

All regular full-time employees participate in one of two retirement plans. The State Employees' Retirement System, a single employer defined benefit public employee retirement system, is administered by the State and covers most full-time employees. The State of Connecticut is statutorily responsible for the pension benefits of University employees who participate in this plan. The University makes contributions on behalf of the employees through a fringe benefit charge assessed by the State. Alternatively, employees may choose to participate in the Teacher Insurance and Annuity Association/College Retirement Equities Fund (TIAA/CREF). TIAA/CREF is a national organization used to fund pension benefits for educational institutions. Under this arrangement, the University and the plan participants make annual contributions to TIAA/CREF to purchase individual annuities equivalent to retirement benefits earned.

With respect to the University's Department of Dining Services, of its approximately 323 full-time employees, 225 are eligible to participate in two retirement plans. All eligible Dining Services' employees participate in the Department of Dining Services Money Purchase Pension Plan and may choose to participate in another defined contribution plan, the University of Connecticut Department of Dining Services 403(b) Retirement Plan.

8. COMPENSATED ABSENCES AND WAGES PAYABLE

Accrued vacation and accrued sick leave balances for employees are recorded in the accompanying financial statements at June 30, 2002, totaling $17,458,966 and $1,364,857, respectively. These liabilities are recorded in accordance with GASB Statement No. 16 and represent the amounts earned by eligible employees through June 30, 2002. This liability for compensated absences is classified as current and noncurrent based on the amount estimated to be paid to employees in one year and beyond one year, respectively.

Wages payable included salaries and wages for amounts owed at June 30, 2002. The State of Connecticut administers benefit and retirement plans for the University. Therefore, the payable for fringe benefits related to wages payable is included in due to the State of Connecticut as of June 30, 2002.

9. POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 7, the State provides post retirement health care and life insurance benefits to University employees, in accordance with State Statutes, Sections 5-257(d) and 5-259(a). When employees retire, the State pays 100% of their health care insurance premium cost (including the cost of dependent's coverage). In addition, the State pays 100% of the premium cost for a portion of the employee's life insurance continued after retirement. The amount of life insurance continued at no cost to the retiree is determined in a formula based on the number of years of

State service that the retiree had at time of retirement. The State finances the cost of post retirement health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund.

10. COMMITMENTS

On June 30, 2002, the University had outstanding commitments (over $100,000 each) totaling $91,218,923, which included $83,684,443 of commitments related to capital projects. Of the total amount, $15,179,896 was included in June 30, 2002 accounts payable. In addition to the amount for capital outlay, commitments were also related to research, academic, and institutional support. Of these commitments, the University expects $3,397,950 to be reimbursed by Federal grants.

11. DEFERRED INCOME AND CHARGES

Deferred income totaled $22,917,215 and is comprised of: $7,151,318 of certain restricted research grants that are included in revenue when the funds are expended; a conditional endowment fund established with $3,500,000, which conditions are not satisfied as of June 30, 2002; $9,495,142 that consists of tuition and fees received in advance of fiscal year 2003 summer and fall sessions; and $2,770,755 of other revenues not earned at June 30, 2002. A portion of current deferred charges totaling $508,063 and noncurrent deferred charges totaling $10,335,635, represent the cost of issuance and discounts on certain bond issues, which will be amortized over the terms of the respective bond issues.

12. TUITION WAIVERS AND GRADUATE ASSISTANTSHIPS

The University is required by law to waive tuition for certain veterans and children of veterans, certain students over the age of 62, and graduate assistants. The University is required by collective bargaining agreements to waive tuition for UCPEA employees and dependents of certain other employees. Tuition and fee revenue does not include foregone revenue resulting from tuition waivers. Waivers totaled $23,522,067 in fiscal year 2002. Approximately 81% of such waivers were provided to graduate assistants.

13. CONTINGENCIES

The University is a party to various legal actions arising in the ordinary course of its operations. While it is not feasible to predict the ultimate outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material effect on the University's financial statements.

14. OPERATING EXPENSES BY OBJECT

The following table details the University's operating expenses by object:

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salary and Wages	$128,925,737	$40,740,100	$16,582,262	$39,431,659	$15,342,246	$28,370,998	$12,548,039	-	$253,596	$34,713,283	$316,907,920
Fringe Benefits	35,582,175	8,563,857	4,281,323	12,403,667	4,347,161	10,116,611	5,066,199	-	2,146	10,541,740	90,904,879
Supplies & Other Expenses	17,674,688	16,117,718	1,858,899	12,501,757	(428,597)	7,883,902	7,552,919	-	57,534	44,395,264	107,614,084
Utilities	-	-	-	-	145,926	5,197	10,376,412	-	-	7,232,576	17,760,111
Depreciation	-	-	-	-	-	-	-	50,624,858	-	-	50,624,858
	$182,182,600	$65,421,675	$22,722,484	$64,337,083	$19,406,736	$46,376,708	$35,543,569	$50,624,858	$313,276	$96,882,863	$583,811,852

15. UNRESTRICTED NET ASSETS

The following table details the University's unrestricted net assets:

Current funds	$32,129,849
Unexpended plant fund	22,793,798
Internally restricted for retirement of indebtedness	28,743,322
Total Unrestricted net assets	$83,666,969

UNIVERSITY OF CONNECTICUT
TRUSTEES AND FINANCIAL OFFICERS
JUNE 30, 2002

APPENDIX I-B

SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL OBLIGATION MASTER INDENTURE OF TRUST

This section is a brief summary of the General Obligation Master Indenture of Trust (the "Master Indenture"). The summary does not purport to be complete. Reference is made to the Master Indenture for a full and complete statement of the provisions thereof.

Authority for the Master Indenture. [Section 201]. The Master Indenture is made and entered into by virtue of and pursuant to the provisions of the Act.

Authorization for Issuance of Bonds and Obligation of University. [Section 202]. In order to provide sufficient funds for the UConn 2000 Infrastructure Improvement Program, Bonds of the University are authorized to be issued without limitation as to amount except as therein provided or as may be limited by law.

The Bonds issued under the Master Indenture shall be general obligations of the University for the payment of which, in accordance with their terms, the full faith and credit of the University are thereby pledged and are payable out of any revenues or other assets, receipts, funds or moneys of the University, subject only to any agreements permitted by the Act and the Master Indenture with the holders of particular notes or bonds pledging any particular revenues, assets, receipts, funds or moneys. All Bonds issued thereunder shall be additionally secured and entitled to the benefit of the continuing pledge of and lien on the Trust Estate created by the Master Indenture and the covenants of the University and the State contained therein to secure the full and final payment of the principal, or Redemption Price, if applicable, thereof and the interest thereon. Bonds issued thereunder shall not be deemed to constitute a debt or liability of the State or any municipality thereof or a pledge of the faith and credit of the State or of any such municipality and the Bonds, Notes, Swaps, Obligations of the University under a Swap Facility or Bond Facility, Reimbursement Obligations, Swap Payments and Termination Payments or other similar obligations of or payments made by the University issued or incurred shall not constitute a debt or liability issued or guaranteed by or otherwise of the State, except the amount required by the Act to be so included. All Bonds shall be payable solely from the resources of the University described in and pursuant to the Master Indenture and the Supplemental Indenture under which they are issued.

Pledge Effected by Master Indenture. [Section 601]. The Trust Estate is pledged pursuant to the Master Indenture to secure the payment of the principal or Redemption Price, if any, and the interest on the Bonds (including the Sinking Fund Installments for the retirement thereof). In accordance with the Act, and pursuant to each Supplemental Indenture authorizing Bonds to be additionally secured by the State Debt Service Commitment, the amount of the State Debt Service Commitment in each fiscal year shall be pledged for the punctual payment of the Special Debt Service Requirements on such Bonds as the same arise and shall become due and payable.[1]

[1] Pursuant to the Ninth Supplemental Indenture, the 2003 Series A Bonds are additionally secured by the State Debt Service Commitment and are thereby authorized to be issued under the Master Indenture and pursuant to the Act in a maximum amount not to exceed $100,000,000 for the UConn Projects as set forth therein, plus the amount of the Costs of Issuance. The amount of the balance of the $100,000,000 Bonds not funded by the 2003 Series A Bonds shall be issued subsequently pursuant to a Supplemental Indenture.

Establishment of Funds and Accounts. [Section 602]. The University establishes and creates the following funds and accounts to be held by the Treasurer, the University or the Trustee as set forth opposite such Fund or Account. Within the Bond Proceeds Fund, the Construction Account, to be held by the Trustee, and the Costs of Issuance Account, to be held by the Treasurer; the Debt Service Fund to be held by the Trustee consisting of the Interest Account and the Principal Installment Account; the Renewal and Replacement Fund to be held by the University and the Redemption Fund to be held by the Trustee. The University has reserved the right to establish additional funds, accounts and sub-accounts thereunder.

Bond Proceeds Fund. [Section 603]. Subject to Section 501 of the Indenture prescribing the application of Bond proceeds, there shall be deposited into the Bond Proceeds Fund the proceeds of all Bonds issued under the Master Indenture. Within the Bond Proceeds Fund the Treasurer shall maintain a separate account designated "Construction Account". Monies in the Construction Account shall be expended only for the UConn 2000 Infrastructure Improvement Program.

Except as may be limited by the purposes for which a Series is issued, amounts in the Construction Account shall be expended by the University only to payments for the financing of UConn 2000 Projects for the UConn Infrastructure Improvement Program, principal, redemption price, and interest, on Notes of the University, to the State, of monies paid or advanced by the State to and used by the University for the UConn 2000 Infrastructure Improvement Program, to the University, of monies paid or advanced by the University and used by the University for the UConn 2000 Infrastructure Improvement Program, to the extent that other monies are not available, of Principal Installments of and interest on Bonds when due, and to any other valid purpose of the University under the Act. There shall be paid into the Construction Account the amounts required to be so paid by the provisions of the Master Indenture or any Supplemental Indenture and the University may deposit any monies received by the University from any other sources, unless required to be otherwise applied. The University may establish within the Construction Account separate sub-accounts for UConn Phase I projects and for UConn Phase II projects and a sub-account for proceeds of Special Eligible Gifts, each of which shall be maintained by the Treasurer. The University is further authorized and directed to order each disbursement from the Construction Account upon a certification filed with the Treasurer and Trustee stating that such cost has been properly paid or incurred and is consistent with the covenant of the University respecting tax exempt obligations and any Tax Regulatory Agreement with respect thereto.

There shall be deposited in the Costs of Issuance Account of the Bond Proceeds Fund all moneys required to be deposited therein to pay the Costs of Issuance incurred in connection with the authorization, issuance and delivery of the corresponding Bonds. After payment of all Costs of Issuance on the Bonds, any interest earnings in the Bond Proceeds Fund remaining shall be credited to the General Fund of the State and, prior to, such amounts shall be credited to such fund or account thereof, as shall be necessary to comply with the Tax Regulatory Agreement and, upon determination of the Treasurer, to meet an expenditure exception to the rebate requirements of the Code. Amounts in the Construction Account and Costs of Issuance Account may be invested by the Treasurer in obligations permitted for general obligation bonds of the State to the extent the same are Investment Obligations and maturing in such amounts and at such times as may be necessary to provide funding when needed to pay the costs to which such moneys are applicable, provided, interest earnings shall be transferred to the Costs of Issuance Account. The Treasurer shall establish such additional requirements for compliance with the Code.

Debt Service Fund. [Section 604]. In order to provide for the punctual payment of Principal Installments and interest on the Bonds, the University shall pay to the Trustee from Assured Revenues the Debt Service Fund Requirement for deposit in the Debt Service Fund, and with respect to Bonds additionally secured by the State Debt Service Commitment, shall rely on the amount of the State Debt Service Commitment applicable to the Debt Service Fund Requirement being directly deposited into the

Debt Service Fund on or before the Interest Payment Date with respect to interest on such Bonds and on the Principal Installment Date with respect to Principal or Sinking Fund Installments on such Bonds by the Treasurer, such amounts having been appropriated out of the resources of the General Fund of the State, as part of the contract of the State with the Bondholders of the Bonds additionally secured by the State Debt Service Commitment by Section 5(c) of the Act. The Trustee shall pay out of the Interest Account of the Debt Service Fund and out of the Principal Installment Account of the Debt Service Fund to the respective Paying Agents the amounts required for the payment of interest, accrued interest on redeemed or retired Bonds and principal, respectively due on Outstanding Bonds

Renewal and Replacement Fund. [Section 606]. The University shall provide from time to time for deposit of amounts into the Renewal and Replacement Fund so that the amounts therein equals the Renewal and Replacement Requirement. The Master Indenture authorizes the University to apply the amounts in the Renewal and Replacement Fund to the payment or reimbursement of the extraordinary expenses incurred for the rebuilding, replacement, relocating, repair and restoration of any UConn 2000 Project financed by the University under the Master Indenture and other facilities forming part of the physical university plant so to permit the University to operate and maintain the physical university plant in sound operating condition.

Redemption Fund. [Section 607]. Upon deposit of monies in any Series account of the Redemption Fund or within thirty (30) days thereafter, the University may give written direction to the Trustee of the Redemption Date, of the maturity or maturities of the Bonds of such Series to be purchased or redeemed and of the principal amounts of each maturity or maturities to be purchased or redeemed, subject to any limitations with respect thereto contained in the Master Indenture and the Supplemental Indenture authorizing such Series. Monies so held shall be applied to the purchase or retirement of Bonds of the Series in respect of which such account was created. In the event the Trustee is unable to purchase Bonds of a Series and there is $100,000 or more in the Account established for such Series of Bonds, the Trustee shall call for redemption on the next ensuing Redemption Date such amount of Bonds of such maturity or maturities of the Series in respect of which such Account was created at the Redemption Price applicable by operation of the Redemption Fund in the next ensuing Redemption Date, will exhaust said Account as nearly as may be. Unless otherwise directed, Bonds shall be redeemed in inverse order of their maturities and by lot within a maturity. Subject to the provisions of any Supplemental Indenture, amounts in the Redemption Fund shall be applied by the Trustee to the purchase or redemption of Bonds, provided, however, the University shall direct the selection of the Bonds to be purchased and the purchase price thereof as rapidly as in its judgment is reasonably practicable.

Investment of Funds and Accounts held by Trustee. [Section 701]. Except as otherwise provided in Sections 607 (Redemption) and 1401 (Defeasance) of the Master Indenture, the Trustee shall, upon written direction of the University, deposit or cause monies to be deposited from any fund or account held by the Trustee, in Investment Obligations, or make similar banking arrangements with a bank insured by the Federal Deposit Insurance Corporation and authorized to be a depository of public funds, provided such monies shall be available for use at the times provided with respect to their investment or reinvestment. All monies deposited shall be continuously and fully secured by direct obligations of the United States of America or of the State or obligations the principal and interest of which are guaranteed by the State or the United States of America, of a market value equal at all times to the amount of the other similar banking arrangements. Notwithstanding the foregoing, any amounts of the State Debt Service Commitment deposited in the Debt Service Fund shall only be invested in direct obligations of or obligations guaranteed by the United States of America.

Payment of Bonds. [Section 901]. The University covenants that it shall duly and punctually pay or cause to be paid, the principal or Redemption Price, if any, of every Bond and the interest thereon, at the dates and places and in the manner provided in the Bonds, according to the true intent and meaning thereof, and shall duly and punctually pay or cause to be paid all Sinking Fund Installments, if any, becoming payable with respect to any Series of Bonds.

Operating Budget. [Section 903]. Pursuant to the Act for the ensuing Fiscal Year and prior to each such ensuing Fiscal Year or as soon as possible during such Fiscal Year, the University shall adopt an Operating Budget for the University and, pursuant to the Master Indenture, shall include amounts necessary to provide for the amounts necessary to meet the Renewal and Replacement Fund Requirement.

Power to Issue Bonds and Make Pledges. [Section 906]. The University has covenanted that it is duly authorized to create and issue the Bonds and to adopt the Indenture and to pledge its moneys, securities and funds in the manner and to the extent provided for in the Indenture. The moneys, securities and funds pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledges created by the Master Indenture, and all corporate action on the part of the University to that end has been duly and validly taken. The Bonds and the provisions of the Master Indenture are and will be the valid and legally enforceable obligations of the University in accordance with their terms and the terms of the Master Indenture. The University shall at all times, to the extent permitted by law, defend, preserve and protect the pledges including defending, preserving and protecting such pledges as statutory liens as set forth in the Act

Indebtedness and Liens. [Section 907]. (A) Except as provided below, the University shall not issue any bonds, notes or other evidences of indebtedness secured by a pledge of Assured Revenues other than the pledge created by the Indenture with respect to the State Debt Service Commitment and on the Bond proceeds, the Debt Service Fund and the Redemption Fund, shall not create or cause to be created any lien or charge on Assured Revenues or any account or funds established under the Indenture. (B)(1) Nothing in the Indenture shall prevent the University from issuing indebtedness payable out of, or secured by a pledge, assignment or other encumbrances of Assured Revenues to be derived on or after the date of the Indenture shall be discharged and satisfied as provided in the Indenture, or (B)(2) if authorized by law, other than the Act, for University purposes other than the UConn 2000 Infrastructure Improvement Program (a) from issuing its indebtedness payable out of Assured Revenues and (b) may be additionally secured by a pledge, assignment or encumbrance of particular Assured Revenues other than the State Debt Service Commitment, so long as prior to the issuance thereof such particular Assured Revenues have not been pledged pursuant to the Indenture or a Dedication Instrument and the authorizing documents shall be filed with the Trustee, accompanied by a Counsel's Opinion as required under the Indenture. (C) Nothing in the Indenture shall prevent the University from issuing its General Obligation Bonds for financing any one Project pursuant to a financing program or pledging, assigning or encumbering any Project Revenues or assets of the University derived from Projects, including Assured Revenues that may be restricted by the terms thereof to such a particular Project to be so financed, or any special capital reserve fund created therefor pursuant to the Act. (D) Nothing in the Indenture shall prevent the University from pledging, assigning or encumbering any Assured Revenues, other than the State Debt Service Commitment subject to the conditions and limitations described in the Indenture to secure bonds, notes or other evidences of indebtedness by the University, so long as before or simultaneously with any such pledge, there is delivered to or filed with the Trustee: (1) a copy of the Dedication Instrument effecting such pledge, assignment or encumbrance certified as correct, (2) if any such Other Indebtedness is variable rate indebtedness, a certificate specifying the maximum rate therefore, or the budgeted rate, as applicable, and the aggregate principal amount and the stated maturities of and mandatory sinking fund requirements, if any, for such Other Indebtedness to which such rate applies and certifying that a liquidity facility or source of payment other than Assured Revenues is available in the event of a mandatory tender by the holders of such Other Indebtedness thereunder, (3) a Counsel's Opinion (a) that such pledge is a legal, valid and binding obligation of the University, and does not adversely affect the pledge of the State Debt Service Commitment to pay Outstanding Bonds additionally secured thereby, and (b) that the approvals required by the Act as a condition or conditions precedent to the issuance of such Other Indebtedness as securities under the Act and as Projects to be financed thereby have been obtained.

Issuance of Additional Bonds; Execution of Swaps. [Section 908]. No additional Series of Bonds may be authorized and issued under the Master Indenture unless (a) the University delivers to the Trustee a Certificate of an Authorized Officer and the Treasurer stating that the principal amount thereof, together with the principal amount of the bonds, notes and other obligations of the University theretofore authorized and unissued and theretofore authorized, issued and outstanding, will not exceed in aggregate principal amount any limitation thereon imposed by law; and (b) in the event the Additional Bonds are Bonds additionally secured by the State Debt Service Commitment, a Counsel's Opinion is delivered to the Trustee to the effect that the provision of the Act relating to the State appropriation of all amounts of the State Debt Service Commitment has not been amended, repealed or modified and is in full force and effect.

No Swap (a) with respect to Bonds additionally secured by the State Debt Service Commitment, shall be entered into by the University unless, with respect to such Swap, written confirmation affirming the existing ratings on the Bonds additionally secured by the State Debt Service Commitment is filed thereupon with the Trustee and (b) with respect to Other Indebtedness issued as Bonds hereunder, shall be entered into by the University without meeting requirements, if any, set forth in the Supplemental Indenture authorizing such Bonds.

UConn 2000 Infrastructure Improvement Program. [Section 909]. The University shall use and apply the proceeds of the Bonds for the UConn 2000 Infrastructure Improvement Program and shall do all such acts and things appropriate or necessary to receive and collect Assured Revenues. The University further covenants that so long as any Bonds are Outstanding that it has established and will charge, collect and increase tuition, fees and charges in an amount of which, together with other Assured Revenues or other revenues shall in each of its Fiscal Years be sufficient to pay when due, the Special Debt Service Requirements on Outstanding Bonds and to permit the University to operate and maintain itself as an institution dedicated to excellence in higher education and to operate and maintain the physical university plant in sound operating condition and to otherwise permit the performance of all covenants included in the financing documents. The University covenants that it will promptly proceed with the construction of each UConn 2000 Project financed in whole or in part by the issuance of Bonds and will complete such construction with all expedition possible. The University covenants that it will at all times maintain, to the extent reasonably obtainable, insurance with respect to each Project with such variations as shall reasonably be required to conform to applicable standard or customary insurance practice. The University shall be deemed to be in compliance with this insurance covenant to extent any Project is covered by the State under a State insurance policy or to the extent the State is a self-insurer on such Project.

Tax Exemption. [Section 910]. In the event Bonds are sold under the Master Indenture or a Supplemental Indenture thereto as federally tax-exempt bonds, the University covenants that it will not take any action or fail to take any action with respect to the proceeds of such Bonds that would result in loss of the exclusion from federal income taxation pursuant to Section 103(a) of the Code of interest paid on such Bonds.[2]

[2] Pursuant to the Ninth Supplemental Indenture, the University covenants that it will not take any action or fail to take any action that would cause the 2003 Series A Bonds to be "arbitrage bonds" within the meaning of the Code.

Pledge of State to Bondholders. [Section 914]. Pursuant to the Act, the University includes the following pledge and undertaking for the State, in the Master Indenture and in the Bonds issued under the Master Indenture. Pursuant to the Act, the State has pledged and hereby agrees with the Holders of any Bonds issued under the Master Indenture and the Act, and with those Bondholders pursuant to the provisions of the Act, that the State will not limit or alter the rights vested in the University by the Master Indenture and the Act until such Bonds, together with the interest thereon, are fully met and discharged and such contracts (the Master Indenture and the Bonds) are fully performed on the part of the University, provided nothing in the Act shall preclude such limitation or alteration if and when adequate provision shall be made by law for the protection of the Holders of such Bonds of the University.

Modification and Amendment Without Consent. [Section 1001]. The University may enter into Supplemental Indentures without consent of the Bondholders, the provider of either a Bond Facility, or a Swap Facility or Swap Provider for any one or more of the following purposes: To modify, amend or revise the UConn 2000 Infrastructure Improvement Program and to provide for the issuance of Bonds or Notes or Swaps pursuant to the provisions of the Master Indenture and to prescribe the terms and conditions pursuant to which such Bonds or Notes or Swaps may be issued, paid or redeemed; to add additional covenants and agreements of the University further securing the payment of the Bonds or Notes or Swaps; to prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the University which are not contrary to or inconsistent with the limitations and restrictions in effect; to surrender any right, power or privilege reserved to or conferred upon the University by the Master Indenture; to confirm as further assurance any pledge under the Master Indenture subject to any lien, claim or pledge created or to be created by the provisions of the Master Indenture, of the moneys, securities or funds; to modify any of the provisions of the Master Indenture or any Supplemental Indenture in any other respects, provided that such modifications shall not be effective until after all Bonds of any Series of Bonds Outstanding as of the date of adoption of such Supplemental Indenture shall cease to be Outstanding, and all Bonds issued under such indentures shall contain a specific reference to the modifications contained in such subsequent indentures; to cure any ambiguity, or defect or inconsistent provision in the Master Indenture or to insert such provisions clarifying matters or questions arising under the Master Indenture as are necessary or desirable in the event any such modifications are not contrary to or inconsistent with the Master Indenture; to ensure the exclusion of interest on the Bonds from gross income of the Bondholders for federal income tax purposes; to grant or to confer upon the Trustee any additional rights, remedies, powers or authority that may lawfully be granted or conferred; and to grant such rights and remedies and make such other covenants subject to the Master Indenture (including any prior Supplemental Indenture) as may be necessary for issuance of a Bond Facility, a Swap or a Swap Facility so long as such rights, remedies and covenants are not contrary to or inconsistent with the Master Indenture as theretofore in effect.

Amendments and Supplemental Indentures Effective With Consent of Bondholders. [Section 1002]. The provisions of the Master Indenture may also be modified or amended, at any time or from time to time, by a Supplemental Indenture, subject to the consent of Bondholders and State Bond Commission in accordance with and subject to the provisions of Article XI of the Master Indenture, such Supplemental Indenture to become effective upon the execution thereof by the University and the Trustee, and the filing with the Trustee of a copy thereof certified by an Authorized Officer of the University and by the Secretary of the State Bond Commission.

Powers of Amendment. [Section 1101]. Except as otherwise provided in Article X of the Master Indenture, any modification or amendment of the Master Indenture may be made by a Supplemental Indenture, with the written consent given of the Holders of not less than 66 2/3% in principal amount of the Outstanding Bonds of each Series affected provided, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such

Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section, and that no such modification or amendment shall permit (i) a change in the redemption or maturity of the principal or installment of interest of any Outstanding Bond or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond; or (ii) shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment.

Consent of Bondholders. [Section 1102.] The University and the Trustee may at any time enter into a Supplemental Indenture making a modification or amendment permitted by the Master Indenture. A copy of such Supplemental Indenture together with a request to Bondholders for their consent satisfactory to the Trustee, shall be mailed by the University to Bondholders. Such Supplemental Indenture shall not be effective unless and until conditions specified in the Master Indenture are satisfied.

Modifications by Unanimous Consent. [Section 1103]. The Master Indenture may be modified or amended upon the execution by the University and the Trustee of a Supplemental Indenture and filing with the Trustee by the University of a certified copy of said Supplemental Indenture and the consent of the Holders of all of the Bonds then Outstanding. No notice to Bondholders either by mailing or publication shall be required.

Exclusion of Bonds. [Section 1105]. Bonds owned or held by or for the account of the University shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds.

Consent of Bond Facility Provider. [Section 1107]. So long as the Bond Facility provider has not defaulted under the Bond Facility, such provider shall be considered the sole Holder of all Bonds to which such Bond Facility relates, except as otherwise provided in an applicable Supplemental Indenture.

Approval of State Bond Commission. [Section 1108]. Any amendment under Article XI of the Master Indenture shall be deemed a substantive amendment of the Master Indenture for which the Act requires the approval of the State Bond Commission.

Events of Default. [Section 1201].

An "event of default" shall exist if:

(1) the University shall default in the payment of the principal of or Redemption Price, if any, or interest on any Bond after the same shall become due, whether at maturity or upon call for redemption or otherwise; or

(2) the State shall default in observance of its pledge to the Bondholders set forth in the Act and Section 914 of the Indenture or, with respect to Bonds secured by the State Debt Service Commitment, the Treasurer shall fail to pay the amount of the State Debt Service Commitment as provided as part of the contract of the State with the Bondholders of such Bonds and in accordance with Section 604 thereof; or

(3) the University shall (i) apply for or consent to the appointment of or the taking of possession by a receiver, liquidator, custodian or trustee of itself or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as such debts become due, (iii) make a general assignment for the benefit of its creditors, (iv) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), (v) file a petition seeking to take advantage of any other law

relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, (vi) fail to controvert in a timely or appropriate manner, or acquiesce in writing to, any petition filed against itself in an involuntary case under such Bankruptcy Code, or (vii) take any action for the purpose of effecting any of the foregoing; or

(4) except as provided in (1) above, the University shall fail or refuse to comply with the Indenture, or shall default in the performance or observance of the covenants in the Indenture or any Supplemental Indenture or in any Bonds, and such failure, refusal or default shall continue for a period of forty-five days after written notice thereof by the Trustee or the holders of not less than five per cent (5%) in principal amount of the Outstanding Bonds.

Remedies. [Section 1202].

Upon the happening and continuance of any Event of Default after conditions specified in the Indenture have been satisfied, the Trustee may proceed, upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds, in its own name, subject to the provisions of Section 804 of the Indenture, to protect and enforce the rights of the Bondholders by such of the following remedies, as the Trustee, being advised by counsel, shall deem most effective to protect and enforce such rights:

(1) by mandamus or other proceeding at law or in equity, enforce all rights of the Bondholders, including (a) the right to require the University to receive and collect revenues, including Assured Revenues adequate to carry out the covenant and agreements as to, and any specific pledge of, such Assured Revenues, and (b) to require the Treasurer, under the contract of the State with the Bondholders secured by the State Debt Service Commitment, the right to require the Treasurer to pay the annual amount of the State Debt Service Commitment;

(2) by bringing suit upon the Bonds or under the Act upon the contract of the State with the Bondholders of Bonds secured by the State Debt Service Commitment;

(3) by action or suit in equity, to require the University or the State with respect to Bonds secured by the State Debt Service Commitment, to account as if each were the trustee of any express trust for the holders of the Bonds; and

(4) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds.

In the enforcement of any rights and remedies under the Indenture, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due from the University for principal, Redemption Price, interest or otherwise, under any provision of the Indenture or a Supplemental Indenture or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings hereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against the University for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from any monies available for such purpose, in any manner provided by law, the monies adjudged or decreed to be payable provided, however, with respect to Bonds secured by a pledge of the State Debt Service Commitment the right or remedy of the Trustee shall not be construed to include any right to appoint a receiver pursuant to section 12 of the Act or any acceleration of payments of Principal Installments of or interest on such Bonds and with respect to Other Indebtedness issued as Bonds hereunder the right or remedy to appoint a receiver pursuant to section 12 of the Act or to so accelerate shall be available only if included in the Supplemental Indenture authorizing such Bonds.

All remedies conferred upon or reserved to the Holders of Bonds hereunder may also be conferred upon and reserved to the provider of a related Bond Facility, a Swap Provider or the provider of a Swap Facility authorized by a Supplemental Indenture.

Priority of Payments After Default. [Section 1203]. In the event that the funds held by the Trustee and Paying Agents shall be insufficient for the payment of interest and principal or Redemption Price then due on the Bonds, funds received or collected by the Trustee after payment of certain charges and expenses and liabilities as provided in the Master Indenture, shall be applied first to the payment of all installments of interest then due on any Bonds in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably; second, to the payment of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably; and third, to the payment to other persons entitled to payment under the Master Indenture or under the applicable Supplemental Indenture.

Notice of Event of Default. [Section 1210]. The Trustee shall, except in the case of a default in the payment of the principal or Redemption Price of or interest on any of the Bonds where a determination is made in good faith that the withholding of such notice is in the interests of the Bondholders, give Bondholders notice of each event of default within ninety (90) days after knowledge of the occurrence thereof, unless such default shall have been remedied or cured prior to giving such notice. Written notice of such event of default shall be delivered to all registered Holders of Bonds, to such Bondholders as have filed their names with the Trustee for such purposes, and to all other persons as required by law to receive such notice.

Defeasance. [Section 1401]. If the University shall pay or cause to be paid to the Holders of all Bonds then Outstanding, the principal and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Master Indenture, then, at the option of the University, expressed in an instrument in writing signed by an Authorized Officer of the University and delivered to the Trustee, the covenants, agreements and other obligations of the University to the Bondholders shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the University, execute and deliver to the University all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the University all moneys, securities and funds held by them pursuant to the Master Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption. Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries shall be deemed to have been paid within the meaning and effect of this section.

Continuing Disclosure Undertaking. [Article XV]. See for summary of the provisions of the Master Indenture respecting the continuing disclosure undertaking of the University Appendix I-D entitled "FORM OF CONTINUING DISCLOSURE UNDERTAKING".

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APPENDIX I-C

FORM OF OPINION OF BOND COUNSEL

Upon the delivery of the 2003 Series A Bonds, Pullman & Comley, LLC, Bond Counsel, proposes to issue its final approving opinion in substantially the following form:

[Date of Closing]

University of Connecticut
352 Mansfield Road, U-2122
Storrs, Connecticut 06269-2122

Honorable Denise L. Nappier, Treasurer
State of Connecticut
Office of the Treasurer
55 Elm Street
Hartford, Connecticut 06106

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of $96,210,000 General Obligation Bonds, 2003 Series A (the "2003 Series A Bonds") of The University of Connecticut (the "University"), a body politic and corporate constituting a public instrumentality and agency of the State of Connecticut (the "State"), operating and existing under the Constitution and laws of the State.

The 2003 Series A Bonds are authorized to be issued pursuant to The University of Connecticut 2000 Act, constituting Sections 10a–109a to 10a-109y inclusive of the Connecticut General Statutes, as amended to the date hereof (the "Act"), the General Obligation Master Indenture of Trust (the "Master Indenture"), and certain supplemental indentures thereto, including the Ninth Supplemental Indenture (the "Ninth Supplemental Indenture"). Together with the Master Indenture, the supplemental indentures thereto, including the Ninth Supplemental Indenture, are referred to herein as the "Indentures." The Master Indenture was entered into as of November 1, 1995 by and between the University and Fleet National Bank of Connecticut, as original trustee (predecessor to State Street Bank and Trust Company and U. S. Bank, National Association) (the "Trustee").

The 2003 Series A Bonds are dated, will mature on the dates, will bear interest at the rates, and may be subject to redemption prior to maturity, all as set forth in or determined pursuant to the Indentures.

The University is authorized to issue bonds, in addition to the 2003 Series A Bonds, upon the terms, conditions and covenants set forth in the Act and the Master Indenture, and such bonds, when issued, shall, with the 2003 Series A Bonds and with all other such bonds theretofore issued under the Master Indenture, be entitled to the equal benefit, protection, and security of the provisions, covenants, and agreements of the Master Indenture, in accordance with its terms.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the delivery of the 2003 Series A Bonds in order that interest on and amounts treated as interest on the 2003 Series A Bonds not be included in gross income for Federal income tax purposes. We have examined the Indentures and the procedural documents, including a tax regulatory certificate (the "Tax Regulatory Agreement") of the University with respect to the 2003 Series A Bonds, which, in our opinion contain provisions under which such requirements can be met. The University has covenanted with respect to the 2003 Series A Bonds in the Indentures to comply with the requirements of the Code. In rendering this opinion, we have assumed the University's compliance with and enforcement of provisions of the Indentures and the Tax Regulatory Agreement.

We are of the opinion that:

1. Under the Constitution and laws of the State, the University exists as a body politic and corporate and an instrumentality and agency of the State, performing an essential public function with good right and lawful authority, among other things, to carry out the UConn 2000 Infrastructure Improvement Program and to provide funds therefor by the execution of the Indentures and the issuance and sale of bonds, including the 2003 Series A Bonds, and to perform its obligations under the terms and conditions of the Indentures including provisions relating to the receipt of Assured Revenues, particularly annual amounts of the State Debt Service Commitment (each as defined in the Act and the Master Indenture) as covenanted in the Master Indenture.

2. The Indentures have been duly executed by the University and are valid and binding upon the University and enforceable in accordance with their terms.

3. The 2003 Series A Bonds have been duly authorized, executed and authenticated and are legal, valid and binding general obligations of the University in accordance with their terms for the payment of the Principal Installment of, interest on and Redemption Price of which, the full faith and credit of the University has been legally and validly pledged. The 2003 Series A Bonds are entitled to the equal benefit, protection, and security of provisions, covenants and remedies provided by the Act and the Indentures.

4. The 2003 Series A Bonds are additionally secured by a pledge of and lien on the State Debt Service Commitment in the manner and to the extent set forth in and created by the Indentures. The Indentures create the valid pledge of and lien upon the Trust Estate (as defined in the Master Indenture) and the annual amounts of the State Debt Service Commitment, which the Indentures purport to create, subject only to the provisions of the Indentures permitting the application thereof for or to the purposes and on the terms and conditions set forth in the Indentures.

5. Pursuant to the Act and as part of the contract of the State with the holders of the 2003 Series A Bonds, the State has validly appropriated all amounts of the State Debt Service Commitment (including the Principal Installments of, interest on and Redemption Price of the 2003 Series A Bonds) out of the resources of the general fund of the State and the Treasurer has the legal duty and is validly mandated and obligated to pay such amount to the Trustee, as paying agent on the 2003 Series A Bonds as the same arise and shall become due and payable. Such appropriation and mandate and obligation of payment do not require further legislative approval.

6. Pursuant to the Act, the 2003 Series A Bonds, do not constitute a debt or liability of the State of Connecticut or any municipality or other political subdivision thereof or bonds issued or guaranteed by the State within the meaning of Section 3-21 of the General Statutes of Connecticut (except to the extent set forth in the Act), do not obligate the State or any municipality or political subdivision to levy or pledge any form of taxation and are payable solely from the funds provided therefor pursuant to the Indentures and the Act. The University has no taxing power.

7. Under existing statutes and court decisions, interest on the 2003 Series A Bonds is not included in gross income for Federal income tax purposes pursuant to Section 103 of the Code of 1986, as amended (the "Code"), and, under existing statutes, such interest on the 2003 Series A Bonds will not be treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax imposed under the Code with respect to individuals and corporations; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.

8. Under existing statutes, interest on the 2003 Series A Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts, and estates, and interest on the 2003 Series A Bonds 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.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the 2003 Series A Bonds may be limited by bankruptcy, insolvency, and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

Very truly yours,

Pullman & Comley, LLC

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APPENDIX I-D

FORM OF CONTINUING DISCLOSURE UNDERTAKING
THE UNIVERSITY - ARTICLE XV OF MASTER INDENTURE

Submission of Annual Financial Information Statements. [Section 1502]. While any Bonds are Outstanding, the University shall provide to the Trustee, when completed, Annual Financial Information beginning on or after January 1, 1996 which Annual Financial Information is expected to be completed within 180 days of the end of the fiscal year (the "Submission Date"). The Trustee shall provide to each NRMSIR and the SID, if any, such Annual Financial Information within 4 business days following the Submission Date or, if received subsequent to such Submission Date, within 3 business days of its receipt by Trustee. The State has also undertaken to provide an Annual Financial Information Statement to the MSRB, each NRMSIR or the SID, if any, as part of the State's written undertaking to comply with the Rule.

Submission of Audited Financial Statements. [Section 1503]. (A) The University shall submit to the Trustee Audited Financial Statements for each Fiscal Year beginning on or after January 1, 1996, when and if available (but not later than the Submission Date). If the University's Audited Financial Statements are not available by the Submission Date, the University shall provide to the Trustee, by the Submission Date, Unaudited Financial Statements in lieu thereof and, when available, Audited Financial Statements, which Audited Financial Statements the Trustee shall provide to each NRMSIR and SID, if any, within 3 business days of its receipt.

(B) For purposes of the Audited Financial Statements required to be submitted by or on behalf of the State, as an obligated person with respect to the Bonds within the meaning of the Rule, reference is made to the Audited Financial Statements submitted or to be submitted by or on behalf of the State to the MSRB, each NRMSIR or the SID, if any, as the case may be, as part of the State's written undertaking to comply with the Rule.

Listed Event Notices. [Section 1504]. (A) If a Listed Event occurs while any Bonds are Outstanding, the University shall provide a Listed Event Notice to the Trustee in a timely manner, and the Trustee shall promptly provide to the SID, if any, and either to the MSRB or each NRMSIR, such Listed Event Notice. Trustee shall further advise the University, should the Trustee, in the course of its duties, identify an event which would require the University to provide a Listed Event Notice. However, failure to advise by Trustee shall not be considered a breach.

Notification by Trustee of Failure by the University to File Annual Financial Information. [Section 1505]. (A) The University shall provide to the Trustee notice of any failure of the University to provide the Annual Financial Information by the required date, while any Bonds are Outstanding. Upon receipt of such notice, the Trustee shall provide notice of such failure to the SID, if any, and either to the MSRB or each NRMSIR.

(B) The Trustee shall provide to the SID, if any, and either to the MSRB or each NRMSIR, notice of any failure to provide Annual Financial Information on or before the Report Date (whether caused by failure of the University to provide such information to the Trustee by the Submission Date or for any other reason). For the purposes of determining whether information received by the University is Annual Financial Information, the Trustee shall be entitled conclusively to rely on the University's written representation.

Additional Information. [Section 1506]. (A) Nothing in Article XV of the Indenture shall prevent the University from disseminating any other information in addition to that required thereby. If the University should so disseminate or include any such additional information, the University shall have no obligation under Article XV of the Indenture to update, provide or include such additional information in any future materials disseminated pursuant to Article XV of the Indenture or otherwise. The University may direct the Trustee to provide any such additional information to the SID, if any, and either to the MSRB or each NRMSIR.

Reference to Other Documents. [Section 1507]. It shall be sufficient for purposes of Section 1502 of the Indenture if the University provides Annual Financial Information by specific reference to documents previously (i) provided to each NRMSIR and the SID, if any, or (ii) filed with the SEC. If such a document is an Official Statement, it must also be available from the MSRB.

Disclaimer by the University. [Section 1508]. The University shall be under no obligation to the Holders, the Trustee or any other party to review or otherwise pass upon the Annual Financial Information or the Audited Financial Statements of the State, and the University's obligations hereunder shall be limited solely to the undertakings set forth in Article XV of the Indenture. The University shall be under no obligation to review, pass upon, update, provide or include or continue to include in its Official Statement any additional information regarding the State provided to the MSRB, each NRMSIR or the SID, if any, other than that information required to be submitted as part of the State's undertaking pursuant to paragraph (b)(5) of the Rule.

Transmission of Information and Notices. [Section 1509]. Subject to the limitations stated in the Indenture, the University and the Trustee shall employ such methods of information and notice transmission requested or recommended by the designated recipients of the information and notices required to be delivered pursuant to the provisions of Article XV of the Indenture.

Change in Fiscal Year, Submission Date and Report Date. [Section 1510]. The University may adjust the Submission Date and the Report Date if the University changes its Fiscal Year by providing written notice to the Trustee, which notice shall be promptly delivered to each NRMSIR and the SID, if any; provided, however, that the new Submission Date shall be no more than 180 days after the end of such new Fiscal Year and the new Report Date shall be no more than 4 Business Days following the new Submission Date, and provided further that the period between the final Report Date relating to the former Fiscal Year and the initial Report Date relating to the new Fiscal Year shall not exceed one year in duration.

Termination. [Section 1511]. (A) The University's and the Trustee's obligations under Article XV of the Indenture shall terminate immediately once Bonds are no longer Outstanding.

(B) The provisions of Article XV of the Indenture shall be null and void in the event that the University delivers to the Trustee a Counsel's Opinion stating that those portions of the Rule which require the provisions of Article XV of the Indenture, do not or no longer apply. The Trustee shall, upon receipt of such opinion, promptly provide copies thereof to each NRMSIR and the SID, if any.

(C) The obligations of the University relating to the State as an obligated person may be terminated if the State is no longer an "obligated person" as defined in the Rule. Such termination shall be effective upon the provision of notice by the University to the Trustee, upon receipt of which the Trustee shall notify the SID, if any, and to the MSRB or each NRMSIR.

Amendment. [Section 1512]. (A) Article XV of the Indenture may be amended, by written agreement of the parties, without the consent of the Holders of the Bonds (except to the extent required below under clause (3)(ii)), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law or in interpretations thereof, or a change in the identity, nature or status of the University or the type of business conducted thereby; (2) Article XV of the Indenture, as so amended would have complied with the requirements of the Rule as of the date of the Indenture, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (3) either (i) the University shall have delivered to the Trustee a Counsel's Opinion which states that the amendment does not materially impair the interests of the Holders of the Bonds, or (ii) the Holders of the Bonds consent to the amendment to Article XV of the Indenture pursuant to the same procedures as are required for amendments to the Indenture pursuant to Section 901 of the Indenture. In the event the University delivers to the Trustee a Counsel's Opinion pursuant to sub-paragraph (3)(i), the Trustee shall promptly deliver copies of such opinion and amendment to each NRMSIR and the SID, if any.

(B) In addition to subsection (A) above, Article XV may be amended and any provision of Article XV may be waived, by written agreement of the parties, without the consent of the Holders of the Bonds, if all the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued; and (2) the University shall have delivered to the Trustee a Counsel's Opinion stating that performance by the University and Trustee under Article XV as so amended or giving effect to such waiver will not result in a violation of the Rule. The Trustee shall deliver copies of such Opinion and amendment to each NRMSIR and the SID, if any.

(C) In the event of any amendment respecting the type of operating data or financial information contained in the University's Annual Financial Information, the University shall, in accordance with the Rule or any interpretation thereof by the SEC, provide in the first Annual Financial Information provided thereafter a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(D) In the event of any amendment specifying the accounting principles, for the year in which the change is made, the University shall present a comparison. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the difference and the impact of the change. In the event of any such change in accounting principles, the University shall deliver notice of such change to the Trustee and the Trustee shall deliver notice of such change to the Trustee and the Trustee shall deliver such notice to the SID, if any, and either to the MSRB or each NRMSIR.

Benefit; Third-Party Beneficiaries; Enforcement. [Section 1513]. (A) The provisions of Article XV of the Indenture shall inure solely to the benefit of the Holders from time to time of the Bonds, except that beneficial owners of Bonds shall be third-party beneficiaries of Article XV of the Indenture.

(B) Except as provided in this subsection, the provisions of Article XV of the Indenture shall create no rights in any person or entity. The obligations of the University to comply with the provisions of Article XV of the Indenture shall be enforceable (i) in the case of enforcement of obligations to provide Audited Financial Statements, Annual Financial Information, operating data and notice, by any Holder of Outstanding Bonds, or by the Trustee on behalf of the Holders of Outstanding Bonds, or (ii), in the case or challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the Holders of Outstanding Bonds; provided, however, that the Trustee shall not be required to take any enforcement action except at the direction of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding who shall have provided the Trustee with adequate security and indemnity. The Holders' and Trustee's rights to enforce the provisions of Article XV of the Indenture shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the University's obligations under

Article XV of the Indenture. In consideration of the third-party beneficiary status of beneficial owners of Bonds pursuant to subsection (A) of this Section, beneficial owners shall be deemed to be Holders of Bonds for purposes of this subsection (B). Without limiting the generality of the foregoing and except as otherwise provided in the Indenture, neither the commencement nor the successful completion of an action to compel performance under Article XV of the Indenture shall entitle the Trustee or any other person to attorney's fees, financial damages of any sort or any other relief other than an order or injunction compelling performance.

(C) Any failure by the University or the Trustee to perform in accordance with Article XV of the Indenture shall not constitute a default or an Event of Default under the Indenture or any Supplemental Indenture, and the rights and remedies provided by the Indenture or any Supplemental Indenture upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(D) Article XV of the Indenture shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of Article XV of the Indenture shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent Article XV of the Indenture addresses matters of federal securities laws, including the Rule, Article XV of the Indenture shall be construed in accordance with such federal securities laws and official interpretations thereof.

Duties, Immunities and Liabilities of Trustee. [Section 1514]. The Trustee shall have only such duties under Article XV of the Indenture as are specifically set forth therein, and the University agrees to indemnify and save the Trustee, its officers, directors, employees and agents harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties under Section 1514 of the Indenture excluding liabilities due to the Trustee's gross negligence or willful misconduct. Such indemnity shall be separate from and in addition to that provided to the Trustee under the Indenture. The obligations of the University under Section 1514 of the Indenture shall survive resignation or removal of the Trustee and payment of the Bonds.

Duties, Immunities and Liabilities of Officials. [Section 1515]. Pursuant to Public Act 95-270, the University shall protect and save harmless any official or former official of the University from financial loss and expense, including legal fees and costs, if any, arising out of any claim, demand, suit or judgment by reason of alleged negligence on the part of such official, while acting in the discharge of his or her official duties in providing secondary market disclosure information pursuant to Article XV of the Indenture or performing any other duties set forth in the Indenture. Nothing in Article XV of the Indenture shall be construed to preclude the defense of governmental immunity to any such claim, demand or suit. For purposes of Section 1514 of the Indenture, "official" means any person elected or appointed to office or employed by the University. The University may insure against liability imposed by this provision through any insurance company of another state authorized to write such insurance in the states or may elect to Act as self-insurer of such liability. This Section shall not apply to cases of willful and wanton fraud.

APPENDIX I-D

FORM OF CONTINUING DISCLOSURE AGREEMENT

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

Continuing Disclosure Agreement

This Continuing Disclosure Agreement ("Agreement") is made as of the ____ day of March, 2003 by the State of Connecticut (the "State") acting by its undersigned officer, duly authorized, in connection with the issuance of $96,210,000, University of Connecticut General Obligation Bonds 2003 Series A, dated March 1, 2003 (the "Bonds") and U.S. Bank National Association, as Trustee for the Bonds (the "Trustee"). The Bonds are being issued pursuant to a General Obligation Master Indenture of Trust entered into by The University of Connecticut (the "Issuer") and the Trustee dated as of November 1, 1995, as supplemented and amended from time to time (the "Indenture") for the benefit of the beneficial owners from time to time of the Bonds.

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

"Final Official Statement" means Parts II and III of the official statement of the Issuer dated March ___, 2003 prepared in connection with the Bonds.

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

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

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

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

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

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

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

"SEC" means the Securities and Exchange Commission of the United States, or any successor thereto.

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

Section 2. Annual Financial Information.

(a) The State agrees to provide or cause to be provided to each NRMSIR and any SID, in accordance with the provisions of the Rule and of this Agreement, annual financial information and operating data (commencing with information and data for the fiscal year ending June 30, 2003) as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 3. Material Events.

(Not applicable to State).

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

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

Section 5. Use of Agents.

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

Section 6. Termination.

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

Section 7. Enforcement.

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

In the event the State does not cure such failure within the time specified above, the beneficial owner of any Bonds shall be entitled only to the remedy of specific performance. The State expressly acknowledges and the beneficial owners are hereby deemed to expressly agree that no monetary damages shall arise or be payable hereunder nor shall any failure to comply with this Agreement constitute an event of default with respect to the Bonds, including, without limitation, an Event of Default under the Indenture, or a breach of any duty or obligation of the Trustee under the Indenture.

Section 8. Miscellaneous.

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

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

(c) Notwithstanding any other provision of this Agreement, the State may amend this Agreement, and any provision of this Agreement may be waived, if (i) such amendment or waiver is made in connection with a change of circumstances that arises from a change in legal requirements, a change in law, or a change in the identity, nature or status of the State, (ii) the Agreement as so amended or waived would have complied with the requirements of the Rule as of the date of the Agreement, taking into account any amendments or interpretations of the Rule as well as any changes in circumstances, and (iii) such amendment or waiver is supported by either an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially adversely affect the beneficial owners of the Bonds or an approving vote by the holders of not less than 51% of the aggregate principal amount of the Bonds then outstanding pursuant to the terms of the Indenture. 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

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By:______________________________________
Authorized Officer

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APPENDIX I-E

DEFINITIONS OF CERTAIN TERMS OF THE INDENTURES

Definitions. [Section 101]. The following terms shall have the following meanings for all purposes of the Master Indenture and the supplements thereto, including the Ninth Supplemental Indenture, except as otherwise defined:

"2003 Series A Bonds" means the Bonds authorized by, and issued in one or more series, pursuant to Article II of the Ninth Supplemental Indenture.

"Accreted Value" shall mean, as of the date of computation with respect to any capital appreciation bonds, an amount equal to:

a. the initial reoffering price of such capital appreciation bonds, plus

b. the interest accrued thereon from the date of delivery compounded on each ________ and ____________ (through and including the maturity date of such Bond) at the "approximate reoffering yield" of such Bond, provided that the accreted value on any date other than ________ and ___________ shall be calculated by straight line interpolation of the accreted values as of the immediately preceding and succeeding ________ and __________. The term "approximate reoffering yield" means, with respect to any particular Bond, the yield to maturity of such Bond from the initial date of delivery thereof calculated on the basis of semiannual compounding on each _________ and ___________.

"Act" means Public Act No. 95-230, as amended.

"Additional Bonds" means all Bonds issued under the Master Indenture other than the Initial Bonds and Refunding Bonds for the UConn 2000 Infrastructure Improvement Program.

"Annual Financial Information" means,

(A)(i) the Audited Financial Statements of the University for the preceding Fiscal Year (commencing with the Fiscal Year beginning on or after January 1, 1996), and Unaudited Financial Statements for such Fiscal Year if such Audited Financial Statements are unavailable, pursuant to the Master Indenture;

(ii) investments in the Bond Fund and in the various accounts under the Indenture;

(iii) identification of all Bonds issued by the University and Outstanding Bonds including a table summarizing certain Bond information, such as coupon rates, and call features;

(iv) data reflecting updating of certain tables of operating information relating to the University and included in the official statement of the University for the 2003 Series A Bonds consisting of the following: student admissions including the schedule of freshman enrollment and total student enrollment, tuition and other fees, student financial aid, hospital operating information, including staffed beds, discharges, patient days, average length of stay, payor mix as a percent of revenues, and employee data (number of full-time faculty and number of staff), outstanding University indebtedness, annual debt service requirements, and endowment or other similar funds held by or for the benefit of the University; and

(B) such narrative explanation as may be necessary to avoid misunderstanding and to assist the reader in understanding the presentation of such financial and operating data listed in (A) above.

Any or all of the items listed above may be included by specific reference to other documents which have been submitted to each NRMSIR and the SID, if any, or filed with the SEC. If such document is an Official Statement, it must be available from the MSRB.

In the event that any of the financial information or operating data constituting Annual Financial Information no longer can be generated because the operations to which such information or data relate have been materially changed or discontinued, a statement to that effect shall be provided in lieu of such information.

"Annual Financial Information" shall mean, with respect to the State, the Annual Financial Information submitted to or to be submitted by or on behalf of the State pursuant to the State's written continuing disclosure undertaking in compliance with the requirements of paragraph (b)(5) of the Rule.

"Assured Revenues" means those revenues of the University (i) other than Project Revenues particularly pledged under Dedication Instruments of the University for the payment of Special Obligation Bonds or State Bonds or (ii) not otherwise expressly by an existing contract or by statute or by grant restricted or encumbered for specific purposes and, except as limited by the foregoing (i) and (ii) shall include (a) revenues from fees, tuition, rentals, charges, gifts, investments, endowments and from grants, subsidies, contracts, leases or other agreements made by or with the federal government, the State or any political subdivision, agency or instrumentality of the federal government or the State, or others, including the State Debt Service Commitment, the Minimum State Operating Provision and Special Eligible Gifts, and (b) any payment made or required to be made to the University, or to the Trustee, under any Swap or Swap Facility, including, without limitation, Swap Receipts, Termination Receipts and any payment receipts in respect of a Swap for application by the University for Project Operating Expenses.

"Audited Financial Statements" means, with respect to the University, the annual financial statements, if any, of the University, audited by such auditor as shall then be required or permitted by State law or the Master Indenture. Audited Financial Statements shall be prepared in accordance with GAAP; *provided, however*, that the University may from time to time, if required by federal or State legal requirements, modify the basis upon which its financial statements are prepared including Financial Policy Number 2 of State Comptroller respecting Accounting and Financial Reporting Standards for State of Connecticut Constituent Units of Higher Education, as same may be implemented and amended from time to time. Notice of any such modification shall include a reference to the specific federal or State law or regulation describing such accounting basis and shall be provided by the University to the Trustee, who shall promptly deliver such notice to (i) either the MSRB or each NRMSIR, and (ii) the SID.

"Audited Financial Statements" shall mean, with respect to the State, the Audited Financial Statements submitted or to be submitted by or on behalf of the State pursuant to the State's written continuing disclosure undertaking in compliance with the requirements of paragraph (b)(5) of the Rule.

"Authorized Denomination" means $5,000 or any integral multiple thereof for current interest bonds and for capital appreciation bonds shall mean denominations such that the accreted value of each capital appreciation bond on the maturity date thereof will be $5,000 or an integral multiple thereof.

"Authorized Officer" means, in the case of the University, the Chair or Vice-Chair of the Board of Trustees, the academic and financial affairs committee of the Board of Trustees (acting by resolution and constituting the finance committee of the Board of Trustees within the meaning of the Act), the

President, Chancellor/Provost, the Vice President For Business Affairs and Finance, the Manager of Treasury Services (for purposes of making investments and disbursements only), the Controller (for purposes of making disbursements only) and the Vice Chancellor for Business and Administration (for purposes of making disbursements only) or any other person duly authorized by the bylaws or resolution of the University to perform the Act or sign the document in question.

"Board of Trustees" means the board of trustees of the University.

"Bond" or **"Bonds"** means the 1996 Series A Bonds, together with any Additional Bonds issued under and pursuant to the Master Indenture.

"Bondholders" or **"Holder of Bonds"** or **"Holder"** or **"Owner"** (when used with reference to Bonds) or any similar term, means any person or party who shall be the registered owner of any Outstanding Bond;

"Bond Facility" shall mean an insurance policy, surety bond or agreement, standby purchase agreement, line of credit, letter of credit or other credit enhancement or liquidity facility entered into for the same or similar purposes, with respect to Bonds.

"Bond Proceeds Fund" means such fund of the University established by Section 602 of the Master Indenture and governed by Section 603 of the Master Indenture.

"Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which banking institutions located in the State or in any of the cities in which the principal office of the Trustee, any Paying Agent or any remarketing agent is located, are required or are authorized by law or executive order to close or (iii) a day on which the New York Stock Exchange is closed.

"Calendar Year" means a twelve-month period commencing January 1 and ending December 31 of any year.

"Capital Appreciation Bonds" shall mean those Bonds for which interest is compounded periodically on each April 1 and October 1 (through and including the maturity dates thereof) and payable in an amount equal to the then current accreted value only at the maturity or earlier redemption thereof, all as so designated in the supplemental indentures.

"Code" means the Internal Revenue Code of 1986, as amended, and the applicable regulations thereunder.

"Construction Account" means such account of the Bond Proceeds Fund established under Section 601 of the Master Indenture.

"Costs of Issuance" means all costs related to the proceedings under which Bonds are issued under the Indenture including but not limited to salaries, administrative expenses, insurance premiums, fees, expenses or other similar charges payable to providers of a Bond Facility, a Swap Facility, a Swap Provider, including a Termination Payment, other than Reimbursement Obligations or Swap Payments or other termination payments, auditing and legal expenses and fees and expenses incurred for professional consultants, financial advisors and fiduciaries, fees and expenses of the Trustee, fees for issuing and paying agents, fees and expenses of remarketing agents and dealers, fees and expenses of the underwriters if payable other than as a result of a discount on the purchase price of Bonds or Notes, fees and expenses of rating agencies, transfer or information agents, the publication of advertisements and notices, printers' fees or charges incurred by the University or Treasurer on behalf of the University to comply with applicable federal and State securities or tax laws; and with respect to Bonds the interest on which is excludable from gross income of the recipient under the Internal Revenue Code means only the costs of issuance of a Series of Bonds which may be paid with Bond proceeds as shall be consistent with the Master Indenture.

"Costs of Issuance Account" means such account established by Section 602 of the Master Indenture.

"Counsel's Opinion" means an opinion signed by an attorney or firm of attorneys selected by the Treasurer, in consultation with the University (who may be counsel to the University); provided, however, that for the purposes of Article II and Article IX of the Master Indenture such term shall mean an opinion signed by an attorney or firm of attorneys of recognized standing in the field of law relating to municipal bonds, selected by the State or University.

"Current Interest Bonds" shall mean those Bonds which bear interest payable on February 15 and August 15 of each year through and including the maturity dates thereof, which may be either serial or term obligations.

"Debt Service Fund" means the fund from which debt service on all Outstanding Bonds of the University shall be paid as provided in the Act, established by Section 602 of the Master Indenture.

"Debt Service Fund Requirement" means, as of any date of computation, an amount at least equal to the aggregate amount of Principal Installments and Interest Requirements as the same become due and payable on all Outstanding General Obligation Bonds of the University.

"Dedication Instrument" means any document or agreement (including a Supplemental Indenture with respect to Other Indebtedness if issued hereunder), duly authorized and executed by or on behalf of the University and approved by resolution of the Board of Trustees of the University, in order to accomplish the UConn 2000 Infrastructure Improvement Program, to the extent permitted by applicable law and the Master Indenture, (a) authorizing the issuance of (i) Revenue Bonds and providing a pledge or assignment of all or any portion of Project Revenues to secure such Revenue Bonds or (ii) General Obligation Bonds and providing a pledge or assignment of all or any portion of Assured Revenues (other than the State Debt Service Commitment) to secure any Other Indebtedness and (b) containing such other terms, provisions or restrictions as the University may deem necessary or appropriate in connection with the foregoing purposes, in each case as each such document, agreement or resolution may be amended or supplemented from time to time in accordance with terms thereof and hereof and the provisions of the Act including any financing documents and financing transaction proceedings as defined in the Act.

"Event of Default" shall have the meaning given to such terms in Article XII of the Master Indenture.

"Fiduciary" or **"Fiduciaries"** means the Trustee, any Paying Agent, or either or both of them, as may be appropriate.

"Fiscal Year" shall mean a twelve-month period commencing on the first day of July of any year.

"GAAP" means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board ("GASB").

"General Obligation Bonds" shall mean the bonds of the University issued under the Master Indenture.

"Indenture" or **"Master Indenture"** means the General Obligation Master Indenture of Trust as from time to time amended or supplemented by Supplemental Indentures in accordance with the terms and provisions thereof.

"Information Services" means Financial Information, Inc. Kenny Information Services "Daily Called Bond Service," Moody's Investors Service "Municipal and Government," Standard & Poor's "Called Bond Record," and Fitch Investors Service, Inc., any NRMSIR, or, in accordance with the then current applicable guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or any other such services as the State may designate in writing to the Trustee.

"Initial Bonds" shall mean the initial general obligation bonds issued under the Master Indenture pursuant to the Act and the First Supplemental Indenture.

"Interest Payment Date" shall mean each date on which interest is payable on General Obligation Bonds under the Master Indenture or the applicable Dedication Instrument, or, if such date is not a Business Day, the immediately succeeding Business Day.

"Interest Requirement" means, as of the date of computation with respect to a Calendar Year, an amount equivalent to the aggregate maximum amount coming due during such Calendar Year on any Interest Payment Date, of (i) interest which may be payable on Outstanding Bonds and (ii) Swap Payments, provided that interest on Variable Interest Rate Bonds or Notes or Swaps shall be calculated in accordance with the Variable Interest Rate Calculation Rate, and further provided that if the University shall have entered into one or more Swaps with respect to a Variable Interest Rate Bond or Note, then the Bonds or Notes of such series in a principal amount equal to the Notional Amount shall be treated for purposes of this definition as bearing interest for such period at the fixed rate payable by the University under such Swap; if the University shall have entered into one or more Swaps with respect to a Bond or Note that is not a Variable Interest Rate Bond or Note which calls for a Variable Interest Rate Swap Payment by the University then the Bonds or Notes of such series in a principal amount equal to the Notional Amount shall be treated for purposes of this definition as a Variable Interest Rate Bond or Note bearing interest for such period at the Variable Interest Rate payable by the University under such Swap.

"Investment Obligations" shall mean and includes any of the following:

(i) Direct obligations of or obligations guaranteed by the United States of America;

(ii) Any bond, debenture, note, participation or other similar obligation issued by any of the following agencies: Government National Mortgage Association, Federal Land Banks, Federal Home Loan Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Tennessee Valley Authority, United States Postal Service, Farmers' Home Administration and Export-Import Bank;

(iii) Any bond, debenture, note, participation or other similar obligation issued by the Federal National Mortgage Association to the extent such obligations are guaranteed by the Government National Mortgage Association or issued by a Federal Agency backed by the full faith and credit of the United States of America other than as provided in (i) hereof;

(iv) Any other obligation of the United States of America or any Federal agencies which may then be purchased with funds belonging to the State or which are legal investments for savings banks in the State or obligation which may be purchased with proceeds of general obligation bonds of the State under Section 3-20 of the General Statutes as then in effect;

(v) Public Housing Bonds issued by Public Housing Authorities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or Project Notes issued by Public Housing Authorities or Project Notes issued by Local Public Agencies, in each case, fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(vi) Direct and general obligations of or obligations guaranteed by the State of Connecticut, to the payment of the principal of and interest on which the full faith and credit of the State is pledged;

(vii) Deposits in interest-bearing time or demand deposits or certificates of deposit secured by (a) obligations described in (i) hereof or (b) obligations described in (v) hereof, or (c) obligations described in (iv) hereof;

(viii) Deposits in interest-bearing time or demand deposits or certificates of deposit secured by obligations described in (ii), (iii) or (iv) hereof;

(ix) Participation certificates for the combined investment pool administered by the State Treasurer pursuant to No. 236 of the Public Acts of 1971; and

(x) the Tax Exempt Proceeds Fund, established by the Treasurer pursuant to Section 3-24a of the General Statutes, as amended.

"Listed Event" means any of the following events, if material, with respect to any Bonds under the Master Indenture:

(i) Principal and interest payment delinquencies;

(ii) Non-payment related defaults;

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;

(v) Substitution of credit or liquidity providers, or their failure to perform;

(vi) Adverse tax opinions or events affecting the tax-exempt status of the security;

(vii) Modifications to rights of security holders;

(viii) Redemption by the University of any Outstanding Bonds other than by mandatory sinking fund installments;

(ix) Defeasance;

(x) Release, substitution, or sale of property securing repayment of the securities; and

(xi) Rating changes.

"Listed Event Notice" means notice of a Listed Event required to be provided pursuant to Section 1504 of the Master Indenture.

"Maturity Amount" shall mean with respect to a capital appreciation bond its accreted value on its maturity date, being the amount to be paid on a capital appreciation bond at maturity.

"Minimum State Operating Provision" means the commitment of the State to appropriate, annually, an amount for the University for operations after receiving a request from the University therefor and consideration of other amounts available to the University for its operations which amount so appropriated shall be consistent with the University continuing to operate in furtherance and pursuant to the provisions of section 2 of article eighth of the Constitution of the State and applicable law as an institution dedicated to the excellence in higher education, including the operation of the components of UConn 2000 at Storrs and elsewhere in the State pursuant to section 5 of the Act; provided, however, nothing in section 1 to 25, inclusive, of the Act shall be construed to preclude the State from appropriating a lower or higher amount than the amount appropriated in the previous fiscal year so long as the appropriation act provides and determines that the University can continue to operate as an institution dedicated to excellence in higher education and such amount so appropriated shall then constitute the Minimum State Operating Provision.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any successor entity.

"Ninth Supplemental Indenture" shall mean the Ninth Supplemental Indenture dated as of March 1, 2003, as amended, authorizing The University of Connecticut General Obligation 2003 Series A Bonds (secured by the State Debt Service Commitment).

"Notes" shall mean any obligations or other evidences of indebtedness or borrowing of the University, other than Bonds, issued for the purposes of the Act to provide funds for deposit in the Bond Proceeds Fund and issued in anticipation of Bonds.

"NRMSIR" means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. The NRMSIRs as of the date hereof are: Bloomberg Municipal Repository (Skillman, NJ), DPC Data Inc. (Fort Lee, NJ), FT Interactive Data (New York, NY) and Standard & Poor's J.J. Kenny Repository (New York, NY).

"Official Statement" shall means the "final official statement", as defined in paragraph (f) (3) of the Rule, relating to any Series of Bonds.

"Operating Budget" means the annual operating budget of the University approved by the Board of Trustees pursuant to law.

"Other Indebtedness" shall have the meaning given in Section 907 of the Master Indenture.

"Outstanding" (1) when used with reference to Bonds, other than Bonds referred to in Section 1105 of the Master Indenture, shall mean, as of any date, a Bond or Bonds of such Series theretofore or thereupon being authenticated and delivered under the Master Indenture except:

(i) any Bonds canceled by the Trustee, and Paying Agent or the University at or prior to such date;

(ii) Bonds for the payment or redemption of which cash, equal to the principal amount or Redemption Price, shall be held in trust under the Master Indenture for such purpose, provided that if such Bonds are to be redeemed, notice of such redemption shall have been given or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Article III, Section 406 and Section 1106 of the Indenture; and

(iv) Bonds deemed to have been paid as provided in Section 1401 of the Master Indenture.

(2) When used with reference to General Obligation Bonds which are State Bonds, shall have the meaning, as of any date, given in the applicable Dedication Instrument.

"Outstanding Bonds" means any Bond with respect to which a Principal Installment, Interest Payment, Sinking Fund Installment or other payment is or will be due in the future and for which moneys or defeasance securities have not been deposited in escrow.

"Paying Agent" for the Bonds of any series means the bank or trust company located within or without the State and its successor or assigns, appointed by the University pursuant to the provisions of the Master Indenture and any successor or assign so appointed and approved.

"Preliminary Official Statement" shall mean the preliminary official statement of the University relating to the 2003 Series A Bonds.

"Principal" or **"principal"** means (1), with respect to any Capital Appreciation Bond, the Accreted Value thereof (the difference between the stated amount to be paid at maturity and the Accreted Value being deemed unearned interest), provided, however, when used in connection with (a) the authorization and issuance of Bonds and (b) the order of priority of payments of Bonds after a default under Article XI of the Master Indenture, "Principal" or "principal" means the Original Principal Amount of a Capital Appreciation Bond (being the initial public offering price of such Bond and the difference between the Accreted Value and the Original Principal Amount being deemed interest), and provided further, however, that when used in connection with determining whether the Bondholders of the requisite principal amount of Outstanding Bonds have given any required consent, notice, waiver, request, demand, authorization, direction or notice, "Principal" or "principal" means the Accreted Value, and (2) with respect to any Current Interest Bond, the principal amount of such Bond payable at maturity.

"Principal Amount" means the outstanding principal of a Current Interest Bond and, in the case of a capital appreciation bond, its accreted value.

"Principal Installment" for any Calendar Year, means, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, the principal amount of Bonds of said Series which mature in such Year, reduced by the aggregate principal amount of such Bonds which would be retired before such Year by reason of the payment and application of Sinking Fund Installments payable before such Year for the retirement of such Bonds, plus the unsatisfied balance (determined as provided in the Master Indenture) of the Sinking Fund Installments, if any, due during such Year for the Bonds of such Series.

"Principal Installment Date" means each date on which Principal and Sinking Fund Installments, if any, is payable on the Bonds as provided in or pursuant to the Master Indenture (or, if such date is not a Business Day, the immediately succeeding Business Day).

"Project" means, in accordance with the Act, any structure designed for use as a dormitory or other housing facility, dining facility, student union, academic building, administrative facility, library, classroom, building, research facility, faculty facility, office facility, athletic facility, health care facility, laboratory, maintenance, storage or utility facility or other building or structure useful for instruction in a program of education provided by the university; or any multipurpose structure designed to combine two or more of the functions performed by the types of structures enumerated in this subsection, including improvements, reconstruction, replacements, additions and equipment acquired in connection with a project or in connection with operation of any facilities of the University existing on the effective date of the Act, including all real and personal property, lands, improvements, driveways, roads, approaches, pedestrian access roads, parking lots, parking facilities, rights-of-way, utilities, easements and other interests in land, machinery and equipment, and all appurtenances and facilities either on, above or under the ground that are used or usable in any Project, including landscaping, site preparation, furniture, machinery, equipment and other similar items useful the operation of a particular facility or structure in the manner for which its use is intended, but does not include items that are customarily under applicable accounting principles considered as a current operating charge, unless the category and maximum amount thereof is specifically included by a determination of the Board of Trustees in the financing transaction proceedings and by percentage or otherwise as may be limited pursuant to such proceedings in order to preserve the excludability of the interest on the securities issued therefor from federal taxation under the applicable provisions of the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States as from time to time amended.

"Project Revenues" means revenues received from projects existing on the effective date of the Act, from Project or Projects under construction or from a combination of projects existing on the effective date of this Act and Projects, the acquisition, construction or accomplishment of which, the University has entered into a binding commitment, anticipated by the Board of Trustees to produce annual revenues in an amount not less than the anticipated annual cost of operation, maintenance and repair of any such Project or Projects, and annual debt service payments on any financing transaction proceedings under which Revenue Bonds have been issued for the Project or Projects during the term effected under the Act, as determined by the Board of Trustees.

"Record Date" means the close of business on the fifteenth day preceding an Interest Payment Date, or if such day shall not be a Business Day, the immediately preceding Business Day.

"Redemption Fund" means such fund of the University established by Section 602 of the Master Indenture.

"Redemption Price" means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to the Master Indenture.

"Refunding Bond" means all Bonds constituting the whole or a part of a Series of Bonds delivered on original issuance pursuant to Section 205 of the Master Indenture.

"Renewal and Replacement Fund" means such account established by Section 602 of the Master Indenture.

"Renewal and Replacement Fund Requirement" means that amount necessary for the University to meet the extraordinary renewal and replacement expenses of Projects financed by the University under the UConn 2000 Infrastructure Improvement Program and other facilities forming part of the physical university plant so as to permit the University to operate and maintain the physical university plant in sound operating condition and in conformity with Section 909(B) of the Master Indenture, as determined in each Operating Budget or otherwise.

“Revenue Bond” means special obligation securities issued by the University pursuant to the Act.

“Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of the Master Indenture, including any official interpretations thereof issued either before or after such date which are applicable to the Master Indenture.

“Securities Depositories” means The Depository Trust Company, Midwest Securities Trust Company, Philadelphia Depository Trust Company, or successors or, in accordance with the then current applicable guidelines of the Securities and Exchange Commission, such other depositories as the University may designate to the Trustee.

“Series of Bonds” or **“Bonds of a Series”** or words of similar meaning, means the Series of Bonds authorized by the Master Indenture and a Supplemental Indenture.

“SEC” means the United States Securities and Exchange Commission or any successor agency.

“SID” means, at any time, a then-existing state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. (As of the date hereof, there is no SID).

“Sinking Fund Installment” means, for any Calendar Year as of any date of calculation and with respect to any Bonds of a Series, so long as any Bonds thereof are Outstanding, the amount of money required by the Master Indenture or a Supplemental Indenture to be paid on a single future fixed date for the retirement of any Outstanding Bonds of said Series that mature after said future date, but does not include any amount payable by the University by reason only of the maturity of a Bond, and said fixed future date is deemed to be the date when such Sinking Fund Installment is payable and the date of such Sinking Fund Installment and said Outstanding Bonds are deemed to be the Bonds entitled to such Sinking Fund Installment.

“Special Debt Service Requirements” means for any period, and with respect to the Bonds, subject to the Master Indenture and any Supplemental Indenture authorizing the issuance of the Bonds, the sum of (A) the Principal Installments and interest accruing and coming due during such period, (B) the amounts, if any, required, with respect to interest rate fluctuations on variable rate debt, or with respect to securities not secured by the State Debt Service Commitment during such period to establish or maintain reserves, sinking funds or other funds or accounts at the respective levels required to be established or maintained therein in accordance with the proceedings authorizing the issuance of securities, (C) annual expenses of issuance and administration with respect to securities, (D) the amounts, if any, becoming due and payable under a reimbursement agreement or similar agreement entered into pursuant to authority granted under the proceedings authorizing the issuance of securities, (E) net amounts owing under interest rate agreements authorized and effective under section 10 of the Act, (F) arbitrage rebate requirements pursuant to subsection (b) of section 17 of the Act on securities secured by the State Debt Service Commitment and (G) any other annual costs or expenses necessary or proper to be paid in connection with the securities, including, without limitation, the annual cost of any Bond Facility, issued by a financial institution pursuant to an agreement approved in the financing transaction proceedings.

“Special Eligible Gift” means a gift to the University of cash or assets which may be reduced to cash by the University which the donor has specifically designated as a donation for use by the University in furtherance of UConn 2000 or which explicitly or implicitly by the terms thereof the University may use for UConn 2000 and which the University determines to so use therefor pursuant to subsection (a) of Section 9 of the Act.

"State" means State of Connecticut and for purposes of the rule, means the State of Connecticut, an obligated person with respect to the Bonds within the meaning of the Rule, acting by and through the Office of the State Treasurer..

"State Bonds" means general obligation bonds of the State issued or to be issued by the State for the purpose of financing capital improvements for the infrastructure of the University.

"State Debt Service Commitment" means with respect to the Bonds issued as general obligations of the University pursuant to subsection (c) of Section 7 of the Act for the UConn 2000 Infrastructure Improvement Program and additionally secured by this State Debt Service Commitment under the Master Indenture and any Supplemental Indenture, an annual amount, commencing in the State Fiscal Year ending June 30, 1996, and any Fiscal Year thereafter for any Special Debt Service Requirements when due and payable.

"Submission Date" shall have the meaning ascribed to it in Section 1502 of the Master Indenture.

"Supplemental Indenture" means any series or supplemental indenture entered into by the Trustee and the University pursuant to and in compliance with the provisions of Article X or Article XI of the Master Indenture providing for the issuance of Additional Bonds or Refunding Bonds, and shall also mean any other indenture between the same parties entered into pursuant to and in compliance with the provisions of Article X or Article XI of the Master Indenture amending or supplementing the provisions of the Master Indenture as originally executed or as theretofore amended or supplemented.

"Swap" shall have the meaning given in Section 101 of the Master Indenture.

"Swap Facility" means an insurance policy, surety bond, letter of credit or other credit enhancement with respect to a Swap or any similar facility entered into for the same or similar purposes and may include Investment Obligations properly pledged to the University hereunder pursuant to the Swap Facility or by the Swap Provider, in each case sufficient to maintain any existing rating of the University's Bonds. Payments by the University under a Swap Facility related to a Swap shall be deemed Swap Payments under the Master Indenture and shall not be deemed Reimbursement Obligations and payments to the University under a Swap Facility related to a Swap shall be deemed Swap receipts. Payment by the University under a Swap Facility applicable to any fees, expenses or similar other charges or obligations under the Master Indenture shall be a Cost of Issuance or an operation expense, as applicable.

"Swap Payment" means the net amount required to be paid by the University under a Swap that is applicable to the interest rate exchange effected thereunder, but not any (a) fees, expenses or similar other charges or obligations thereunder (which shall be Costs of Issuance or operation expense, as applicable) or (b) an Termination Payment or other payments by the University on account of termination of the Swap.

"Swap Provider" means a financial institution whose long term debt obligations, or whose obligations under a Swap are fully covered by a Swap Facility whose long term debt obligations are (ki) rated at lease as high by a least two nationally recognized rating agencies as the great of (a) the University's Bonds additionally secured by the State Debt Service Commitment and (b) the State's general obligation bonds or (ii) secured by a pledge of Investment Obligations in amounts sufficient to achieve the ratings described in (i) the Master Indenture or (ii) meeting the requirements of Section 908.2 of the Master Indenture.

"Swap Receipt" means the net amount required to be paid to the University under a Swap, but shall not include any Termination Receipt.

"Tax Regulatory Agreement" means a tax regulatory agreement, including any supplements and amendments thereto, of the University, signed by an Authorized Officer and by the Treasurer, to be delivered in connection with the issuance of any Bonds under the Master Indenture and setting forth the expectations, certifications and representations concerning the use of the proceeds of such Bonds and other matters relating to compliance with the Code and consistent with the covenant of the University pursuant to Section 910 of the Master Indenture.

"Termination Payment" means with respect to a Swap an amount required to be paid by the University to the Swap Provider or related Swap Facility as a result of the termination of the Swap or required to be pad by the University into q collateral account as security for any termination provided that any payment by the University on account of termination of a Swap shall be subject to amortization over several fiscal years to be determined and approved by the Treasurer in the Swap.

"Termination Receipt" means with respect to a Swap an amount required to be paid by the Swap Provider or related Swap Facility as a result of the termination of the Swap.

"Treasurer" means the Treasurer of the State or the Deputy Treasurer.

"Trust Estate" means all of the funds, securities, property, rights, privileges and interests granted, bargained, sold, conveyed, pledged and assigned unto the Trustee in the Granting Clauses of the Master Indenture securing the payment of the principal or redemption price, if any, of and interest on the Bonds according to their terms and all other amounts due in connection therewith and the performance and observance by the University of all the covenants expressed or implied therein and in Bonds.

"Trustee" means U. S. Bank National Association, as successor to State Street Bank and Trust Company, and any successor trust company or bank having the powers of a trust company within or without the State succeeding a prior trust company or bank as trustee, appointed pursuant to Section 810 of the Master Indenture.

"UConn 2000 Infrastructure Improvement Program" means the promotion, planning, designing, developing, encouraging, assisting, acquiring, constructing, reconstructing, improving, maintaining, equipping and furnishing of any UConn 2000 Project and assisting directly or indirectly in the financing of the cost thereof pursuant to the Act including the program of the University pursuant to which it issues bonds under the Master Indenture.

"UConn 2000 Phase I Project" means any Project which is identified and referenced in section 5 of the Act as a Phase I project, as same may be revised, deleted or added in accordance with the Act and the Master Indenture.

"UConn 2000 Phase II Project" means any Project which is identified and referenced in section 5 of the Act as a Phase II project, as same may be revised, deleted or added in accordance with the Act and the Master Indenture.

"UConn 2000 Project" means any UConn 2000 Phase I and UConn 2000 Phase II Project which the Board of Trustees by resolution authorizes to finance with Bonds under the Indenture provided such resolution is submitted to the Governor and has not been disapproved by the Governor within thirty (30) days of its submission.

"Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

"Underwriters" means the initial purchasers of the 2003 Series A Bonds pursuant to a bond purchase agreement duly executed by the University, the Treasurer and such purchasers.

"University" means The University of Connecticut, a constituent unit of the State system of public higher education, including The University of Connecticut Health Center and pursuant to the Act having perpetual succession as a body politic and corporate and an instrumentality and agency of the State or any body, agency, or instrumentality of the State or the State which shall hereafter succeed to the powers, duties and functions of the University under the Indenture.

"Variable Interest Rate" means a variable interest rate to be borne by any bond or Note within a Series of Bonds or Notes or by any Swap (whether a Swap Payment or Swap Receipt). The method or computing such variable interest rate shall be specified in the Supplemental Indenture authorizing such Series of Bonds or Notes or the Swap relating thereto. Such Supplemental Indenture or Swap shall also specify either (i) the particular period or periods of time for which such variable interest rate shall remain in effect or (ii) the time or times upon which any change in such variable interest rate shall become effective.

"Variable Interest Rate Calculation Rate" shall have the meaning given in Section 101 of the Master Indenture.

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APPENDIX I-F

MBIA INSURANCE CORPORATION POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

This policy is not covered by the Connecticut Insurance Guaranty Association specified in Section 7 of the Connecticut Financial Guaranty Act.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

____
President

Attest: ________________________
Assistant Secretary

STD-R-CT-6
4/95

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PART II

INFORMATION SUPPLEMENT

OF THE STATE OF CONNECTICUT

March 18, 2003

The Annual Information Statement of the State of Connecticut (the "State"), dated December 1, 2002, modified February 28, 2003, appears in this Official Statement as **Part III** and contains information through December 1, 2002. The State expects to provide an updating Information Supplement from time to time in the future, which will appear in this location as Part II of future Official Statements of the State.

This Information Supplement updates certain information in the December 1, 2002 Annual Information Statement through March 18, 2003. The information in this **Part II** and **Part III** is subject to change without notice, and investors should not assume that there has been no change in the affairs of the State since the date of this **Part II**.

FORMER TREASURER

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

STATE GENERAL FUND

Page III-24. The following information is added following the caption ***Fiscal Year 2002–2003 Operations:***

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

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

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

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

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

The above projections are only estimates and the information in **Appendix III-E** to this **Part II**, in the monthly letter and estimates of the Office of Policy and Management to the Comptroller, and in the Comptroller's monthly reports contains only estimates and no assurances can be given that subsequent estimates or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2002-03 operations of the General Fund.

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

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

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

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

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

Pursuant to Article XXVIII of the Amendments to the Constitution of the State of Connecticut and Section 2-33a of the Connecticut General Statutes, the Governor's biennial budget proposal for fiscal 2003-2004 remains $333.0 million below the expenditure cap and for fiscal 2004-2005, $65.6 million below the expenditure cap.

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

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

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

STATE DEBT

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

On December 13, 2002 the State issued $219,235,000 General Obligation Economic Recovery Notes to fund the deficit for the 2001-2002 fiscal year. The Notes comprised $149,095,900 Series A Notes and $70,140,000 Series B Auction Notes. The Series A Notes were dated December 1, 2002 and mature on December 1, in varying amounts, from 2003 to 2006 and at interest rates ranging from 2.00% to 4.00% per annum. The Series B Auction Notes were dated the day of delivery and mature on December 1, 2007 with a partial sinking fund redemption on December 1, 2006.

Page III-38. The following information is added to the section entitled ***Future Issuance of Direct General Obligation Debt.***

The State is planning to issue in the near future approximately $72,000,000 of its taxable general obligation bonds and approximately $565,000,000 if its tax-exempt general obligation bonds.

LITIGATION

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

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

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

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

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

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

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

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

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

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.

APPENDIX III-E

Appendix III-E to this **Part II** reflects the Governor's Proposed Biennial Budget for fiscal years 2003-2004 and 2004-2005. It also reflects the Midterm Budget Adjustments for fiscal year 2002-2003, using revenue estimates provided by the Office of Policy and Management, the estimated General Fund revenues and expenditures for the fiscal year 2002-2003, as estimated by the Office of Policy and Management before and after adoption of legislation to address the budget gap.

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

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

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

NOTE: Columns may not add due to rounding.

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

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

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

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

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

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

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

(h) Accelerate escheats to the State of Connecticut.

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

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

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

(l) The figure reflected for Restricted Accounts and Federal & Other Grants reflects an estimate for the Estimated Budget 2002-03. Additional revenues may be received with respect to Restricted Accounts and Federal & Other Grants. Expenditures of these grants are not included; the amount of such expenditures is generally the same as the amount of grants received.

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

(n) Estimates from the Office of the Policy and Management, after taking into effect enacted legislative changes contained in Public Act 03-02 (HB No. 6495). Revenues are affected as follows:
   - i. Per Public Act 03-2, the increase in personal income tax rate from 4.5% to 5.0% effective January 1, 2003 is estimated to yield $230.5 million in fiscal 2003, $428.3 million in fiscal 2004, and $445.5 million in fiscal 2005.
   - ii. Per Public Act 03-2, imposing and extending the sales tax on certain items and services is estimated to yield $37.0 million in fiscal 2003, $135.3 million in fiscal 2004, and $143.3 million in fiscal 2005.
   - iii. Per Public Act 03-2, imposing a one-year business tax surcharge of 20% effective January 1, 2003 is estimated to yield $45.6 million in fiscal 2003 and $24.6 million in fiscal 2004.
   - iv. Per Public Act 03-02, the increase in cigarette tax from $1.11 per pack to $1.51 per pack effective March 15, 2003 is estimated to yield $28.7 million in fiscal 2003, $73.5 million in fiscal 2004, and $71.7 million in fiscal 2005.
   - v. Per Public Act 03-02, $52.0 million is transferred to the General Fund from the cumulative balance in the Special Transportation Fund. In addition, $19.5 million is transferred to the resources of the General Fund from various off budget accounts.

(o) The monthly report of the Comptroller for the period ending January 31, 2003, taking into account the effect of H.B. 6495, projects a deficit of $32.6 million for fiscal 2003.

(p) The Governor's budget proposals submitted to the General Assembly on March 4, 2003 affect the revenues and expenditures as follows:
   - i. Reduce the property tax credit from $500 to $400 and phases out the remaining $100 at higher levels effective January 1, 2003 is estimated to yield $80.0 million in fiscal 2004 and $81.6 million in fiscal 2005.
   - ii. Repeals various sales tax exemptions and transfers yielding $21.9 million in fiscal 2004 and $33.6 million in fiscal 2005. Permanently repeals the tax on hospital services for a revenue loss of approximately $116.0 million annually.
   - iii. Imposes a 10% surcharge on corporate entities and eliminates various minor tax credits effective January 1, 2003 yields a combined estimate of $27.8 million in fiscal 2004 and $21.3 million in fiscal 2005.
   - iv. Increases the effective tax rate on the conveyance of residential and commercial property effective April 1, 2003 is eliminated to yield $5 million in fiscal 2003, $25 million in both fiscal 2004 and fiscal 2005.
   - v. Transfers of one-time revenues from the Energy Conservation & Load Management Fund, the Clean Energy Fund, the Connecticut Housing Finance Authority, the Connecticut Development Authority, and Connecticut Innovations, Inc. yields a combined $147 million in both fiscal 2004 and 2005.
   - vi. Increase in debt service in fiscal 2004 and fiscal 2005 is primarily attributable to retiring the principle and interest on the state's five year deficit notes.

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

NOTE: The information in **Appendix III-E** contains only projections and no assurances can be given that subsequent projections will not indicate changes in the items of revenue and expenditure and in the final result of the operations of the General Fund. Changes may also occur as the result of legislative action adjusting the budget or taking other actions which impact revenues or expenditures.

PART III
ANNUAL INFORMATION STATEMENT
STATE OF CONNECTICUT

DECEMBER 1, 2002

MODIFIED FEBRUARY 28, 2003

This Annual Information Statement of the State of Connecticut (the "State") contains information through December 1, 2002, ***modified February 28, 2003*** to include June 30, 2002 audited financial statements of the State prepared on a GAAP basis and a modified cash basis as **Appendices III-C and III-D**, respectively, to delete June 30, 2001 audited financial statements of the State which previously appeared as **Appendix III-C**, to correct references thereto and to reflect information contained therein, including revisions to **Table 3, Table 5 and Table 6**, and to make minor corrections. For information about the State after December 1, 2002, the State expects to provide an updating Information Supplement from time to time. The reader should refer to the Information Supplement, if any, set forth in this Official Statement immediately preceding this Annual Information Statement. This Annual Information Statement and the Information Supplement that precedes it, if any, and any appendices attached thereto, should be read collectively and in their entirety.

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

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

Constitutional Elected Officers

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

Executive Branch Officers

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

Legislative Branch Officers

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

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* Denotes member of the State Bond Commission

PART III
DECEMBER 1, 2002
Modified February 28, 2003
ANNUAL INFORMATION STATEMENT OF THE STATE OF CONNECTICUT

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INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

THE STATE OF CONNECTICUT

Governmental Organization and Services

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

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

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

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

State Economy

Connecticut is a highly developed and urbanized state. It is situated directly between the financial centers of Boston and New York. Connecticut is located on the northeast coast and is the southernmost of the New England States. It is bordered by Long Island Sound, New York, Massachusetts and Rhode Island. More than one-quarter of the total population of the United States and more than 50% of the Canadian population live within 500 miles of the State. The State’s population grew at a rate which exceeded the United States’ rate of population growth during the period 1940 to 1970, and slowed substantially during the past three decades. The State has extensive transportation and utility services to support its economy.

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

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

FINANCIAL PROCEDURES

The Budgetary Process

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

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

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

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

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

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

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

Financial Controls

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

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

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

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

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

By statute, the Treasurer may not pay compensation, expenses or fees or otherwise enter into contractual arrangements with any firm providing legal services, investment banking services, investment advisory services, underwriting services, financial advisory services or brokerage firm services if such firm, through its political committee or certain managerial level officers or employees, makes or solicits contributions to any committee established by a candidate for nomination or election to the Office of Treasurer of the State. The statute also prohibits the making or solicitation of contributions by such firms.

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

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

Unappropriated Surplus. The State Constitution provides that any resulting unappropriated surplus shall be used to fund a budget reserve fund, to reduce bonded indebtedness or for any other purpose authorized by at least three-fifths of each house of the General Assembly. The General Statutes provide that the Treasurer shall transfer any unappropriated surplus in the General Fund to a budget reserve fund, unless otherwise directed by law. When the amount in the budget reserve fund in any fiscal year equals 7½ % of the net General Fund appropriations, no further transfers shall be made by the Treasurer.

As of June 30, 2002, the balance in the budget reserve fund was $594.7 million. However, the entire budget reserve fund balance was applied to partially offset a fiscal year 2002 General Fund deficit of $817.1 million (unaudited) leaving a zero balance in the budget reserve fund. In the past, surplus moneys in excess of amounts transferred to the budget reserve fund have been held or applied to provide for the retirement of outstanding indebtedness or for debt avoidance.

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

Accounting Procedures

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

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

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

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

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

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

Investment and Cash Management

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

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

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

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

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

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

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

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

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

STATE GENERAL FUND

The State finances most of its operations through its General Fund. However, certain State functions, such as the State's transportation budget, are financed through other State funds. See **OTHER FUNDS, DEBT AND LIABILITIES** herein. For budgetary purposes, the State's General Fund is accounted for on a modified cash basis of accounting (the "budgetary-basis"), which differs from generally accepted accounting principles ("GAAP"). For an explanation of the differences between the budgetary-basis and GAAP based accounting, see **FINANCIAL PROCEDURES — Accounting Procedures** herein. The State is not presently required to prepare GAAP financial statements, although it has prepared such statements annually since 1988. GAAP based audited financial statements for all civil list funds of the State for the fiscal year ending June 30, 2002 are included as **Appendix III-C** to this Modified Annual Information Statement. The State gives no assurance that it will continue to prepare GAAP based financial statements in the future. Budgetary-basis financial statements for the General Fund audited for the fiscal years ending June 30, 1998 through June 30, 2002 are included in **Appendix III-D** to this Modified Annual Information Statement. The adopted budgets for the fiscal years ending June 30, 2002 and June 30, 2003, the actual budgetary-basis results for the fiscal year ending June 30, 2002 and the estimated (as of October 31, 2002) budgetary-basis results for the fiscal year ending June 30, 2003 are included as **Appendix III-E** to this Modified Annual Information Statement. Unless otherwise stated, amounts set forth in the discussion which follows under this caption **STATE GENERAL FUND** refer to such amounts as calculated on the budgetary-basis of accounting.

General Fund Revenues

Forecasted, Adopted and Historical Revenues

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

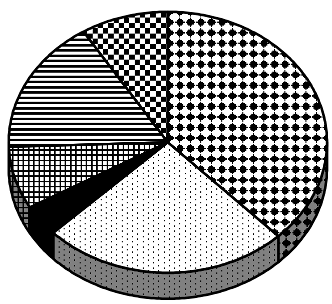
Because of the vast number of variables that can impact the revenue forecast, the State considers forecasting to be a process and not a product. While the economic data from available sources is analyzed and used to anticipate overall direction and trends, the revenue forecast is generated through a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

Fiscal 2002 and 2003 Adopted Revenues. General Fund revenues as forecasted at the adoption of the budgets for the fiscal year ending June 30, 2002 and as forecasted in connection with the mid-term budget adjustments for the fiscal year ending June 30, 2003 ("Adopted Revenues") are reflected in **Appendix III-E** to this Modified Annual Information Statement. The State, as of the forecast date, expected to derive approximately seventy percent of its General Fund revenues from taxes during each of the 2001-02 and 2002-03 fiscal years. Fiscal year 2001-2002 actual revenues, based on information contained in the Comptroller's annual report for the fiscal year ending June 30, 2002, and fiscal year 2002-2003 revenue forecasts based on information contained in the monthly report of the Office of Policy and Management for the period ending October 31, 2002, are also reflected in **Appendix III-E** to this Modified Annual Information Statement.

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

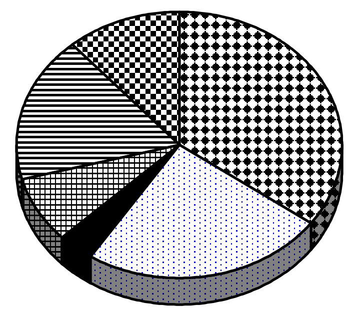
Adopted General Fund Revenues (In Millions)

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



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

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



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

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

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

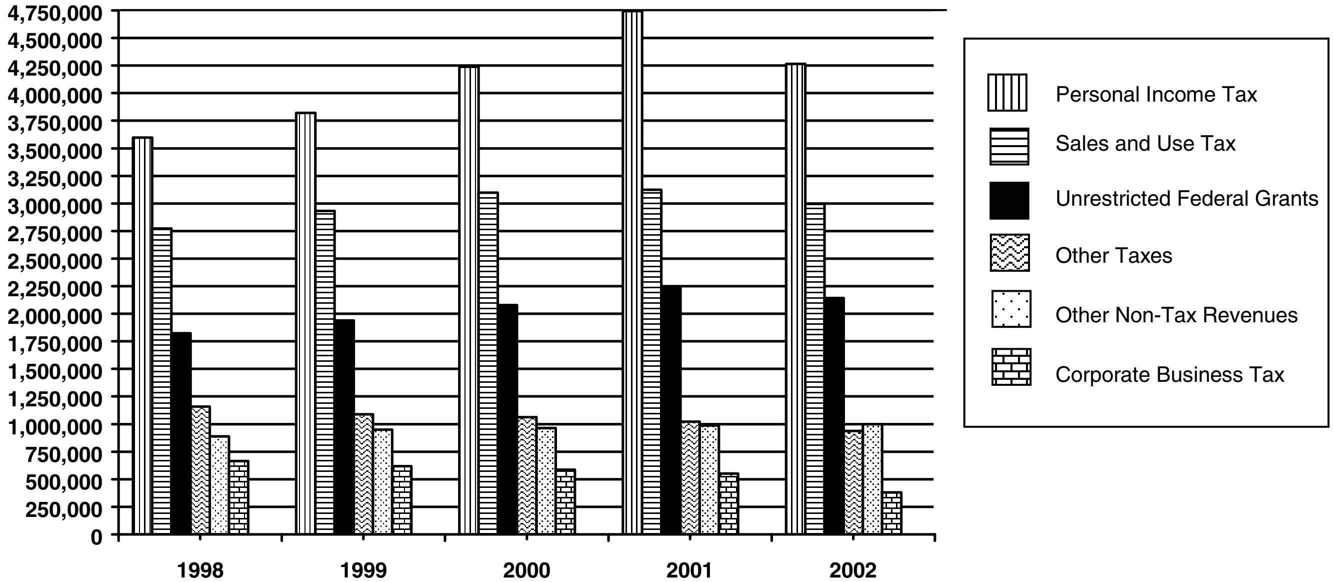
(c) Other taxes are comprised of inheritance and estate taxes, taxes on gross receipts of public service corporations, taxes on net direct premiums of insurance companies, taxes on oil companies, cigarettes and alcoholic beverages, real estate transfers, taxes on admissions and dues and other miscellaneous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

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

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

Historical General Fund Revenues. Actual General Fund revenues for the fiscal years 1998 through 2002 are set forth in **Appendix III-D** to this Modified Annual Information Statement. A summary of the composition of General Fund gross revenues for the last five fiscal years is illustrated below:

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



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

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

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

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

SOURCE: 1998, 1999, 2000, 2001 and 2002 Annual Reports of the State Comptroller.

Components of Revenue

Personal Income Tax. The State imposes a personal income tax on the income of residents of the State (including resident trusts and estates), part-year residents and certain non-residents who have taxable income derived from or connected with sources within Connecticut. The tax imposed is at the maximum rate of 4.5% on Connecticut taxable income. Depending on federal income tax filing status, the taxable year and Connecticut adjusted gross income, personal exemptions are available to taxpayers, ranging from $12,000 to $24,000, with the lower end of the range increasing annually to $15,000 by taxable year 2009 for certain taxpayers. In addition, tax credits ranging from 1% to 75% of a taxpayer's Connecticut tax liability are also available depending upon federal income tax filing status, the taxable year and Connecticut adjusted gross income. Such exemptions and tax credits are phased out at certain higher income levels. Neither the personal exemption nor the tax credit described above is available to trusts or estates. Legislation enacted in 1995 effected a graduated rate structure beginning in tax year 1996. Under this revised structure, the top rate remains at 4.5% with a rate of 3% applicable to taxable income up to certain amounts. Subsequent legislation has increased the amount of taxable income subject to the 3% rate. By tax year 1999 and thereafter, the first $20,000 of taxable income for a joint filer and the first $10,000 of taxable income for a single filer is taxed at the 3% rate. In addition, an income tax credit for property taxes paid has been increased to a maximum of $500 per filer. Taxpayers also are subject to a Connecticut minimum tax based on their liability, if any, for payment of the federal alternative minimum tax.

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

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

The first method of computation is a tax measured by the net income of a taxpayer (the "Income-Base Tax"). Net income means federal gross income with limited variations less certain deductions, most of which correspond to the deductions allowed under the Internal Revenue Code of 1986, as amended from time to time. The Income-Base Tax had been levied at the rate of 10.75% in 1996 and was phased down over subsequent years to 7.5% for taxable years commencing on and after January 1, 2000. The second method of computing the Corporation Business Tax is an alternative tax on capital. This alternative tax is determined either as a specific maximum dollar amount or at a flat rate on a defined base, usually related in whole or in part to its capital stock and balance sheet surplus, profit and deficit. The third method of computing the Corporation Business Tax is the minimum tax which is a flat $250. Corporations must compute their tax liability under all three methods, determine which calculation produces the greatest tax, and pay that amount to the State. Public Act No. 02-1 of the May 9th Special Session instituted a $250 charge on LLCs, LLPs and S corporations, and limited corporation credits from reducing tax liability by more than 70%. Public Act No. 02-4 of the May 9th Special Session extended the tax to single-member LLCs that are not considered entities separate from their owners for federal tax purposes.

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

Federal Grants. Federal grants in aid are normally conditioned to some degree, depending upon the particular program being funded, on resources provided by the State. More than 99% of unrestricted federal grant revenue is expenditure driven. The largest federal grants in fiscal 2002 were made for the purposes of providing medical assistance payments to the indigent and temporary assistance to needy families. The State also receives certain restricted federal grants which are not reflected in annual appropriations but which nonetheless are accounted for in the General Fund. In addition, the State receives certain federal grants which are not accounted for in the General Fund but are allocated to the Transportation Fund, various Capital Project Funds and other funds.

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

General Fund Expenditures

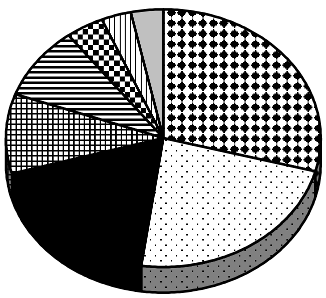
Appropriated and Historical Expenditures

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

Appropriated expenditures included in adopted budgets for fiscal years ending June 30, 2002 and June 30, 2003, final budget expenditures for the fiscal year ending June 30, 2002 based on information contained in the Comptroller's Annual Report and the estimated expenditures for the fiscal year ending June 30, 2003 based on information contained in the Office of Policy and Management's letter to the Comptroller dated November 20, 2002 are set forth in **Appendix III-E** to this Modified Annual Information Statement. A summary of appropriated General Fund expenditures for the fiscal years ending June 30, 2002 and June 30, 2003 is set forth below.

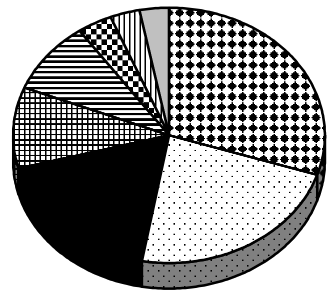
Appropriated General Fund Expenditures (In Millions)

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



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

Appropriated Expenditures 2002-2003
$12,091.8 (a)



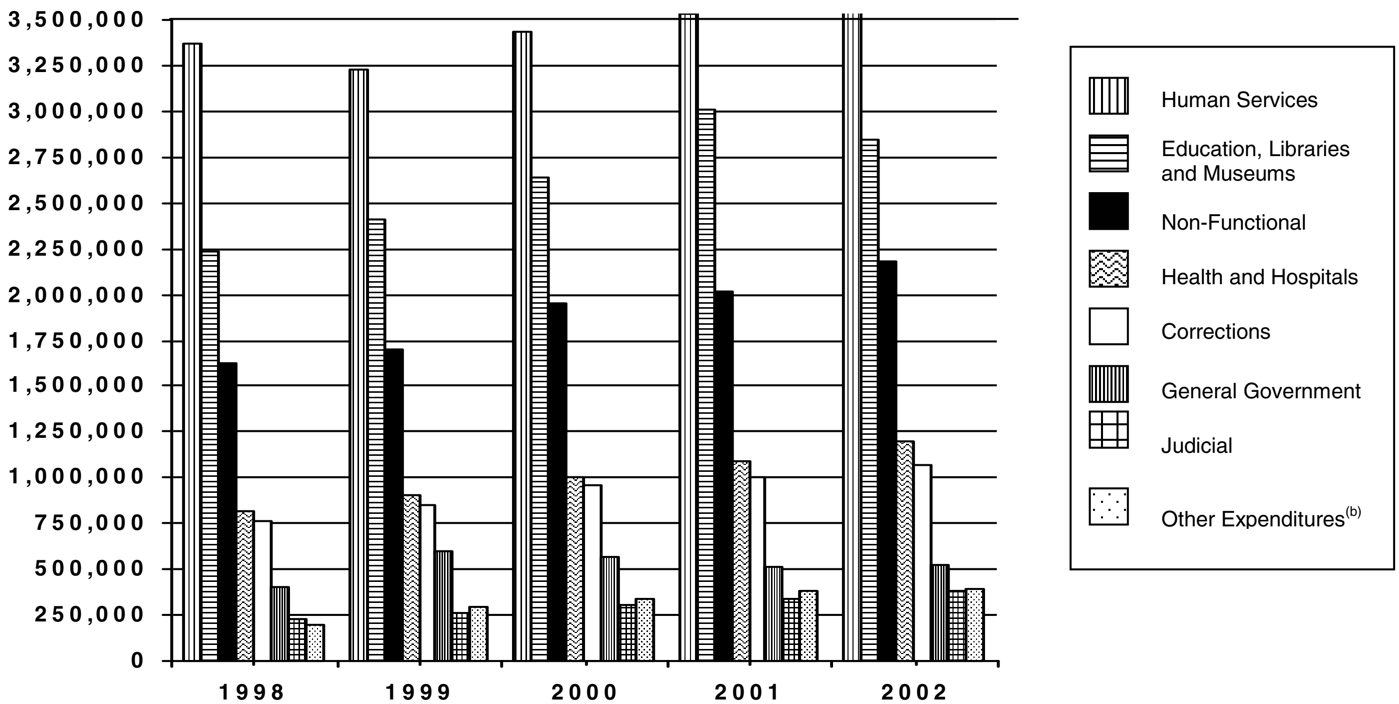
Human Services	$3,687.4	29.9%
Education, Libraries and Museums	2,810.3	22.8%
Non-Functional	2,258.6	18.3%
Health and Hospitals	1,246.4	10.1%
Corrections	1,132.0	9.2%
General Government	451.9	3.6%
Judicial	395.9	3.2%
Other Expenditures[b]	361.2	2.9%

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

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

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

Historical General Fund Expenditures. Actual General Fund expenditures for the fiscal years 1998 through 2002 are set forth in **Appendix III-D** to this Annual Information Statement. A summary of the composition of General Fund expenditures for last five fiscal years is illustrated below:



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

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

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

(b) Other expenditures are comprised of expenditures for Regulation and Protection, Conservation and Development, and Legislative, and in some years, certain Transportation expenditures.

SOURCE: 1998, 1999, 2000, 2001 and 2002 Annual Reports of the State Comptroller.

Components of Expenditures

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

Education, Libraries and Museums. Based upon the adopted budget for the 2002-2003 fiscal year, approximately 71% of the State expenditures for Education, Libraries and Museums is allocated to the Department of Education, with the largest share consisting of payments to local governments. The remaining 29% consists of expenditures for higher education (including the University of Connecticut, the Connecticut State University System and Regional Community-Technical Colleges), the Teachers' Retirement Board, the State Library and services for the blind and deaf.

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

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

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

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

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

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

Conservation and Development. State expenditures for Conservation and Development fall into three general categories: agriculture; development of historical sites, commerce and industry; and environment, the latter accounting for approximately 56% of all appropriations for Conservation and Development based upon the adopted budget for the 2002-2003 fiscal year.

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

Expenditures by Type

General Fund appropriations and the State expenditures to which they relate are divided for both administrative and budgetary purposes among appropriation account categories based on the type of appropriation. Appropriation account types may be grouped conceptually into two broad categories: payments to third parties and costs of State administration. Payments to third parties consist of two major appropriation account types: payments to local governments, and payments to parties other than local governments (which include debt service payments). Such payments to third parties amount to approximately 62% of total General Fund appropriations under the adopted budget for the 2002-2003 fiscal year. Costs of State administration consist of three major appropriation account types: personal services, equipment, and other expenses. These expenditures are used directly to operate the facilities and programs of State agencies and include such items as salaries, wages, pension and other benefits for State employees; utility and fuel costs; food; institutional and office supplies; equipment; rent for office space and other facilities; and other current expenses. Appropriations for costs of State administration represent approximately 38% of all General Fund appropriations under the adopted budget for the 2002-2003 fiscal year.

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

TABLE 1

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

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

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

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

SOURCE: Office of Policy and Management

Fiscal Year 2001-2002 Operating Results

The adopted budget for the 2001-2002 fiscal year anticipated General Fund revenues of $11,894.1 million and General Fund expenditures of $11,894.0 million resulting in a projected surplus of $0.1 million. **Appendix III-D** and **Appendix III-E** show the results for the 2001-2002 fiscal year per the Comptroller's Annual Report. This report indicates that General Fund revenues were $10,845.4 million and that General Fund expenditures and miscellaneous adjustments were $11,662.5 million, resulting in a deficit of $817.1 million for the 2001-2002 fiscal year. Per Section 4-30a of the Connecticut General Statutes, the balance of $594.7 million credited to the Budget Reserve Fund was deemed to be appropriated for the purpose of funding the deficit. Under the provisions of Special Act No. 02-1, Section 111 of the May 9, 2002 Special Session, the remaining deficit balance of $222.4 million will be financed by the issuance of five year Economic Recovery Notes.

Midterm Budget Adjustments for Fiscal 2002-03:

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

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

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

Pursuant to Article XXVIII of the Amendments to the Constitution of the State of Connecticut and Section 2-33a of the Connecticut General Statutes, the Midterm Budget Adjustments for fiscal year 2002-2003 were $376.2 million below the expenditure cap.

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

Fiscal Year 2002-2003 Operations:

The adopted Midterm Budget Adjustments for the 2002-2003 fiscal year anticipate General Fund expenditures of $12,091.8 million. Per Section 3-115 of the Connecticut General Statutes, the State's fiscal position is reported monthly by the Comptroller. This report compares the revenues already received and the expenditures already made to estimated revenues to be collected and estimated expenditures to be made during the balance of the fiscal year. Per the Comptroller's monthly report for the period ending July 31, 2002, based on the Office of Policy and Management estimate, in a letter to the Governor, there was an estimated $281.5 million budget deficit for the 2002-2003 fiscal year. This estimated deficit of $281.5 million is 2.3% of net General Fund Appropriations. Per Section 4-85 of the Connecticut General Statutes, whenever the cumulative monthly financial statement issued by the Comptroller indicates a projected General Fund deficit greater than one percent of the total General Fund appropriations, the Governor is required within thirty days to file a report with the joint standing committee of the General Assembly on appropriations and on finance, revenue and bonding. The report shall include a deficit mitigation plan that the Governor shall implement to modify agency allotments to the extent necessary to prevent a deficit. Should such plan result in a reduction of more than five percent of total appropriations, approval of the General Assembly would be required. In anticipation of this plan, the Governor instructed the Secretary of the Office of Policy and Management to review all allotments in force to determine if enough reductions could be made to prevent a deficit.

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

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

The above projections are only estimates and the information in **Appendix III-E**, in the monthly letter of the Office of Policy and Management to the Comptroller, in the Comptroller's monthly reports and in the Office of Fiscal Analysis Budget Projections contains only estimates and no assurances can be given that subsequent estimates or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2002-2003 operations of the General Fund.

General Fund Budget History

Table 2 summarizes the results of operation of the General Fund on the budgetary-basis. Summaries of actual revenues and expenditures on the budgetary (modified cash) basis for the fiscal years 1998 through 2002 are set forth in **Appendix III-D** to this Modified Annual Information Statement.

TABLE 2

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

	Fiscal Years Ended June 30				
	1998	**1999**	**2000**	**2001**	**2002**
Total General Fund Revenues[(a)]	$10,142.2	$10,616.4	$11,213.6	$11,985.5	$10,845.4
Net-Appropriations/Expenditures[(b)]	9,829.3	10,544.6	10,913.2	11,954.8[(c)]	11,662.5
Operating Surplus/(Deficit)	$ 312.9[(d)]	$ 71.8[(e)]	$ 300.4[(f)]	$ 30.7[(g)]	$ (817.1)[(h))]

(a) Does not include Restricted Accounts and Federal and Other Grants. See **Appendix III-D-6**.
(b) Does not include expenditures for Restricted Accounts and Federal and Other Grants. Includes Amounts Reserved for Prior Year Appropriations Less Appropriations Carried Forward and Other Adjustments. See **Appendix III-D.**
(c) Does not include expenditures which were financed from fiscal year 2000 reserves for debt avoidance.
(d) $161.7 million of the operating surplus was reserved for transfer to the Budget Reserve Fund while the remaining $151.2 million was reserved for the retirement of bonded debt.
(e) $30.5 million of the operating surplus was reserved for transfer to the Budget Reserve Fund while the remaining $41.3 million was reserved for the retirement of bonded debt.
(f) $34.9 million of the operating surplus was reserved for transfer to the Budget Reserve Fund while the remaining $265.5 million was reserved for debt avoidance.
(g) $30.7 million of the operating surplus was reserved for transfer to the Budget Reserve Fund.
(h) $594.7 million from the Budget Reserve Fund was applied to partially fund the deficit. The remaining deficit balance will be financed through the issuance of economic recovery notes.

SOURCE: Comptroller's Office

Table 3 shows the reconciliation of the actual operations surplus (deficit) under the budgetary (modified cash) basis to the GAAP basis of accounting. Adopted GAAP based financial statements for fiscal year 2002 are included in **Appendix III-C**.

TABLE 3

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

	Fiscal Years Ended June 30				
	1998	**1999**	**2000**	**2001**	**2002**
Modified Cash Basis Operating Surplus/(Deficit)	$ 312.9	$ 71.8	$ 300.4	$ 30.7	$ (817.1)
Adjustments:					
Increases (decreases) in revenue accruals:					
Governmental Receivables	(35.2)	56.3	59.8	80.0[(a)]	37.0
Other Receivables	(35.7)	(21.4)	15.5	(15.1)	9.0
(Increases) decreases in expenditure accruals:					
Accounts Payable and Other Liabilities	60.6	(49.7)	(161.5)	(115.8)[(a)]	69.4
Salaries and Fringe Benefits Payable	(6.5)	(33.7)	120.8	(14.1)	(15.6)
Increase (decrease) in Continuing Appropriations	180.5	294.1	(289.8)	334.0	(543.8)
Reclassification of equity adjustments	(85.8)	(142.5)	(118.1)	(266.5)	—
GAAP Based Operating Surplus/(Deficit)	$ 390.8	$ 174.9	$ (72.9)	$ 33.2	$(1,261.1)

SOURCE: Comptroller's Office

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

TABLE 4

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

	Fiscal Years Ended June 30				
	1998	**1999**	**2000**	**2001**	**2002**
Operating Surplus/Deficit	$312.9	$ 71.8	$300.4	$ 30.7	$ (817.1)
Fund Transfers and Reserves					
Transfers to Budget Reserve Fund	161.7	30.5	34.9	30.7	--
Transfers from Budget Reserve Fund	--	--	--	--	594.7
Economic Recovery Note Debt Retirement	--	--	--	--	--
Reserve for Debt Service Appropriation	151.2	41.3	--	--	--
Reserve for Debt Avoidance	--	--	265.5	--	--
Total Transfers/Reserves	312.9	71.8	300.4	30.7	594.7
Unreserved Fund Balance					
Surplus/(deficit)	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ (222.4)

SOURCE: Comptroller's Office

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

TABLE 5

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

	Fiscal Years Ended June 30				
	1998	1999	2000	2001	2002
Unreserved Fund Balance (Deficit)					
Modified Cash Basis	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$(222.4)
GAAP Based Adjustments					
Continuing Appropriations Available for GAAP Liabilities	—	141.8	35.0	25.4	—
Additional Assets					
Taxes Receivable					
Income Tax Accrual Reduction	(149.9)	(170.0)	(151.3)	(194.1)	(221.8)
Eliminate Corporation Accrual	(29.1)	(22.1)	(19.5)	(23.3)	(16.9)
Additional Taxes Receivable	8.1	5.0	4.0	7.0	9.3
Net Increase (Decrease) Taxes	(170.9)	(187.1)	(166.8)	(210.4)	(229.4)
Net Accounts Receivable	19.4	29.7	76.2	83.8	57.3
Federal and Other Grants Receivable[a]	383.4	428.4	435.7	525.8	582.0
Due From Other Funds	13.1	7.9	4.8	7.2	13.1
Total Additional Assets	$ 245.0	$ 278.9	$ 349.9	$ 406.4	$423.0
Additional Liabilities					
Salaries and Fringe Payable	(240.7)	(279.9)	(158.0)	(173.4)	(189.3)
Accounts Payable—Department of Social Services	(479.4)	(525.7)	(676.7)	(773.3)	(704.8)
Accounts Payable—Trade & Other	(125.4)	(142.1)	(175.6)	(191.2)	(180.7)
Payable to Local Governments	(.1)	-	-	-	-
Payable to Federal Government	(90.6)	(72.0)	(48.8)	(72.6)	(62.0)
Due to Other Funds	(3.1)	(3.7)	(.8)	(3.1)	(7.8)
Total Additional Liabilities	$(939.3)	$(1,023.4)	$(1,059.9)	$(1,213.6)	$(1,144.6)
Unreserved Fund Balance (Deficit)					
GAAP Basis	$(694.3)	$ (602.7)	$ (675.0)	$ (781.8)	$ (944.0)

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

SOURCE: Comptroller's Office

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

TABLE 6

General Fund Fund Balances-GAAP Basis
(In Millions)

	Fiscal Years Ended June 30				
	1998	1999	2000	2001	2002
Reserved:					
Petty Cash	$ 1.1	$ 1.1	$ 1.0	$ 1.0	$ 1.0
Budget Reserve	498.6	529.1	564.0	594.7	-
Loans & Advances to Other Funds	-	-	5.0	6.6	5.9
Restricted Purposes	-	-	265.5	249.3	283.2
Inventories	34.3	34.3	37.7	36.2	41.9
Continuing Appropriations	372.3	526.4	343.5	687.0	167.8
Debt Service	232.1	131.3	13.2	20.7	9.3
Total	1,138.4	1,222.2	1,229.9	1,595.5	509.1
Unreserved:	(694.3)	(602.7)	(675.0)	(781.8)	(944.0)
Total Fund Balance	$ 444.1	$ 619.5	$ 554.9	$ 813.7	$ (434.9)

SOURCE: Comptroller's Office

STATE DEBT

Constitutional Provisions

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

Types of State Debt

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

State Direct General Obligation Debt

General

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

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

Statutory Debt Limit. Section 3-21 of the General Statutes provides that no bonds, notes or other evidences of indebtedness for borrowed money payable from General Fund tax receipts of the State shall be authorized by the General Assembly or issued except as shall not cause the aggregate amount of (1) the total amount of bonds, notes or other evidences of indebtedness payable from General Fund tax receipts authorized by the General Assembly but which have not been issued and (2) the total amount of such indebtedness which has been issued and remains outstanding, to exceed 1.6 times the total estimated General Fund tax receipts of the State for the fiscal year in which any such authorization will become effective or in which such indebtedness is issued, as estimated for such fiscal year by the joint standing committee of the General Assembly having cognizance of finance, revenue and bonding. However, in computing the aggregate amount of indebtedness at any time, there shall be excluded or deducted revenue anticipation notes having a maturity of one year or less, refunded indebtedness, bond anticipation notes, borrowings payable solely from the revenues of a particular project, the balances of debt retirement funds associated with indebtedness subject to the debt limit as certified by the Treasurer, the amount of federal grants certified by the Secretary of the Office of Policy and Management as receivable to meet the principal of certain indebtedness, all authorized and issued indebtedness to fund any budget deficits of the State for any fiscal year ending on or before June 30, 1991 and for the fiscal year ending June 30, 2002, all authorized debt to fund the Connecticut Development Authority's tax increment bond program, and any indebtedness represented by agreements entered into pursuant to certain provisions of the General Statutes, provided the indebtedness in connection with which such agreements were entered into shall be included in such aggregate amount of indebtedness. For purposes of the debt limit statute, all bonds and notes issued or guaranteed by the State and payable from General Fund tax receipts are counted against the limit, except for the exclusions or deductions described above. In addition, under Public Act No. 95-230 and Public Act No. 02-3, the amount of authorized but unissued debt for UConn 2000 and UConn 21st Century programs is limited to the amount permitted to be issued under the cap. See ***Types of Direct General Obligation Debt — UConn 2000 Financing and UConn 21st Century Financing.***

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

The total tax receipts for the fiscal year beginning July 1, 2002 as last estimated by the General Assembly's joint standing committee on finance, revenue and bonding, and the calculation of the debt limit, the aggregate amount of outstanding debt and of authorized but unissued debt subject to such limit, and the debt incurring margin, all as of November 1, 2002 is described in the following table.

TABLE 7

Statutory Debt Limit
as of November 1, 2002

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

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

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

(c) See **OTHER FUNDS DEBT AND LIABILITIES – Contingent Liability Debt.** Guarantees for certain outstanding debt of Southeastern Connecticut Water Authority and UConn 2000 Bonds. Excludes accreted value of UConn 2000 capital appreciation bonds.

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

(e) Includes debt service funds for self-liquidating debt issued to finance facilities at University of Connecticut and Connecticut State University.

SOURCE: State Treasurer's Office

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

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

Types of Direct General Obligation Debt

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

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

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

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

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

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

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

The total amount of University bonds and State general obligation bonds authorized by the acts is approximately $368 million less than the estimated costs of the infrastructure improvements set forth in the acts. This difference is expected to be addressed by capital cost reductions, deferring certain projects to a future date, and by securing additional funding sources, such as private fundraising and special obligation bonds. Special obligation bonds are to be secured by particular revenues of the University pledged therefore, are not subject to the cap on the University's general obligation bonds and are not counted against the State's debt limit.

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

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

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

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

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

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

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

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

Debt Statement

The following table shows all direct general obligation indebtedness (including the accreted value of capital appreciation bonds as of November 1, 2002) for the payment of the principal and interest on which the State has pledged its full faith and credit or which is otherwise payable from the State's General Fund.

TABLE 8

Direct General Obligation Indebtedness [(a)]
Principal Amount Outstanding as of November 1, 2002
(In Thousands)

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

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

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

SOURCE: State Treasurer's Office

Debt Ratios

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

TABLE 9

Debt Ratios - Long Term General Obligation Debt
(As of June 30 – in Thousands)

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

(a) In thousands. Includes gross and net long-term direct general obligation bonded indebtedness as set out in ***Table 11***.
(b) See ***Appendix III-B, Table B-2***. Personal Income: 1998—$124,880 million; 1999—$130,175 million; 2000—$138,796 million; 2001—$143,613 million; and 2002 ratio uses 2001 data.
(c) Full value estimated by Office of Policy and Management. Uses final equalized net grand lists: 1996—$263 billion; 1997— $276 billion; 1998 — $296 billion; 1999 – $317 billion; and 2000—$361 billion. Property is assessed as of October 1 in each year for the tax levy effective the following July 1. The 1998 ratio uses 1996 data; 1999 ratio uses 1997 data; 2000 ratio uses 1998 data; 2001 ratio uses 1999 data; and 2002 ratio uses 2000 data.
(d) See ***Appendix III-B, Table B-1***. State population: 1998—3,365,000; 1999—3,386,000; 2000—3,410,000; 2001—3,425,000; and 2002 ratio uses 2001 data.

Debt Service Schedule

The following table sets forth the principal, sinking fund and interest payments required on all outstanding long-term direct general obligation debt of the State, as of November 1, 2002. Although not specifically reflected as a result of combining all outstanding long-term direct debt, the State generally issues general obligation bonds maturing within twenty years. The exceptions include thirty-year Rental Housing Term Bonds and certain other bonds with maturities of less than twenty years where required by statute or in instances where the expected period of usefulness of the project or purpose financed does not warrant a maturity of twenty years.

TABLE 10

Summary of Principal, Mandatory Sinking Fund Payments, and Interest on Long-Term Direct General Obligation Debt[(a)] as of November 1, 2002

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

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

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

(c) On May 14, 1997 the State issued $100,000,000 General Obligation Variable Rate Demand Bonds of which $99,235,000 remain outstanding. The interest on these securities is estimated herein at a 4.00% average rate. The balance of the Bonds mature in the years 2005-2014.

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

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

SOURCE: State Treasurer's Office

Outstanding Long-Term Direct General Obligation Debt

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

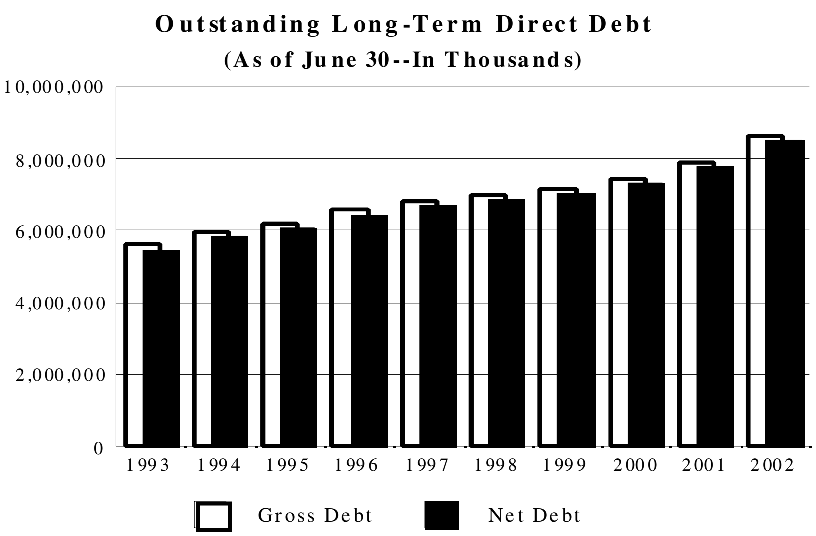
TABLE 11

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

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

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

SOURCE: State Treasurer's Office



Future Issuance of Direct General Obligation Debt

Authorized But Unissued Direct General Obligation Debt. The General Assembly has empowered the State Bond Commission to authorize direct obligation bonds pursuant to certain bond acts. The table below shows, as of November 1, 2002, the amount of bonds authorized by bond acts in effect, the amount the State Bond Commission has authorized, the amount of bonds issued pursuant to State Bond Commission authorizations, the balance remaining authorized but unissued and the balance available for authorization. The table shows the same information for UConn 2000 bonds secured by the State's debt service commitment authorized to be issued under the cap through June 30, 2003.

TABLE 12

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

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

(a) Includes bonds which may be issued under the cap in effect on the date of the table. The amount available for authorization does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest.

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

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

TABLE 13

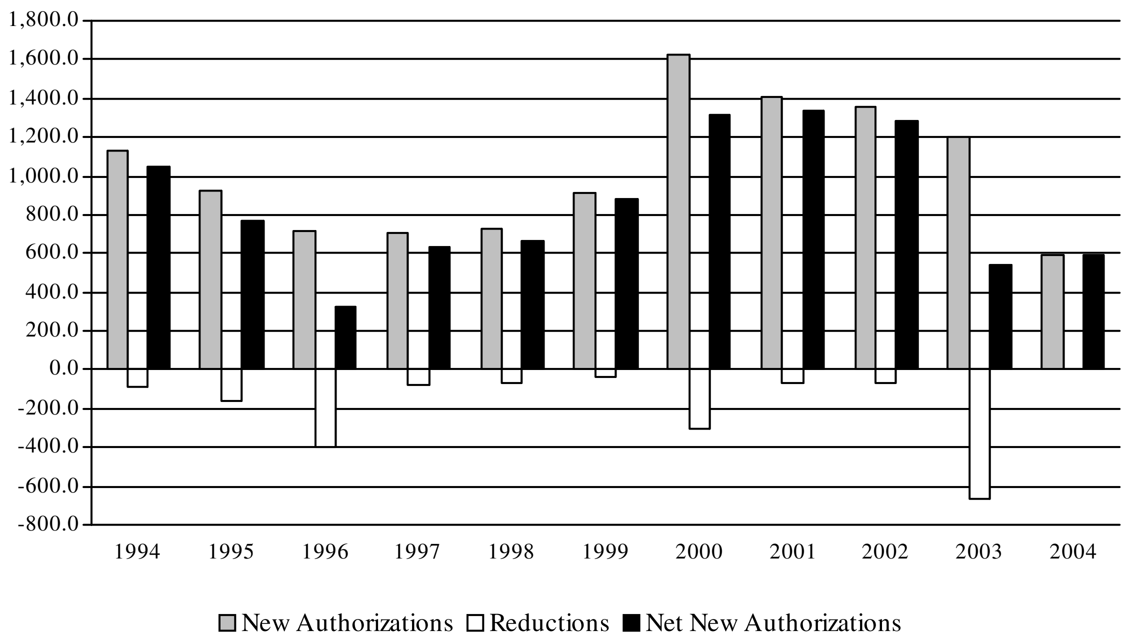
Statutory Bond Authorizations and Reductions[a]
(In Millions)

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

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

SOURCE: Office of Policy and Management

Statutory Bond Authorizations and Reductions
(In Millions)



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

TABLE 14

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

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

(a) To be issued by University of Connecticut based on cap for the year indicated prior to actual bond issuance. Does not include additional amounts which may exceed cap to finance reserve funds, issuance costs and capitalized interest. Does not include $100 million authorized under the cap for fiscal year 2005 or the $1,250 million authorized for UConn 21st Century for fiscal years 2006 through 2015.

SOURCE: Office of Policy and Management

OTHER FUNDS, DEBT AND LIABILITIES

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

Transportation Fund and Debt

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

The cost of the infrastructure program for State fiscal years 1985-2006, which is to be met from federal, State, and local funds, is currently estimated at $15.8 billion. During fiscal years 1985-2003, $13.7 billion of the total infrastructure program was approved. The remaining $2.1 billion is required for fiscal years 2004-2006. The $2.1 billion is comprised of $517.9 million from the anticipated issuance of new special tax obligation bonds, $38.4 million in anticipated revenues, and $1.59 billion in anticipated federal funds. The State's share of the 1985-2006 infrastructure program costs, estimated at $5.9 billion, is to be funded from transportation related taxes, fees and revenues deposited in the Special Transportation Fund, as described below, and from the proceeds of STO bonds. The portion of State program costs not financed by STO bonds is estimated at $0.6 billion and includes the expenses of the infrastructure program which either are not sufficiently large or do not have a long enough life expectancy to justify the issuance of long-term bonds. Such expenses currently include liquid resurfacing, minor bridge repairs, highway maintenance activities, safety improvements, and other minor transportation improvements.

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

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

The following table shows the amount of STO bonds authorized by the General Assembly for the program, the amount issued and the amount outstanding (excluding refunded bonds) as of November 1, 2002. It is anticipated that additional STO bonds will be authorized by the General Assembly annually in an amount necessary to finance and to complete the infrastructure program. Such additional bonds may be issued on an equal rank with the outstanding bonds provided certain pledged revenue coverage requirements of the STO indentures controlling the issuance of such bonds are met. The State expects to continue to offer bonds for this program.

TABLE 15

Special Tax Obligation Bonds
As of November 1, 2002
(In Millions)[(a)]

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

(a) The amounts under the New Money column include only new money borrowings, and not refundings. The amounts under the Total column include both new money borrowings and refundings.
(b) Includes authorizations effective July 1, 2002 or before.

SOURCE: State Treasurer's Office

Debt service on State direct general obligation bonds for transportation purposes may be paid from resources of the Special Transportation Fund provided there is sufficient funding first to pay all STO debt service. For the year ended June 30, 2002, the Special Transportation Fund paid $21.1 million of State direct general obligation transportation debt service payments. The amount budgeted by the Special Transportation Fund for State direct general obligation transportation debt service payments for fiscal year 2002-03 is $17.3 million.

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

In 2002, legislation was passed which made changes that will have an impact on the State's Special Transportation Fund. Revenue changes include increasing the diesel fuel tax from 18 cents per gallon to 26 cents per gallon effective August 1, 2002; a reduction to the transfer of oil companies tax revenue from the General Fund of $26 million beginning in fiscal year 2003; and for fiscal year 2003 only, the annual transfer from the Special Transportation Fund to the Conservation Fund will be reduced by $1 million. The most significant expenditure change was the funding of Town Aid Road grants from the Special Transportation Fund in fiscal year 2003. These grants were transferred to the General Fund in fiscal year 2001. Funding for Town Aid Road grants from the Special Transportation Fund is not included in the program projection period of fiscal years 2004 to 2006.

In addition, legislation was passed in 2001 which created the Connecticut Transportation Strategy Board. The 15 member board consists of five appointed members from the private sector, five appointed members from each of the five Transportation Investment Areas established in the legislation, and the Commissioners of Transportation, Environmental Protection, Economic and Community Development, and Public Safety, and the Secretary of the Office of Policy and Management. The initial transportation strategy was presented on January 15, 2002. The legislation also requires that the first revised strategy be submitted by December 15, 2002 and further requires that the Board shall provide to the Governor and the General

Assembly periodic updates or revisions to the strategy and reports on implementing the strategy. Such strategy and all such updates and revisions are subject to approval by the General Assembly. The future impact of this legislative initiative on the Special Transportation Fund cannot be determined at this time.

Other Special Revenue Funds and Debt

Bradley Airport

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

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

On October 1, 1982 the State issued $100 million Bradley International Airport Revenue Bonds. All of the outstanding maturities of this issue were subsequently refunded. On March 15, 2001, the State issued $213.18 million Bradley International Airport Revenue Bonds, comprised of $194 million General Airport Revenue Bonds to fund a major terminal expansion, and $19.18 million General Airport Revenue Refunding Bonds to refund certain 1992 Bradley bonds. As of November 1, 2002, there were $46.6 million of 1992 Bradley International Airport Revenue Refunding Bonds outstanding.

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

Clean Water Fund

The General Assembly authorized the issue of up to $1,180.1 million revenue bonds for the purpose of funding various State and federally mandated water pollution control and drinking water projects. The revenue bonds are payable solely from the revenues or other receipts, funds or moneys pledged therefor. The proceeds of the revenue bonds are loaned to Connecticut municipalities to finance water pollution control and drinking water improvements, and the loan repayments by the municipalities secure the bonds. The loans are evidenced by interim funding obligations and project loan obligations of the municipalities, pursuant to which the full faith and credit of each such municipality is pledged, or in a few instances revenues of a municipal sewer system are pledged. As of November 1, 2002, $460.4 million revenue bonds (excluding refunded bonds) were outstanding.

Unemployment Compensation

The State pays unemployment compensation benefits from the State's Unemployment Compensation Fund, which is funded by unemployment compensation taxes collected from employers. In 1993, the State responded to a deficit in the Fund by, among other things, issuing three series of special obligation bonds totaling $1,020.7 million to repay certain federal borrowings and to fund certain reserves. All of these bonds were defeased in June 2001. To fund future shortfalls, the State has reserved the authority to issue bonds in an aggregate amount outstanding at any time not in excess of $1,000 million, plus amounts for certain reserves and costs of issuance. The State has not incurred any additional borrowing since 1993 other than borrowings from the Federal Unemployment Trust Fund for cash flow purposes which have been repaid prior to September 30 in each case and which therefore have not been subject to federal interest charges.

Second Injury Fund

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

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

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

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

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

As of June 30, 2002, the Second Injury Fund had settled approximately 5,728 cases since January 1, 1995 at a cost of $423.7 million. Through a review of cases conducted by staff, using guidelines established in consultation with Deloitte & Touche, more than 1,700 inactive cases have been closed and approximately 2,737 cases remain open/active. In addition, certain lawsuits are pending which challenge the exclusion of certain claims from the Second Injury Fund.

The State issued $100 million Second Injury Fund Revenue Bonds in 1996 and an additional $124.1 million in 2000, which have a final maturity of 2015. As of November 1, 2002, the amount of bonds outstanding was $58.4 million and $95.6 million, respectively. The State also has a Commercial Paper Dealer Agreement and credit support in place, initially for up to $300 million, now reduced to $80 million. As of November 1, 2002, there was no outstanding commercial paper. The bonds and any amounts borrowed under the line of credit are payable solely from amounts held in the Finance Account of the Second Injury Fund, revenues pledged for their payment pursuant to legislation and amounts held under the indenture of trust with respect to the bonds, including a special assessment premium surcharge on employers. Based on the Second

Injury Fund's experience to date, it is not expected that additional revenue bonds will be issued. The management objective is to pay additional claims and settlements from current income and, if necessary, short term borrowings.

Contingent Liability Debt

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

Special Capital Reserve Funds

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

Quasi-Public Agencies

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

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

Connecticut Development Authority ("CDA"). The CDA was established in 1973 as a successor Authority. In order to discharge its responsibilities and fulfill its purposes, the CDA is authorized to offer various financing programs including The Mortgage Insurance and Loan Program (the "Insurance Fund"), the

Umbrella Bond Program, the Self-Sustaining Bond Program, the Connecticut Growth Fund, the Connecticut Works Fund, the Connecticut Works Guarantee Fund, the Connecticut Capital Access, the Connecticut Small Business Reserve Fund, the Environmental Assistance Revolving Loan Fund, the Tax Incremental Financing Program, the High-Technology Infrastructure Fund, created in 2000, and the General Obligation Bond Program. Currently, only certain CDA bonds issued pursuant to the Umbrella Bond Program and the General Obligation Bond Program are further secured by special capital reserve funds.

Under the Umbrella Bond Program the CDA issues bonds to provide loans to private entities for the acquisition of industrial land, buildings, machinery, equipment and pollution control devices. Loan payments from the borrower to the CDA provide funds to service the debt on such bonds. Loans financed under the Umbrella Bond Program are secured by real and/or personal property of the borrower and by the Insurance Fund, which is, in part, State funded and insures payment of the loans. Loans may be insured up to an aggregate outstanding principal amount not to exceed four times the funds available to the Insurance Fund. As of June 30, 2002 the assets in the Insurance Fund totaled $7.9 million and an additional $20.45 million of State bonds have been authorized to fund the Insurance Fund but remain unissued. As of June 30, 2002, loans insured by the Insurance Fund totaled $22.0 million.

Under the General Obligation Bond Program (the "Program"), the CDA issues bonds to finance eligible economic development and information technology projects. Pursuant to an Indenture of Trust between the CDA and Fleet National Bank (formerly Shawmut Bank Connecticut, N.A.), general revenues of the CDA, which are not otherwise pledged, are made available to service the debt of bonds issued under the Program. Although such bonds may also be secured by a special capital reserve fund, to date under the Program only $30.56 million 1993 Series A (Hartford Whalers Project) bonds, of which $18.32 million remain outstanding, have been secured by such a fund.

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

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

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

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

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

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

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

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

Connecticut Housing Finance Authority ("CHFA"). CHFA was established in 1969 to meet the needs of low and moderate income families and persons for decent housing and to encourage and assist the development and construction of multifamily housing by reducing the cost of mortgage financing therefor. CHFA is authorized to issue bonds the proceeds of which are used to fund mortgage loans to applicants meeting certain eligibility requirements including unrestricted statutory income limits in certain urban areas. The enabling act authorizes CHFA to make or purchase construction and permanent mortgage loans which are guaranteed or insured by the United States of America or any agency or instrumentality thereof, by the Federal Home Loan Mortgage Corporation, by a private mortgage insurance company or the State or the Authority itself without limitation as to amount and to make or purchase mortgage loans not so insured or guaranteed in an aggregate amount not to exceed $750 million. In order to finance these activities CHFA has established a Housing Mortgage Finance Program and has issued its general obligation bonds under a General Bond Resolution pursuant to which CHFA has pledged all revenues which it may receive in connection with the mortgages financed thereunder including its fees and charges therefor and any recoveries of principal therefrom from any source and any monies received from investments. In addition, such General Bond Resolution provides for general covenants such as a covenant to do all things necessary with respect to the operation of such Housing Mortgage Finance Program in order to pay principal of and interest on its bonds and provides for certification as to self-sufficiency in order to issue any additional bonds. Bonds issued under CHFA's General Bond Resolution are further secured by a special capital reserve fund. In addition, while not specifically pledged, CHFA has other funds reserved in respect of mortgages financed under the General Bond Resolution.

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

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

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

CRRA has approximately $198.1 million outstanding Special Capital Reserve Debt as of November 1, 2002 pertaining to the Mid-Connecticut waste to energy plant in Hartford, Connecticut. In addition to tipping fees under service agreements with participating municipalities, CRRA's bonds are payable from the sale of steam and electricity. Enron Power Marketing, Inc. ("Enron") is the entity which is obligated to pay the Authority a monthly "capacity charge" for the purchase of steam and an additional charge for electrical output from the facility. The capacity charge is significantly above current market prices. Enron filed for bankruptcy on December 2, 2001 and has not made its capacity or electricity payments since that time. It is unlikely that Enron will make its other required payments to CRRA. Additionally, Covanta Mid-Conn., Inc., operator of the steam and electricity production components of the Mid-Connecticut facility, filed for bankruptcy on April 1, 2002. Thus far the bankruptcy has not affected Covanta's operation of the Mid-Connecticut facility.

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

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

Assistance to Municipalities

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

The City of Waterbury. In March and June 2001, the State adopted legislation to assist the City of Waterbury in financing its budget deficits (the "Act"). The Act imposed certain financial controls on the City and created a Waterbury Financial Planning and Assistance Board. The Act authorizes the City, subject to approval of the Board and the State Treasurer, to issue bonds for the purpose of funding the City's budget deficits. Payment of the bonds is serviced through the City's taxing authority. The Act requires the City to direct certain of its tax revenues to a trustee through a tax intercept mechanism for the purpose of servicing the debt on its bonds. The Act also provides for the establishment of a special capital reserve fund to further secure up to $100 million bonds issued by the City to fund its budget deficits. The State is contingently obligated to restore the special capital reserve fund to its required minimum. The City issued $97.5 million Special Capital Reserve Fund Bonds in April 2002. The Minimum Capital Reserve Requirement is $10.1 million.

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

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

State Treasurer's Role

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

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

Outstanding Contingent Debt

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

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

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

(a) No statutory limit.

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

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

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

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

School Construction Grant Commitments

The State is obligated to various cities, towns and regional school districts under a grant-in-aid public school building program to fund certain of the costs of construction and alteration of school buildings and to support part of the interest payments on municipal debt issued to fund the State's share of such school building projects. Pursuant to this program, which applies to certain school projects approved by the General Assembly prior to 1997, cities, towns and districts are ranked according to their adjusted equalized net grand list per capita and based on such rankings a percentage is assigned which determines the amount of grant money a town or regional school district is eligible to receive for a project or type of project authorized by the legislature and approved by the Commissioner of Education. Grants for construction costs are paid to the cities, towns and districts in installments which correspond to the number and time of principal payments due on municipal bonds, or temporary notes renewed for a third or subsequent year, issued to finance project costs. If a project is fully paid from sources other than borrowing, such grants are paid in five annual installments. Grants in support of interest payments correspond to the number and time of such interest payments. As of June 30, 2002, the State is obligated to various cities, towns and regional districts for $846 million in aggregate installment payments and $278 million in aggregate interest subsidy, for a total of $1,124 million. Funding for these payments may come from future State direct general obligation bond sales. The State legislature and the Commissioner of Education have authorized additional grant commitments to be made under this program which could also be funded by general obligation bonds. The Commissioner estimates that these additional grants may be approximately $30 million for installment payment grants and approximately $8 million for interest subsidy grants.

Legislation enacted in 1997 significantly changed the method of financing the State's share of local school construction projects. For school construction projects approved during the 1997 legislative session and thereafter, the State no longer participates in the payment of debt service on municipal bonds and therefore no longer contributes to the cost of interest incurred by the municipalities. The State now pays the costs of its share of construction projects on a progress payment basis during the construction period. Legislation enacted in 1997 and subsequent years approved additional grant commitments for local school construction projects under the new grant program. As of June 30, 2002 the Commissioner estimates that grant payments under this program will be approximately $2,800 million.

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

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

Child Care Facilities Debt Service Commitments

Legislation enacted in 1997 authorized the Connecticut Health and Educational Facilities Authority to issue bonds and loan the proceeds to various entities to finance child care facilities. The Department of Social Services may enter into commitments to apply monies for each such entity to pay the debt service on the loans in amounts sufficient to cover a portion of the debt service on the Authority's bonds. Legislation enacted in 1999 provided for the obligation of the Department of Social Services to make debt service payments to be made by the State Treasurer. Any obligation by the Department or the State Treasurer to pay is subject to annual appropriation. The Authority first issued special obligation bonds under this program in 1998. The Authority has approximately $39.57 million bonds outstanding under this program with annual debt service of approximately $3.0 million, of which the Department is committed to pay approximately $2.4 million.

Two other Child Care Facilities programs also authorize the Commissioner of the Department of Social Services to enter into guaranties of loans made to entities to finance the development of child care and child development centers or programs. The Authority is administering this program on behalf of the Department, and is currently limiting the aggregate amount of guaranties to the balance of monies in the reserve funds for the respective programs.

Other Contingent Liabilities

The Connecticut Lottery Corporation was created in 1996 as a public instrumentality of the State to operate the State's lottery pursuant to the Connecticut Lottery Corporation Act (the "Act"). The State and the Corporation purchase annuities under group contracts with insurance companies which provide payments corresponding to the obligation for payments to lottery prize winners. The State has transferred to the Corporation all annuities purchased by it and the Corporation has assumed responsibility for the collection of revenue generated from the lottery and for the payment of all lottery prizes. Under the Act, the termination of the Corporation shall not affect any outstanding contractual obligation of the Corporation and the State shall succeed to the obligations of the Corporation under any such contract. As of June 30, 2002 the future obligation to lottery prize winners is $693.9 million.

PENSION AND RETIREMENT SYSTEMS

State Employees' Retirement Fund

The State Employees' Retirement Fund is the largest system maintained by the State with approximately 54,287 active members, 1,496 inactive (vested) members and 32,354 retired members as of June 30, 2002. Generally employees hired before July 1, 1984 participate in the Tier I plan, which includes employee contributions. As of July 1, 2002 approximately 23% of the total work force was covered under the Tier I Plan. Other employees generally participate in the Tier II plan, which is non-contributory and provides somewhat lesser benefits. As of July 1, 2002 approximately 52% of the total workforce was covered under the Tier II plan. Employees hired after July 1, 1997 participate in the Tier IIA plan, which requires contributions from its employee members. As of July 1, 2002 approximately 25% of the total work force was covered under the Tier IIA Plan.

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

The most recent actuarial valuation, dated November 12, 2002, indicated that as of June 30, 2002 the State Employees' Retirement Fund had an actuarial accrued liability of $12,806,115,474 and had assets with an actuarial value of $7,893,683,977. This resulted in an unfunded accrued liability of $4,912,431,497 as of June 30, 2002. As of June 30, 2002 the market value of the fund's investment assets was $7,090,508,997, which amount was less than the actuarial value by $803,174,980.

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

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

TABLE 17

State Employees' Retirement Fund

	Year Ending June 30				
	1998	1999	2000	2001	2002
General Fund Contributions.................	$227,610,361	$199,304,785	$212,947,331	$257,806,736	$284,527,059
Transportation Fund Contributions.................	25,740,000	28,419,000	27,636,000	31,321,880	36,676,000
Federal and other (Reimbursements)	81,163,459	87,838,000	102,176,999	86,494,566	94,289,540
Employee Contributions....	35,408,824	38,897,333	43,782,742	46,088,785	49,577,375
Total Contributions	$369,922,644	$354,459,118	$386,543,072	$421,711,967	$465,069,974
Investment Income[(a)]	242,206,972	245,642,870	286,587,354	276,494,999	271,445,717
Net Realized Gains (Losses)	357,937,509[(b)]	1,350,241	299,651,658	(2,140,298)	1,341,884
Benefits Paid	550,802,000[(c)]	572,003,425[(c)]	596,333,139	619,174,473	651,201,069

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

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

(c) Includes Benefits Paid and Refunds.

Teacher's Retirement Fund

The Teachers' Retirement Fund, administered by the Teachers' Retirement Board, provides benefits for any teacher, principal, supervisor or superintendent in the public school systems of the State, with certain exceptions. While establishing salary schedules for teachers, municipalities do not provide contributions to the maintenance of the Fund. As of June 30, 2002, there were approximately 57,300 active and former employees with accrued and accruing benefits and approximately 22,303 retired members.

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

The most recent actuarial valuation, dated November 19, 2002, indicated that as of June 30, 2002 the Teachers' Retirement Fund, inclusive of the excess earnings account, had an actuarial accrued liability of $15,253,882,989 and had assets with an actuarial value of $11,961,346,260. This resulted in an unfunded accrued liability of $3,292,536,729 as of June 30, 2002. As of June 30, 2002 the market value of the fund's investment assets was $10,107,301,878, which amount was less than the actuarial value by $1,854,044,382.

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

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

TABLE 18

Teachers' Retirement Fund

	Year Ending June 30				
	1998	**1999**	**2000**	**2001**	**2002**
General Fund Contributions...............	$179,365,000	$188,334,000	$204,445,443	$214,665,698	$204,511,460
Employee Contributions[a]............	155,242,385	154,682,000	168,207,183	173,884,438	187,095,618
Total Contributions	$334,607,385	$343,016,000	$372,652,626	$388,550,136	$391,607,078
Investment Income[b].......	337,652,602	347,734,968	410,683,507	399,305,587	388,302,193
Net Realized Gains (Losses)	510,763,178[c]	777,827	461,947,176	(3,335,159)	1,584,432
Benefits Paid	523,035,137	562,962,086	630,885,706	690,674,530	754,655,476

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

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

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

Other Retirement Systems

The other minor retirement systems funded by the State include the Judicial Retirement System, the General Assembly Pension System, the State Attorneys' Retirement Fund and the Public Defenders' Retirement Fund. As of June 30, 2002, there were approximately 225 active members of these plans and approximately 238 retired members.

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

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

Social Security and Other Post-Employment Benefits

State employees, except for police and members of a retirement system other than the State Employees' Retirement Fund, whose employment commenced after February 21, 1958, are entitled to Social Security coverage. Certain employees hired prior to that date have also elected to be covered. Pursuant to a collective bargaining agreement, State Troopers hired on or after May 8, 1984 are entitled to Social Security coverage. As of June 30, 2002, approximately 63,353 State employees were entitled to Social Security coverage. The amount expended by the State for Social Security coverage for fiscal year 2001-02 was $185.3 million. Of this amount, $172.5 million was paid from the General Fund and $12.8 million was paid from the Transportation Fund.

The State provides post-retirement health care and life insurance benefits to all employees who retire from State employment. As of June 30, 2002, a total of 32,602 retirees were eligible to receive such benefits; and a total of 31,276 retirees and 22,997 retirees, respectively, were actually receiving health care benefits and life insurance benefits. For the fiscal year 2001-02, $204.8 million was expended for such coverage. The State finances the cost of such benefits on a pay-as-you-go basis; as such, the State has not established any fund for the accumulation of assets with which to pay post-retirement health care and life insurance benefits in future years. The State will need to make significant General Fund appropriations for such benefits each fiscal year. For the fiscal year 2002-03, $236.7 million was appropriated.

The State makes a General Fund appropriation to the Teachers' Retirement Fund to cover the portion of retiree health insurance costs which is not funded from the amounts available in the Teachers' Retirement Health Insurance Fund: $3,500,000 was expended for fiscal year 1997-98; $8,445,295 was expended for fiscal year 1998-99; $8,007,343 was expended for fiscal year 1999-00; $9,440,747 was expended for fiscal year 2000-01; $10,485,936 was expended for fiscal year 2001-02; and $11,787,496 has been appropriated for fiscal year 2002-03. No fund has been established for the accumulation of assets with which to pay such benefits in future years; therefore, significant General Fund appropriations will be required for each fiscal year. The increase in the expenditure between fiscal year 1997-98 and fiscal year 1998-99 is largely attributable to legislation which became effective July 1, 1998 which generally requires the State to subsidize the health insurance costs of retired teachers who are not members of the Board's health benefit plan in a manner consistent with its prior practice of subsidizing the health insurance costs of those retired teachers who were members of the Board's health benefit plan. Of the total expenditures for fiscal years 1999-00, 2000-01 and 2001-02, and the total appropriation for fiscal year 2002-03, expenditures of $4,323,636 for fiscal year 1999-00, $4,454,670 for fiscal year 2000-01 and $4,751,670 for fiscal year 2001-02 and an appropriation of $5,299,600 for fiscal year 2002-03 are attributable to this legislation. Since July 1, 1994, retiree health benefits have been self-insured.

Additional Information

The June 30, 2002 audited financial statements which are included as **Appendix III-C** hereto, and in particular notes 10 through 13 and note 15 and the required PERS Supplementary Information of the accompanying Basic Financial Statements, provide additional information about the foregoing retirement systems and their funding. In addition, paragraph B of note 21 of such financial statements identifies a contingent liability of the State to pay pension liabilities of certain persons who are not employees of the State.

LITIGATION

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

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

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

The Connecticut Traumatic Brain Injury Association, Inc. v. Hogan is a Federal District Court civil rights action brought in 1990 on behalf of all persons with retardation or traumatic brain injury who have been, or may be, placed in Norwich, Fairfield Hills or Connecticut Valley Hospitals. The plaintiffs claim that the treatment and training they need is unavailable in state hospitals for the mentally ill and that placement in those hospitals violates their constitutional rights. The plaintiffs seek relief which would require that the plaintiff class members be transferred to community residential settings with appropriate support services. This case has been settled as to all persons with mental retardation by their eventual discharge from Norwich and Fairfield Hills Hospital. The case is still proceeding as to those persons with traumatic brain injury and the class of plaintiffs has been expanded to include persons with acquired brain injury who are in the custody of the Department of Mental Health and Addiction Services. The Court in 1998 expanded the class of plaintiffs to include persons who are or have been in the custody of the Department of Mental Health and Addiction Services at any time during the pendency of the case without reference to a particular facility. The trial in this case took place in March 2001. In November 2002 the District Court entered judgment for the defendants on all pending claims. It is anticipated that the plaintiffs will appeal the decision.

Johnson v. Rowland is a Superior Court action brought in 1998 in the name of several public school students and the Connecticut municipalities in which the students reside, seeking a declaratory judgment that the State's current system of financing public education through local property taxes and State payments to municipalities determined under a statutory Education Cost Sharing ("ECS") formula violates the Connecticut Constitution. Additionally, the suit seeks various injunctive orders requiring the State to, among other things, cease implementation of the present system, modify the ECS formula, and fund the ECS formula at the level contemplated in the original 1988 public act which established the ECS. The municipalities have been dismissed from the action for lack of standing. Trial has been scheduled for September 2003.

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

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

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

Doe v. State is a Federal District Court action brought in October 2000 on behalf of all juveniles who have been strip searched at the State's juvenile detention centers. The plaintiffs claim that the blanket policy of strip searching all juveniles upon arrival at the detention centers is unconstitutional. The plaintiffs seek damages, declaratory and injunctive relief, plus attorneys' fees and costs. On September 27, 2002, the District Court entered judgment for the defendants after trial. Class certification was denied at the same time. The plaintiffs have appealed both the judgment and the denial of class certification.

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

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

While the various cases described in this paragraph involving alleged ***Indian Tribes*** do not specify the monetary damages sought from the State, the cases are mentioned because they claim State land and/or sovereignty over land areas that are part of the State of Connecticut. Several suits have been filed since 1977 in the Federal District Court and the Connecticut Superior Court on behalf of alleged ***Indian Tribes*** in various parts of the State, claiming monetary recovery as well as ownership to land in issue. Some of these suits have been settled or dismissed. The plaintiff group in the remaining suits is the alleged Golden Hill Paugussett Tribe and the lands involved are generally located in Bridgeport, Trumbull and Orange. An additional suit has been filed by the alleged Schaghticoke Indian Tribe claiming privately and town held lands in the Town of Kent. The State is not a party to that action. It is possible that other such land claims could be brought by other Indian groups, who have petitioned the Federal Government for Federal recognition. The State has also challenged the decision of the Federal Department of the Interior which allows the Mashantucket Pequot Tribe to add land holdings of the Tribe outside of its reservation to the land held in trust for its benefit by the Department. The added land was not part of the Tribe's original reservation designated under the Federal Settlement Act with the Tribe. The additional land was purchased by the Tribe. The United States Court of Appeals for the Second Circuit has recently rejected the State's claim that the Federal Settlement Act does not allow the Federal Department of the Interior to take this additional land and add it to the Tribe's reservation land. The Mashantucket Pequot Tribe has withdrawn its application to take the additional lands outside its reservation into trust. Therefore, the case pending before the United States District Court has been dismissed as moot. In June 2002, the Federal Bureau of Indian Affairs issued a final determination granting federal recognition to the Historic Eastern Pequot tribe. The State has appealed that decision to the Court of Appeals. If federal recognition is upheld, the tribe could institute land claims against the State or others.

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

INDEX TO APPENDICES

GOVERNMENTAL ORGANIZATION AND SERVICES

Introduction

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

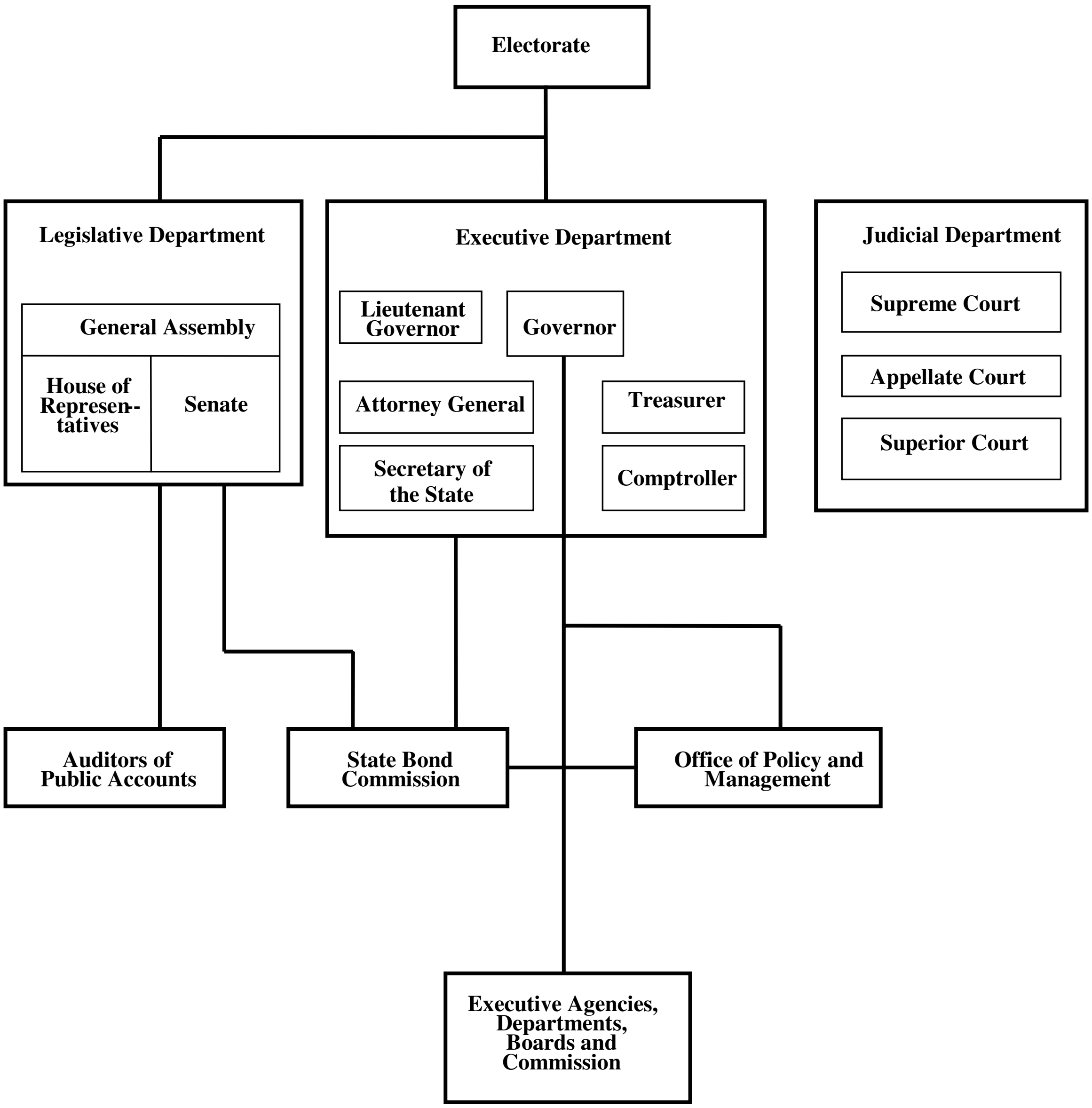
Under Connecticut law, all municipal governmental bodies have only the powers specifically granted to them by the State and the ancillary powers that are necessarily implied by powers explicitly granted. Municipalities which have the power to tax and to issue debt are explicitly denied the power by statute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

State Government Organization

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

TABLE A-1

Structure of State Government



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

General Assembly members are elected biennially at the general election in November in even numbered years and take office in the January following their election. Elections for the General Assembly were held in November 2002, and the new members took office in January 2003.

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

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

Executive Department. The present Governor, Lieutenant Governor, Secretary of the State, Treasurer, Comptroller and Attorney General, whose offices are mandated by the State's Constitution, were elected at the general election in November 1998 and assumed office in January 1999. Elections for all of these offices are held every four years. The Governor and Lieutenant Governor are elected as a unit. A general election was held in November 2002, and the same officials were reelected to their respective offices for terms beginning in January 2003.

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

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

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

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

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

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

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

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

The Superior Court is vested with original trial court jurisdiction over all civil and criminal matters. There are approximately 173 sitting Superior Court judges, each nominated by the Governor and appointed by the General Assembly to eight-year terms.

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

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

In addition to the principal trial and appellate courts, there is a Court of Probate in each of 128 probate districts situated throughout the State.

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

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

State Employees

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

TABLE A-2

State Employees[a]
By Function of Government

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

(a) Table shows approximate filled full-time positions as of June 30 in each of the listed years.
(b) A breakdown of the agencies, boards, commissions and similar bodies included in each of the listed government function headings is shown in **Table A-5**.

SOURCE: Office of Policy and Management

TABLE A-3
State Employees as of June 30, 2002[a]

By Function of Government and Fund Categories

Function Headings	General Fund	Special Transportation Fund	Other Appropriated Funds	Special Funds – Non-Appropriated	Federal Funds	Private Contributions	TOTALS
Legislative	509						509
General Government	3,082	11	9	450	29	328	3,909
Regulation and Protection	2,205	669	596	218	922	10	4,620
Conservation and Development	677		5	374	317	123	1,496
Health and Hospitals	8,243			77	335	55	8,710
Transportation		3,505		126			3,631
Human Services	1,980		14		307	14	2,315
Education	9,730			5,417	184		15,331
Corrections	10,012			91	65		10,168
Judicial	3,294			12	63		3,369
Total	39,732	4,185	624	6,765	2,222	530	54,058

[a] Table shows approximate filled full-time positions.

SOURCE: Office of Policy and Management

Collective Bargaining Units and Process. The General Statutes guaranty State employees, other than elected or appointed officials and certain management employees and others with access to confidential information used in collective bargaining, the right to organize and participate in collective bargaining units. There are presently 32 such bargaining units representing State employees.

The General Statutes establish the general parameters of the collective bargaining process with respect to bargaining units representing State employees. At any given point in time, there are generally a number of collective bargaining units with agreements under negotiation. All collective bargaining agreements require approval of the General Assembly. The General Assembly may approve any such agreement as a whole by a majority vote of each house or may reject any such agreement as a whole by a majority vote of either house. An arbitration award may be rejected in whole by a two-thirds vote of either house of the General Assembly upon a determination that there are insufficient funds for full implementation of the award.

The General Statutes deny State employees the right to strike. Questions concerning employment or bargaining practices prohibited by the sections of the General Statutes governing collective bargaining with regard to State employees may generally be brought before the State Board of Labor Relations.

Information regarding employees participating in collective bargaining units and employees not covered by collective bargaining is shown on the following table:

TABLE A-4

Full-Time Work Force[a]
Collective Bargaining Units and
Those Not Covered by Collective Bargaining

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

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

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

Source: Office of Policy and Management.

Governmental Services

Services provided by the State or financed by State appropriations are classified under one of ten major government function headings or are classified as "non-functional". These function headings are used for the State's General Fund and for other funds of the State used to account for appropriated moneys. State agencies, boards, commissions and other bodies are each assigned to one of the function headings for budgeting purposes. The following table shows a breakdown of the government function headings according to the major agencies, boards, commissions and other bodies assigned to them.

TABLE A-5
Function of Government Headings[(a)(b)]

Legislative
Legislative Management
Auditors of Public Accounts
Commission on the Status of Women
Commission on Children
Latino and Puerto Rican Affairs Commission
African-American Affairs Commission

General Government
Governor's Office
Secretary of the State
Lieutenant Governor's Office
Elections Enforcement Commission
Ethics Commission
Freedom of Information Commission
Judicial Selection Commission
State Properties Review Board
State Treasurer
State Comptroller
Department of Revenue Services
Division of Special Revenue
State Insurance and Risk Management Board
Gaming Policy Board
Office of Policy and Management
Department of Veterans' Affairs
Office of Workforce Competitiveness
Department of Administrative Services
Department of Information Technology
Department of Public Works
Attorney General
Office of the Claims Commissioner
Division of Criminal Justice
Criminal Justice Commission
State Marshal Commission

Regulation and Protection
Department of Public Safety
Police Officer Standards and Training Council
Board of Firearms Permit Examiners
Department of Motor Vehicles
Military Department
Commission on Fire Prevention and Control
Department of Banking
Insurance Department
Office of Consumer Counsel
Department of Public Utility Control
Office of Managed Care Ombudsman
Department of Consumer Protection
Department of Labor
Office of Victim Advocate
Commission on Human Rights and Opportunities
Office of Protection and Advocacy for Persons with Disabilities
Office of the Child Advocate
Workers' Compensation Commission

Conservation and Development
Department of Agriculture
Department of Environmental Protection
Council on Environmental Quality
Connecticut Historical Commission
Department of Economic and Community Development
Agricultural Experiment Station

Health and Hospitals
Department of Public Health
Office of Health Care Access
Office of the Chief Medical Examiner
Department of Mental Retardation
Department of Mental Health and Addiction Services
Psychiatric Security Review Board

Transportation
Department of Transportation

Human Services
Department of Social Services
Soldiers', Sailors', and Marines' Fund

Education, Libraries and Museums
Department of Education
Board of Education and Services for the Blind
Commission on the Deaf and Hearing Impaired
State Library
Department of Higher Education
University of Connecticut
University of Connecticut Health Center
Charter Oak State College
Teachers' Retirement Board
Regional Community-Technical Colleges
Connecticut State University

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

Judicial
Judicial Department
Public Defender Services Commission

(a) In addition to the ten listed government function headings, the State also employs a "non-functional" heading under which are grouped various miscellaneous accounts including debt service and State employee fringe benefit accounts.
(b) Listing of agencies, boards, commissions and similar bodies is as of July 1, 2002.

SOURCE: Office of Policy and Management

In addition to services provided directly by the State, various State-wide and regional quasi-public agencies, authorities and similar bodies also provide services. Such entities principally assist in the financing of various types of facilities and projects. In addition to their own budgetary resources and the proceeds of their borrowings, a number of such entities have received substantial funding from the State, which the entities generally use to provide financial assistance to the general public and the private and nonprofit sectors.

Because Connecticut does not have an intermediate county level of government between State and local government, local entities provide all governmental services not provided by the State and quasi-public agencies. Such services are financed principally from property tax revenues, State funding of various types and federal funding.

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STATE ECONOMY

Connecticut is a highly developed and urbanized state. It is situated directly between the financial centers of Boston and New York. Connecticut is located on the northeast coast and is the southernmost of the New England States. It is bordered by Long Island Sound, New York, Massachusetts and Rhode Island. More than one quarter of the total population of the United States and more than 50% of the Canadian population live within 500 miles of the State.

Economic Resources

Population Characteristics. Connecticut had a population count of 3,405,565 in April 2000, an increase of 118,449, or 3.6%, from the 3,287,116 figure of 1990. The State's population growth rate, which exceeded the United States' rate of population growth during the period 1940 to 1970, slowed substantially and trailed the national average markedly during the past three decades. The following table presents the population trends of Connecticut, New England and the United States since 1940. Connecticut's population increased 3.6% from 1990 to 2000 versus 5.4% in New England. Within New England, only Vermont and New Hampshire experienced growth significantly higher than the region. The mid-2001 population in Connecticut was estimated at 3,425,074, up 0.4% from a year ago, compared to increases of 0.6% and 0.9% for both New England and the nation, respectively.

TABLE B-1

Population
(In Thousands)

	Connecticut		New England		United States	
Calendar Year	**Total**	**% Change**	**Total**	**% Change**	**Total**	**% Change**
1940 Census	1,709	%	8,437	%	132,165	%
1950 Census	2,007	17.4	9,314	10.4	151,326	14.5
1960 Census	2,535	26.3	10,509	12.8	179,323	18.5
1970 Census	3,032	19.6	11,847	12.7	203,302	13.4
1980 Census	3,108	2.5	12,349	4.2	226,542	11.4
1990 Census	3,287	5.8	13,207	6.9	248,710	9.8
2000 Census	3,406	3.6	13,923	5.4	281,422	13.2
1992….	3,301	(0.1)	13,271	0.2	256,514	1.4
1993….	3,309	0.3	13,334	0.5	259,919	1.3
1994….	3,316	0.2	13,396	0.5	263,126	1.2
1995….	3,324	0.2	13,473	0.6	266,278	1.2
1996….	3,337	0.4	13,555	0.6	269,394	1.2
1997….	3,349	0.4	13,642	0.6	272,647	1.2
1998….	3,365	0.5	13,734	0.7	275,854	1.2
1999….	3,386	0.6	13,838	0.8	279,040	1.2
2000….	3,410	0.7	13,944	0.8	282,125	1.1
2001….	3,425	0.4	14,022	0.6	284,797	0.9

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

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

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

Transportation. Connecticut has an extensive network of expressways and major arterial highways which provide easy access to local and regional markets. Bradley International Airport, in Windsor Locks, is well situated for overseas air freight operations and is accessible from all areas of the State and Western Massachusetts.

Railroad freight service is provided to most major towns and cities in the State, and connections are provided with major eastern railroads as well as direct access to Canadian markets. In addition, Connecticut's proximity to the ports of New York and Boston provides it with access to European and South American export markets. The State's harbors at Bridgeport, New Haven and New London can accommodate deep draft vessels.

Connecticut provides financial assistance for all of the urban and rural bus services operating in the State. In addition, the State supports commuter express bus operations, Americans with Disabilities Act and paratransit services, and ridesharing programs. Rail commuter service operates between New Haven and New York City and related points. Also, rail commuter service operates between New London and Stamford.

Connecticut initiated a transportation infrastructure renewal program in 1984 and continues that program today. It has resulted in the restoration and enhancement of the major components of the transportation system and provides for the continued maintenance of these systems.

Utility Services. The power grid that supplies electricity to the entire State is owned and operated by both private and municipal electric companies. Transmission lines connect Connecticut with New York, New England and Canada. These interconnections allow the companies serving Connecticut to meet large or unexpected electric load requirements from resources located outside of Connecticut's boundaries. All electric utilities in the State are members of the New England Power Pool and operate as part of the regional bulk power system. An independent system operator, ISO New England, Inc., operates this regional system.

Legislation passed in 1998 provided for the restructuring of the electric industry in Connecticut. As of July 2000, most consumers in Connecticut can choose an independent electric supplier as their provider of electricity. The electricity is still delivered to the consumer over the wires of the regulated distribution companies (Connecticut Light & Power Company and The United Illuminating Company). Electric suppliers are not subject to rate regulation by the State Department of Public Utility Control (DPUC), but must receive a license issued by the DPUC before commencing service to consumers. In general, Connecticut consumers located in a municipally owned electric service territory are not subject to the 1998 restructuring legislation. These consumers continue to purchase and receive their electrical needs from the municipal electric company.

The restructuring legislation mandated a 10 percent rate reduction (from 1996 levels) subject to specific adjustments during the period of 2000 to 2003. This "standard offer" service is available to all consumers except those who had already entered into special contracts with the electric companies. The legislation also provides a procedure allowing for the recovery of utility's stranded costs, including the issuance of revenue bonds.

Natural gas service is provided to parts of the State through one municipal and three private gas distribution companies, including Yankee Gas Services Company, Connecticut Natural Gas Company, and Southern Connecticut Gas Company. Over the past few years, Energy East Corp. has acquired both Connecticut Natural Gas and Southern Connecticut Gas. Energy East is a New York-based regional utility holding company. Yankee Gas has also been recently acquired by Northeast Utilities.

Since 1996 the DPUC is allowing some competitive market forces to enter the natural gas industry in Connecticut. Commercial and industrial gas consumers can choose non-regulated suppliers for their natural gas requirements. The gas is delivered to the consumer using the local distribution company's mains and pipelines. This competitive market is not yet available to the residential consumer.

In addition to the electric and natural gas industries, telecommunications services are also in the process of being opened to competition. Local exchange telephone service is provided in the State by local exchange carriers (LECs) and competitive local exchange carriers (CLECs). Two LECs currently offer local telephone services in Connecticut. They are The Southern New England Telephone Company (SNET), which has been acquired by SBC Communications, Inc. and Verizon New York, Inc. Connecticut also has approximately 139 CLECs certified to provide local exchange services including AT&T Communications of New England, Cox Connecticut Telecommunication, LLC and Connecticut Telephone and Communications Systems, Inc.

Connecticut is dependent upon oil, including imported oil, for a portion of its energy requirements. This dependence is greatest in the transportation sector. Connecticut also relies on heating oils in both the residential and commercial sectors, and is reliant on residual oils and diesel fuels for the production of electricity. This petroleum dependence can make Connecticut particularly affected by developments in the oil commodity markets. Events that affect the international or domestic production of oil, the domestic and international refining capabilities, or the transportation of petroleum products within the United States or into the New England region can affect Connecticut's local oil markets.

Economic Performance

Personal Income. Connecticut has a high level of personal income. Historically, the State's average per capita income has been among the highest in the nation. The high per capita income is due to the State's concentration of relatively high paying manufacturing jobs along with a higher portion of residents working in the non-manufacturing sector in such areas as finance, insurance and real estate, as well as educational services. A concentration of major corporate headquarters located within the State also contributes to the high level of income. The following table shows total and per capita personal income for Connecticut residents during the period from 1992 to 2001 and compares Connecticut per capita personal income as a percentage of both New England and the United States.

TABLE B-2

Connecticut Personal Income by Place of Residence

Calendar Year	Connecticut		Connecticut Per Capita as % of	
	Total (Millions of Dollars)	Per Capita[a] (Dollars)	New England	United States
1992	93,779	28,409	116.9	135.2
1993	96,867	29,274	117.2	135.6
1994	99,788	30,093	116.1	134.5
1995	104,315	31,382	116.1	134.8
1996	109,354	32,770	115.6	134.8
1997	116,420	34,763	116.2	136.6
1998	124,880	37,112	116.6	137.9
1999	130,175	38,445	115.6	137.8
2000	138,796	40,703	113.7	136.6
2001	143,613	41,931	114.2	137.5

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The following table indicates the annual growth rate of personal income, on a current and constant dollar basis, of Connecticut, New England and the United States.

TABLE B-3

Annual Growth Rates in Personal Income By Place of Residence

Calendar Year	Conn. (Current)	New England (Current)	U.S. (Current)	Conn. (Constant)	New England (Constant)	U.S. (Constant)
1992	6.2%	5.0%	6.0%	3.6 %	2.5 %	3.5%
1993	3.3%	3.3%	4.1%	0.9 %	0.9 %	1.6%
1994	3.0%	4.3%	5.0%	0.9 %	2.1 %	2.8%
1995	4.5%	4.9%	5.3%	2.3 %	2.6 %	3.1%
1996	4.8%	5.4%	5.6%	2.8 %	3.4 %	3.6%
1997	6.5%	6.3%	6.0%	4.4 %	4.2 %	3.9%
1998	7.3%	7.1%	7.0%	6.0 %	5.8 %	5.7%
1999	4.2%	5.3%	4.9%	2.8 %	3.8 %	3.4%
2000	6.6%	8.4%	8.0%	4.4 %	6.2 %	5.7%
2001	3.5%	3.2%	3.3%	1.1 %	0.8%	0.9%

Note—Constant dollars are adjusted for inflation using the GDP deflator.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The following table indicates the sources of personal income by place of residence for the State and the United States in 2001.

TABLE B-4

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

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

Note—Columns may not add due to rounding.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

Gross State Product. The State and the region's economic vitality is evidenced in the rate of growth of its Gross State Product. Gross State Product is the market value of all final goods and services produced by labor and property located within the State. The economies of Connecticut and New England were, for much of the 1980s, among the strongest performers in the nation in this category. While the growth rates of both Connecticut and New England slowed in the initial years of the 1990s, thereafter the growth rates improved and remain higher than those experienced in the early 1990s.

The following table shows the Gross State Product in current dollars for Connecticut, New England and the United States.

TABLE B-5

Gross State Product
(In Millions of Dollars)

	Connecticut		New England[(a)]		United States[(b)]	
Year	**$**	**% Growth**	**$**	**% Growth**	**$**	**% Growth**
1991	100,395	1.5	344,025	1.3	5,895,430	3.3
1992	103,794	3.4	357,145	3.8	6,209,096	5.3
1993	107,924	4.0	373,298	4.5	6,513,026	4.9
1994	112,395	4.1	394,406	5.7	6,930,791	6.4
1995	118,645	5.6	416,166	5.5	7,309,516	5.5
1996	124,157	4.6	439,596	5.6	7,715,901	5.6
1997	134,968	8.7	471,336	7.2	8,224,960	6.6
1998	142,701	5.7	503,940	6.9	8,750,174	6.4
1999	149,483	4.8	537,962	6.8	9,279,697	6.1
2000	159,288	6.6	582,776	8.3	9,941,552	7.1

(a) Sum of the GSP for the States in New England.
(b) Denotes the Gross Domestic Product, which is the total market value of all final goods and services produced in the U.S.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The following table shows the Gross State Product in 1996 chained dollars.

TABLE B-6

Gross State Product
(In Millions of 1996 Chained Dollars)

	Connecticut		New England		United States	
Year	**$**	**% Growth**	**$**	**% Growth**	**$**	**% Growth**
1991	114,576	(2.3)	388,572	(2.5)	6,615,685	(0.2)
1992	114,830	0.2	391,385	0.7	6,774,505	2.4
1993	115,725	0.8	397,470	1.6	6,918,388	2.1
1994	117,489	1.5	410,014	3.2	7,203,002	4.1
1995	120,792	2.8	422,524	3.1	7,433,965	3.2
1996	124,157	2.8	439,596	4.0	7,715,901	3.8
1997	132,620	6.8	463,498	5.4	8,093,396	4.9
1998	138,159	4.2	488,673	5.4	8,502,663	5.1
1999	143,500	3.9	517,174	5.8	8,915,954	4.9
2000	149,649	4.3	549,304	6.2	9,314,279	4.5

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

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

TABLE B-7

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

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

Note—Columns may not add due to rounding.

(a) Includes mining.
(b) Includes forestry and fisheries.
(c) Includes transportation, communications, electric, gas and sanitary services.
(d) Includes finance, insurance and real estate.
(e) Covers a variety of activities, including professional, business and personal services.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

Employment

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

TABLE B-8

Non-agricultural Employment[a]
(In Thousands)

Calendar Year	Connecticut Employment	Connecticut Percent Growth	New England Employment	New England Percent Growth	United States Employment	United States Percent Growth
1992	1,526.1	(1.86)	5,995.6	(0.77)	108,590	0.31
1993	1,531.1	0.33	6,079.9	1.41	110,693	1.94
1994	1,543.8	0.83	6,200.7	1.99	114,138	3.11
1995	1,561.8	1.17	6,328.2	2.06	117,190	2.67
1996	1,583.7	1.40	6,432.4	1.65	119,590	2.05
1997	1,612.4	1.81	6,574.6	2.21	122,670	2.58
1998	1,643.1	1.90	6,721.6	2.24	125,853	2.59
1999	1,668.8	1.56	6,853.9	1.97	128,903	2.42
2000	1,693.5	1.48	7,018.4	2.40	131,718	2.18
2001	1,682.8	(0.63)	7,033.6	0.22	131,923	0.16

(a) Non-agricultural employment excludes agricultural workers, proprietors, self-employed individuals, domestic workers, family workers and members of the armed forces.

SOURCE: United States Department of Labor, Bureau of Labor Statistics

***Composition of Employment*.** The following table shows the distribution of non-agricultural employment in Connecticut and the United States in 2001. The table shows that Connecticut has a larger share of employment in services and manufacturing than the nation as a whole.

TABLE B-9

Connecticut Non-agricultural Employment, 2001
(In Thousands)

	Connecticut		United States	
	Total	**%**	**Total**	**%**
Services[(a)]	539.7	32.07	40,978	31.06
Trade[(b)]	358.2	21.29	30,295	22.96
Manufacturing	254.0	15.09	17,695	13.41
Government	243.8	14.49	20,928	15.86
Finance[(c)]	142.5	8.47	7,713	5.85
Utilities[(d)]	78.6	4.67	7,068	5.36
Construction[(e)]	66.0	3.93	7,246	5.49
	1,682.8	100.00	131,923	100.00

(a) Covers a considerable variety of activities, including professional, business and personal services.
(b) Includes wholesale and retail trade.
(c) Includes finance, insurance, and real estate.
(d) Includes transportation, communications, electric, gas and sanitary services.
(e) Includes mining.

SOURCE: United States Department of Labor, Bureau of Labor Statistics

Recent trends in the State's non-agricultural employment are reflected in the following table. Throughout the last four decades, while manufacturing employment in Connecticut has been steadily declining, employment in non-manufacturing industries has surged. In calendar 2001, approximately 85% of the State's workforce was employed in non-manufacturing jobs, up from roughly 50% in the early 1950s.

TABLE B-10

Connecticut Non-agricultural Employment
(Annual Averages In Thousands)

Year	Manufacturing	Trade[a]	Services[b]	Government	Finance[c]	Utilities[d]	Construction[e]	Total Non-agricultural Employment[f]
1992	305.71	331.33	423.08	207.32	142.34	67.98	48.32	1,526.06
1993	294.15	330.33	438.08	210.68	139.78	69.53	48.53	1,531.07
1994	285.29	335.24	449.84	217.23	135.72	70.46	49.99	1,543.76
1995	279.06	341.07	465.16	220.87	133.04	71.28	51.32	1,561.80
1996	274.79	347.05	480.52	222.85	131.73	73.58	53.17	1,583.69
1997	275.98	351.61	494.97	225.73	132.13	74.93	57.06	1,612.41
1998	276.91	355.78	510.76	227.63	136.54	75.81	59.69	1,643.12
1999	268.42	359.23	526.29	235.09	140.04	77.53	62.16	1,668.76
2000	263.33	363.97	537.40	241.93	141.48	79.72	65.71	1,693.54
2001	253.96	358.17	539.72	243.84	142.51	78.56	66.04	1,682.80

(a) Includes wholesale and retail trade.
(b) Covers a considerable variety of activities, including professional, business and personal services.
(c) Includes finance, insurance and real estate.
(d) Includes transportation, communications, electric and gas.
(e) Includes mining.
(f) Totals may not equal sum of individual categories due to rounding.

SOURCE: United States Department of Labor, Bureau of Labor Statistics, Connecticut Labor Department

Manufacturing

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

TABLE B-11

Manufacturing Employment
(In Thousands)

Calendar	Connecticut		New England		United States	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1992	305.7	(5.18)	1,094.4	(3.73)	18,108	(1.61)
1993	294.2	(3.76)	1,069.2	(2.30)	18,078	(0.17)
1994	285.3	(3.03)	1,055.3	(1.30)	18,323	1.36
1995	279.1	(2.17)	1,049.1	(0.59)	18,525	1.10
1996	274.8	(1.54)	1,040.4	(0.83)	18,495	(0.16)
1997	276.0	0.44	1,045.3	0.47	18,670	0.95
1998	276.9	0.33	1,046.5	0.11	18,805	0.72
1999	268.4	(3.07)	1,017.7	(2.75)	18,555	(1.33)
2000	263.3	(1.90)	1,015.1	(0.26)	18,475	(0.43)
2001	254.0	(3.53)	980.0	(3.46)	17,695	(4.22)

SOURCE: United States Department of Labor, Bureau of Labor Statistics, Connecticut State Labor Department.

Connecticut has a diverse manufacturing sector, with the construction of transportation equipment (primarily aircraft engines and submarines) being the dominant industry. The State is also a leading producer of military and civilian helicopters. Employment in the transportation equipment sector is followed by fabricated metals, nonelectrical machinery, and electrical machinery for the total number employed in 2001.

TABLE B-12

Manufacturing Employment
By Industry
(In Thousands)

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

(a) Includes other industries such as wood products, furniture, glass/stone, primary metals and instruments in the durable sector, as well as all industries such as chemicals, paper and plastics in the nondurable sector.

SOURCE: United States Department of Labor, Bureau of Labor Statistics.

During the past ten years, Connecticut's manufacturing employment was at its highest in 1992 at 305,710 workers. Since that year, employment in manufacturing was on a downward trend with only a slight increase in 1997 and 1998. A number of factors, such as heightened foreign competition, a sharp decrease in defense spending, and improved productivity played a significant role in affecting the overall level of manufacturing employment. Total manufacturing jobs in Connecticut continued to decline to a recent low of 253,960 in 2001, after a rebound to 276,910 in 1998. The total number of manufacturing jobs dropped 51,750, or 16.93% for the ten year period since 1992.

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

TABLE B-13

Exports Originating in Connecticut
(In Millions)

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

(a) In millions.
(b) Gross State Product for 2001 is estimated by the Office of Policy and Management and is assumed to grow at the same rate as income derived from wages and salary, which is estimated by the United States Department of Commerce, Bureau of Economic Analysis.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis
Massachusetts Institute for Social and Economic Research, University of Massachusetts (MISER)

Defense Industry. One important component of the manufacturing sector in Connecticut is the defense industry. Approximately one quarter of the State's manufacturing employees are employed in defense related business. Nonetheless, this sector's significance in the State's economy has declined considerably. Connecticut has witnessed a marked reduction in the amount of federal spending earmarked for defense related industries in the State. In fiscal year 2001, however, Connecticut received $4.3 billion of prime contract awards, an increase of 96.1% over 2000. These total awards accounted for 3.2% of national total awards and ranked tenth in total defense dollars awarded and third in per capita dollars awarded among the 50 states. In fiscal year 2001, Connecticut had $1,247 in per capita defense awards, compared to the national average of $475. As measured by a three year moving average of defense contract awards as a percent of Gross State Product, awards to Connecticut based firms have fallen to 2.0% of Gross State Product in fiscal year 2001, down from 4.0% of Gross State Product in fiscal year 1992. The increase in 2001 was primarily due to higher awards for naval ships and helicopters.

Connecticut is a leading producer of aircraft engines and parts, submarines, and helicopters. The largest employers in these industries are United Technologies Corporation, including its Pratt and Whitney Aircraft Division with headquarters in East Hartford, and Sikorsky Aircraft Corporation in Stratford, as well as General Dynamics Corporation's Electric Boat Division in Groton.

The following table provides a historical perspective of defense contract awards for the past ten fiscal years. Defense contracts are awarded in their entirety and multi-year awards are credited in the year they are awarded, thus giving rise to some of the fluctuation.

TABLE B-14

Defense Contract Awards

Federal Fiscal Year	Connecticut Total Contract Award (Thousands)	Connecticut Rank Among States Total Awards	% Change from Prior Year Connecticut	% Change from Prior Year U.S.
1991-92	$3,099,444	11th	(37.7)	(9.5)
1992-93	$2,894,638	12th	(6.6)	1.7
1993-94	$2,450,069	14th	(15.4)	(3.4)
1994-95	$2,718,021	12th	10.9	(1.2)
1995-96	$2,638,260	13th	(2.9)	0.4
1996-97	$2,535,981	13th	(3.9)	(2.6)
1997-98	$3,408,719	9th	34.4	2.7
1998-99	$3,169,394	12th	(7.0)	5.0
1999-00	$2,177,462	17th	(31.3)	7.3
2000-01	$4,269,536	10th	96.1	9.7

SOURCE: United States Department of Defense

Non-manufacturing. The non-manufacturing sector is comprised of industries that primarily provide services. Services differ significantly from manufactured goods in that the output is generally intangible, it is produced and consumed concurrently and it cannot be inventoried. Consumer demand for services is not as postponable as the purchase of goods, making the flow of demand for services more stable. An economy will therefore generally become more stable as it becomes more service oriented. Over the past several decades the non-manufacturing sector of the State's economy has risen in economic importance, from just over 50% of total State employment in 1950 to approximately 85% by 2001. This trend has decreased the State's dependence on manufacturing. Over the course of the last ten years, there were approximately 208,500 jobs created in this sector, an increase of 17.1%. Moreover, this sector has more than compensated for the loss in manufacturing jobs, fueling the recovery in nonagricultural employment since 1993.

The table below provides a ten year profile of non-manufacturing employment in Connecticut, New England and the United States.

TABLE B-15
Non-manufacturing Employment
(In Thousands)

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

Source: United States Department of Labor, Bureau of Labor Statistics
Connecticut State Labor Department

Services, retail and wholesale trade, state and local government, as well as finance, insurance and real estate (FIRE) collectively comprise approximately 90% of the State's employment in the non-manufacturing sector. Connecticut non-manufacturing employment for 1992, 1999, 2000 and 2001 is shown in the table below. Total non-manufacturing employment has been broken down by industry. Percent changes over the fiscal year and over the decade are also provided. Between 1992 and 2001, service industry employment expanded by 116,640 workers, adding more than one out of every two jobs statewide, which registered an increase of 208,490 jobs. State and local governments expanded by 38,710 jobs. The increase in this line item over the ten-year period can be attributed to the Federal Government's decision to categorize all workers employed on Indian Reservations as state government employees. Per the State's Department of Labor, approximately 20,000 employees worked at the State's two tribal casinos.

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

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

(a) Includes mining.
(b) Covers a considerable variety of activities, including professional and business services.
(c) Totals may not agree with detail due to rounding.

Source: Connecticut State Labor Department

Retail Trade. Personal spending on goods and services generally accounts for two-thirds of the Gross Domestic Product. Approximately half of personal spending is generally done through retail stores. At the State level, retail trade therefore constitutes approximately one third of the State's economic activity, measured as Gross State Product. During the last decade, variations in retail trade closely matched variations in Gross State Product growth, making retail trade an important barometer of economic health.

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

TABLE B-17

Retail Trade In Connecticut (In Millions)

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

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

SOURCE: Connecticut Department of Revenue Services

Unemployment Rates. The unemployment rate is the proportion of persons in the civilian labor force who do not have jobs but are actively looking for work. Unemployment rates tend to be high during economic slowdowns and low when the economy is expanding. The rate is widely utilized as a proxy for consumer confidence. In general, when the unemployment rate is high consumer spending is lower and vice versa.

After enjoying an extraordinary boom during the mid-1980s, Connecticut, as well as the rest of the Northeast, experienced an economic slowdown during the recession of the early 1990s. The unemployment rate in the State rose to a high of 7.6% in 1992, which was below the New England average of 8.1% but above the national average of 7.5%. Since then it has generally been declining and has mostly remained below the New England and the national average. It fell to 2.2% in 2000 and edged up to 3.6% for the first six months of 2002, below the national averages of 4.2% and 5.8%, respectively, for the same periods.

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

TABLE B-18

Unemployment Rate

Year	**Unemployment Rate**		
	Connecticut	**New England**	**United States**
1992	7.6	8.1	7.5
1993	6.3	6.8	6.9
1994[(a)]	5.6	5.9	6.1
1995	5.5	5.4	5.6
1996	5.7	4.8	5.4
1997	5.1	4.4	4.9
1998	3.4	3.5	4.5
1999	3.2	3.3	4.2
2000	2.2	2.8	4.0
2001	3.3	3.7	4.8
2002[(b)]	3.6	4.2	5.8

(a) Beginning with estimates for January 1994, State and area labor force statistics reflect a number of important changes. These include implementation of a major redesign of the Current Population Survey (CPS); introduction of updated population controls to the CPS; improved regression models for smaller states such as Connecticut; and incorporation of selected 1990 Census data in the geographic redefinition of labor market areas and in local area labor force estimation.

(b) Reflects average for the first six months.

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

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APPENDIX III-C

NANCY WYMAN
COMPTROLLER

STATE OF CONNECTICUT

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

MARK E. OJAKIAN
DEPUTY COMPTROLLER

February 28, 2003

The Honorable Denise L. Nappier
State Treasurer
55 Elm Street
Hartford, CT 06106

Dear Ms. Nappier:

I have reviewed the accompanying general purpose financial statements of the State of Connecticut for the fiscal year ending June 30, 2002. The statements and the Independent Auditors' Report are extracted from the Comprehensive Annual Financial Report of the State of Connecticut which is prepared by my office and have been prepared in conformity with generally accepted accounting principles.

Sincerely,

Nancy Wyman

Nancy Wyman
State Comptroller

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS
STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

Governor John G. Rowland
Members of the General Assembly

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

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 57 percent of the assets and 52 percent of the revenues of the Business Type Activities;
- the financial statements of the discretely presented component units;

Fund Financial Statements

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

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned funds and accounts, is based on the reports of the other auditors. All of the aforementioned audits were conducted in accordance with auditing standards generally accepted in the United States of America. In addition, the audits of the Drinking

Water Fund, Clean Water Fund, Bradley International Airport, Connecticut Lottery Corporation, Connecticut Resources Recovery Authority, Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, Connecticut Housing Finance Authority, Connecticut Development Authority, and Connecticut Innovations Incorporated, were conducted in accordance with standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except that the audits of certain entities of the State, as described above, were not conducted in accordance with *Government Auditing Standards.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the State of Connecticut as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated February 28, 2003, on our consideration of the State of Connecticut's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Note 19 to the financial statements, the State of Connecticut implemented the following Governmental Accounting Standards statements for the 2001-2002 fiscal year: Statement Number 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement Number 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*; Statement Number 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement Number 38, *Certain Financial Statement Note Disclosures.* As required by these new standards, the State of Connecticut presents both government-wide financial statements and fund - level financial statements.

As discussed in Note 21 to the financial statements, the State of Connecticut is a defendant in certain legal proceedings. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements.

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

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

Kevin P. Johnston

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

February 28, 2003
State Capitol
Hartford, Connecticut

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)

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

FINANCIAL HIGHLIGHTS

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION

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

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

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

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

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

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

Both statements report three activities:

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

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

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

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

FUND LEVEL STATEMENTS

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

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

Major Governmental Fund Financial Statements:

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

<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 new financial reporting model brings three important changes to traditional practice.

- Budgetary comparisons will henceforth need to present the original budget in addition to the final amended budget.
- In the past budgetary comparisons were presented by fund type (e.g., total budgeted special revenue funds). The new financial reporting model will require a budgetary comparison for the General Fund and individual major special-revenue funds.
- Governments are permitted to present the budgetary comparison as a basic financial statement if they wish to do so, thereby retaining it within the scope of the independent audit. The state of Connecticut has elected to do so even though it is only required to present non-audited budgetary comparison statements as "required supplementary information".

Major Proprietary Fund Financial Statements:

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

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

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

Fiduciary Fund Financial Statements:

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

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

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

Component Unit Combining Statements:

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

Connecticut Housing Finance Authority. Classified as the State's major component unit, the CHFA is a public instrumentality and political subdivision created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development and construction of housing for low and moderate income families.

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

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

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

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

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

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

FINANCIAL SECTION CONTENTS OTHER THAN FINANCIAL STATEMENTS

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

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

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

NET ASSETS

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

State Of Connecticut's Net Assets
(in Millions)

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

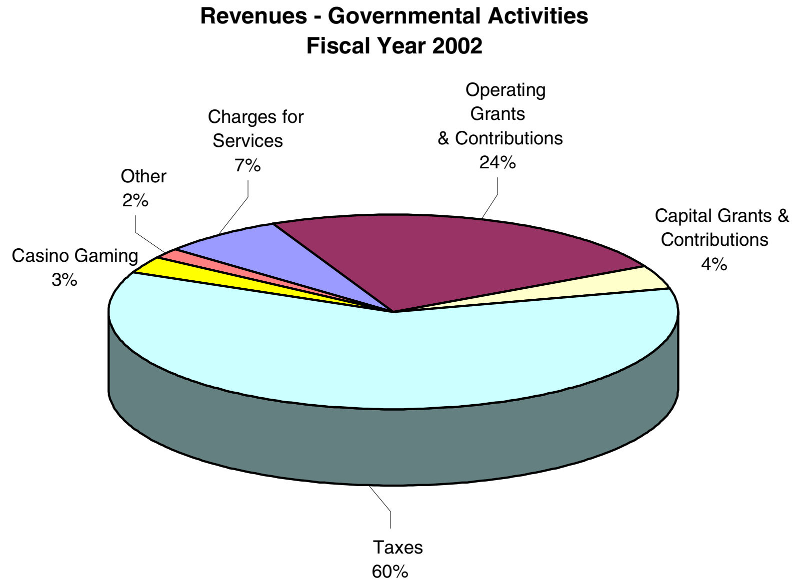
The following condensed financial information was derived from the government-wide Statement of Activities and reflects the nature of the state's change in net assets throughout Fiscal Year 2002.

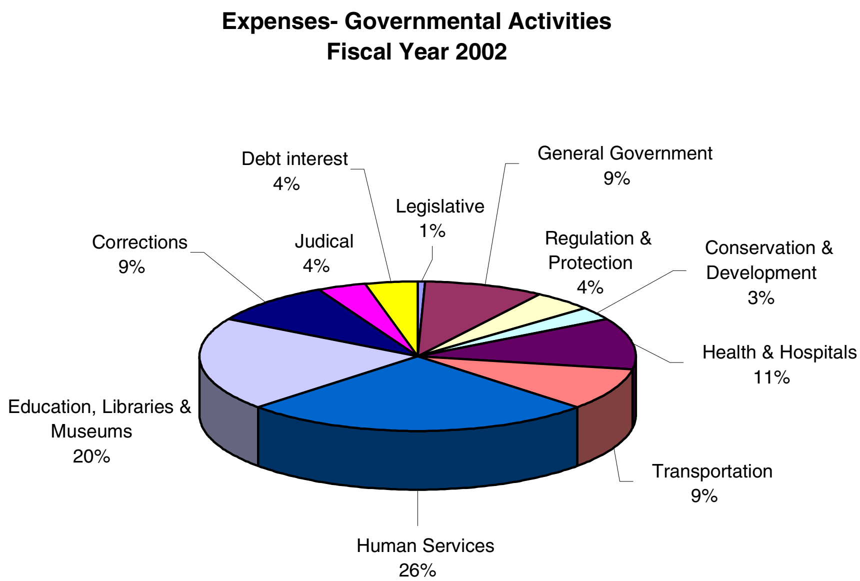
State of Connecticut's Changes in Net Assets
(Expressed in Millions)

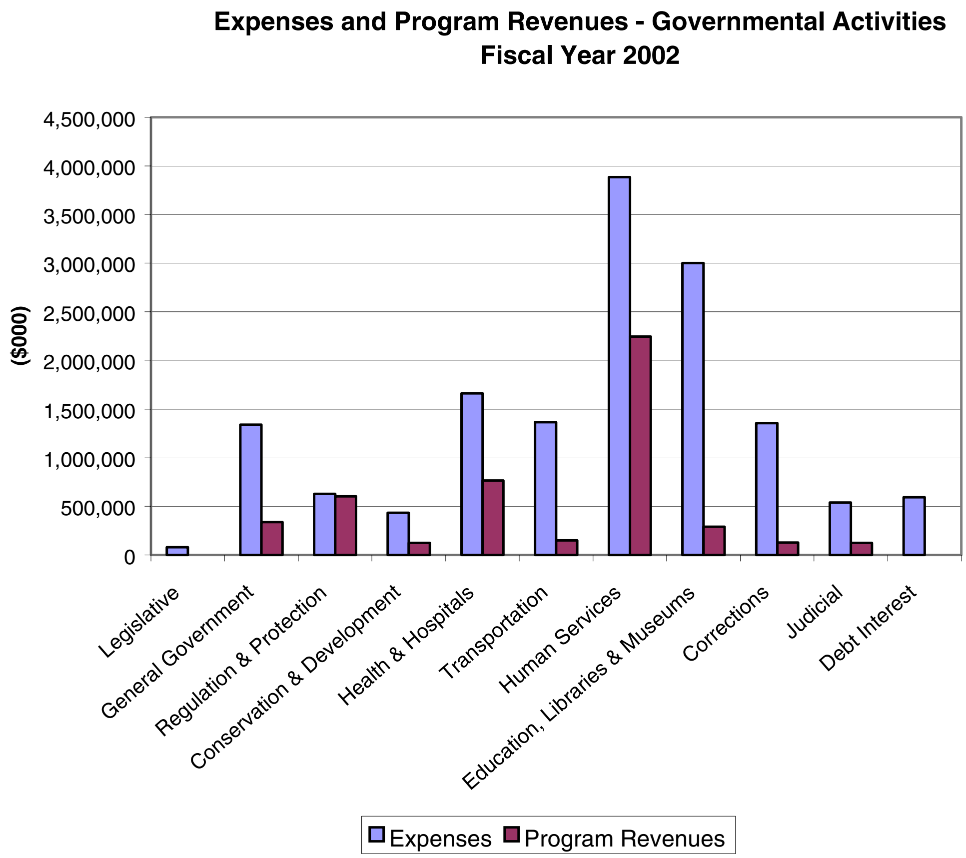
	Governmental Activities 2002	Business-Type Activities 2002	Total 2002
Revenues			
Program Revenues			
Charges for Services	$ 942.9	$ 2,409.7	$ 3,352.6
Operating Grants and Contributions	3,320.1	447.7	3,767.8
Capital Grants and Contributions	509.1	37.8	546.9
General Revenues			-
Taxes	8,292.6	-	8,292.6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

GOVERNMENTAL ACTIVITIES

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







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

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

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

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

General Fund

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

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

Transportation Fund

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

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

Other Funds

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets.

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

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

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

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

Long-term Debt.

The state, pursuant to various public and special acts, has authorized a variety of types of debt which fall into the following categories: direct general obligation debt, which is payable from the state's general fund; special tax obligation debt, which is payable from specified taxes and other funds; and special obligation and revenue debt, which is payable from specified revenues and other funds.

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

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

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

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

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

CONDITIONS EXPECTED TO AFFECT FUTURE OPERATIONS

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

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

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

CONTACTING THE STATE'S OFFICES OF FINANCIAL MANAGEMENT

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

Basic Financial Statements

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Statement of Net Assets

June 30, 2002
(Expressed in Thousands)

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

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

Statement of Activities

For The Fiscal Year Ended June 30, 2002

(Expressed in Thousands)

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

General Revenues:

Taxes:

Personal Income

Corporate Income

Sales and Use

Others

Restricted for Transportation Purposes:

Motor Fuel

Others

Casino Gaming Payments

Tobacco Settlement

Unrestricted Investment Earnings

Transfers-Internal Activities

Special Items:

Loss on Disposal of Capital Assets

Others

Total General Revenues, Transfers, and Special Items

Change in Net Assets

Net Assets (Deficit) - Beginning (as restated)

Net Assets (Deficit) - Ending

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

Net (Expense) Revenue and Changes in Net Assets

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

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Governmental Fund Financial Statements

Major Funds

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

Debt Service Fund:
This fund is used to account for the accumulation of resources for and the payment of, principal and interest on general long-term bonds.

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

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

Balance Sheet
Governmental Funds

June 30, 2002

(Expressed in Thousands)

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

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

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

June 30, 2002

(Expressed in Thousands)

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

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

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

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

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

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

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

June 30, 2002

(Expressed in Thousands)

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

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

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

For the Fiscal Year Ended June 30, 2002

(Expressed in Thousands)

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

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

Transportation Fund

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

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Proprietary Fund Financial Statements

Major Funds

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

Bradley Airport Operations:
The airport is owned by the State of Connecticut and is operated by the Bureau of Aeronautics of the State of Connecticut, Department of Transportation. In 1982, the State issued the Airport, 1982 series, Revenue Bonds in the aggregate principal amount of $100,000,000. The bonds were refunded in 1992 with the issuance of $94,065,000 in refunding bonds. The refunding bonds are secured by and payable solely from the gross operating revenues generated by the State from the operations of the Airport and other receipts, funds or monies pledged in the Indenture.

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

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

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

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

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

Statement of Net Assets
Proprietary Funds

June 30, 2002
(Expressed in Thousands)

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

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

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

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

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

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

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

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

Statement of Cash Flows
Proprietary Funds

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

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

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

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

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Fiduciary Fund Financial Statements

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

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

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

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2002

(Expressed in Thousands)

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

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

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

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

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

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

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Component Unit Financial Statements

Major Component Units

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

Connecticut Housing Finance Authority:
the Connecticut Housing Finance Authority is a public instrumentality and political subdivision of the State created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development and construction of housing for low and moderate income families throughout the State.

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

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

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Combining Statement of Net Assets
Component Units

June 30, 2002

(Expressed in Thousands)

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

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

Statement of Activities
Component Units

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

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

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

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

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

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Notes to the Financial Statements
June 30, 2002

Note 1 Summary of Significant Accounting Policies

a. Basis of Presentation

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

b. Reporting Entity

For financial reporting purposes, the State's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, agencies, departments, bureaus, commissions, and component units that are considered an integral part of the State's legal entity. Component units are legally separate organizations for which the State is financially accountable. Financial accountability exists if (1) the State appoints a voting majority of the organization's governing board, and (2) the State is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State. The State also includes a nongovernmental corporation as a component unit because it would be misleading to exclude the corporation from the reporting entity. Component units are reported in the financial statements in a separate column (discrete presentation), or as part of the primary government (blending presentation).

Discretely Presented Component Units

Discretely presented component units include legally separate organizations for which the State appoints a voting majority of the organization's governing board and is contingently liable for the organization's debt or provides significant funding for the organization's programs (applies only to the Connecticut Innovations, Incorporated and the Capital City Economic Development Authority). The following organizations are reported in separate columns and rows in the government-wide financial statements to emphasize that they are legally separate from the primary government:

Connecticut Development Authority

The Authority is a public instrumentality and political subdivision of the State. It was created to stimulate industrial and commercial development within the State through its Self-Sustaining Bond, Umbrella, and Insurance programs as well as other economic development programs.

Connecticut Housing Finance Authority

The Authority is a public instrumentality and political subdivision of the State. It was created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development, and construction of housing for low and moderate-income families and persons throughout the State. The Authority's fiscal year is for the period ending on December 31, 2001.

Connecticut Resources Recovery Authority

The Authority is a public instrumentality and political subdivision of the State. It is responsible for implementing the State Solid Waste Management Plan by determining the location of and constructing solid waste management projects; owning, operating, and maintaining waste management projects; or making provisions for operation and maintenance by contracting with private industry.

Connecticut Higher Education Supplemental Loan Authority

The Authority is a public instrumentality and political subdivision of the State. It was created to assist students, their parents, and institutions of higher education to finance the cost of higher education through its Bond funds.

Connecticut Health and Educational Facilities Authority

The Authority is a public instrumentality and political subdivision of the State. The purpose of the Authority is to assist certain health care institutions, institutions of higher education, and qualified for-profit and not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to programs for these institutions.

Connecticut Innovations, Incorporated

The Authority is a public instrumentality and political subdivision of the State. It was established to stimulate and promote technological innovation and application of technology within Connecticut and encourage the development of new products, innovations, and inventions or markets in Connecticut by providing financial and technical assistance.

Capital City Economic Development Authority

The Authority is a public instrumentality and political subdivision of the State. It was established in 1998 to stimulate new investment in Connecticut; to attract and service large conventions, tradeshows, exhibitions, conferences, and local consumer shows, exhibitions and events; to encourage the diversification of the state economy; to strengthen Hartford's role as the region's major business and industry employment center and seat of government; to encourage residential housing development in downtown Hartford; and to construct, operate, maintain and market a convention center project in Hartford.

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

Blended Component Units

Connecticut Lottery Corporation

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

University of Connecticut Foundation, Incorporated

The University of Connecticut Foundation, Incorporated is a nongovernmental nonprofit corporation created exclusively to solicit, receive, and administer gifts and financial resources from private sources for the benefit of all campuses and programs of the University of Connecticut, a unit of the Higher Education fund. The University is not financially accountable for the Foundation. However, the Foundation is included as a component unit because the nature and significance of its relationship to the University are such that exclusion would cause the University's financial statements to be misleading. The Foundation is reported as part of the primary government's business-type activities in the government-wide financial statements and as part of the Higher Education fund (a major Enterprise fund) in the fund financial statements.

c. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

The State reports the following major governmental funds:

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

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

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

The State reports the following major enterprise funds:

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

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

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

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

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

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

In addition, the State reports the following fund types:

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

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

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

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

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

d. Measurement Focus and Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

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

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

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

Governmental Fund Financial Statements

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

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

e. Budgeting Process

By statute, the Governor must submit the State budget to the General Assembly in February of every other year. Prior to June 30, the General Assembly enacts the budget through the passage of appropriation acts for the next two fiscal years and sets forth revenue estimates for the same period for the following funds: the General Fund, the Transportation Fund, the Mashantucket Pequot Fund, the Workers' Compensation Administration Fund, the Banking Fund, the Consumer Counsel and Public Utility Control Fund, the Insurance Fund, the Criminal Injuries Fund, the Soldiers, Sailors, and Marines Fund and the Regional Market Operations Fund. Under the State Constitution, the Governor has the power to veto any part of the itemized appropriations bill and to accept the remainder of the bill. However, the General Assembly may separately reconsider and repass the disapproved items by a two-thirds majority vote of both the Senate and the House.

Budgetary control is maintained at the individual appropriation account level by agency as established in authorized appropriation bills and is reported in the Annual Report of the State Comptroller. A separate document is necessary because the level of legal control is more detailed than reflected in the CAFR. Before an agency can utilize funds appropriated for a particular purpose, such funds must be allotted for the specific purpose by the Governor and encumbered by the Comptroller upon request by the agency. Such funds can then be expended by the Treasurer only upon a warrant, draft or order of the Comptroller drawn at the request of the responsible agency. The allotment process maintains expenditure control over special revenue, enterprise, and internal service funds that are not budgeted as part of the annual appropriation act.

The Governor has the power under Connecticut statute to modify budgetary allotment requests for the administration, operation and maintenance of a budgeted agency. However, the modification cannot exceed 3 percent of the fund or 5 percent of the appropriation amount. Modifications beyond those limits, but not in excess of 5 percent of the total funds, require the approval of the Finance Advisory Committee. The Finance Advisory Committee is comprised of the Governor, the Lieutenant Governor, the Treasurer, the Comptroller, two senate members, not of the same political party, and three house members, not more than two of the same political party. Additional reductions of appropriations of more than 5 percent of the total appropriated fund can be made only with the approval of the General Assembly.

All funds, except fiduciary funds, use encumbrance accounting. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditures of the fund are recorded in order to reserve that portion of the applicable appropriation. All encumbrances lapse at year-end and, generally, all appropriations lapse at year-end except for certain continuing appropriations (continuing appropriations are defined as carry forwards of spending authority from one fiscal budget into a subsequent budget). The continuing appropriations include: appropriations continued for a one-month period after year-end which are part of a program that was not renewed the succeeding year; appropriations continued the entire succeeding year, as in the case of highway and other capital construction projects; and appropriations continued for specified amounts for certain special programs. Carry forward appropriations are reported as reservations of the fund balance in the financial statements.

The budget is prepared on a "modified cash" basis of accounting under which revenues are recognized when received, except for certain taxes and Federal and other restricted grant revenues of the General and Transportation funds which are recognized when earned. Tax revenues recognized when earned include the following: sales and use, personal income, corporation, public service corporations, petroleum companies, cigarettes, alcoholic beverages, gasoline, special motor fuel, and motor carrier road. Under the modified cash basis, expenditures are recognized when paid. A comparison of actual results of operations recorded on this basis and the adopted budget is presented in the financial statements for the General and Transportation funds. During the 2002 fiscal year, the original adopted budget was adjusted by the General Assembly and the Finance Advisory Committee.

f. Assets and Liabilities

Cash and Cash Equivalents (see Note 4)

In addition to petty cash and bank accounts, this account includes cash equivalents – short-term, highly liquid investments with original maturities of three months or less when purchased. Cash equivalents include investments in the Short-Term Investment Fund ("STIF") and the Tax Exempt Proceeds Fund, Inc. ("TEPF"). TEPF is a short-term, tax-exempt money market fund reported under the Investment Company Act of 1940. Investments in STIF and TEPF are reported at the fund's share price.

Investments (see Note 4)

Investments include Equity in Combined Investment Funds and other investments. Equity in Combined Investment Funds is reported at fair value based on the funds' current share price. Other investments are reported at fair value, except for the following investments which are reported at cost or amortized cost:

- Nonparticipating interest-earning investment contracts.
- Money market investments that mature within one year or less at the date of their acquisition.
- Investments of the External Investment Pool fund (an Investment Trust fund).

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

- The fair value of State bonds held by the Clean Water Fund (an Enterprise fund) which is estimated using matrix pricing.
- The fair value of equity and debt securities held by the Connecticut Innovations, Incorporated, a component unit. The fair value of these investments is determined by the Valuation Committee of the Corporation, after giving consideration to pertinent information about the companies comprising the investments, including but not limited to recent sales prices of the issuer's securities, sales growth, progress toward business goals, and other operating data.

The State invests in derivatives. STIF and the Combined Investment Funds hold these investments.

Inventories

Inventories are reported at cost. Cost is determined by the first-in first-out (FIFO) method. Inventories in the governmental funds consist of expendable supplies held for consumption whose cost was recorded as an expenditure at the time the individual inventory items were purchased. Reported inventories in these funds are offset by a fund balance reserve to indicate that they are unavailable for appropriation.

Capital Assets and Depreciation

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

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

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

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

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

Securities Lending Transactions (see Note 4)
Assets, liabilities, income, and expenses arising from securities lending transactions of the Combined Investment Funds are allocated ratably to the participant funds based on their equity in the Combined Investment Funds.

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

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

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

Capital Appreciation Bonds
Capital appreciation (deep-discount) bonds issued by the State, unlike most bonds, which pay interest semi-annually, do not pay interest until the maturity of the bonds. An investor who purchases a capital appreciation bond at its discounted price and holds it until maturity will receive an amount which equals the initial price plus an amount which has accrued over the life of the bond on a semiannual compounding basis. The net value of the bonds is accreted (the discount reduced), based on this semiannual compounding, over the life of the bonds. This deep-discount debt is reported in the government-wide statement of net assets at its net or accreted value rather than at face value.

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

Vacation and sick policy is as follows: Employees hired on or before June 30, 1977, and managers regardless of date hired can accumulate up to a maximum of 120 vacation days. Employees hired after that date can accumulate up to a maximum of 60 days. Upon termination or death, the employee is entitled to be paid for the full amount of vacation days owed. No limit is placed on the number of sick days that an employee can accumulate. However, the employee is entitled to payment for accumulated sick time only upon retirement, or after ten years of service upon death, for an amount equal to one-fourth of his/her accrued sick leave up to a maximum payment equivalent to sixty days.

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

h. Interest Rate Swap Agreements
The State has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements (see Note 16).

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

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

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

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

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

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

k. External Investment Pool
Assets and liabilities of the Short-Term Investment Fund are allocated ratably to the External Investment Pool Fund based on its investment in the Short-Term Investment Fund (see Note 4). Pool income is determined based on distributions made to the pool's participants.

l. Use of Estimates
The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Note 2 Budgetary vs. GAAP Basis of Accounting
The following is a reconciliation of the net change in fund balances as reported in the budgetary and GAAP basis of accounting statements of revenues, expenditures, and changes in fund balances (amounts in thousands):

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

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

1. Revenues are recorded when received in cash except for certain year-end accruals (budgetary basis) as opposed to revenues being recorded when they are susceptible to accrual (GAAP basis).

2. Expenditures are recorded when paid in cash (budgetary basis) as opposed to expenditures being recorded when the related fund liability is incurred (GAAP basis).

3. For budgetary reporting purposes, continuing appropriations are reported with other financing sources and uses in the determination of the budgetary surplus or deficit to more fully demonstrate compliance with authorized spending for the year. For GAAP purposes, continuing appropriations are excluded from operations and reported as reserved fund balance.

Note 3 Fund Deficits
The following funds have deficit balances at June 30, 2002, none of which constitutes a violation of statutory provisions (amounts in thousands).

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

The General Fund and Consumer Counsel and Public Utility Control Fund deficits has been addressed by Public Act 93-402, subsequently modified by Public Act 99-1 (June special session), which among other things, requires any GAAP deficits for budgeted funds existing as of June 30, 2003 to be amortized in fifteen equal increments beginning with the annual budget for fiscal year 2004-2005.

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

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

Note 4 Cash Deposits and Investments
In this note, the State's deposits and investments are classified in categories of "custodial credit risk." This is the risk that the State will not be able to (a) recover deposits if the depository bank fails or (b) recover the value of investments or collateral securities that are in the custody of an outside party if the counterparty to the investment or deposit transaction fails. Classification in category 1 means that the exposure of deposits or investments to potential custodial credit risk is low. The level of potential custodial credit risk is higher for those deposits or investments classified in category 2 and highest for those in category 3.

Cash Deposits (amounts in million)

At June 30, 2002, the reported amount of the State's deposits was $(194.6) for the Primary Government and Fiduciary Funds (pooled deposits) and $11.4 for the Component Units. The corresponding bank balance for such deposits was $126.4 for the Primary Government and Fiduciary Funds and $16.6 for the Component Units. Of the bank balance for the Primary Government and Fiduciary Funds $40.9 was insured by the Federal Deposit Insurance Corporation or held in the State's name (Category 1) and $85.5 was uninsured and uncollateralized (Category 3). Of the bank balance for the Component Units, $4.5 was insured by the Federal Deposit Insurance Corporation or held in the Component Units' name (Category 1), and $12.1 was uninsured and uncollateralized (Category 3).

Category 3 deposits include some deposits that are collateralized as required by state statute. Under the statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to 10 percent, 25 percent, 100 percent, or 120 percent of its public deposits. However, the collateral is held in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank.

Investments

The State Treasurer is the chief fiscal officer of State government and is responsible for the prudent management and investment of monies of State funds and agencies as well as monies of pension and other trust funds. The State Treasurer with the advice of the Investment Advisory Council, whose members include outside investment professionals and pension beneficiaries, establishes investment policies and guidelines. Currently, the State Treasurer manages one Short-Term Investment Fund ("STIF") and seven Combined Investment Funds (the "CIFS"), including one international investment fund.

STIF is a money market investment pool in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans. STIF's investments are reported at amortized cost (which approximates fair value) and are disclosed in the investment schedules.

For financial reporting purposes, STIF is considered to be a mixed investment pool – a pool having external and internal portions. The external portion of STIF (i.e. the portion that belongs to participants which are not part of the State's financial reporting entity) is reported as an investment trust fund (External Investment Pool fund) in the fiduciary fund financial statements. The internal portion of STIF (i.e., the portion that belongs to participants that are part of the State's financial reporting entity) is not reported in the financial statements. Instead, each fund's investment in the internal portion of STIF is reported as "cash equivalents" in the government-wide and fund financial statements.

The CIFS are open-ended, unitized portfolios in which the State pension trust and permanent funds are eligible to invest. The State pension trust and permanent funds own the units of the CIFS. The State Treasurer is also authorized to invest monies of the CIFS in common stock, commercial equity real estate, foreign companies stocks and bonds, commercial and residential mortgages, foreign governments' obligations, mortgage-backed securities, and venture capital partnerships. CIFS' investments are reported at fair value and are disclosed in the investment schedules.

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

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

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

The following investment schedules disclose the reported amount and fair value of the State's investment in total and by investment type as of June 30, 2002. Further, the reported amounts of these investments are classified according to the following categories of custodial credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the State's name.

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

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

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

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

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

The CIFS account for the purchase and sale of investments using "trade date" accounting – investments are increased or decreased on the date the purchase or sales order is made although the investments are not received or delivered until a later date (settlement date). Thus, the above schedule was prepared taking into account unsettled sales and purchases of investments. This means that investments under unsettled sales are included in the schedule, because the investments are still subject to custodial credit risk that could result in losses prior to settlement. Conversely, investments under unsettled purchases are excluded from the schedule, because the investments are still in the hands of the dealers.

Other Investments-Primary Government
(amounts in thousands)

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

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

Other Investments-Component Units
(amounts in thousands)

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

CHFA owns approximately 86 percent and CHESLA owns approximately 55 percent of the investments that are in categories 1 and 3, respectively.

Derivatives

GASB Technical Bulletin Number 94-1 defines derivatives as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. According to this definition, the following State's investments or contracts are considered to be derivatives:

- Short-Term Investment Fund - Adjustable-rate federal agency, corporate notes, and bank notes whose interest rates vary directly with short-term money market indices and are reset daily, weekly, monthly, quarterly, or semi-annually.

- Combined Investment Funds - Adjustable–rate securities, asset backed securities, indexed Treasury securities, option contracts, mortgage backed securities (including interest-only strips), and foreign exchange contracts.

The State invests in derivatives to enhance investment returns or as in the case of foreign exchange contracts to facilitate trade settlements and to serve as foreign currency hedges.

The Mutual Fixed Income Fund (a Combined Investment Fund) invests in mortgage backed securities (MBSs), asset backed securities (ABSs), and interest-only strips. MBS's and ABS's are bonds issued by a special purpose trust that collects payments on an underlying collateral pool of mortgages or other loans and remits payments to bondholders. The bonds are structured in a series of classes or tranches, each with a different coupon rate and stated maturity date. Interest payments to the bondholders are made in accordance with the trust indentures and amounts received from borrowers in excess of interest payments and expenses are used to amortize the principal on the bonds. Such principal payments are made to retire the tranches of bonds in order of their stated maturity. Because mortgage prepayments are largely dependent on market interest rates, the ultimate maturity date of the bonds is unpredictable and is sensitive to changes in market interest rates, but is generally prior to the stated maturity date. At June 30, 2002, the fund held MBSs of $629 million and ABSs of $182 million.

Interest-only strips (IOs) are a specialized type of mortgage backed securities. The cash flow on these investments is derived from the interest payments on the underlying mortgage loans. Prepayments on underlying loans curtail these interest payments, reducing the value of the IOs and, as such, these instruments are extremely sensitive to changes in interest rates, which encourage or discourage such prepayments. As of June 30, 2002, the IOs had a value of $7 million.

From time to time, the International Stock, Mutual Fixed Income, and Private Investment Funds (Combined Investment Funds) utilize foreign currency contracts to facilitate transactions in foreign securities and to manage the funds currency exposure. Contracts to buy are used to acquire exposure to foreign currencies, while contracts to sell are used to hedge the funds' investments against currency fluctuations. Losses may arise from changes in the value of foreign currencies or failure of the counterparties to perform under the contracts' terms. As of June 30, 2002, the International Stock Fund reported an unrealized loss of $47 million from open forward currency contracts.

Security Lending Transactions

Certain of the Combined Investment Funds are permitted by State statute to lend its securities through a lending agent to authorized broker-dealers and banks for collateral with a simultaneous agreement to return the collateral for the same securities in the future.

During the year, the funds' lending agent lent securities similar to the types on loan at year-end and received cash (United States and foreign currency), U.S. Government securities, sovereign debt rated A or better, convertible bonds, and irrevocable bank letters of credit as collateral. The funds' lending agent did not have the ability to pledge or sell collateral securities delivered absent borrower default. Borrowers were required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102 percent of the market value of the loaned securities; and (2) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105 percent of the market value of the loaned securities. The funds did not impose any restrictions during the fiscal year on the amount of loans that the lending agent made on their behalf and the lending agent indemnified the funds by agreeing to purchase replacement securities, or return the cash collateral thereof in the event any borrowers failed to return the loaned securities or pay distributions thereon. At year-end, the funds had no credit exposure to the borrowers, because the amounts the funds owed the borrowers exceeded the amounts the borrowers owed the funds.

All securities loans can be terminated on demand by either the funds or the borrowers. Cash collateral is invested by the funds' lending agent, and the average duration of the investments can not exceed (a) 120 days or (b) the average duration of the loans by more than 45 days. At year-end, the average duration of the collateral investments was 55 days; the average duration of the loans was unknown, although it is assumed to remain at one day.

Note 5 Receivables

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

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

Note 6 Taxes Receivable

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

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

Note 7 Loans Receivable

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

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

The mortgage loan program consists of home, multi-family, and construction loan mortgages made by the Connecticut Housing Finance Authority. Most home loans are insured by the Federal Housing Administration or guaranteed by the Veterans Administration. In addition, some home and multi-family loans are insured or guaranteed by private insurers, and the State has guaranteed the repayment of up to $5 million for the Authority's Residential Mortgage Guarantee Program. Permanent loans earn interest at rates ranging from 0 percent to 13.5 percent and have initial terms of 10 to 40 years. Construction loans earn interest at rates ranging from 0 percent to 9.0 percent. Upon completion of each development, the related permanent mortgage loan, which will generally be provided by the Authority, will be payable over 30 to 40 years at annual interest rates ranging from 0 percent to 9.0 percent.

The Clean Water fund loans funds to qualified municipalities for planning, design, and construction of water quality projects. These loans are payable over a 20 year period at an annual interest rate of 2 percent and are secured by the full faith and credit or revenue pledges of the municipalities, or both.

The industrial loan program consists of loans made by the Connecticut Development Authority to finance the purchase of land, buildings, and equipment by qualified applicants and to finance other economic development programs of the Authority. These loans are collateralized by assets acquired from the proceeds of the related loans and have originating terms of 1 to 25 years and earn interest at rates ranging from 2.64 percent to 12 percent. As of June 30, 2002, loans in the amount of $22.1 million (including loans of $6.7 million made by other lending institutions) were insured by an insurance fund created by the Authority and by the faith and credit pledged by the State. This insurance fund had net assets of $7.9 million at year-end. Thus, the State is contingently liable in the event of any defaulted loans that could not be paid out of the assets of the insurance fund.

Note 8 Restricted Assets

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

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

Note 9 Capital Assets

Capital asset activity for the year was as follows:

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

* Depreciation expense was charged to functions as follows:

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

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

b. Component Units

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

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

Note 10 State Retirement Systems

The State sponsors three major public employee retirement systems: the State Employees' Retirement System (SERS)-consisting of Tier I (contributory), Tier II (noncontributory) and Tier IIA (contributory), the Teachers' Retirement System (TRS), and the Judicial Retirement System (JRS).

The State Comptroller's Retirement Division under the direction of the Connecticut State Employees Retirement Division administers SERS and JRS. The Teachers' Retirement Board administers TRS. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for SERS, TRS, and JRS are presented in Note No. 12.

Plan Descriptions, Funding Policy, and Annual Pension Cost and Net Pension Obligation

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

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

State Employees' Retirement System

Plan Description

SERS is a single-employer defined-benefit pension plan covering substantially all of the State full-time employees who are not eligible for another State sponsored retirement plan. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and the State, and other plan provisions are described in Sections 5-152 to 5-192 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Tier I Plan B and Hazardous Duty members are required to contribute 2 percent and 4 percent respectively, of their salary up to the Social Security Taxable Wage Base plus 5 percent above that level; Tier I Plan C members are required to contribute 5 percent of their annual salary; Tier IIA members are required to contribute 2 percent and hazardous duty members are required to contribute 5 percent.

The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

Teachers Retirement System
Plan Description
TRS is a single-employer defined-benefit pension plan covering any teacher, principal, superintendent or supervisor engaged in service of public schools in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 10-183b to 10-183pp of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy
The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. For fiscal year 2002, the annual required contribution (ARC) was $210.7 million; however, the State contributed $204.5 million to the plan, reflecting a reduction of $6.2 million by the legislature to the State's TRS appropriation. Administrative costs of the plan are funded by the State.

Judicial Retirement System
Plan Description
JRS is a single-employer defined-benefit pension plan covering any appointed judge or compensation commissioner in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 51-49 to 51-51 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy
The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

Annual Pension Cost, Net Pension Obligation, and Related Information
The State's annual pension cost and net pension obligation to SERS, TRS, and JRS for the current year were as follows (amounts in thousands):

	SERS	TRS	JRS
Annual required contribution	$ 415,493	$ 210,701	$ 9,598
Interest on net pension obligation	166,054	89,954	3
Adjustment to annual required contribution	(102,046)	(54,251)	(2)
Annual pension cost	479,501	246,404	9,599
Contributions made	415,493	204,511	9,598
Increase (decrease) in net pension obligation	64,008	41,893	1
Net pension obligation beginning of year	1,953,580	1,057,828	39
Net pension obligation end of year	$ 2,017,588	$ 1,099,721	$ 40

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

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

Defined Contribution Plan
The State also sponsors the Connecticut Alternate Retirement Program (CARP), a defined contribution plan. CARP is administered by the State Comptroller's Retirement Office under the direction of the Connecticut State Employees Retirement Division. Plan provisions, including contribution requirements of plan members and the State, are described in Section 5-156 of the General Statutes.

Unclassified employees at any of the units of the Connecticut State System of Higher Education are eligible to participate in the plan. Plan members are required to contribute 5 percent of their annual salaries. The State is required to contribute 8 percent of covered salary. During the year, plan members and the State contributed $20.7 million and $33.9 million, respectively.

Note 11 Other Retirement Systems Administered by the State of Connecticut
The State acts solely as the administrator and custodian of the assets or the Connecticut Municipal Employees' Retirement System (CMERS) and the Connecticut Probate Judges and Employees Retirement System (CPJERS). The State makes no contribution to and has only a fiduciary responsibility for these funds. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for CMERS and CPJERS are presented in Note No. 12.

Plan Descriptions and Contribution Information
Membership of each plan consisted of the following at the date of the latest actuarial valuation:

	CMERS 6/30/01	CPJERS 12/31/01
Retirees and beneficiaries receiving benefits	4,572	227
Terminated plan members entitled to but not receiving benefits	186	29
Active plan members	8,233	363
Total	12,991	619
Number of participating employers	164	1

Connecticut Municipal Employees' Retirement System

Plan Description

CMERS is a cost-sharing multiple-employer defined benefit pension plan that covers fire, police, and other personnel (except teachers) of participating municipalities in the State. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and participating municipalities, and other plan provisions are described in Chapters 7-425 to 7-451 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions

Plan members are required to contribute 2.25 percent to 5.0 percent of their annual salary. Participating municipalities are required to contribute at an actuarial determined rate. The participating municipalities fund administrative costs of the plan.

Connecticut Probate Judges and Employees' Retirement System

Plan Description

CPJERS is a single-employer defined benefit pension plan that covers judges and employees of probate courts in the State. Plan benefits, cost-of-living adjustments, required contributions of plan members and the probate court system, and other plan provisions are described in Chapters 45a-34 to 45a-56 of the General statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions

Plan members are required to contribute 1.0 percent to 3.75 percent of their annual salary. The probate court system is required to contribute at an actuarial determined rate. Administrative costs of the plan are funded by the probate court system.

Note 12 Pension Trust Funds Financial Statements

The financial statements of the pension trust funds are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. State contributions are recognized in the period in which the contributions are appropriated. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investment income and related expenses of the Combined Investment Funds are allocated ratably to the pension trust funds based on each fund's equity in the Combined Investment Funds. (see Note No. 4)

Statement of Fiduciary Net Assets (000's)

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

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

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

Note 13 Postemployment Benefits

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

As of June 30, 2002, 32,602 retirees of the State Employees Retirement System meet those eligibility requirements. When employees retire, the State may pay up to 100 percent of their health care insurance premium cost (including dependent's coverage) based on the plan chosen by the employee. In addition, the State pays 100 percent of the premium cost for a portion of the employees' life insurance, continued after retirement. The amount of life insurance, continued at no cost to the retiree, is determined based on the number of years of service that the retiree had with the State at time of retirement as follows: (a) if the retiree had 25 years or more of service, the amount of insurance will be one-half of the amount of insurance for which the retiree was insured immediately prior to retirement, but the reduced amount cannot be less than $7,500 (b) if the retiree had less than 25 years of service, the amount of insurance will be the proportionate amount that such years of service is to 25, rounded to the nearest $100. The State finances the cost of postretirement health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund. During the year ended June 30, 2002, $205 million was paid in postretirement benefits.

Note 14 Capital and Operating Leases

a. State as Lessor

The State leases building space, land, and equipment to private individuals. The minimum future lease revenues for the next five years and thereafter are as follows (amounts in thousands):

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

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

State as Lessee

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

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

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

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

Note 15 Changes in General Long-Term Debt

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

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

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

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

Note 16 Bonded Debt

a. Primary Government – Governmental Activities

General Obligation Bonds

General Obligation bonds are those bonds that are paid out of the revenues of the General fund and that are supported by the full faith and credit of the State. General obligation bonds outstanding and bonds authorized but unissued at June 30, 2002, were as follows (amounts in thousands):

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

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

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

Transportation Related Bonds

Transportation related bonds include special tax obligation bonds and general obligation bonds that are paid out of revenues pledged or earned in the Transportation Fund. The revenue pledged or earned in the Transportation Fund to pay special tax obligation bonds is transferred to the debt service fund for retirement of principal and interest.

Transportation related bonds outstanding and bonds authorized but unissued at June 30, 2002, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Specific Highways	2012-2017	4.25-5.50%	$ 13,878	$ 3,902
Infrastructure Improvements	2003-2022	2-10.0%	3,144,908	376,663
General Obligation Refunding	2004	5.15-9.75%	8,505	-
Other	2008-2013	4.6-7.525%	499	164
			3,167,790	$ 380,729
Accretion-Various Capital Appreciation Bonds			7,113	
		Total	$ 3,174,903	

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

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

Demand Bonds

Included in general obligation bonds, there are variable rate demand bonds in the amount of $100 million. The bonds were issued in May 1997 to fund various State programs (e.g. community conservation development, economic development and manufacturing assistance, regional economic development, etc.) and will mature in the year 2014. Starting in the year 2005, the bonds will be subject to mandatory annual redemption in the principal amount of $10 million plus accrued interest (these amounts are included in the debt service schedule). Concerning the issuance of the bonds, the State signed various agreements, including a "Remarketing Agreement" with a broker/dealer firm and a "Standby Bond Purchase Agreement" with a foreign bank.

These bonds bear interest at a weekly rate or at a flexible rate for a flexible rate period, which cannot be longer than 270 days. Initially, all bonds bear interest at the weekly rate. After that, the bonds may be converted from time to time to the flexible rate or weekly rate at the option of the State. The State's remarketing agent determines the weekly or flexible rate and applicable flexible rate period.

Bonds bearing interest at the weekly rate are subject to purchase at the option of the holder at a purchase price equal to principal and accrued interest, if any, on a minimum seven days' notice and delivery to the State's agent. In addition, all bonds are subject to mandatory purchase upon (1) conversion from the weekly rate to the flexible rate or vice versa, (2) the end of each flexible rate period, and (3) expiration or substitution of the Standby Bond Purchase Agreement. The State's remarketing agent is responsible for using its best efforts to remarket bonds properly tendered for purchase.

The Standby Bond Purchase Agreement requires the bank to purchase bonds tendered and not remarketed in an amount not to exceed the principal on the bonds plus (for bonds bearing interest at the weekly rate) accrued interest up to 35 days at an annual interest rate not to exceed 15 percent; (1) for bonds held for up to 30 days after the purchase date, the Federal funds rate plus .50 percent; (2) for bonds held for more than 30 days but less than 90 days after the purchase date, the Federal funds rate plus 1.00 percent; and (3) for bonds held for more than 90 days after the purchase date, the higher of (a) the base commercial lending rate announced from time to time by the bank, or (b) the federal funds rate plus .50 percent.

The State is required under the Standby Bond Purchase Agreement to pay to the bank a quarterly fee of .065 percent per annum of the available commitment as of each payment date. The available commitment is an amount that the bank is committed to purchase under the agreement. Such amount was initially set in the agreement at $101.4 million and is adjusted from time to time according to provisions in the agreement. If the rating on the bonds were to fall below certain levels, or be withdrawn or suspended, the bank fee could go as high as .135 percent per annum.

The Standby Bond Purchase Agreement expires in the year 2004 and could be extended annually for another year. If certain events of default described in the agreement were to occur, the agreement could be terminated prior to that date.

Interest Rate Swap Agreements
The State has entered into interest rate swap agreements for the following outstanding debt:

Type	Face Value (000's)	Interest Rate	Maturity Date
Transportation - STO's	$ 156,100	variable	2010
General Obligation	$ 20,000	variable	2012

The agreements require the State to pay a fixed interest rate to the counterparties to the swaps, and the counterparties pay the State a variable interest rate that is determined by the Agreements. The State continues to make payments to the bondholders, and only the net difference in interest payments is exchanged with the counterparty. By entering into these agreements, the State has in effect exchanged its variable rate liability for a fixed rate obligation.

The agreements call for the following exchange of interest rates:

Counterparty	Face Value (000's)	Interest Rate Assumed by State	Interest Rate Assumed by Counter party
AIG Corp.	$ 93,700	5.75%	65% of 1-month LIBOR rate
SMBC	$ 62,400	5.71%	65% of 1-month LIBOR rate
Morgan Stanley	$ 20,000	4.33%	CPI(adj semi-annual)

The State is exposed to the market risk relating to the relationship between the variable interest rate on the bonds (which is reset weekly) and the rate that it receives under the swap agreements. As of June 30, 2002, the AIG, SMBC, and Morgan Stanley interest rate swaps had unfavorable positions of $10.9 million, $7.2 million, and $1.6 million respectively.

The counterparties guarantee the agreements, and the agreement with AIG Corp. has a collateral agreement, which goes into effect if the credit rating of AIG falls below a defined level.

b. Primary Government – Business–Type Activities
Revenue Bonds
Revenue bonds are those bonds that are paid out of resources pledged in the enterprise funds and component units.

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

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

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

a) Airport revenue refunding bonds in the amount of $50.8 million. These bonds were issued in October, 1992, to redeem the 1982 revenue bonds, and are secured by and payable solely from the gross operating revenues generated by the State from the operations of the airport and other receipts, funds or monies pledged in the bond indenture.

b) On March 1, 2001 the airport issued Bradley International Airport Revenue Bonds in the amount of $194 million and Bradley International Airport Refunding Bonds in the amount of $19.2 million. Both bond series are secured by and payable solely from the gross operating revenues generated by the state from the operation of the airport and other receipts, funds or monies pledged in the bond indenture.

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

In 1994, the State of Connecticut began issuing Clean Water Fund revenue bonds. The proceeds of these bonds are to be used to provide funds to make loans to Connecticut municipalities for use in connection with the financing or refinancing of wastewater treatment projects.

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

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

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

c. Component Units

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

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

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

Connecticut Development Authority's revenue bonds are issued to finance such projects as the acquisition of land or the construction of buildings, and the purchase and installation of machinery, equipment, and pollution control facilities. The Authority finances these projects through its Self-Sustaining Bond Program and Umbrella Program. Under the Umbrella Program, bonds outstanding at June 30, 2002 were $11.3 million. Assets totaling $10.8 million are pledged under the terms of the bond resolution for the payment of principal and interest on these bonds until such time as it is determined that there are surplus funds as defined in the bond resolution. Bonds issued under the Self-Sustaining Bond Program are discussed in the no-commitment debt section of this note. In addition, the Authority had $43.0 million in general obligation bonds outstanding at year-end. These bonds were issued to finance the lease of an entertainment/sports facility and the purchase of a hockey team.

Connecticut Housing Finance Authority's revenue bonds are issued to finance the purchase, development and construction of housing for low and moderate-income families and persons throughout the State. The Authority has issued bonds under a bond resolution dated 9/27/72 and an indenture dated 9/25/95. As of December 31, 2001, bonds outstanding under the bond resolution and the indenture were $3,206.7 million and $19.8 million, respectively. According to the bond resolution, the following assets of the Authority are pledged for the payment of the bond principal and interest (1) the proceeds from the sale of bonds, (2) all mortgage repayments with respect to long-term mortgage and construction loans financed from the Authority's general fund, and (3) all monies and securities of the Authority's general and capital reserve funds. The capital reserve fund is required to be maintained at an amount at least equal to the amount of principal, sinking fund installments, and interest maturing and becoming due in the next succeeding calendar year ($270.0 million at 12/31/01) on all outstanding bonds. In addition, all assets of the Authority's general and capital reserve funds ($3,980.5 million) are restricted until such time as they are determined to be "surplus funds." As of December 31, 2001, the Authority has entered into interest rate swap agreements for $436 million of its variable rate bonds. These agreements are similar in nature to agreements discussed in the interest rate swap agreements section of this note.

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

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

Connecticut Health and Educational Facilities Authority's revenue bonds are issued to assist certain health care institutions, institutions of higher education, and qualified for-profit and not-for-profit institutions in the financing and 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 $3.7 million in outstanding general obligation bonds.

Each Authority has established special capital reserve funds that secure all the outstanding bonds of the Authority at year-end, except as discussed next. These funds are usually maintained at an amount equal to next year's bond debt service requirements. The State may be contingently liable to restore any deficiencies that may exist in the funds in any one year in the event that the Authority is unable to do so. For the Connecticut Resources Recovery Authority, the amount of bonds outstanding at year-end that were secured by the special capital reserve funds was $204.6 million. For the Connecticut Health and Educational Facilities Authority, the general obligation bonds outstanding at year-end were not secured by the special capital reserve funds.

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

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

No-commitment debt

Under the Self-Sustaining Bond program, The Connecticut Development Authority issues revenue bonds to finance such projects as described previously in the component unit section of this note. These bonds are paid solely from payments received from participating companies (or from proceeds of the sale of the specific projects in the event of default) and do not constitute a debt or liability of the Authority or the State. Thus, the balances are not included in the Authority's financial statements. Total bonds outstanding for the year ended June 30, 2002 were $1,122.3 million.

The Connecticut Resources Recovery Authority has issued several bonds to fund the construction of waste processing facilities by independent contractors/operators. These bonds are payable from a pledge of revenues derived primarily under lease or loan arrangements between the Authority and the operators. Letters of credit secure some of these bonds. The Authority does not become involved in the construction activities or the repayment of the debt (other than the portion allocable to Authority purposes). In the event of a default, neither the authority nor the State guarantees payment of the debt, except for the State contingent liability discussed below. Thus, the assets and liabilities that relate to these bond issues are not included in the Authority's financial statements. Total bonds outstanding at June 30, 2002 were $244.3 million. Of this amount, $68.6 million was secured by a special capital reserve fund.

The Connecticut Health and Educational Facilities Authority has issued special obligation bonds for which the principal and interest are payable solely from the revenues of the institutions. Starting in 1999, the Authority elected to remove these bonds and related restricted assets from its financial statements, except for restricted assets for which the Authority has a fiduciary responsibility. Total special obligation bonds outstanding at June 30, 2002, were $4,066.6 million, of which $277.7 million was secured by special capital reserve funds.

The State may be continently liable for those bonds that are secured by special capital reserve funds as discussed previously in this section.

d. Debt Refundings

During the year, the State issued $1,217.8 million of general obligation, special tax obligation refunding, and revenue refunding bonds with an average interest rate of 4.86% to advance refund $1,228.9 million of general obligation, special tax obligation refunding, and revenue refunding bonds with an average interest rate of 5.53%. The proceeds of the refunding bonds were used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. Thus, the refunded bonds are considered defeased and the liability for those bonds have been removed from the statement of net assets. The reacquisition price exceeded the carrying amount of the old debt by $73.5 million. This amount is being netted against the new debt and amortized over the life of the new or old debt, whichever is shorter.

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

Note 17 Risk Management

The risk financing and insurance program of the State is managed by the State Insurance and Risk Management Board. The Board is responsible mainly for determining the method by which the State shall insure itself against losses by the purchase of insurance to obtain the broadest coverage at the most reasonable cost, determining whether deductible provisions should be included in the insurance contract, and whenever appropriate determining whether the State shall act as self-insurer. The schedule below lists the risks of loss to which the State is exposed and the ways in which the State finances those risks.

	Risk Financed by	
Risk of Loss	Purchase of Commercial Insurance	Self-Insurance
Liability (Torts):		
-General (State buildings, parks, or grounds)		X
-Other	X	
Theft of, damage to, or destruction of assets	X	
Business interruptions	X	
Errors or omissions:		
-Professional liability	X	
-Medical malpractice (John Dempsey Hospital)		X
Injuries to employees		X
Natural disasters	X	

For the general liability risk, the State is self-insured because it has sovereign immunity. This means that the State cannot be sued for liability without its permission. For other liability risks, the State purchases commercial insurance only if the State can be held liable under a particular statute (e.g. per statue the State can be held liable for injuries suffered by a person on a defective State highway), or if it is required by a contract.

For the risk of theft, of damage to, or destruction of assets (particularly in the automobile fleet), the State insures only leased cars and vehicles valued at more than $100 thousand.

When purchasing commercial insurance the State may retain some of the risk by assuming a deductible or self-insured retention amount in the insurance policy. This amount varies greatly because the State carries a large number of insurance policies covering various risks. The highest deductible or self-insured retention amount assumed by the State is $25 million, which is carried in a railroad liability policy.

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

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

Note 18 Interfund Receivables and Payables

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

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

Note 19 Accounting Changes and Restatements

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

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

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

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

Statement No. 38, Certain Financial Statement Disclosures.

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

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

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

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

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

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

Note 20 Related Organizations

Related organizations are legally separate organizations that are not financially accountable to the State. However, these organizations are still related to the State as discussed next.

The State appoints a voting majority of the following organizations' governing boards, the Community Economic Development Fund and the Connecticut Student Loan Foundation. The State's accountability for these organizations does not extend beyond making the appointments.

Note 21 Commitments and Contingencies

A. Commitments

At June 30, 2002, the State, including its component units, had the following outstanding commitments:

1) Infrastructure (highways, roads, etc.) and other construction contracts and miscellaneous contracts with various vendors totaling approximately $1,642.2 million of which $1,175.6 million is expected to be reimbursed by federal grants or other payments.

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

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

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

B. Contingent Liabilities

The State entered into a contractual agreement with H.N.S. Management Company, Inc. and ATE Management and Service Company, Inc. to manage and operate the bus transportation system for the State. The State shall pay all expenses of the system including all past, present and future pension plan liabilities of the personnel employed by the system and any other fees as agreed upon. When the agreement is terminated the State shall assume or make arrangements for the assumption of all the existing obligations of the management companies including but not limited to all past, present and future pension plan liabilities and obligations.

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

C. Litigation

The State, its units and employees are parties to numerous legal proceedings, many of which normally occur in government operations. Most of these legal proceedings are not, in the opinion of the Attorney General, likely to have a material adverse impact on the State's financial position.

There are, however, several legal proceedings which, if decided adversely against the State, may require the State to make material future expenditures for expanded services or capital facilities or may impair future revenue sources. It is neither possible to determine the outcome of these proceedings nor to estimate the possible effects
adverse decisions may have on the future expenditures or revenue sources of the State.

Note 22 Subsequent Events

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

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

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

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

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

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Required PERS Supplementary Information

Required Supplementary Information
Schedules of Funding Progress

(Expressed in Millions)

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

PJRS

For the Probate Judges Retirement System because the UAAL is zero, the actuarial cost method becomes the aggregate cost method and a schedule of funding progress is not required.

Required Supplementary Information
Schedules of Employer Contributions

(Expressed in Millions)

	SERS		TRS		JRS		MERS		PJRS	
Fiscal Year	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
1997	$542.8	64.3%	$174.0	85.0%	$9.3	100.0%	$21.3	100.0%	$0.32	100.0%
1998	$567.6	59.0%	$211.0	85.0%	$9.3	100.0%	$18.8	100.0%	$0.25	100.0%
1999	$315.6	100.0%	$221.6	85.0%	$9.3	100.0%	$18.1	100.0%	$0.32	100.0%
2000	$342.8	100.0%	$240.5	85.0%	$9.3	100.0%	$32.0	100.0%	$-	-
2001	$375.6	100.0%	$252.5	85.0%	$9.8	100.0%	$15.5	100.0%	$-	-
2002	$415.5	100.0%	$210.7	97.1%	$9.6	100.0%	$15.3	100.0%	$-	-

Note: During 2000, 2001 and 2002 the only contributions to the Probate Judges Retirement System were the required member contributions.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	SERS	TRS	JRS	MERS	PJRS
Valuation date	6/30/2002	6/30/2002	6/30/2002	6/30/2001	12/31/2001
Actuarial cost method	Projected unit credit	Entry age	Projected unit credit	Entry age	Entry Age
Amortization method	Level percent of pay, closed	Level percent of pay, closed	Level percent of pay, closed	Level percent of pay, closed	-
Remaining amortization period	30 Years	10-29 Years	29 Years	10-25 Years	-
Asset valuation method	5 year smoothed market	4 year smoothed market	5 year smoothed market	5 year smoothed market	Asset smoothing
Actuarial assumptions:					
Investment rate of return	8.5%	8.5%	8.5%	8.5%	8.5%
Projected salary increases	4.25-15%	4-8%	5.5%	4.5-11.25%	6%
Includes inflation at	5%	4%	5.5%	3.75%	3.5%
Cost-of-living adjustments	2.75-3.75%	3%	3-5.5%	2.5-5.0%	3%

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APPENDIX III-D

STATE OF CONNECTICUT

NANCY WYMAN
COMPTROLLER

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

MARK E. OJAKIAN
DEPUTY COMPTROLLER

February 28, 2003

The Honorable Denise L. Nappier
State Treasurer
55 Elm Street
Hartford, CT 06106

Dear Ms. Nappier:

I have reviewed the accompanying balance sheets of the General Fund of the State of Connecticut for the fiscal years ending June 30, 1998-2002. This review also covered the accompanying statements of unappropriated surplus, revenues, and expenditures for the years ended on those dates. The statements are based on the annual report of the Office of the State Comptroller, which is prepared in compliance with Section 3-115 of the General Statutes, as well as the reports of the Auditors of Public Accounts with respect to the balance sheets and related statements for the fiscal years ending June 30, 1998–2002.

The statements have been prepared on a modified cash basis of accounting for appropriated funds and on a cash basis of accounting for all other funds. These methods of accounting have been applied consistently for all periods shown.

Sincerely,

Nancy Wyman

Nancy Wyman
State Comptroller

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS
STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

CERTIFICATE OF AUDIT

We have audited the accompanying balance sheet of the General Fund of the State of Connecticut as of June 30, 1998, 1999, 2000, 2001 and 2002 and the related statements of revenues, expenditures, and changes in unappropriated surplus for the years ended on those dates as shown in Appendices III-D-4, III-D-5, III-D-6 and III-D-7. These financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note (a) to Appendix III-D-4, the State of Connecticut prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above present only the General Fund and are not intended to present fairly the financial position and results of operations of the State of Connecticut in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund as of June 30, 1998, 1999, 2000, 2001 and 2002, and the results of its operations for the years then ended, in conformity with the basis of accounting described in Note (a) to Appendix III-D-4.

As discussed in the litigation section of the accompanying Official Statement, the State of Connecticut is a defendant in certain legal proceedings. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements. However, as indicated in that section, an adverse judgement in any one of these cases could have a material fiscal impact on the State.

Kevin P. Johnston
Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

December 31, 2002
State Capitol
Hartford, Connecticut

GENERAL FUND[a]

Balance Sheet
As of June 30
(In Thousands)

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

(a) The State of Connecticut's policy, which was formulated in accordance with State fiscal statutes, is to prepare the accompanying financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Connecticut. The modified cash basis of accounting, as used by the State, records expenditures when they are paid and recognizes revenues when received, except for the accrual at June 30 of State collections in July and August of certain taxes levied, Indian gaming payments, and the accounting for restricted grants on an earned basis. Public Act No. 99-173 revised the accrual date for corporation business taxes to July 31st. Those taxes for which July collections are accrued include sales and use tax, personal income tax, corporation business tax, gross earnings taxes on utility and petroleum companies, hospital gross receipts tax, taxes on alcoholic beverages, cigarettes, gasoline and special motor fuels. Beginning in 2001, there is no longer a hospital gross receipts tax. Additionally, Indian gaming payments received through July 31 are accrued.

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

GENERAL FUND

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

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

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

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

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

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

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

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

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

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

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

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

GENERAL FUND

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

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

(a) Transfer to Pequot/Mohegan Fund.

(b) Transfer from Tobacco Settlement Fund.

(c) See Operating Balance on **Appendix III-D-5** for surplus or deficit for each fiscal year.

GENERAL FUND

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

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

(a) See Operating Balance on **Appendix III-D-5** for surplus or deficit for each fiscal year.

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GENERAL FUND REVENUES AND EXPENDITURES
ADOPTED BUDGET FOR FISCAL YEAR 2001-02
ESTIMATED BUDGET FOR FISCAL YEAR 2001-02
MIDTERM BUDGET ADJUSTMENTS FOR FISCAL YEAR 2002-03
ESTIMATED BUDGET FOR FISCAL YEAR 2002-03
(In Millions)

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

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

NOTE: Columns may not add due to rounding.

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

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

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

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

(e) Per the Comptroller's Annual Report for the fiscal year ending June 30, 2002. The line item expenditures exclude expenditures of appropriations carried over from the prior fiscal year and include expenditures of appropriations carried over to the next fiscal year, as determined by the Office of Policy and Management.

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

(g) The figure reflected for Restricted Accounts and Federal & Other Grants reflects realized revenues through June 30, 2002 for the Preliminary Final Budget 2001-02 and an estimate for the Estimated Budget 2002-03. Additional revenues may be received with respect to Restricted Accounts and Federal & Other Grants. Expenditures of these grants are not included; the amount of such expenditures is generally the same as the amount of grants received.

(h) Per an adjustment of $19.3 million for restricted grants affecting the surplus.

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

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

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

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

(m) Accelerate escheats to the State of Connecticut.

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

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

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

(q) Per Section 4-85 of the Connecticut General Statutes, whenever the cumulative monthly financial statement issued by the Comptroller indicates a projected General Fund deficit greater than one percent of the total General Fund appropriations, the Governor is required within thirty days to file a report with the joint standing committees of the General Assembly on appropriations and on finance, revenue and bonding. The report shall include a plan which the Governor shall implement to modify agency allotments to the extent necessary to prevent a deficit. Should such plan result in a reduction of more than five percent of total appropriations, approval of the General Assembly would be required. ***See discussion above under STATE GENERAL FUND – Fiscal Year 2002-2003 Operations. The deficit amount is based on revenue and expenditure estimates provided to the Comptroller by the Office of Policy and Management for purposes of the Comptroller's monthly report for the period ending October 31, 2002, which was issued December 2, 2002. The Comptroller's estimate of the General Fund budget deficit was $414.9 million.***

NOTE: The information in **Appendix III-E** contains only projections and no assurances can be given that subsequent projections will not indicate changes in the items of revenue and expenditure and in the final result of the operations of the General Fund. Changes may also occur as the result of legislative action adjusting the budget or taking other actions which impact revenues or expenditures.

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