NEW ISSUE/REFUNDING ISSUE—BOOK ENTRY ONLY *(See "RATINGS" herein)*

$314,795,000
THE UNIVERSITY OF CONNECTICUT

$97,845,000 General Obligation Bonds, 2004 Series A

$216,950,000 General Obligation Bonds, 2004 Refunding Series A

Dated: January 15, 2004 **Due: January 15, as shown on inside cover**

The University of Connecticut General Obligation Bonds, 2004 Series A (the "2004 Series A Bonds") and the University of Connecticut General Obligation Bonds, 2004 Refunding Series A (the "2004 Refunding 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 Sections 10a-109a to 10a-109y inclusive of the General Statutes of Connecticut, Revision of 1958, as amended (the "UConn 2000 Act"), and the General Obligation Master Indenture of Trust, as supplemented by certain supplemental indentures, including the Eighth Supplemental Indenture and the Tenth Supplemental Indenture of the University, for the purpose of providing funds for the UConn 2000 Infrastructure Improvement Program. The 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 Fleet National Bank of Connecticut), 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds. Purchases of the 2004 Series A Bonds and the 2004 Refunding 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 2004 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein. Principal of and interest on the 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds will be payable semiannually on January 15 and July 15, in each year, commencing July 15, 2004. 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.)

The scheduled payment of principal and interest on the 2004 Series A Bonds in certain amounts maturing on January 15 of the years 2013 through 2019 (the "Series A Insured Bonds") and the 2004 Refunding Series A Bonds maturing on January 15 of the years 2009 through 2018, inclusive and January 15, 2020 (collectively with the Series A Insured Bonds, the "Insured Bonds") when due will be insured by financial guaranty insurance policies to be issued concurrently with the delivery of the Insured Bonds by MBIA Insurance Corporation. See "BOND INSURANCE" herein and Appendix I-F herein.

The 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds.

In the opinion of Pullman & Comley, LLC, under existing statutes, interest on the 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds in definitive form will be available for delivery at The Depository Trust Company in New York, New York on or about January 22, 2004 and that the 2004 Refunding Series A Bonds in definitive form will be available for delivery at The Depository Trust Company in New York, New York on or about January 29, 2004.

Wachovia Bank, National Association

A.G. Edwards & Sons, Inc. **Advest, Inc.** **First Albany Capital** **JPMorgan**

Belle Haven Investments, L.P. **Fidelity Capital Markets** **Herbert J. Sims & Co., Inc.**
Jackson Securities, LLC **Morgan Stanley** **Quick & Reilly, Inc.**
Raymond James & Associates, Inc. **Roosevelt & Cross, Inc.** **UBS Financial Services Inc.**

Dated: January 14, 2004

$314,795,000
THE UNIVERSITY OF CONNECTICUT

$97,845,000 General Obligation Bonds, 2004 Series A

MATURITY SCHEDULE

Year	Principal Amount	Interest Rate	Yield	CUSIP	Year	Principal Amount	Interest Rate	Yield	CUSIP
2005	$4,895,000	2.000%	1.000%	914233JZ5	2015	$2,600,000	3.500%	3.540%	914233KN0
2006	4,895,000	2.000	1.330	914233KA8	2015*†	2,290,000	5.000	3.510	914233KP5
2007	4,895,000	2.000	1.630	914233KB6	2016*†	4,890,000	5.000	3.660	914233KQ3
2008	4,895,000	2.000	1.980	914233KC4	2017	670,000	3.750	3.790	914233KR1
2009	4,895,000	2.250	2.270	914233KD2	2017*†	4,220,000	5.000	3.770	914233KS9
2010	4,895,000	2.500	2.530	914233KE0	2018*†	4,890,000	5.000	3.870	914233KT7
2011	3,395,000	2.750	2.800	914233KF7	2019	750,000	3.900	3.990	914233KU4
2011	1,500,000	3.250	2.800	914233KG5	2019*†	4,140,000	5.000	3.950	914233KV2
2012	4,895,000	3.000	3.040	914233KH3	2020	4,890,000	4.000	4.080	914233KW0
2013	3,205,000	3.200	3.230	914233KJ9	2021	4,890,000	4.125	4.180	914233KX8
2013*	1,690,000	5.000	3.200	914233KK6	2022	4,890,000	4.200	4.250	914233KY6
2014	1,540,000	4.000	3.390	914233KL4	2023	4,890,000	4.250	4.300	914233KZ3
2014*	3,350,000	5.000	3.360	914233KM2	2024	4,890,000	4.300	4.350	914233LA7

(plus accrued interest from January 15, 2004)

$216,950,000 General Obligation Bonds, 2004 Refunding Series A

MATURITY SCHEDULE

Year	Principal Amount	Interest Rate	Yield	CUSIP	Year	Principal Amount	Interest Rate	Yield	CUSIP
2005	$ 60,000	2.000%	1.000%	914233LB5	2013*	$ 29,160,000	5.000%	3.200%	914233LK5
2006	60,000	2.000	1.330	914233LC3	2014*	31,375,000	5.000	3.360	914233LL3
2007	65,000	2.000	1.630	914233LD1	2015*†	31,425,000	5.000	3.510	914233LM1
2008	4,480,000	4.000	1.980	914233LE9	2016*†	26,300,000	5.000	3.660	914233LN9
2009*	9,205,000	5.000	2.240	914233LF6	2017*†	19,925,000	5.000	3.770	914233LP4
2010*	11,240,000	5.000	2.500	914233LG4	2018*†	4,710,000	5.000	3.870	914233LQ2
2011*	17,760,000	5.000	2.770	914233LH2	2019	445,000	3.900	3.990	914233LR0
2012*	24,350,000	5.000	3.010	914233LJ8	2020*†	6,390,000	5.000	4.030	914233LS8

(plus accrued interest from January 15, 2004)

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* Payment of the principal and interest on such maturities of the 2004 Series A Bonds and the 2004 Refunding 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 January 15, 2014 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 2004 Series A Bonds or the 2004 Refunding 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 2004 SERIES A BONDS AND THE 2004 REFUNDING 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 2004 Series A Bonds and the 2004 Refunding 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 page and inside cover page, 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 $314,795,000 aggregate principal amount of its 2004 Series A Bonds and 2004 Refunding 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 2004 Series A Bonds and 2004 Refunding 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.

TABLE OF CONTENTS TO PART I **Page**

INFORMATION CONCERNING THE BONDS AND THE UNIVERSITY OF CONNECTICUT

TABLE OF CONTENTS TO PART II .... **Page**

TABLE OF CONTENTS TO PART III

APPENDICES

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OFFICIAL STATEMENT
relating to

$314,795,000
THE UNIVERSITY OF CONNECTICUT

$97,845,000 General Obligation Bonds, 2004 Series A

$216,950,000 General Obligation Bonds, 2004 Refunding 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 $97,845,000 General Obligation Bonds, 2004 Series A (the "2004 Series A Bonds") and the $216,950,000 General Obligation Bonds, 2004 Refunding Series A (the "2004 Refunding Series A Bonds") of The University of Connecticut (the "University"). The 2004 Series A Bonds and the 2004 Refunding 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, Revision of 1958, 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 Eighth Supplemental Indenture dated as of January 15, 2004 (the "Eighth Supplemental Indenture") and the Tenth Supplemental Indenture dated as of January 15, 2004 (the "Tenth Supplemental Indenture"). The Master Indenture and supplements thereto, including the Eighth Supplemental Indenture and the Tenth 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 Fleet National Bank of Connecticut) 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 $669,197,147 of its General Obligation Bonds, excluding the 2004 Series A Bonds and the 2004 Refunding Series A Bonds, secured by the State Debt Service Commitment, $195,245,000 of its Special Obligation Bonds and expects to be advanced approximately $10,700,000 pursuant to its $75,000,000 Governmental Lease Purchase Agreement, the proceeds of which have funded UConn 2000 projects. See Appendix I-A "UNIVERSITY FINANCES - University Indebtedness and Capitalized Lease Obligations."

The 2004 Series A Bonds represent the ninth series of General Obligation Bonds being issued pursuant to the Act and the Master Indenture. To date, pursuant to the Indentures, $912,000,000 of General Obligation Bonds have been authorized to be issued for UConn 2000 projects, of which $812,000,000 have been issued (par amount of $808,210,000 of Bonds plus $3,790,000 of original issue premium to total $812,000,000 available for projects) (excluding Costs of Issuance), resulting in an unissued balance of $100,000,000 prior to the issuance of the 2004 Series A Bonds. See "UCONN 2000 INFRASTRUCTURE IMPROVEMENT PROGRAM."

The 2004 Refunding Series A Bonds represent the tenth series of General Obligation Bonds being issued pursuant to the Act and the Master Indenture. See "PLAN OF REFINANCING" herein.

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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 Eighth Supplemental Indenture and the Tenth Supplemental Indenture provide 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds and, accordingly, is not planning to budget any of the other Assured Revenues for the payment of the Bonds, including the 2004 Series A Bonds and the 2004 Refunding 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 issued to finance phase I and phase II of the UConn 2000 program secured by the State Debt Service Commitment was approved by the State Bond Commission on December 21, 1995. After the enactment of the 21st Century UConn Act, the Master Indenture was amended to provide for the financing of phase III UConn 2000 projects. As required by the Act, the form of the conformed Master Indenture was approved by the State Bond Commission on December 19, 2003.

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 2004 Series A Bonds and the Tenth Supplemental Indenture was submitted to the Governor on May 15, 2003 and has been deemed approved by the Governor. The resolution approving the issuance of the 2004 Refunding Series A Bonds and the Eighth Supplemental Indenture was submitted to the Governor on October 4, 2001 and approved by the Governor on October 19, 2001.

Pursuant to the Act, the Bonds, including the 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds. The issuance of the 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds. The University has no taxing power.

However, pursuant to the Act, the 2004 Series A Bonds and the 2004 Refunding 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 obligations, 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds, MBIA Insurance Corporation ("MBIA") will issue its financial guaranty insurance policies to insure the 2004 Series A Bonds in certain amounts maturing on January 15 of the years 2013 through 2019, inclusive (the "Series A Insured Bonds") and the 2004 Refunding Series A Bonds maturing on January 15 of the years 2009 through 2018, inclusive, and January 15, 2020 (collectively with the Series A Insured Bonds, the "Insured Bonds").

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("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 had 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 a 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 the policy and MBIA set forth under the heading "BOND INSURANCE." Additionally, MBIA makes no representation regarding the Insured 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 available as described below:

(1) the Company's Annual Report on Form 10-K for the year ended December 31, 2002; and
(2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.

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 are also available as described and shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement 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 in any other subsequently filed document modifies or supercedes such 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, 2002, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, 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://www.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, 2002, MBIA had admitted assets of $9.2 billion (audited), total liabilities of $6.0 billion (audited), and total capital and surplus of $3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2003 MBIA had admitted assets of $9.9 billion (unaudited), total liabilities of $6.4 billion (unaudited), and total capital and surplus of $3.5 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 2004 SERIES A BONDS

In General

The 2004 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 2004 Series A Bonds

The 2004 Series A Bonds will be dated January 15, 2004, and will mature on January 15, in each of the years and in the amounts and will bear interest payable semiannually on January 15 and July 15 in each year, commencing July 15, 2004, 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 December and June in each year.

Principal of and interest on the 2004 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 2004 Series A Bonds maturing on or after January 15, 2015 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 January 15, 2014, 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 2004 Series A Bonds, all notices of redemption will be sent only to DTC.

DESCRIPTION OF THE 2004 REFUNDING SERIES A BONDS

In General

The 2004 Refunding 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 2004 Refunding Series A Bonds

The 2004 Refunding Series A Bonds will be dated January 15, 2004, and will mature on January 15, in each of the years and in the amounts and will bear interest payable semiannually on January 15 and July 15 in each year, commencing July 15, 2004, 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 December and June in each year.

Principal of and interest on the 2004 Refunding 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 2004 Refunding Series A Bonds maturing on or after January 15, 2015 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 January 15, 2014, 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 2004 Refunding Series A Bonds, all notices of redemption will be sent only to DTC.

PLAN OF REFINANCING

The 2004 Refunding Series A Bonds are being issued to refund the maturities and principal amounts of outstanding 1996 Series A Bonds, 1997 Series A Bonds, 1998 Series A Bonds, 2000 Series A Bonds, 2001 Series A Bonds and 2002 Series A Bonds (the "Refunded Bonds") on the dates and at the redemption prices as follows:

Series	Maturity Date	Principal Amount	Coupon	Call Date	Call Price
1996 A	02/01/2008	$ 4,505,000	4.750 %	02/01/2006	102.000 %
1996 A	02/01/2009	4,505,000	5.000	02/01/2006	102.000
1996 A	02/01/2012	4,500,000	5.000	02/01/2006	102.000
1996 A	02/01/2013	4,500,000	5.000	02/01/2006	102.000
1996 A	02/01/2014	4,500,000	5.000	02/01/2006	102.000
1996 A	02/01/2015	4,500,000	5.000	02/01/2006	102.000
1996 A	02/01/2016	4,500,000	5.000	02/01/2006	102.000
		$ 31,510,000			
1997 A	04/01/2010	$ 6,500,000	5.375	04/01/2007	101.000
1997 A	04/01/2011	6,500,000	5.375	04/01/2007	101.000
1997 A	04/01/2012	6,500,000	5.250	04/01/2007	101.000
1997 A	04/01/2013	6,500,000	5.250	04/01/2007	101.000
1997 A	04/01/2014	6,500,000	5.250	04/01/2007	101.000
1997 A	04/01/2015	6,500,000	5.250	04/01/2007	101.000
1997 A	04/01/2016	6,500,000	5.250	04/01/2007	101.000
1997 A	04/01/2017	6,500,000	5.250	04/01/2007	101.000
		$ 52,000,000			
1998 A	06/01/2009	$ 3,515,000	5.000	06/01/2008	101.000
1998 A	06/01/2009	1,460,000	4.550	06/01/2008	101.000
1998 A	06/01/2010	2,620,000	5.000	06/01/2008	101.000
1998 A	06/01/2010	2,355,000	4.650	06/01/2008	101.000
1998 A	06/01/2011	4,490,000	5.000	06/01/2008	101.000
1998 A	06/01/2011	485,000	4.700	06/01/2008	101.000
1998 A	06/01/2012	3,360,000	5.250	06/01/2008	101.000
1998 A	06/01/2012	1,615,000	4.850	06/01/2008	101.000
1998 A	06/01/2013	2,710,000	5.250	06/01/2008	101.000
1998 A	06/01/2013	2,265,000	4.900	06/01/2008	101.000
1998 A	06/01/2014	4,475,000	5.250	06/01/2008	101.000

Series	Maturity Date	Principal Amount	Coupon	Call Date	Call Price
1998 A	06/01/2014	$ 500,000	4.950 %	06/01/2008	101.000 %
1998 A	06/01/2015	4,380,000	5.250	06/01/2008	101.000
1998 A	06/01/2015	595,000	5.000	06/01/2008	101.000
		$ 34,825,000			
2000 A	03/01/2011	$ 5,000,000	5.250	03/01/2010	101.000
2000 A	03/01/2011	1,550,000	5.150	03/01/2010	101.000
2000 A	03/01/2012	2,340,000	5.750	03/01/2010	101.000
2000 A	03/01/2012	1,740,000	5.200	03/01/2010	101.000
2000 A	03/01/2013	2,050,000	5.750	03/01/2010	101.000
2000 A	03/01/2013	2,030,000	5.300	03/01/2010	101.000
2000 A	03/01/2014	5,260,000	5.750	03/01/2010	101.000
2000 A	03/01/2014	1,130,000	5.350	03/01/2010	101.000
2000 A	03/01/2015	3,270,000	5.750	03/01/2010	101.000
2000 A	03/01/2015	3,280,000	5.400	03/01/2010	101.000
2000 A	03/01/2016	5,045,000	5.750	03/01/2010	101.000
2000 A	03/01/2016	1,505,000	5.400	03/01/2010	101.000
2000 A	03/01/2017	5,935,000	5.375	03/01/2010	101.000
2000 A	03/01/2017	615,000	5.500	03/01/2010	101.000
2000 A	03/01/2018	500,000	5.550	03/01/2010	101.000
2000 A	03/01/2019	595,000	5.600	03/01/2010	101.000
2000 A	03/01/2020	6,550,000	5.625	03/01/2010	101.000
		$ 48,395,000			
2001 A	04/01/2012	$ 5,000,000	4.125	04/01/2011	101.000
2001 A	04/01/2013	2,445,000	4.300	04/01/2011	101.000
2001 A	04/01/2013	2,555,000	5.375	04/01/2011	101.000
2001 A	04/01/2014	2,920,000	4.400	04/01/2011	101.000
2001 A	04/01/2014	2,080,000	5.375	04/01/2011	101.000
2001 A	04/01/2015	3,600,000	4.500	04/01/2011	101.000
2001 A	04/01/2015	1,400,000	5.375	04/01/2011	101.000
2001 A	04/01/2016	4,475,000	5.375	04/01/2011	101.000
2001 A	04/01/2017	3,270,000	5.250	04/01/2011	101.000
		$ 27,745,000			
2002 A	04/01/2013	$ 1,220,000	4.400	04/01/2012	100.000
2002 A	04/01/2013	3,780,000	5.375	04/01/2012	100.000
2002 A	04/01/2014	1,090,000	4.500	04/01/2012	100.000
2002 A	04/01/2014	3,910,000	5.375	04/01/2012	100.000
2002 A	04/01/2015	305,000	4.625	04/01/2012	100.000
2002 A	04/01/2015	4,695,000	5.375	04/01/2012	100.000
2002 A	04/01/2016	280,000	4.750	04/01/2012	100.000
2002 A	04/01/2016	4,720,000	5.375	04/01/2012	100.000
2002 A	04/01/2017	4,285,000	5.375	04/01/2012	100.000
2002 A	04/01/2018	4,400,000	5.375	04/01/2012	100.000
		$ 28,685,000			
		$223,160,000			

Upon delivery of the 2004 Refunding Series A Bonds, proceeds will be deposited in the Redemption Fund pursuant to the Indenture and will be placed in escrow with U.S. Bank National Association (the "Escrow Agent"), under an Escrow Deposit Agreement (the "Escrow Deposit Agreement") to be dated as of January 29, 2004 between the Escrow Agent and the University. The Escrow Agent will deposit in an irrevocable trust fund called the Escrow Deposit Fund $247,794,278.71 representing $241,995,672.45 of the net proceeds of the 2004 Refunding Series A Bonds and $5,798,606.26 of other funds available, which will be used to purchase $247,012,146 State and Local Government Series securities (the "Government Obligations"), the principal of and interest on which, when due, along with the uninvested cash amounts, will provide amounts sufficient to meet principal, interest payments and redemption prices on the Refunded Bonds on the dates such payments are due. All investment income on and maturing principal of the Government Obligations held in the Escrow Deposit Fund and needed to pay the principal and premium of, and interest on the Refunded Bonds will be irrevocable deposited by the University for payment of the Refunded Bonds.

SOURCES AND USES OF PROCEEDS OF THE 2004 SERIES A BONDS AND THE 2004 REFUNDING SERIES A BONDS

The University expects to apply the proceeds from the sale of the 2004 Series A Bonds and the 2004 Refunding Series A Bonds as follows:

<u>Sources</u>:

Par Amount of the 2004 Series A Bonds	$ 97,845,000.00
Par Amount of the 2004 Refunding Series A Bonds	216,950,000.00
Net Original Issuance Premium of the 2004 Series A Bonds	2,816,971.25
Net Original Issuance Premium of the 2004 Refunding Series A Bonds	27,144,300.45
Accrued Interest of the 2004 Series A Bonds	68,384.12
Accrued Interest of the 2004 Refunding Series A Bonds	419,698.80
Cash	5,798,606.26
Total Sources	$ 351,042,960.88

<u>Uses</u>:

Construction Account	$ 100,000,000.00
Deposit to Redemption Fund	247,794,278.71
Costs of Issuance for 2004 Series A Bonds*	186,735.30
Costs of Issuance for 2004 Refunding Series A Bonds*	816,270.30
Underwriters' Discount for 2004 Series A Bonds	543,620.07
Underwriters' Discount for 2004 Refunding Series A Bonds	1,282,357.70
Debt Service on the 2004 Refunding Series A Bonds	419,698.80
Total Uses	$ 351,042,960.88

* Includes cost of bond insurance.

Pursuant to the Master Indenture, amounts in the Construction Account may be invested by the Trustee at the direction of the University with the consent of the Treasurer, and amounts in the Costs of Issuance Account may be invested by the Treasurer each in such Investment Obligations permitted by the Master Indenture and paragraph (f) of Section 3-20 of the Connecticut General Statutes, as amended. Amounts deposited to the Redemption Fund shall be used to fund an irrevocable escrow to refund certain outstanding maturities pursuant to terms of the Escrow Deposit Agreement.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2004 Series A Bonds and the 2004 Refunding Series A Bonds. The 2004 Series A Bonds and the 2004 Refunding Series A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered 2004 Series A Bond certificate and 2004 Refunding Series A Bond certificate will be issued for each maturity of each series of the 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2004 Series A Bonds and the 2004 Refunding Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2004 Series A Bond and 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds, except in the event that use of the book-entry system for a Series of the 2004 Series A Bonds and the 2004 Refunding Series A Bonds is discontinued.

To facilitate subsequent transfers, all 2004 Series A Bonds and 2004 Refunding 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 2004 Series A Bonds and 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2004 Series A Bonds and 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds or 2004 Refunding Series A Bonds of a series may thereafter be exchanged for an equal aggregate principal amount of 2004 Series A Bonds or 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds.

Principal and Interest Payments. Principal of the 2004 Series A Bonds and the 2004 Refunding Series A Bonds will be payable at the corporate trust office of the Trustee in Hartford, Connecticut, and interest on the 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds or 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds, and, upon presentation of 2004 Series A Bonds or 2004 Refunding 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 2004 Series A Bonds or 2004 Refunding Series A Bonds. Any 2004 Series A Bond or 2004 Refunding 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 2004 Series A Bond or 2004 Refunding Series A Bond for cancellation, accompanied by delivery of a written instrument of transfer executed in a form approved by the Trustee. Whenever any 2004 Series A Bond or

2004 Refunding Series A Bond shall be surrendered for transfer, the University shall execute and the Trustee shall authenticate and deliver a new 2004 Series A Bond or 2004 Refunding Series A Bond and maturity and for a like aggregate principal amount. The Trustee is not required to transfer or exchange any 2004 Series A Bond or 2004 Refunding 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 secured by the State Debt Service (“DSC Bonds”) totaling $382,000,000, for fiscal years 2000-2005 the Act authorizes DSC Bonds totaling $630,000,000, and for fiscal years 2006-2015 the Act authorizes $1,250,000,000 DSC Bonds, in each case exclusive of any amounts borrowed to refund Bonds, plus Costs of Issuance not otherwise provided for.

The 2004 Series A Bonds represent the ninth series of General Obligation Bonds being issued pursuant to the Act and the Master Indenture. To date, pursuant to the Indentures, $912,000,000 of General Obligation Bonds have been authorized to be issued for UConn 2000 projects, of which $812,000,000 have been issued (par amount of $808,210,000 of Bonds plus $3,790,000 of original issue premium to total $812,000,000 available for projects) (excluding Costs of Issuance), resulting in an unissued balance of $100,000,000 prior to the issuance of the 2004 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 General Assembly of Connecticut. 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, all in accordance with the Act.

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, $29,845,000 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 2004 Series A Bonds and the 2004 Refunding 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 comprises numerous 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds, or in any way contesting or affecting the validity of the 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds in order that interest on the 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds should consult their tax advisors with respect to the applicable state and local tax consequences of ownership of the 2004 Series A Bonds and the 2004 Refunding Series A Bonds (other than with respect to the exclusion of the interest on the 2004 Series A Bonds and the 2004 Refunding Series A Bonds from the Connecticut income tax on individuals, trusts and estates) and the disposition of the 2004 Series A Bonds and the 2004 Refunding Series A Bonds.

Original Issue Discount

The initial public offering prices of certain maturities of the 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bond or 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds.

As noted above, interest on the 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds will not have an adverse effect on the tax-exempt status or market price of the 2004 Series A Bonds and the 2004 Refunding Series A Bonds.

RATINGS

The 2004 Series A Bonds in certain amounts with stated maturities of January 15, 2005 through January 15, 2024 have been rated "Aa3" 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 2004 Series A Bonds in certain amounts with stated maturities of January 15, 2013 through January 15, 2019, 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 2004 Series A Bonds, a financial guaranty insurance policy will be issued by MBIA Insurance Corporation insuring such stated maturities as indicated on the inside front cover of this Official Statement.

The 2004 Refunding Series A Bonds with stated maturities of January 15, 2005 through January 15, 2008 and January 15, 2019 have been rated "Aa3" 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 2004 Refunding Series A Bonds with stated maturities of January 15, 2009 through January 15, 2018, inclusive and January 15, 2020 have been rated "Aaa" by Moody's, "AAA" by Standard & Poor's, and "AAA" by Fitch, with the understanding that upon delivery of the 2004 Refunding Series A Bonds, a financial guaranty insurance policy will be issued by MBIA Insurance Corporation insuring such stated maturities as indicated on the inside front cover of this Official Statement.

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 2004 Series A Bonds or the 2004 Refunding 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 2004 Series A Bonds or the 2004 Refunding Series A Bonds may have an adverse effect on the market price thereof.

CONTINUING DISCLOSURE UNDERTAKING

The Act 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds shall be conditioned upon their receiving, at or prior to the delivery of the 2004 Series A Bonds and the 2004 Refunding 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 2004 Series A Bonds from the University at an aggregate purchase price of $100,118,351.18 (representing the aggregate principal amount of the 2004 Series A Bonds plus net original issue premium of $2,816,971.25 and less Underwriters' discount of $543,620.07) plus accrued interest. The 2004 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 2004 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.

The Underwriters have jointly and severally agreed, subject to certain conditions precedent, to purchase all, but not less than all, of the 2004 Refunding Series A Bonds from the University at an aggregate purchase price of $242,811,942.75 (representing the aggregate principal amount of the 2004 Refunding Series A Bonds plus net original issue premium of $27,144,300.45 and less Underwriters' discount of $1,282,357.70) plus accrued interest. The 2004 Refunding 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 2004 Refunding 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds.

VERIFICATION OF MATHMATICAL COMPUTATIONS

AMTEC Corporation of West Hartford, Connecticut will deliver to the University, on or before the settlement date of the 2004 Refunding Series A Bonds, its attestation report indicating that it has examined the information and assertions provided by the University and its representatives. Included in the scope of its examination will be a verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Government Obligations to pay, when due, the maturing principal of and interest and redemption premium on the Refunded Bonds, and (b) the mathematical computations supporting the conclusion of Bond Counsel that the 2004 Refunding Series A Bonds are not "arbitrage bonds" under the Code.

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 December 22, 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 and Chief Financial Officer.

Additional information concerning the University may be obtained upon request of the President, Philip E. Austin, Attn.: Lorraine M. Aronson, Vice President and Chief Financial Officer, 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 2004 Series A Bonds and the 2004 Refunding Series A Bonds.

This Official Statement is submitted only in connection with the issuance and sale of the 2004 Series A Bonds and the 2004 Refunding Series A Bonds by the University and may not be reproduced or used in whole or in part for any other purpose.

Dated: January 14, 2004

Pursuant to the UConn 2000 Act,
the 2004 Series A Bonds and the
2004 Refunding 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 and
Chief Financial Officer

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APPENDIX I-A
UNIVERSITY OF CONNECTICUT
INFORMATION CONCERNING THE UNIVERSITY

TABLE OF CONTENTS TO APPENDIX I-A **Page**

APPENDIX A
UNIVERSITY OF CONNECTICUT

January 15, 2004

This Appendix A, furnished by the University of Connecticut (the "University") contains information through January 15, 2004, 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 2003, the University had over 164,000 alumni and 26,629 students (including the Health Center) studying in 17 colleges and schools offering eight undergraduate and 18 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 19 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 Provost and Executive Vice President 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 January, 2004. The name, term, position and affiliation or profession of each member of the Board of Trustees is as follows:

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 and subsequent statements, the Board of Trustees adopted a central management structure. Under this structure, among the officers the President may appoint are a Provost and Executive Vice President for Academic Affairs, who oversees academic programs and student life programs at the Storrs campus, the regional campuses, the School of Law and the School of Social Work; an Executive Vice President for Health Affairs, who oversees programs at the University of Connecticut Health Center; a Vice President and Chief Operating Officer, with responsibility for operations across the University; and a Vice President and Chief Financial Officer, with responsibility for financial affairs across 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	Provost and Executive Vice President for Academic Affairs	Ph.D., University of California (Santa Barbara), 18 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 17 years administrative and clinical experience served at the University of Connecticut Health Center.
Lorraine M. Aronson	Vice President and Chief Financial Officer	B.A., Radcliffe College, Harvard University; J.D., Boston University School of Law. Over 27 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.
Linda Flaherty-Goldsmith	Vice President and Chief Operating Officer	Master's degree, University of Alabama at Birmingham. Over 25 years in higher education finance, culminating as vice chancellor for a university system and finance chair of a major health system board.

Legal Services. The University receives legal services from the Office of the State Attorney General. An Assistant Attorney General is 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 59 percent and minority enrollment is up 74 percent at the main campus. The average SAT score of the freshman class for Fall 2003 was 54 points higher than the entering class of Fall 1996. The number of Honors Scholars has increased from 207 in Fall 1995 to 253 in Fall 2003, which reflects a growth of 22 percent and the number of out-of-state freshmen has increased from 436 in 1995 to 937 in Fall 2003, which reflects a growth of 115 percent.

- Investments in regional campus facilities have supported the establishment of new degree programs including the Bachelors in American Studies (Avery Point and Stamford), Business in Stamford and Tri-Campus (Hartford, Torrington and Waterbury), Coastal Studies at Avery Point, and Urban and Community Studies at Tri-Campus. The Board of Trustees has recently approved Bachelors programs in American Studies for Tri-Campus, Family Studies (Stamford and Tri-Campus), and Psychology at Tri-Campus and a Masters in Nursing for Tri-Campus.

- 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.

Significant Improvements & Achievements During Fiscal Year 2003

- The University continued to be the best public university in New England in the annual U.S. News and World Report rankings. It was ranked 25th among 162 public universities in the nation.
- School of Law was named one of the best law programs in the country according to U.S. News and World Report. Among public law schools, it was ranked 17th, up from 20th two years ago. The increased quality of the entering class, an increase in the number of students employed at graduation, and a substantial increase in the Bar pass rate supported the School's improved ranking.
- The National Jurist considered the Law Library one of the top ten law school libraries. The Chicago-Kent Scholarship Survey rated Law faculty scholarship 30th in the nation.
- Neag School of Education was highlighted in a recent "Best Graduate Schools" guide. It was one of seven graduate schools across the country selected for a pictorial feature of outstanding graduate programs. Its Special Education Program was recognized by U.S. News and World Report as the 16th best program in the country.
- National Commission for Teaching and America's Future cited the Neag School's five-year Integrated Bachelor's/Master's program as an example of a teacher preparation program that prepares graduates well for teaching. Although a third of all new teachers nationwide leave the classroom after three years, 90 percent of Neag graduates remain dedicated to their profession.
- School of Business was named one of the best in the nation by Business Week. It placed UConn among the top 30 public universities nationwide in the very competitive field of graduate business education. Business Week and U.S. News and World Report ranked UConn as the best public business school in New England.
- The MBA Program was named by Forbes Magazine as one of the highest return-on-investments in the nation. Wall Street Journal also listed UConn as one of the Top Business Schools in the country.
- The Physical Therapy Program was rated among the top 15 percent of programs nationally by U.S. News and World Report.
- The University, including both the Health Center and the Storrs-based programs, ranked 68th among all institutions and 46th among public universities nationwide in terms of research and development expenditures, as measured by the National Science Foundation.
- UCONN 2000 projects earned three awards for the University of Connecticut: the Distinguished Leadership Award of the Connecticut Architecture Foundation, awarded to President Philip E. Austin on behalf of the University and the Board of Trustees; the grand prize for "outstanding achievement and impact on the State of Connecticut" by the Real Estate Exchange, a forum for women in commercial real estate; and the Energy Conservation Award for "innovation in energy-efficiency initiatives" by the Energy Conservation Management Board. UCONN 2000 is estimated to have saved the University, its students, and state taxpayers more than $24 million in energy costs since it was signed into Connecticut law in 1995.
- John W. Rowe, one of the nation's outstanding medical researchers and academic leaders and chairman and CEO of Aetna Inc., was appointed by Governor John G. Rowland to be the Chair of the University's Board of Trustees. He succeeds Roger A. Gelfenbien.
- The women's basketball team won their second straight National Collegiate Athletic Association (NCAA) Championship, making it their fourth national championship. The women also won championships in 1999, 2000, and 2002. President Bush honored the Huskies at the White House for their back-to-back NCAA championships.
- Four other teams advanced to NCAA Championship play in men's basketball, men's and women's soccer, and field hockey.
- The University's intercollegiate athletic program was again named to the Top 20 in the national College Sports Honor Roll, which recognizes the best Division I schools in terms of graduation, compliance with Title IX, absence of NCAA violations, and athletic success.

- Three faculty members served as presidents of their national professional associations: Diane Burgess, American Association of Pharmaceutical Scientists; Margaret Higonnet, American Comparative Literature Association; and Robert Michel, Society of Analytical Chemists.
- School of Dental Medicine was ranked first among 55 dental schools in the country on the National Board Dental Examinations. This was the second time in three years that dental students achieved the top scores on the exam's part II, on applied dental science and clinical judgment and decision-making. UConn has consistently ranked among the top four schools on the National Boards.
- School of Medicine's national ranking in the National Institutes of Health funding rose 5 places, over the previous year. Both the national Liaison Committee on Medical Education and the Association of American Medical Colleges recognized the School's Clinical Skills Assessment Program for excellence.
- John Dempsey Hospital clinical marketing team received an Award of Distinction for its advertising campaign by the Association of American Medical Colleges Group on Institutional Advancement. The Health Center's entry was selected out of more than 170 submissions from academic medical centers nationwide.
- The Health Center was the site of the first small pox vaccinations given to medical personnel in the U.S. in 30 years, attracting worldwide news coverage. The Occupational Medicine, Emergency Medicine and Infectious Disease Divisions at the Health Center assisted the Department of Public Health in developing a plan and vaccinating first responders for smallpox.

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**[1]
General Obligation Bonds	
Agricultural Biotechnology Facility	Completed August 2002
Agricultural Biotechnology Facility Completion	Completed August 2002
Alumni Quadrant Renovations[4]	In Construction
Avery Point Marine Science Research Center – Phase I	Completed December 2001
Avery Point Marine Science Research Center – Phase II	Completed December 2001
Avery Point Renovation	In Design and Construction
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	Completed
Deferred Maintenance & Renovation Lump Sum – Phase II	Continuing
East Campus North Renovations[4]	In Construction
Equipment, Library Collections & Telecommunications – Phase I	Completed
Equipment, Library Collections & Telecommunications – Phase II	Continuing
Gant Plaza Deck	Completed September 2001
Gentry Renovations	In Construction
Grad Dorm Renovations	In Construction
Heating Plant Upgrade [2]	In Construction
Hilltop Dormitory Renovations	Completed October 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
Mansfield Training School Improvements	Completed
Monteith Renovations	Completed September 2001
Music Drama Addition	Completed September 1999
North Campus Renovation[4]	In Construction
North Superblock Site & Utilities	Completed November 1997
Northwest Quadrant Renovation – Phase I	Completed September 2000
Northwest Quadrant Renovation – Phase II	Completed September 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 Construction
Shippee/Buckley Renovations[4]	In Construction
South Campus Complex[6]	Completed January 1999
Stamford Downtown Relocation	Completed December1998
Student Union Addition	In Construction
Technology Quadrant-Phase IA[3]	Completed December 2002
Technology Quadrant-Phase II	Completed May 2003
Torrey Life Science Renovation	In Design and Construction
Towers Renovation[4]	In Construction
Underground Steam & Water Upgrade – Phase I	Completed January 2001
Underground Steam & Water Upgrade Completion – Phase II	Completed January 2001
Waring Building Conversion	Completed September 2001
Waterbury Property Purchase	Completed January 1999
West Campus Renovations	In Construction
White Building Renovation	Completed May 1999
Wilbur Cross Building Renovation	Completed August 2002
Special Obligation Student Fee Revenue Bonds	
Alumni Quadrant Renovations[4]	In Construction
East Campus North Renovations[4]	In Construction
Hilltop Dormitory New	Completed August 2001
Hilltop Student Rental Apartments	Completed August 2001
North Campus Renovation (including Suites & Apartments)[4]	In Construction
Parking Garage-South[5]	Completed November 2002
Shippee/Buckley Renovations[4]	In Construction
South Campus Complex[6]	Completed January 1999
Towers Renovation (including Greek Housing)[4]	In Construction

[1] Some projects listed as in construction might be substantially complete for use purposes.
[2] The University has entered into a tax-exempt lease financing for a Co-Generation Facility for the Heating Plant in the principal amount of $75 million.
[3] 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 ($20.2 million has been paid to date).
[4] 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.
[5] The Hilltop Dormitory New and the Hilltop Student Rental Apartments comprise the Hilltop Housing Complex which was funded along with the Parking Garage South with the proceeds of the Student Fee Revenue Bonds, 2000 Series A.
[6] 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 Procedure 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 159 major buildings. Additionally, as of Fall 2003, there are 114 residential facilities, including the Hilltop Housing Complex, all on the Storrs campus, serviced by nine large dining halls designed to provide room and board for over 11,000 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 26,000 in the 2003-2004 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 2004 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 103 majors, 13 graduate degrees in 87 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, Booth Engineering Center for Advanced Technology, 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-Bioservices Center, Thomas J. Dodd Research Center, Connecticut Center for Economic Analysis, the Neag Center for Gifted Education and Talent Development, Connecticut Transportation Institute, Center for Conservation and Biodiversity, Center for Environmental Health, and Center for Oral History.

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 46 out of 362 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 level 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 5,426 matriculated graduate students at both the master's and doctoral levels in academic year 2003-2004, approximately 2,150 were supported on merit based graduate assistantships and approximately 700 on merit based pre-doctoral and other fellowships. This support was awarded in 87 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 2003-04 undergraduate degree enrollment increased by 4.2% (including an 2.0% increase in freshmen); and graduate degree student enrollment increased by 4.0%. Law school enrollment increased by 7.0%. 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 1999 - 2003

	1999	2000	2001	2002	2003
Undergraduates					
Storrs	12,325	13,208	14,030	14,693	15,163
Regional Campuses[2]	3,416	3,473	3,600	3,969	4,124
TOTAL	15,741	16,681	17,630	18,662	19,287
Graduates/Professionals	6,500	6,254	5,950	6,711	6,869
TOTAL	**22,241**	**22,935**	**23,580**	**25,373**	**26,156**

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

Percentage of Enrollment by Residence Status
Storrs Campus
Fall 1999 - 2003

	Undergraduate Percent		Graduate Percent[1]	
Fall	**In-State**	**Out-of-State**	**In-State**	**Out-of-State**
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%
2003	75.5%	24.5%	70.1%	29.9%

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

Schedule of Freshmen Enrollment - All Campuses
Fall 1999 - 2003

Fall	Freshmen Applications	% Change in Applications	Accepted	Enrolled	% Change in Enrolled	Enrolled as a % of Accepted
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%
2003	18,724	27.6%	11,355	4,117	2.0%	36.2%

Admissions. The University of Connecticut is rated as 'very competitive' by Barron's Profiles of American Colleges, Edition 25 for 2003. For the past eight 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 1999 – 2003

Fall	Storrs Campus	Regional Campuses	State of Connecticut Average	National Average
1999	1136	1016	1019	1016
2000	1140	1020	1017	1019
2001	1140	1008	1019	1020
2002	1149	1012	1018	1020
2003	1167	1018	1026	1026

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 2004, students classified as full-time undergraduate residents of Connecticut pay tuition of $5,260. Full-time out-of-state undergraduates pay $16,044 per year. In the 2003 academic year, total tuition revenues were $116.4 million of which $51.5 million were out-of-state tuition revenues. Undergraduates accounted for 86.6% of tuition revenues in 2003 academic year. In August 2002, the Board of Trustees approved a tuition rate increase of 8.75% over the 2004 rate for academic year 2005.

Mandatory Fees. For academic year 2004, undergraduate students must pay a General University Fee of $1,092 per year. Students also pay $460 per year in other fees, of which $138 is for various student-controlled organizations, $282 is for infrastructure maintenance and $40 is a transit fee. For academic year 2003, the General University fee generated $16.4 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 2005, to the following amounts: General University Fee - $1,116 and other fees - $502.

Other Fees. There are numerous optional fees at the University. The primary optional fees for the academic year 2004 are the room ($3,670) and board ($3,218) 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 Room Fee for 2005 to $3,872 and the Board Fee to $3,428.

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 2003 - 2004

School	In-State	Out-of-State
Boston University	$ 38,194	$ 38,194
Boston College	37,150	37,150
Northeastern University	35,356	35,356
Syracuse University	34,420	34,420
Providence College	32,245	32,245
Quinnipiac College	30,570	30,570
University of New Hampshire	15,698	26,058
University of Rhode Island	14,455	24,787
University of Connecticut	***13,700***	***24,484***
University of Massachusetts	13,219	22,072
University of Delaware	12,616	22,146

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 fiscal year 2003, approximately 75% of the students received some form of University administered student aid.

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 $4,050 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.

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 2003 academic year was $25.6 million, of which 83% was provided to graduate assistants.

Financial Aid to University Students
For Fiscal Years 1999 - 2003

	1999	2000	2001	2002	2003
Scholarships/Grants					
Institutional	$ 19,274,031	$ 22,837,475	$ 21,538,333	$ 24,891,455	$ 28,567,656
State - CT	5,457,252	7,184,256	8,173,545	8,683,447	8,153,671
State - Non CT	97,245	109,860	122,775	138,725	157,632
Federal Funds	5,563,886	6,035,420	6,716,856	8,110,336	8,685,342
Private	7,139,542	7,579,949	9,299,653	12,409,479	13,757,017
Total Scholarships/Grants	37,531,956	43,746,960	45,851,162	54,233,442	59,321,318
Loans					
Private	2,124,597	2,866,080	3,895,012	6,385,001	10,099,864
Federal	47,242,151	51,374,234	49,840,439	50,413,401	62,749,260
Total Loans	49,366,748	54,240,314	53,735,451	56,798,402	72,849,124
Student Employment					
University Student Payroll	7,314,049	8,564,241	8,879,451	9,537,588	10,263,498
Federal Work Study	1,471,692	1,339,723	1,321,277	1,231,242	1,269,757
Total Student Employment	8,785,741	9,903,964	10,200,728	10,768,830	11,533,255
GRAND TOTAL	$ 95,684,445	$ 107,891,238	$ 109,787,341	$121,800,674	$143,703,697

UNIVERSITY FINANCES

Financial Management

As noted earlier, the University's Board of Trustees has the authority for fiscal oversight of the University. Under the Board of Trustees central management structure, among the officers the President may appoint are a Provost and Executive Vice President for Academic Affairs, an Executive Vice President for Health Affairs, a Vice President and Chief Operating Officer, and a Vice President and Chief Financial Officer. 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, 2003 are included as Schedule 1 to this Official Statement. See Explanatory Note below for information regarding the revised reporting format.

Below is a three-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 the same information for the Health Center.

University of Connecticut
Statement of Current Fund Revenues, Expenditures, and Other Changes in Fund Balances
for the Fiscal Years 1999-2001

	1999	2000[3]	2001
Revenues			
Tuition and Fees[1]	$ 110,742,558	$ 122,141,197	$ 134,465,735
State Appropriations	213,181,741	234,872,559	238,381,846
Federal Grants & Contracts	45,728,277	48,111,674	57,982,340
State Grants & Contracts	10,904,297	20,339,588	19,909,298
Local Grants & Contracts	2,000	16,000	2,000
Private Gifts, Grants & Contracts	18,382,763	23,071,543	23,234,698
Investment Income	5,017,256	5,956,148	6,467,580
Sales & Service of Educational Activities	9,997,841	11,508,457	12,411,491
Sales & Service of Auxiliary[2]	62,533,837	67,681,421	78,055,811
Other Sources	7,292,726	7,149,818	9,320,834
Total Current Revenues	**483,783,296**	**540,848,405**	**580,231,633**
Expenditures & Mandatory Transfers			
Education and General			
Instruction	145,897,909	157,545,658	171,004,504
Research	54,848,000	64,796,851	62,086,721
Public Service	21,046,960	22,650,386	29,015,612
Academic Support	60,510,462	63,745,185	61,724,033
Student Services	16,366,173	17,465,140	17,149,855
Institutional Support	36,166,331	43,835,480	42,236,499
Scholarships & Fellowships	31,173,310	36,452,073	41,270,209
Plant Operations	32,565,413	34,439,472	40,732,089
Total E & G Expenditures	**398,574,558**	**440,930,245**	**465,219,522**
Mandatory Transfer for Debt Retirement	4,694,996	8,706,751	13,918,507
Total Education and General	**403,269,554**	**449,636,996**	**479,138,029**
Auxiliary Services Expenditures	78,725,389	83,907,813	91,379,252
Total Expenditures & Mandatory Transfers	**481,994,943**	**533,544,809**	**570,517,281**
Other Transfers & Additions (Deductions)			
Excess of Restricted Receipts			
Over			
Transfers to Revenues	(1,846,489)	1,851,590	(1,748,585)
Transfers From:			
Unrestricted Funds	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			
Endowment Principal	(194,052)	(57,637)	
Loan Funds		3,627	(116,909)
Plant Funds	(6,125,955)	(3,564,624)	(7,005,645)
Total Other Transfers & Additions (Deductions)	**(8,166,496)**	**(1,766,819)**	**(8,858,976)**
Net Income (Loss) in Fund Balance	**(6,378,143)**	**5,536,777**	**855,376**
Current Funds Fund Balance	**$ 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.
[2] Auxiliary Enterprise Revenues consist primarily of room and board fees and Athletic Department income.
[3] 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.

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 1999 – 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.

Below is a two-year presentation of the Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2003 and 2002.

UNIVERSITY OF CONNECTICUT
Statement Of Revenues, Expenses, And Changes In Net Assets
For the Years Ended June 30, 2003 and 2002

	2003	2002
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of $49,728,391 in 2003 and $46,734,320 in 2002. Revenues totaling approximately $21,912,000 in 2003 and $19,978,000 in 2002 are used as security for revenue bonds. See Note 4.)	$ 120,275,694	$ 102,200,333
Federal grants & contracts	73,342,732	67,753,605
State and local grants & contracts	16,511,793	17,859,232
Non governmental grants & contracts	10,329,075	12,760,474
Sales & services of educational departments	13,514,914	12,020,682
Sales & services of auxiliary enterprises (net of scholarship allowance of $1,283,335 in 2003 and $824,538 in 2002. Revenues totaling approximately $16,445,000 in 2003 and $9,522,000 in 2002 are used as security for revenue bonds. See Note 4.)	89,438,533	81,002,139
Other Sources (Revenues totaling approximately $2,548,000 in 2003 and $2,066,000 in 2002 are used as security for revenue bonds. See Note 4.)	8,228,181	10,442,761
Total Operating Revenues	331,640,922	304,039,226
OPERATING EXPENSES		
Educational and general		
Instruction	210,682,856	198,738,445
Research	56,170,809	49,310,979
Public service	25,125,045	21,754,712
Academic support	61,117,844	61,853,232
Student services	25,494,540	23,785,758
Institutional support	50,604,026	46,956,545
Operations and maintenance of plant	45,246,949	39,588,031
Depreciation	63,402,505	50,624,858
Student aid	557,919	241,509
Auxiliary enterprises	93,185,331	90,957,783
Total Operating Expenses	631,587,824	583,811,852
Operating Loss	(299,946,902)	(279,772,626)
NONOPERATING REVENUES (EXPENSES)		
State appropriation	258,751,010	259,447,742
State debt service commitment for interest	29,228,519	25,907,563
Gifts	18,936,287	16,202,233
Investment income (Income totaling approximately $857,000 in 2003 and $1,077,000 in 2002 are used as security for revenue bonds. See Note 4.)	3,565,261	5,572,628
Interest expense	(39,794,329)	(33,955,787)
Other nonoperating revenues (expense), net	522,514	(2,715,738)
Net Nonoperating Revenues	271,209,262	270,458,641
Loss Before Capital Additions (Deductions)	(28,737,640)	(9,313,985)
CAPITAL ADDITIONS (DEDUCTIONS)		
State debt service commitment for principal	96,210,000	100,000,000
Capital grants and gifts	7,558,843	12,316,127
Disposal of property and equipment, net	(2,454,738)	(3,102,251)
Capital other	(2,405,030)	13,357,569
Total Capital Additions (Deductions)	98,909,075	122,571,445
Increase in Net Assets	70,171,435	113,257,460
NET ASSETS		
Net Assets-beginning of year	1,228,723,197	1,203,523,254
Cumulative effects of changes in accounting principle	-	(88,057,517)
Net Assets-beginning of year, as adjusted	1,228,723,197	1,115,465,737
Net Assets-end of year	$ 1,298,894,632	$ 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. 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. The Act provides for a twenty year Capital Budget program of the University and authorizes projects estimated to cost $2,598 million of which $2,262 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. Phase I was for fiscal years 1996-99 and totaled $382 million, Phase II was for fiscal years 2000-05 and totaled $580 million and Phase III is for fiscal years 2005-2015 and totaled $1,300 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.

University Budget

Fiscal Year 2004.

The fiscal year 2004 spending plan was presented to the Board of Trustees for approval on September 23, 2003. The proposed spending plan assumes a growth in undergraduate degree seeking students of 4.2%. The proposed spending plan includes total revenue of $693.9 million and total expenditures of $693.0 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 budgeted at a level of $260.9 million (appropriation/allotments $190.0 million; fringe benefits $70.9 million). In November 2003, the State of Connecticut implemented a Human Resource Management System that changed the fringe benefit calculation methodology. At this time, the affect of this change is unknown. The $190.0 million allotment incorporates a $7.1 million State Early Retirement Incentive Program (ERIP) reduction from the original FY 2004 State appropriation of $197.1 million. For the Storrs-based programs, 365 employees participated in ERIP. Of this group, 82 were faculty, 98 were professional staff and 185 were classified personnel, including 104 maintenance staff. The total dollar value including salary and fringe benefits is $31.3 million and the state supported dollar value is $24.7 million (salary $17.6 million and fringe $7.1 million). On an ongoing basis, the University will retain 50% of the state supported savings. The Office of Policy and Management allotment reduction of $7.1 million represents the state's share of the salary savings for FY 2004.

Tuition (excluding waivers) and fee revenue is budgeted at $191.0 million, an increase of $21.0 million or 12.4% 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 4.2%.

Auxiliary Enterprise Sales/Services revenue is projected to be $102.8 million, which is an increase of $7.6 million or 8.0% over the fiscal year 2003 amount. Residence halls and rental properties ($46.5 million), dining services ($31.4 million) and athletics ($21.0 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 $693.0 million are budgeted to increase by $25.6 million or 3.8% over the fiscal year 2003 amount. The University's Operating Fund is budgeted to increase by 4.1%. The Operating Fund increase for personal services ($6.1 million) and fringe benefits ($10.5 million) is being driven primarily by a projected increase in State mandated fringe benefit rates. The spending plan continues the $19.6 million in reductions and reallocations that were implemented in FY 2003. Hiring and expenditure controls put into effect last year continue. As a result of wage concessions that were negotiated with the AAUP and UCPEA bargaining units and a managerial pay freeze, fully 75% of the employees at the Storrs-based programs have a FY 2004 wage freeze. The salary and fringe benefit savings due to the wage freeze will help address reduced state support. The overarching goal of the University's response to cuts in state aid includes the management of all costs in such a way as to not adversely affect the quality of the student academic experience and also to support academic plan priorities. The spending plan includes budgetary enhancements as follows:

- Undergraduate Course Offerings
- Undergraduate Academic Support
- Honors Program
- Opening of New Waterbury Campus
- Workforce Shortage Areas
- Research Centers of Excellence

Financial Aid expenditures are projected to be $59.2 million, which is an increase of $5.8 million or 10.9% over the fiscal year 2003 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 1.8%.

FY 2004 Current Funds Budget

	Educational & General	Auxiliary	Total	Unrestricted	Restricted
Revenues					
State Support	$ 260.8	$	$ 260.8	$ 260.8	$
Tuition & Fees	171.0	20.0	191.0	191.0	
Grants & Contracts	106.4	11.2	117.6	23.2	94.4
Auxiliary Enterprises		102.8	102.8	102.8	
Other Revenue	21.7		21.7	21.3	0.4
Total Revenues	$ 559.9	$ 134.0	$ 693.9	$ 599.1	$ 94.8
Expenditures/Transfers					
Educational & General	$ 559.0	$ 0.0	$ 559.0	$ 464.3	$ 94.8
Auxiliary Enterprises	0.0	134.0	134.0	133.9	0.0
Total Expenditures/Transfers	$ 559.0	$ 134.0	$ 693.0	$ 598.2	$ 94.8
Net Gain / (Loss)	$ 0.9	$ 0.0	$ 0.9	$ 0.9	$ 0.0

Fiscal Year 2005.

A preliminary fiscal year 2005 budget was presented to the Board of Trustees on August 13, 2002. The budget requested a state appropriation of $215.8 million (excluding fringe benefits). Subsequently in July 2003, the General Assembly passed a budget, which has been signed by the Governor, that includes a FY 2005 appropriation for the University of $200.7 million. The University has also been notified by the Office of Policy and Management that the $200.7 million appropriation will be further reduced by $8.9 million as a result of ERIP. The impact of the reduced state support for the University including ERIP is being assessed. A revised FY 2005 budget is scheduled to be presented to the Board of Trustees in June 2004.

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, 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, 2004 is $190.0 million. The original State appropriation was $197.1 million and this was reduced by $7.1 million as an adjustment by the Office of Policy and Management to reflect the state's share of savings from ERIP. For fiscal year 2005, the University requested a State appropriation of $218.7 million to maintain current services. During 2003, the Governor and General Assembly recommended a fiscal year appropriation of $200.7 million for the University. At this time, the University is uncertain of the FY 2005 appropriation, but it anticipates an $8.9 million reduction associated with ERIP savings.

Schedule of State Operating and Endowment Support and Estimated Fringe Benefits to the University For Fiscal Years 2001 – 2004

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	194,394,855[4]	65,893,851	261,312,064	7,319,711
2004	189,965,107	70,871,463	275,402,569	7,600,000

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.

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 Phase II and an additional $50,000,000 has been authorized under UCONN 2000 Phase III. FY's 2006-15 represent additional authorizations under UCONN 2000 Phase III, 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 $100.2 million in fiscal year 2003, representing 30.2% 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, 2003, included in this Appendix A. Revenue from Federal, State and local governmental grants and contracts, including financial aid and recovery of indirect costs, totaled $89.9 million for this time period, which represented 27.1% of total operating revenues.

Governmental Grants and Contracts
For Fiscal Years 1999 - 2003
(in Millions of Dollars)

Fiscal Year	Amount
1999	$ 56.6
2000	68.4
2001	77.9
2002	85.6
2003	89.9

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 $42.4 million (receipts only) during fiscal year 2003, as compared to $8.2 million in 1995. The endowment has also increased dramatically. From June 30, 1995 to 2003, total endowment assets have grown from $50 million to $209 million. Total assets of the University of Connecticut Foundation reached $257 million at June 30, 2003. The University's 24% alumni giving rate places it among the best public universities in the country.

UGS PLM Solutions, a subsidiary of EDS, the world's largest independent information technology services company, awarded a suite of leading industry software that will help the School of Engineering faculty and students to conceive, design, engineer and validate projects using the same tools as today's leading manufacturing and technology companies employ. The commercial value of the in-kind gift was $146 million – the largest gift ever received by the University.

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, 2003, the Campaign has received $259 million in gifts and commitments, which represents 86.0% 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, covers gifts received 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.

During fiscal year 2003, 48 new endowment funds were established. Since the Campaign began the number of endowment funds has increased from 601 to 941 with scholarship endowments being the most prominent donor designation.

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 four years, the University has received the following state endowment match eligible gifts:

- The UConn Foundation received $372,090 from the Estate of Sylvia Lazar to support the Louis and Sylvia Lazar Endowment Fund. The fund provides merit scholarships for full-time students enrolled in the School of Fine Arts.

- The John W. Kluge Foundation committed $275,000 to the Thomas J. Dodd Prize in International Justice and Human Rights. The biannual prize is awarded by University's Thomas J. Dodd Research Center to a leader or group who has made a significant effort to advance the cause of international justice and global human rights.

- David '61 and Brenda Maxen Roth '61 committed $200,000 and Pelton's Pharmacy committed $50,000 to the School of Pharmacy Endowment for the 21st Century, which provides financial support for faculty, scholarships, and programmatic enhancements at the School of Pharmacy.

- A gift of $81,789 was received from the Estate of Robert S. Dennison to support the Robert S. and Naomi C. Dennison Fund for Acquisition at the William Benton Museum of Art, Connecticut's State Art Museum. The fund is used to purchase works of art created before 1950 for the Museum's permanent collection and to cover other expenses that may be related to preserving the works of art for future generations.

- A gift of $61,681 was received from the Estate of Alice K. Norian to support the Norian Armenian Studies Programs, which includes a lecture and student-faculty exchange program.

- An anonymous donor committed $1.394 million to establish the Lockean Distinguished Chair in Mental Health Education within the School of Medicine at the UConn Health Center.

- An anonymous donor committed $300,000 to endowment for the Learning Mentorship Program Fund, which provides academic mentorship in science and technology coursework for freshmen and sophomore students in the School of Engineering. The same donor also gave $200,000 to the School's endowment for the BRIDGE Program, a five-week intensive residential summer readiness program for members of minority populations.

- Dr. Paul Mali committed $50,000 to establish the Paul and Mary Mali Endowed Scholarship fund to provide financial support for full-time students enrolled in the Biomedical Engineering program within the School of Engineering.

- William Martin Hait committed $100,000 to the School of Pharmacy Endowment for the 21st Century to provide financial support for faculty, scholarships, and programmatic enhancements.

- Michael E. McPhee committed $125,000 to establish the Michael McPhee Engineering Fund to provide general support to the School of Engineering.

- Alan R. Bennett '69 committed $150,000 to create the Alan R. Bennett Faculty Fellowship in Political Science Fund in the College of Liberal Arts and Sciences.

- The Annie E. Casey Foundation, one of the nation's leading private institutions dedicated to building better futures for children in the United States, committed $220,000 to the School of Social Work to fund the Family Reunification Evaluation program in Connecticut. A hallmark of this program is the close collaboration between Casey Family Services and its state partners in helping families achieve family goals and objectives, recruiting and training foster families, and collaborating with other community resources.

- A $330,000 gift from the Northeast Utilities Foundation to the University of Connecticut's Neag School of Education will provide scholarships for students enrolling in the Teacher Certification Program for College Graduates (TCPCG). The full-time master's degree program is being offered for the first time at UConn's Stamford campus.

- 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 whom are 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 1999 - 2003

	1999 $000's	2000 $000's	2001 $000's	2002 $000's	2003 $000's
Assets					
Endowment assets	$175,744	$221,208	$209,001	$196,784	$209,132
All other assets	33,747	42,307	42,094	47,591	48,359
Total assets	209,491	263,515	251,095	244,375	257,491
Support and Revenue					
Contributions and educational support	39,051	42,427	39,148	38,334	29,998
Payment from the University	3,300	3,150	3,300	3,482	5,676
Investment income, net	28,692	28,083	(26,139)	(17,658)	11,749
Other revenues	721	1,236	2,139	1,028	1,015
Total Support & Revenue	71,764	74,896	18,448	25,186	48,438
Expenditures					
Disbursements to and on behalf of the University	12,752	18,668	20,322	22,327	25,624
Foundation expenses (development, asset mgt, admin.)	6,418	8,295	10,382	11,128	9,404
Total Expenditures	19,170	26,963	30,704	33,455	35,028
Support and Revenues over/under expenditures	$ 52,594	$ 47,933	$ (12,256)	$ (8,269)	$ 13,410

University Indebtedness and Capitalized Lease Obligations

The State of Connecticut issues certain general obligation bonds categorized as self-liquidating bonds 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 certain self-liquidating bonds issued to fund the construction and renovation of revenue-generating capital projects on University campuses with revenue from student fee charges. As of the date of delivery of the 2004 Series A Bonds, the State of Connecticut has issued and outstanding $12,326,457 of self-liquidating bonds for University capital projects. The University also has outstanding $669,197,147 of its general obligation bonds secured by the State Debt Service Commitment, excluding the 2004 Series A Bonds and the 2004 Refunding Series A Bonds and $1,793,334 of unsecured debt to the U.S. Department of Education which is payable in semiannual installments until February 1, 2027.

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 2004 Series A Bonds and the 2004 Refunding Series A Bonds the amount of Special Obligation Bonds outstanding is $195,245,000.

On December 18, 2003 the University entered into a $75,000,000 Governmental Lease Purchase Agreement to finance the design and construction of a combined heat and power plant, which is expected to generate substantially all of the needs for electrical power, heating and cooling on the main campus at Storrs. The obligation to pay rent pursuant to the lease will be due monthly beginning May 1, 2005 for 240 months in the maximum amount of $471,255, provided that the lessor advances to the University the full $75,000,000 to pay for the cost of the project. According to a study prepared by Dahlen, Berg & Co of Minneapolis, Minnesota dated January 8, 2003 the project is expected to generate present value savings in excess of $66,000,000 over the term of the lease (based on a 4.50% discount rate) compared to the cost of capital improvement and operation of its existing power, heating and cooling system.

Additionally, the University has outstanding approximately $2,900,000 of capital lease obligations subject to annual appropriation payable on various dates through 2007.

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 2004 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[4]
2004	$42,925,000	$9,497,499	$52,422,499				$52,422,499
2005	43,295,000	17,358,060	60,653,060	$ 4,955,000	$ 14,309,153	$ 19,264,153	79,917,213
2006	42,530,000	15,605,435	58,135,435	4,955,000	14,210,053	19,165,053	77,300,488
2007	42,250,000	13,866,810	56,116,810	4,960,000	14,110,953	19,070,953	75,187,763
2008	36,313,792	15,006,501	51,320,293	9,375,000	14,011,753	23,386,753	74,707,046
2009	33,553,640	13,907,192	47,460,832	14,100,000	13,734,653	27,834,653	75,295,485
2010	27,267,274	11,818,387	39,085,661	16,135,000	13,164,265	29,299,265	68,384,926
2011	22,082,441	10,893,851	32,976,292	22,655,000	12,479,890	35,134,890	68,111,182
2012	13,725,000	7,709,692	21,434,692	29,245,000	11,449,778	40,694,778	62,129,470
2013	6,735,000	7,080,975	13,815,975	34,055,000	10,085,428	44,140,428	57,956,403
2014	7,740,000	6,754,987	14,494,987	36,265,000	8,440,368	44,705,368	59,200,355
2015	7,740,000	6,405,922	14,145,922	36,315,000	6,642,518	42,957,518	57,103,440
2016	11,250,000	6,020,800	17,270,800	31,190,000	4,865,768	36,055,768	53,326,568
2017	13,180,000	5,452,112	18,632,112	24,815,000	3,306,268	28,121,268	46,753,380
2018	25,395,000	4,791,738	30,186,738	9,600,000	2,073,893	11,673,893	41,860,631
2019	25,725,000	3,497,829	29,222,829	5,335,000	1,593,893	6,928,893	36,151,722
2020	14,775,000	2,192,151	16,967,151	11,280,000	1,340,288	12,620,288	29,587,439
2021	14,775,000	1,445,464	16,220,464	4,890,000	825,188	5,715,188	21,935,652
2022	9,780,000	713,658	10,493,658	4,890,000	623,475	5,513,475	16,007,133
2023	5,000,000	220,000	5,220,000	4,890,000	418,095	5,308,095	10,528,095
2024	0	0	0	4,890,000	210,270	5,100,270	5,100,270
Totals	$446,037,147	$160,239,063	$ 606,276,212	$ 314,795,000	$ 147,895,943	$ 462,690,943	$1,068,967,160

[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.
[4] Totals may not sum due to rounding.

The following table sets forth all bonds and capital leases issued by the University and outstanding as of the date of delivery of the 2004 Series A Bonds and the 2004 Refunding Series A Bonds:

THE UNIVERSITY OF CONNECTICUT
Total Bonds and Leases Outstanding

	Original Par Amount	Amount Outstanding Pre-Refunding	Amount Refunded DSC 2004-A Refunding	Amount Outstanding Post-Refunding	Dated Date[1]
General Obligation Bonds					
1996 Series A	$ 83,929,715	$ 53,899,715	$ 31,510,000	$ 22,389,715	January 1, 1996
1997 Series A	124,392,432	85,392,432	52,000,000	33,392,432	April 1, 1997
1998 Series A	99,520,000	74,625,000	34,825,000	39,800,000	June 1, 1998
1999 Series A	79,735,000	64,000,000		64,000,000	March 1, 1999
2000 Series A	130,850,000	110,275,000	48,395,000	61,880,000	March 1, 2000
2001 Series A	100,000,000	89,795,000	27,745,000	62,050,000	March 15, 2001
2002 Series A	100,000,000	95,000,000	28,685,000	66,315,000	April 1, 2002
2003 Series A	96,210,000	96,210,000		96,210,000	March 1, 2003
2004 Series A	97,845,000	97,845,000		97,845,000	January 15, 2004
2004 Refunding Series A	216,950,000	216,950,000		216,950,000	January 15, 2004
Subtotal[2]	$ 1,129,432,147	$ 983,992,147	$ 223,160,000	$ 760,832,147	
Student Fee Revenue Bonds					
1998 Series A	$ 33,560,000	$ 29,845,000		$ 29,845,000	January 1, 1998
2002 Series A	75,430,000	73,975,000		73,975,000	January 15, 2002
2002 Series A Refunding[3]	96,130,000	91,425,000		91,425,000	February 1, 2002
Subtotal	$ 205,120,000	$ 195,245,000		$ 195,245,000	
Capital Leases[4]					
Governmental Lease Purchase Agreement	$ 75,000,000	$ 4,042,828[5]		$ 4,042,828[5]	December 18, 2003

[1] The General Obligation Bonds issued in 1996 and 1997 include capital appreciation bonds, which were dated their date of delivery.
[2] Debt service on the General Obligation Bonds is payable from the Debt Service Commitment of the State.
[3] The SFR 2002-A Refunding Bonds refunded all of the outstanding $89,570,000 SFR Series 2000-A Bonds.
[4] Does not include capital lease obligations subject to annual appropriation.
[5] Amount advanced to date.

Employee Data

Faculty and Staff. As of October 2003, the University had 3,878 full-time equivalent ("FTE") employees. Full and part-time faculty accounted for 1,127 FTE employees. The University hires adjunct lecturers on a semester-by-semester basis, as needed, who are not included in the above employee count. In Fall 2003, 68% of full-time teaching faculty were tenured, 18% were tenure track and the remaining were non-tenure track faculty. The average age of full-time faculty was 49. Additionally, the University also has 431 FTE graduate student assistants who receive stipends.

Eight bargaining units represented approximately 3,547 FTE union members as of October 2003. Approximately 9% of University faculty and staff were non-union employees. The University bargains with two units covering 2,607 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, 2007. Law school faculty, University exempt (management) and certain temporary and part-time employees are not represented by bargaining units. The remaining six unions covering 940 FTE employees bargain directly with the State and have settled contracts with expiration dates ranging from June 30, 2004 to June 30, 2005. Three unions 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 2003, the Health Center has 472 professional students in the Schools of Medicine and Dental Medicine, 374 graduate students in Masters and Doctoral programs, and 630 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 Procedure" 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 conduct 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 offer 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 Schools of Medicine and Dental Medicine are 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 $100 million was generated in fiscal year 2003 by the research activities of the various faculties which supplements appropriations from the State of Connecticut.

University of Connecticut Clinical Operations

UConn Medical Group and University Dentists. The faculty practices of the Health Center, UConn Medical Group (UMG) and University Dentists are the key components of the Health Center's integrated health care delivery system administratively designated the "University of Connecticut Clinical Operations" ("Clinical Operations"). The Clinical Operations include an extensive array of ambulatory clinics representing the range of specialty and primary fields that compromise medicine and dentistry operated by UMG and University Dentists. Clinical Operations is 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 Health Center 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 licensed 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.

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 advanced 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 to best 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 the 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 Finance 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 annually and deposits are made to the Fund monthly to assure that the amount of money in the Fund is actuarially sufficient. At June 30, 2003, the Fund had a balance of $9.0 million.

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 495 full-time faculty and 2,781 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 3,215 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, 2003, the Health Center has a total increase in net assets of $4 million.

HEALTH CENTER FINANCES

Financial Statements of the Health Center

Following is a three-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 1999 through 2001

	1999	2000	2001
Revenues			
Student Fees and Tuition	$ 6,831,902	$ 7,553,607	$ 7,846,259
State Appropriations	98,760,048	122,516,470	112,486,860
Federal Grants & Contracts	32,186,869	36,990,744	39,290,688
State Grants & Contracts	2,316,869	2,711,618	2,884,444
Private Gifts, Grants & Contracts	12,633,977	15,194,714	16,134,460
Investment Income	806,577	920,945	1,670,339
Sales & Services of Auxiliary Enterprises	38,988,759	41,528,460	45,237,600
Patient Revenues	231,295,395	232,610,067	239,505,184
Other Sources	787,510	574,385	946,109
Total Revenues	**424,607,906**	**460,601,010**	**466,001,943**
Less Patient Revenues and Independent Operations	**231,295,395**	**232,610,067**	**239,505,184**
Education and General Revenues	**193,312,511**	**227,990,943**	**226,496,759**
Expenditures and Mandatory Transfers			
Education and General:			
Instruction	69,557,479	94,668,196	86,025,280
Research	33,911,556	39,428,482	43,560,535
Public Service	4,543,717	13,770,343	1,039,211
Academic Support	8,820,564	12,143,899	9,906,838
Student Services	939,316	881,894	682,041
Institutional Support	45,088,786	30,759,133	38,384,165
Operation and Maintenance of Plant	9,651,457	14,338,898	12,806,379
Scholarships & Fellowships	1,306,684	1,141,689	1,192,769
Educational and General Expenditures	173,819,559	207,132,534	193,597,218
Mandatory Transfers For:			
Principal and Interest	547,636	353,913	356,298
Total Education and General	174,367,195	207,486,447	193,953,516
Other Expenditures - Patient Care	250,998,301	255,134,816	281,597,322
Total Expenditures and Mandatory Transfers	**425,365,496**	**462,621,263**	**475,550,838**
Other Transfers and Additions (Deductions)			
Excess of restricted Receipts Over Transfers to Revenues	1,330,121	1,409,836	3,305,709
Excess of Employee Advances Over Payments			
Refunded to Grantors	(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)	650,839	550,157	2,703,550
Net Increase (Decrease) in Fund Balance	**$ (106,751)**	**$ (1,470,096)**	**$ (6,845,345)**

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.

Below is a two-year presentation of the Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2003 and 2002.

UNIVERSITY OF CONNECTICUT HEALTH CENTER
Statement of Revenue, Expenses, and Changes in Net Assets
for the Years Ended June 30, 2003 and 2002

	2003 Total	**2002** Total
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of $1,636,773 and $1,085,674 respectively)	$ 6,588,157	$ 6,535,261
Patient services (net of charity care of $117,773 and $108,502 respectively)	304,887,089	288,842,328
Federal grants and contracts	59,266,016	46,934,848
Nongovernmental grants and contracts	21,536,972	19,952,258
Contract and other operating revenues	58,521,801	45,758,622
Total operating revenues	450,800,035	408,023,317
OPERATING EXPENSES		
Educational and General		
Instruction	102,275,385	97,334,274
Research	49,861,751	44,554,808
Patient services	328,109,306	304,006,148
Academic support	12,823,022	13,448,798
Student services	720,032	908,227
Institutional support	38,587,305	32,752,767
Operations and maintenance of plant	14,158,592	14,839,374
Depreciation	18,991,156	17,654,076
Loss on disposal	215,893	715,635
Student aid	640,106	436,473
Total operating expenses	566,382,548	526,650,580
Operating (loss) income	(115,582,513)	(118,627,263)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	115,445,236	117,964,237
Gifts	30,030	506,526
Interest income (net of investment expense of $71,471 and $68,315 respectively for the primary institution)	3,537,322	1,835,409
Interest on capital asset - related debt	(157,777)	(242,527)
Net nonoperating revenues	118,854,811	120,063,645
Income before other revenues, expenses, gains or losses	3,272,298	1,436,382
Capital appropriations	754,544	16,384,954
Total other revenues	754,544	16,384,954
Increase in net assets	4,026,842	17,821,336
NET ASSETS		
Net assets-beginning of year	221,739,302	215,588,376
Cumulative effect of change in accounting principal	-	(11,670,410)
Net assets-beginning of year as restated	-	203,917,966
Net assets-end of year	$ 225,766,144	$ 221,739,302

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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 statements of net assets of the University of Connecticut (University) as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 2003 and 2002, and the changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 2 through 16 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
Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

December 22, 2003
State Capitol
Hartford, Connecticut

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion and Analysis

INTRODUCTION

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. The MD&A, which is unaudited, includes an analysis of the financial position and results of activities of the University of Connecticut (University, as defined below) for the fiscal year ended June 30, 2003, based on currently known facts, decisions, or conditions. It also includes selected comparative information for the year ended June 30, 2002. 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.

Founded in 1881, the University of Connecticut serves as the state's flagship for higher education, meeting the educational needs of undergraduate, graduate, professional, and continuing education students through the integration of teaching, research and service. The University of Connecticut is a comprehensive institution of higher education, which includes the University of Connecticut Health Center (Health Center). Although governed by a single Board of Trustees, 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 Health Center also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority.

This financial report for the fiscal year ended June 30, 2003 represents the transactions and balances of the University, here defined as all programs except the Health Center. This includes Storrs-based undergraduate and graduate programs, the regional campuses, the School of Law and the School of Social Work. The University's enrollment in Fiscal Year 2003 topped 25,000 students, taught by 1,170 full-time faculty members and an additional 600 part-time faculty and adjuncts. In total, the University employs more than 4,300 people. Two related, but independent, corporate entities also support the mission of the University: The University of Connecticut Foundation, Inc. (Foundation) and the University of Connecticut Law School Foundation, Inc. (Law School Foundation). The Foundation raises funds to promote, encourage, and assist education and research at the University and the Health Center. The Foundation operates exclusively for charitable and educational purposes to promote and assist the University of Connecticut. It solicits and accepts donations of properties, monies, and securities and invests and administers these gifts. The Foundations' financial statements are not part of the University's financial statements.

The University's Board of Trustees is vested by law with fiscal oversight of the University. The operational authority granted to the University builds upon the successful implementation of several pieces of legislation known as the Flexibility Acts, enacted in the early 1990's. These statutory changes enabled the University to become responsible and accountable for its operational decisions independent of many of the previously imposed regulatory requirements. The University is now responsible for the budgetary allocation of its State appropriation, check-writing authority, human resource control, purchasing authority and, with the advent of UCONN 2000 in 1995, management of capital projects.

While the University's operational flexibility and capacity has grown, all of these activities also take place within a context of continuing external review. The financial statements contained in this report reflect budget execution results consistent with spending plans, operating and capital budgets approved by the University Board of Trustees. The Auditors of Public accounts issue an Independent Auditors' Report on the financial statements of the University. They are responsible for auditing its financial operations and their opinion appears on Page 1. For the second year this report reflects the full adoption and implementation of the Governmental Accounting Standards Board (GASB) Statement No. 35 and contains comparative June 30, 2002 statements.

FINANCIAL STATEMENTS

The University's financial report includes three basic financial statements: Statements of Net Assets; Statements of Revenues, Expenses, and Changes in Net Assets; and Statements of Cash Flows. In addition, the following elements are included with these general-purpose financial statements: Management's Discussion and Analysis and Notes to the Financial Statements. The University 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; 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 was no longer required and "Net Assets" replaced "Fund Balance". Statements No. 34 and 35 also added Management's Discussion and Analysis and Statements of Cash Flows.

The University's adoption of the new GASB reporting model was a significant change from prior reporting. The fiscal 2001 financial statements focused on the accountability for funds, whereas the 2002 and 2003 statements focus on the financial condition, results of operations, and cash flows of the University, more similar to corporate financial statements. The three statements are summarized and changes between years analyzed in the sections that follow.

The financial statements reflect budget execution results consistent with operating budgets and spending plans approved by the University's Board of Trustees. The University prepares and presents its Operating Budget requests and annual Spending Plan in a current funds format. This approach is explained in *Net Assets* section below.

FINANCIAL HIGHLIGHTS

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. In general, the Governor may reduce State agency allotments by not more than 5%, although in recent years the General Assembly has afforded the Governor certain specified additional reduction authority.

The financial statements contained herein show an operating loss of $299.9 million for the year ending June 30, 2003 (fiscal 2003), and $279.8 million for the year ending June 30, 2002 (fiscal 2002). The measure more indicative of normal and recurring activities is income or loss before capital additions (deductions), which includes revenue from State appropriations. The University experienced a loss before capital additions (deductions) of $28.7 million and $9.3 million for fiscals 2003 and 2002, respectively. Total operating revenues grew $27.6 million in fiscal 2003, while operating expenses increased $47.8 million over fiscal 2002. Investment income decreased $2.0 million in 2003 and $5.9 million in 2002, due to short-term rate reductions concurrent with multiple rate adjustments by the Federal Reserve Board and market declines. Also, the Statements of Revenues, Expenses, and Changes in Net Assets include depreciation expense of $63.4 million in fiscal 2003 and $50.6 million in fiscal 2002, a $12.8 million increase.

Sources of recurring operating and nonoperating revenues were strong in both 2003 and 2002 and most are expected to remain strong in 2004, including tuition and mandatory 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 2003, undergraduate enrollment at the University reached a record 18,662 students, 1,032 (5.9%) more than the prior year and, when combined with an in-state tuition and fee increase of 5.7% and 6.1% for out-of-state, resulted in an increase in tuition and fee revenue, before scholarship allowance, of 14.1%. This undergraduate enrollment enabled the University to reach its total enrollment goal of 25,000 students three years ahead of schedule, with 25,373 students attending the University in 2003. State support decreased slightly over 2002 due to significant State budgetary constraints. (See *Economic Outlook* section below.)

STATEMENTS OF NET ASSETS

The Statements of Net Assets present the assets, liabilities, and net assets of the University as of the end of the fiscal year, June 30. The Statements of Net Assets are a point of time financial statement – a snapshot – and a measure of the financial condition of the University. These statements present end-of-year data concerning assets, classified as current (those available for use within one year) and noncurrent (those available beyond one year), 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.

Readers of the Statements 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.

The following table shows condensed Statements of Net Assets at June 30, 2003 and 2002:

	2003	2002
Current assets	$ 336,317,806	$ 416,138,886
Noncurrent assets	1,992,917,844	1,780,191,592
Total assets	$ 2,329,235,650	$ 2,196,330,478
Current liabilities	$ 176,492,670	$ 162,314,458
Noncurrent liabilities	853,848,348	805,292,823
Total liabilities	$ 1,030,341,018	$ 967,607,281
Invested in capital assets	$ 1,148,711,532	$ 1,020,536,235
Restricted	67,932,668	124,519,993
Unrestricted	82,250,432	83,666,969
Total net assets	$ 1,298,894,632	$ 1,228,723,197

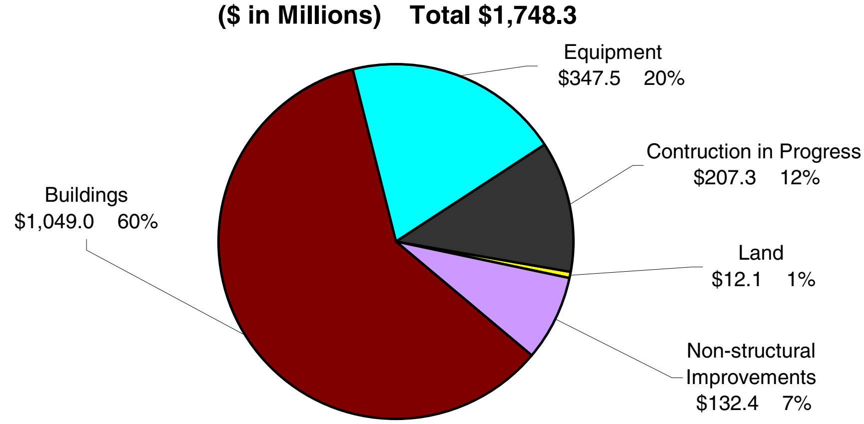
The total assets of the University increased by $132.9 million over 2002. This growth was primarily due to $163.8 million of additions to property and equipment, net of accumulated depreciation, and a $59.5 million increase in the state debt service commitment. This increase was offset by a decrease in both receivables and due from the State of Connecticut totaling $21.3 million and a $69.8 million reduction in deposit with bond trustee used for construction projects. The total liabilities for the year increased by $62.7 million primarily due to newly acquired debt through the sale of general obligation bonds totaling $96.2 million and the retirement of prior year debt on existing bonds and loans of $45.2 million. The combination of the increase in total assets of $132.9 and total liabilities of $62.7 million yields an increase in total net assets of $70.2 million.

Current assets less current liabilities represents working capital, which was $159.8 million and $253.8 million at June 30, 2003 and 2002, respectively. The current ratio, which is current assets divided by current liabilities, declined during the year from 2.56 to 1 at June 30, 2002 to 1.91 to 1 at June 30, 2003. The decline in the University's liquidity is due primarily to the deposit held with bond trustee decreasing $69.8 million in fiscal 2003 and using the funds for construction projects related to UCONN 2000 (see Note 4).

Capital and Debt Activities

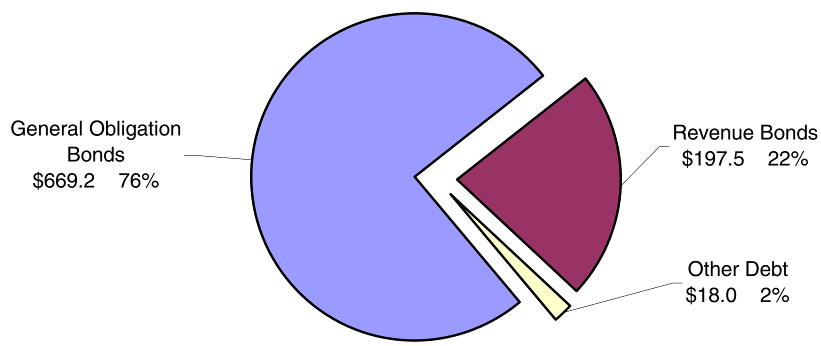
During fiscal year 2003, the University recorded additions to property and equipment totaling $227.2 million ($184.0 million in 2002), of which $185.5 million related to buildings and construction in progress ($140.4 million in 2002). This unprecedented growth of the University's property and equipment is a direct result of the UCONN 2000 program that runs through fiscal year 2005. As discussed in the *Economic Outlook* section below, in fiscal 2002 the Governor signed into law 21st Century UConn, and together with the General Assembly reaffirmed their commitment in fiscal 2003 to provide, uninterrupted, the funding for a ten year extension of UCONN 2000. The 21st Century UConn program expands and builds on the success of UCONN 2000 and provides $1.3 billion for improvements to facilities at the University and the Health Center (see Note 4). The following pie chart presents the total property and equipment at cost:

TOTAL PROPERTY AND EQUIPMENT AT COST AT JUNE 30, 2003
($ in Millions) Total $1,748.3



In 2003, the University received bond proceeds, including net premiums, of $100 million from the sale of UCONN 2000 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. The commitment from the State is recorded as a current and noncurrent receivable (state debt service commitment in the accompanying Statements of Net Assets) as the general obligation debt is incurred. See Notes 3 to 5 of the Financial Statements for further information on capital and debt activities.

CATEGORIES OF DEBT AT JUNE 30, 2003
($ in Millions) Total $884.7

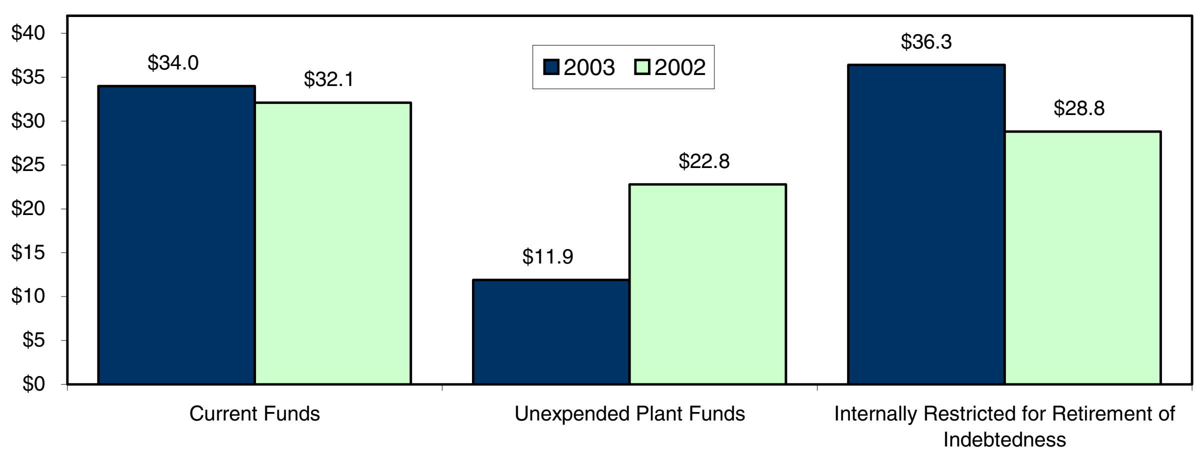


Net Assets

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 restricted net assets category 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 Statements 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 is defined by GASB to include funds not restricted by third-parties, including all unrestricted funds formerly (prior to fiscal 2002) 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 Statements of Net Assets. Unrestricted net assets are available to the University for any lawful purpose of the institution. The following shows a comparison between fiscal years by category of unrestricted assets:

UNRESTRICTED NET ASSETS COMPARISON ($ in Millions)



The University prepares and presents its Operating Budget requests and annual Spending Plan in a current funds format. Fund Accounting is used internally to account for the activities of different sources and uses of funds. Current funds revenue includes all unrestricted sources such as the State appropriation, tuition and fees, gifts, grants and other resources earned during the reporting period. Restricted current funds revenue that does not meet the non-exchange transaction definition (see Note 1) is recognized to the extent expended or when the contract terms are met or completed. Current funds expenditures and transfers, both restricted and unrestricted, include the costs incurred for goods and services used to conduct the University's operations in the reporting period. The current funds format shows gross student tuition and fees and does not net out scholarship allowances, as required in the accompanying financial statements. Scholarship allowances are shown as an expense item. In addition, the University's current funds format includes equipment purchases as an expense and does not include depreciation and the State debt service commitment for interest. The following table shows a summary of the current funds revenues and expenditures and transfers as compared to the University's budget for fiscal 2003:

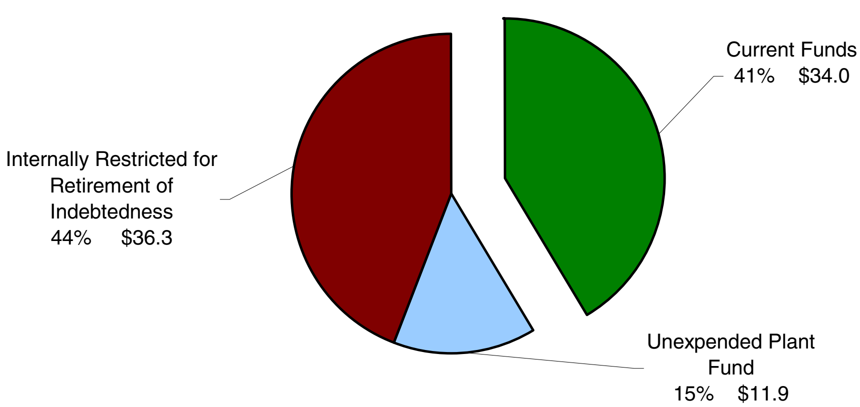
	Budget	Actual	Variance
Revenues	$ 650,488,480	$ 669,072,891	$ 18,584,411
Expenditures and transfers	650,488,480	667,360,566	16,872,086
Net gain	$ -	$ 1,712,325	*$ 1,712,325

* Represents change in unrestricted current funds of $4.0 million and restricted of ($2.3 million).

The current funds unrestricted net assets balance as of June 30, 2003 totaled $34.0 million. This is an increase of $1.9 million from the June 30, 2002 amount of $32.1 million. The difference in the unrestricted budget gain of $4.0 million, noted in the above table, and the increase in the current funds unrestricted net assets of $1.9 million included in the financial statements is the $2.1 million fiscal 2001 surplus appropriation which was received in fiscal 2002, but not budgeted until fiscal 2003. Therefore, the amount was already included in the financial statement unrestricted net assets balance at June 30, 2002.

The University has internally designated $36.3 million of its total $82.2 million at June 30, 2003 and $28.8 million of its total $83.7 million at June 30, 2002 in unrestricted assets for use in retirement of indebtedness. $11.9 million and $22.8 million for 2003 and 2002, respectively, relates to unexpended plant assets. The pie chart below illustrates the components of unrestricted net assets at June 30, 2003:

UNRESTRICTED NET ASSETS BY COMPONENT AT JUNE 30, 2003
($ in Millions) TOTAL: $82.2



STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

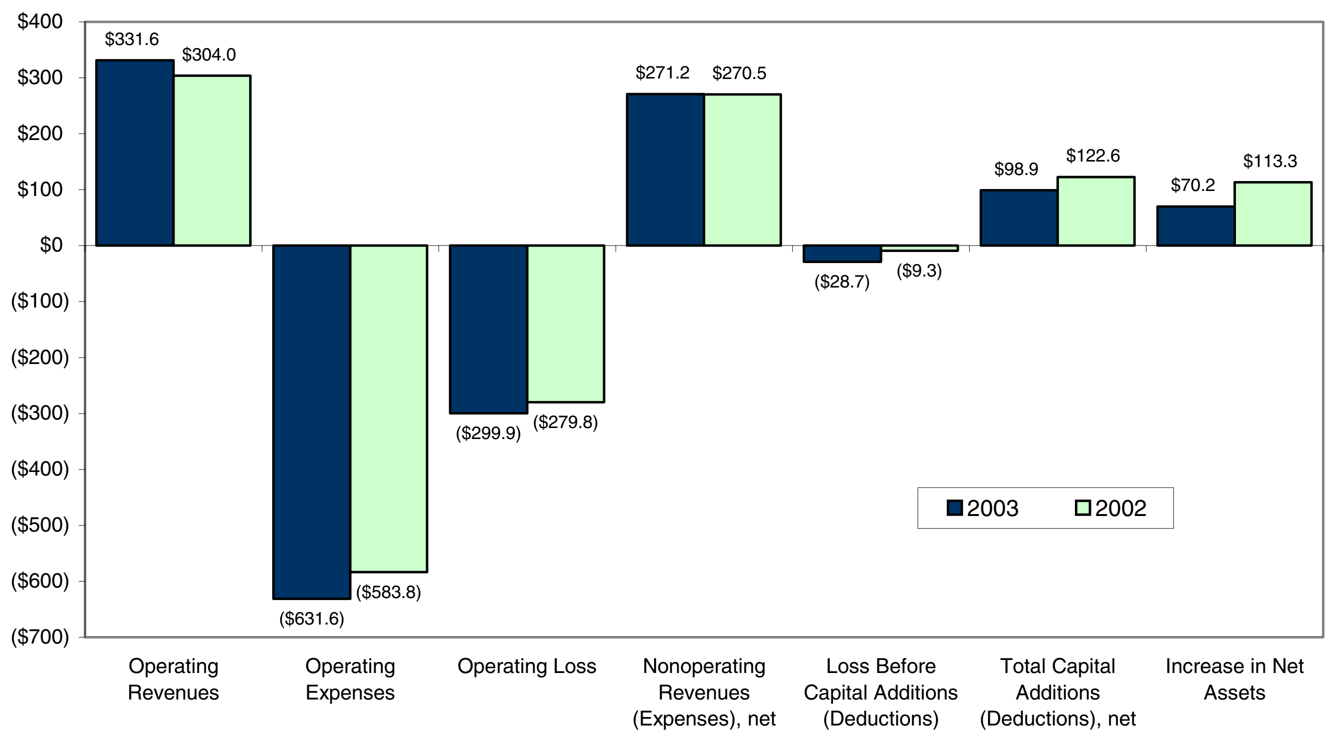
Revenues and expenses are classified as operating, nonoperating, or capital additions (deductions) according to definitions prescribed by GASB. Significant recurring sources of nonoperating revenue utilized in balancing the operating loss each year include state appropriations for general operations, 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, fees, 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. Unless a significant increase in tuition and fees and room and board revenues occurs, the University will always show a loss from operations.

The following table shows condensed Statements of Revenues, Expenses, and Changes in Net Assets for the fiscal years ended June 30, 2003 and 2002:

	2003	2002
Operating revenues	$ 331,640,922	$ 304,039,226
Operating expenses	631,587,824	583,811,852
Operating loss	(299,946,902)	(279,772,626)
Nonoperating revenues (expenses), net	271,209,262	270,458,641
Loss before capital additions (deductions)	(28,737,640)	(9,313,985)
Total capital additions (deductions)	98,909,075	122,571,445
Increase in Net Assets	$ 70,171,435	$ 113,257,460

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
($ in Millions)



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, interest expense, and other expenses not considered in the functional classification of operating expenses.

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 Statements of Revenues, Expenses, and Changes in Net Assets reflect a positive year with an increase in the net assets at the end of the year of $70.2 million in fiscal 2003 and $113.3 million in 2002.

Revenues

The following table summarizes operating, nonoperating and capital revenues for the fiscal years ended June 30, 2003 and 2002:

	2003	**2002**
Operating revenues:		
Student tuition and fees, net	$ 120,275,694	$ 102,200,333
Grants and contracts	100,183,600	98,373,311
Sales and services of educational departments	13,514,914	12,020,682
Sales and services of auxiliary enterprises, net	89,438,533	81,002,139
Other sources	8,228,181	10,442,761
Total operating revenues	331,640,922	304,039,226
Nonoperating revenues:		
State appropriation	258,751,010	259,447,742
State debt service commitment for interest	29,228,519	25,907,563
Gifts	18,936,287	16,202,233
Investment income	3,565,261	5,572,628
Other nonoperating revenues, net (see *Expense* section below for 2002)	522,514	-
Total nonoperating revenues	311,003,591	307,130,166
Capital additions:		
State debt service commitment for principal	96,210,000	100,000,000
Capital grants and gifts	7,558,843	12,316,127
Capital other, net (see *Expense* section below for 2003)	-	13,357,569
Total capital additions	103,768,843	125,673,696
Total revenues	$ 746,413,356	$ 736,843,088

Revenue highlights for the year ending June 30, 2003 as compared to fiscal 2002, including operating and nonoperating revenues and capital additions, presented on the Statements of Revenues, Expenses, and Changes in Net Assets are as follows:

- Student tuition and mandatory fees, net of scholarship allowances, increased 17.7% (14.1% before scholarship allowance) over the prior year due, in part, to 5.9% more undergraduates enrolled at the University and an increase of 5.7% for undergraduate in-state tuition and fees charged to undergraduate students (6.1% for out-of-state).

- Revenues associated with residential life, net of scholarship allowances, and included in the sales and services of auxiliary enterprises category, increased approximately 10.4% 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 5.0% and 5.4% respectively over 2002, and fees charged for both room and board increased approximately 3.9%.

- The largest source of revenue was the state appropriation, which is included in nonoperating revenues, including fringe benefits, which totaled $258.8 million in fiscal 2003, representing a slight decrease over the prior year. The State also provides state debt service commitment for the interest payments made annually on general obligation bonds. State debt commitment for interest revenue is included in nonoperating revenues and totals $29.2 million, resulting in an increase proportionate to the increase in interest expense on general obligation bonds for fiscal 2003. Effectively, this revenue offsets a significant portion of interest expense that totaled $39.8 million in fiscal year 2003. 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 Statements of Changes in Net Assets to reflect this commitment, resulting in revenue that is recorded as a capital addition totaling $96.2 million in fiscal year 2003.

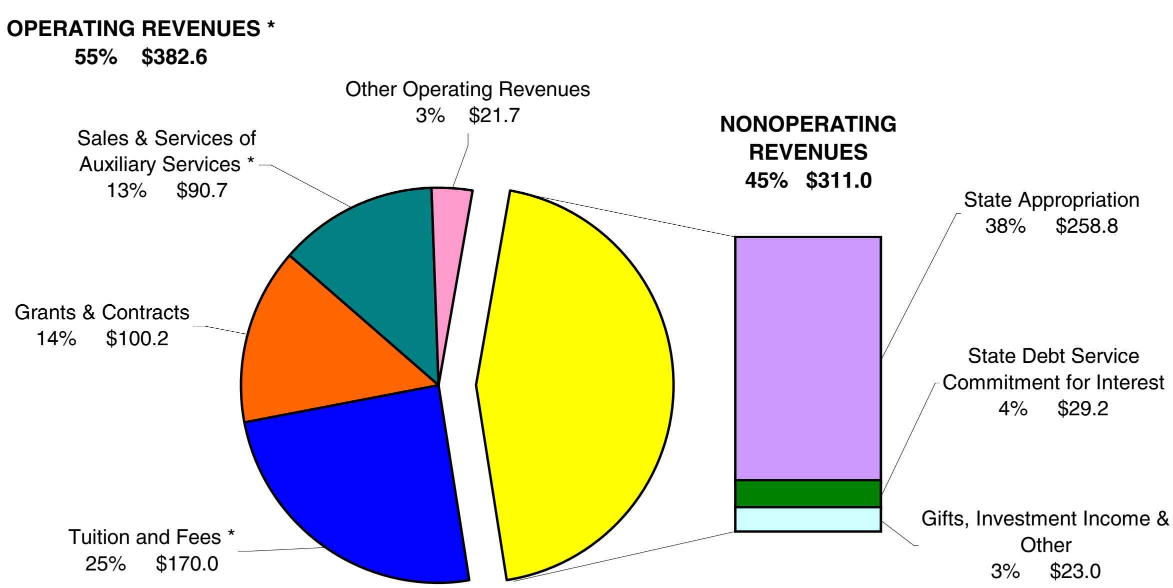
- Gift revenue, both capital and noncapital, is derived from gifts made directly to the University and from the Foundation and Law School Foundation. These spendable funds are provided to the University for educational, cultural, recreational, research activities, and facilities. The Foundation operates exclusively to assist the University and the Health Center. Both the Law School Foundation and the Foundation disburse funds to the University as requests are made, provided the request is in accordance with donor restrictions, if any. These gifts received from both Foundations totaled approximately $18.3 million in fiscal year 2003. Both Foundations also paid approximately $4.2 million to third parties on behalf of the University. This amount is not reflected in the University's financial statements. The University also receives gifts directly, including philanthropic research grants. Total nonoperating and capital gift and grant revenue to the University from all sources amounted to $26.5 million in fiscal year 2003 ($18.9 million in nonoperating revenues and $7.6 million in capital additions), an overall decrease of $2.0 million over 2002.

- Other nonoperating revenues consisted of a $2 million endowment grant earned during the year (see Note 2) offset by nonoperating expenditures, resulting in net revenue of $0.5 million in fiscal 2003. (See *Expense* section below for discussion of fiscal 2002 nonoperating expense, net.)

- Capital other revenue (expense) in 2003 is discussed below in *Expense* section of this MD&A. In fiscal 2002, included in the capital additions (deductions) section, was $25.3 million of insurance proceeds from a performance bond related to a significant construction project at the University. This amount was offset by an expense of approximately $10 million recorded to reflect a reduction in property and equipment due to impairment in a construction project asset. See Note 3 for further discussion. The remaining amount of capital other was related to expenses incurred in fiscal year 2002 for capital activities of the University.

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

REVENUES FOR FISCAL 2003 ($ in Millions)
Total: $693.6



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

Expenses

The following table summarizes operating, nonoperating and capital deductions for the fiscal years ended June 30, 2003 and 2002:

	2003	2002
Operating expenses:		
Instruction	$ 210,682,856	$ 198,738,445
Research	56,170,809	49,310,979
Auxiliary enterprises	93,185,331	90,957,783
Depreciation	63,402,505	50,624,858
Other	208,146,323	194,179,787
Total Operating Expenses	631,587,824	583,811,852
Nonoperating expenses:		
Interest expense	39,794,329	33,955,787
Other nonoperating expense, net (see *Revenue* section above for 2003)	-	2,715,738
Total nonoperating expenses	39,794,329	36,671,525
Capital deductions:		
Disposal of property and equipment, net	2,454,738	3,102,251
Capital other, net (see *Revenue* section above for 2002)	2,405,030	-
Total capital additions deductions	4,859,768	3,102,251
Total expenses	$ 676,241,921	$ 623,585,628

During fiscal 2003, certain operating expense classifications were revised to more appropriately reflect expenditures by function. For comparative purposes, fiscal 2002 operating expenses were reclassified from the prior year financial statements, reflecting the change in the functional classification of expenditures. Total 2002 operating expenses did not change from what was previously reported.

Operating expenditures are classified by function in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets. These functions directly contribute to the major missions of the University. Natural or object classification includes salaries, fringe, supplies, utilities and other expenses (see Note 13 for operating expenses classified by object). The following briefly describes the functions used to classify expenses in the accompanying financial statements.

- **Instruction:** The instruction function consists of all formal educational activities in which a student engages to earn credit toward a degree or certificate at the University, including academic, occupational, and vocational instruction, and faculty and department administration, except for deans. It also includes noncredit expenditures for regular and special programs for community education, preparatory and adult basic education and departmental research. Non-research institutes and service centers supporting a department are recorded in this category.

- **Research:** The research function comprises all research-related activities established within the University under the terms of agreements external to the University, or separately budgeted and conducted with internal funds. It includes expenditures for individual and/or project research as well as those of research centers. This category does not include all sponsored programs such as training grants, nor is it limited to sponsored research, since internally supported research programs that are separately budgeted are included in this category. During fiscal 2003, the University conducted a comprehensive review of the research function. This review resulted in the reclassification of certain departmental accounts from research and moved them primarily to instruction. For comparative purposes, the University reclassified the fiscal 2002 functional expenditures to reflect this change.

- **Public Service:** The public service function contains the activities within the University that produce outcomes directed toward the benefit of the community or individuals residing within the geographic service area of the University. Within the public service function are conferences, general advisory services, consulting, community services, cooperative extension services, and public broadcasting services.

- **Academic Support:** The academic support function contains those activities that support the primary mission of the University – instruction, research and public service – through the retention, preservation and display of materials, or provides services that directly assist the academic functions of the University. Academic support includes libraries, museums and galleries, audiovisual services, computing support, ancillary support, academic deans, course and curriculum development, and academic personnel development. Non-research institutes and service centers supporting a school or college are recorded in this category.

- **Student Service:** The student service function includes funds expended for offices of admissions and registrar and those activities whose primary purpose is to contribute to the students' emotional and physical well being and to their intellectual, cultural, and social development outside the context of the formal instruction program. This category includes cultural events, student administration, counseling and career guidance, financial aid administration, college work-study, student recruitment, and student record keeping.

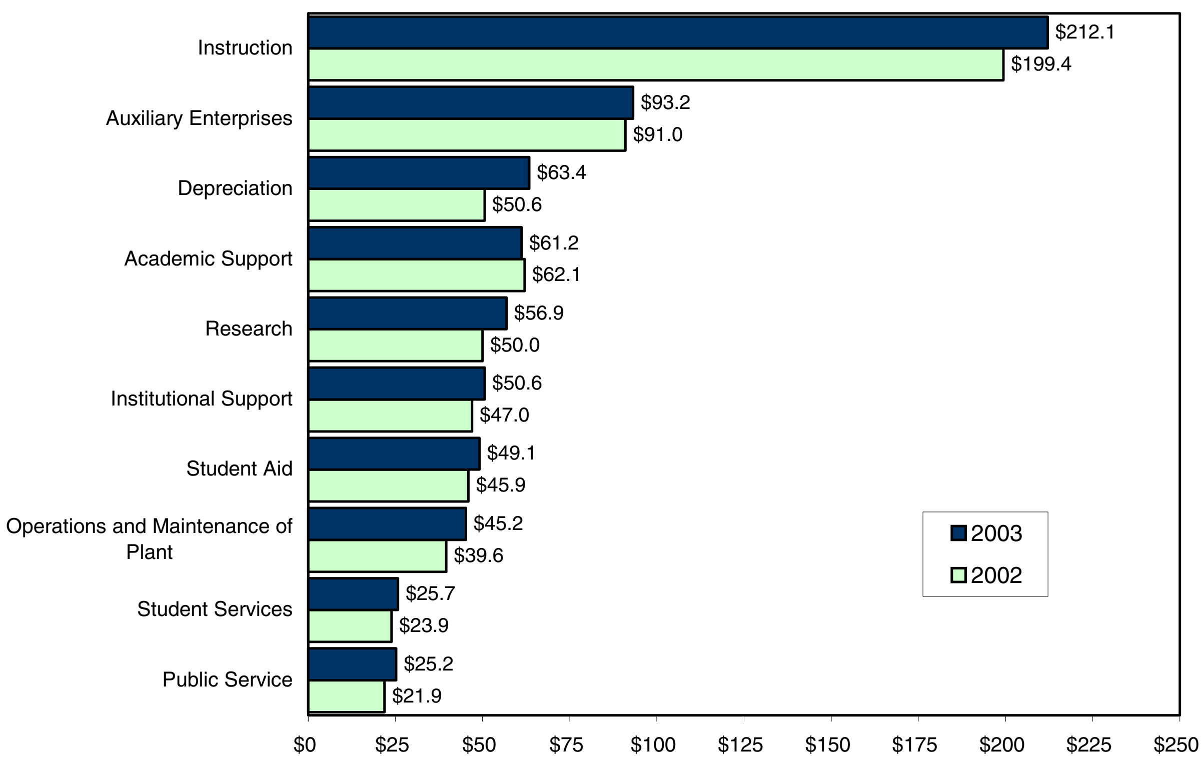
- **Institutional Support:** The institutional support function consists of those activities within the University that provide campus-wide support to the other functions. Institutional support includes executive management concerned with management and long-range planning of the entire institution, including the governing board, planning and programming, and legal services. It also includes fiscal operations, general administrative services, logistical services that provide procurement, storerooms, safety, security, printing and transportation services to the University, services to faculty and staff that are not auxiliary services, and public relations and development.

- **Operations and Maintenance of Plant:** This category includes expenditures for the operation and maintenance of the physical plant including utilities, supplies, repairs, and maintenance of buildings, equipment and grounds. Also included are property insurance and similar items.

- **Student Aid:** Student aid is primarily scholarships and fellowships pertaining to graduate and undergraduate students and includes grants-in-aid, stipends, and prizes. Funding for student aid comes directly from grants and internally designated funds, both restricted and unrestricted. GASB 35 requires the recording of this expenditure netted against student tuition and fees and auxiliary expenditures.

- **Auxiliary Enterprises:** An auxiliary enterprise is an entity that exists to furnish goods or services to students, faculty, or staff, and that charges a fee directly related to the cost of the goods or services. The general public may also benefit incidentally from auxiliary enterprises. These activities are generally self-supporting. Examples include residences halls, dining services, intercollegiate athletics, and rental activities. All expenditures related to the operations of auxiliary services, including those for the operation and maintenance of plant and institutional support of auxiliary enterprises, are included in this category.

EXPENSES BY FUNCTIONAL CLASSIFICATION
($ in Millions)
(Shown here at gross amount, not netted for student financial aid.)



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

- Instruction, the University's largest operating expense, increased approximately 6.0% or $11.9 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 35 full-time faculty positions over fiscal 2002.

- Research expenses increased $6.9 million, or 13.9%. These expenditures are related primarily to sponsored research revenues. The timing of purchases of supplies and commodities that can be charged to grants varies from year to year. Expenditures for supplies, commodities and other increased $3.4 million in 2003. Salaries and fringe benefits related to research grew $3.4 million over fiscal 2002.

- Public service expenses grew $3.4 million, a 15.5% over 2002, with most of the increase in supplies, commodities and other expense, with these expenditures experiencing a $2.7 million increase.

- Academic support decreased slightly over 2002, due to a decrease in supplies, commodities and other expense of $1.3 million that was partially offset by an increase in salaries and fringe totaling $0.6 million.

- An overall $3.6 million increase to institutional support was related to a 2.7% increase in salaries and fringe benefits and a $2.6 million increase in supplies, commodities and other expense.

- Operations and maintenance of plant grew 14.3% in fiscal 2003, for a total of $5.7 million, due in large part to a $3.2 million increase in utility expenses. These costs grew due to increases in the price paid for electricity, gas and fuel oil and increased consumption with a harsher winter and new buildings coming on-line.

- Auxiliary enterprises expenditures increased 2.4%, even though revenue associated with these services rose 10.4%. While enrollment and rates charged for these services increased, especially residential and dining facilities, staffing and other expenditures did not increase at the same rate. Athletic expenditures increased slightly over 2002.

- During fiscal year 2003, the eighth year of UCONN 2000 (see Note 4), the University recorded additions of $227.2 million in property and equipment. These significant additions, along with prior year additions of close to $184 million, contributed to a 25.2% or $12.8 million increase in depreciation expense over 2002.

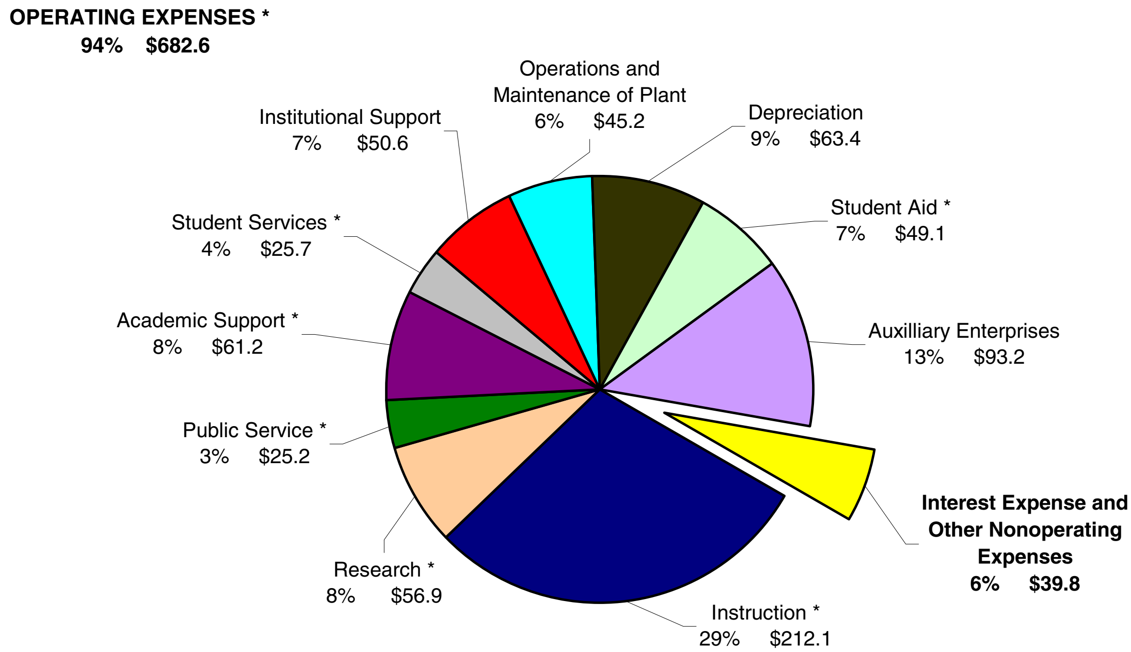
- Interest expense, net of the state debt service commitment for interest, increased $2.5 million, which is consistent with additional revenue bond borrowings during 2002 (explained in Note 4) that required a full year of interest payments in 2003 and a partial year, beginning in February, for fiscal 2002.

- Other nonoperating expenses was a net revenue in 2003, primarily due to an endowment grant earned totaling $2 million (see *Revenue* section above). Expenses that cannot be classified as operating or capital in nature are recorded in the nonoperating section of the Statements of Revenues, Expenses, and Changes in Net Assets. Taking out the grant endowment revenue in 2003 results in total expenses of $1.5 million and a decline in these net expenses of $1.2 million in fiscal 2003 over 2002.

- Capital other includes expenditures for the purchase of equipment with plant funds that are below the University's capitalization threshold and other expenses related to capital items. This expenditure can vary significantly between years depending on the mix of equipment purchased. Comparing fiscal 2003 to 2002, capital other expenses requires taking out two significant transactions noted above in the *Revenue* section, insurance proceeds of $25.3 million and asset reduction of approximately $10 million. After these reductions, a small increase in capital other expense of $0.8 million results in fiscal 2003.

Total operating expenses were $631.6 million in fiscal 2003 and $583.8 million in fiscal year 2002, netted for scholarship aid totaling $51.0 million and $47.6 million, respectively. Operating expenses are classified by function. Note 13 to the financial statements details operating expenses by object (natural classification), and shows notable savings in fringe benefits as a percentage of salary and wages were realized. The pie chart on the following page illustrates operating expenses by function (see above for description of functions). Student aid has a significant portion reflected as an allowance against tuition and fees revenue and sales and services of auxiliary enterprises on the Statements of Revenues, Expenses, and Changes in Net Assets. The chart also shows interest expense and other nonoperating expenses.

EXPENSES FOR FISCAL 2003 ($ in Millions)
Total $722.4



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

STATEMENTS OF CASH FLOWS

The Statements of Cash Flows present detailed information about the cash activity of the University during the year. The first section of these statements, cash flows from operating activities, will always be different from the Statements 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 Statements of Revenues, Expenses, and Changes in Net Assets. These statements show revenues and expenses when incurred, not necessarily when cash is received or used, as is the case for the Statements of Cash Flows. These statements have 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 Statements of Revenues, Expenses, and Changes in Net Assets to net cash used in operating activities.

Condensed Statements of Cash Flows for the years ended June 30, 2003 and 2002 follow:

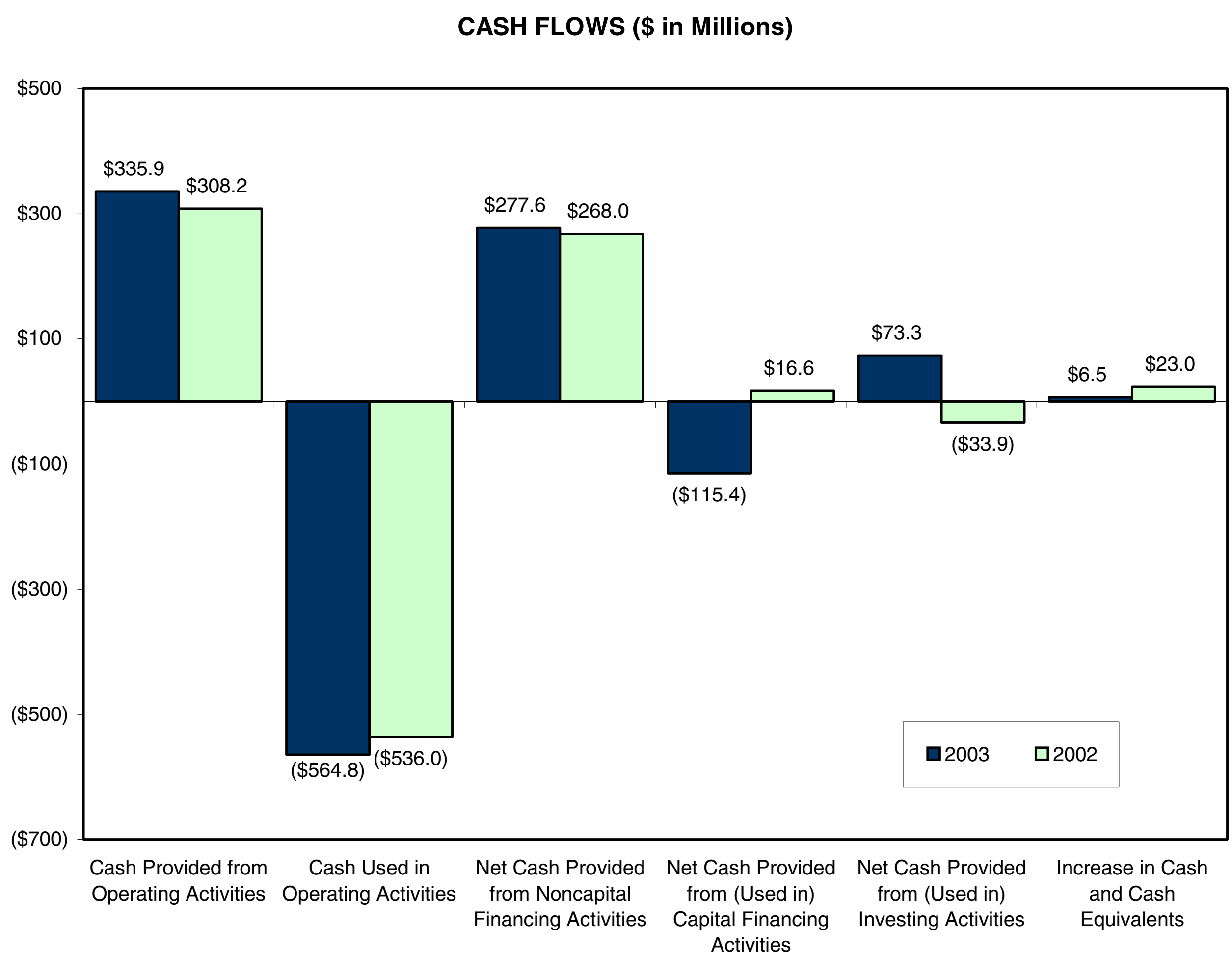
	2003	2002
Cash provided from operating activities	$ 335,888,635	$ 308,234,038
Cash used in operating activities	(564,812,353)	(536,006,910)
Net cash used in operating activities	(228,923,718)	(227,772,872)
Net Cash Provided from Noncapital Financing Activities	277,552,963	268,040,177
Net Cash Provided from (Used in) Capital Financing Activities	(115,364,868)	16,644,950
Net Cash Provided from (Used in) Investing Activities	73,261,624	(33,875,644)
Net increase in cash and cash equivalents	$ 6,526,001	$ 23,036,611

Net cash used in operating activities was $228.9 million and $227.8 million in fiscals 2003 and 2002, respectively, and is consistent with the operating loss discussed earlier when adding back depreciation (a noncash expense), the major difference between the two statements. GASB requires that cash flows from noncapital financing activities include state appropriations and noncapital gifts. Cash flows from these activities totaled $277.6 million in fiscal 2003, a $9.5 million increase over 2002.

Cash flows used in capital financing activities were $115.4 million in fiscal 2003, as compared to $16.6 million provided for these activities in fiscal 2002. The increase in cash used over fiscal 2002 totaled $132 million and is explained by the following. Cash used in fiscal 2003 for capital financing activities included: purchases of property and equipment totaling $204 million, an increase of $33.8 million over 2002 and $83.3 million of principal and interest paid on debt, an increase of $12.7 million. Cash provided from these financing activities included: proceeds from bonds and installment loans of $100.5 million, a $74.9 million decrease from 2002, and the state debt service commitment paid for principal and interest on general obligation bonds totaling $66.0 million, an increase over 2002 of $8.5 million.

Cash of $73.3 million was provided from investing activities, primarily because of transfers of $69.8 million from the bond trustee to pay for authorized capital projects. This is compared to fiscal 2002 when $33.9 million in cash was used for investing activities due primarily to transfers from cash of $40.4 million to the bond trustee as required by bond indenture agreements.

Total cash and cash equivalents increased $6.5 million as a result of these activities, a decrease over fiscal 2002 of $16.5 million. The following bar graph shows the cash flows from and used by major categories and as described in the preceding paragraphs:



ECONOMIC OUTLOOK

As was the case in fiscal 2002, the most significant economic factor for fiscal 2003 and the foreseeable future is the impact of the State's financial status, with State appropriations reduced from the previously approved biennial budget. The impact on the University's operating budget in fiscal year 2003 has been significant and is expected to continue in the upcoming biennium. Fiscal year 2003 opened with a $10.2 million reduction from the previously approved State appropriation, after experiencing a $5.4 million reduction in fiscal year 2002. In March 2003, the General Assembly approved, and Governor Rowland signed, a revised State budget for fiscal year 2003. In response to serious revenue shortfalls stemming from the adverse economic climate, the revised budget imposed a mix of tax increases and expenditure reductions. The revised State budget resulted in the State reducing its support for the University in fiscal year 2003 by $11.6 million through net State budget reductions and rescissions.

As part of its response to the budget shortfall in fiscal year 2003, the State offered a statewide Early Retirement Incentive Plan (ERIP) to its employees. The impact of ERIP was significant. The University saw a total of 365 employees accept the program. Of this group, 82 were faculty, 98 were professional staff and 185 were classified personnel, including 104 maintenance staff.

The University's response to cuts in state aid includes aggressive management of all costs, with all parts of the University being affected by cost-reduction and reallocation. Hiring and expenditure controls put into effect in fiscal year 2003 continue University-wide. For fiscal year 2003, the University's budget included $19.6 million in reductions and reallocations, twice the amount of the previous year. These reductions have been rolled into the fiscal year 2004 budget base, and the fiscal year 2004 plan also incorporates $12.5 million in ERIP reductions (permanent) and $11.3 million in wage concessions from University-based collective bargaining units (faculty and staff), as well as a freeze on managerial salaries. The realities of the continued State budget financial status 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, research funding, tuition and fees, and room and board fees.

From a program perspective, the University is addressing both the negative impact and the opportunities presented by the ERIP staffing losses. Certain retirees have returned (for the statutorily permissible 120 days per calendar year) in order to enable the University to cover classes, staff residence halls, and operate and maintain the campus. At this time, the University is filling the most critical positions. In order to maintain the growth and continued academic success of the University, it has just begun the search process for those positions essential to the ongoing growth and enhancement of the University's academic and research mission.

Even with the State's current budget issues, the Governor and the General Assembly have reaffirmed their commitment to the uninterrupted completion of the rebuilding of the University, begun as UCONN 2000, with the passage of 21st Century UConn. The 21st Century UConn program is a $1.3 billion, 10-year extension of the original UCONN 2000 program that expands and builds on the success of UCONN 2000 (see Note 4) by providing $1.0 billion for facilities improvements at Storrs, the regional campuses, and the School of Law, and $305 million for improvements at the Health Center (see Note 4). This commitment provides long-term funds for capital enhancement and preservation and will help to keep University finances on a steady course even in light of the State's fiscal challenges.

Legislation approved in August 2003 authorized the University to retain 50 percent of the savings accrued from the ERIP. That, combined with savings from programmatic restructuring, salary freezes agreed to by members of certain bargaining units and non-unionized managers, and strict vacancy management, should enable the University to maintain financial stability in fiscal year 2004.

FINANCIAL STATEMENTS

UNIVERSITY OF CONNECTICUT
STATEMENTS OF NET ASSETS
As of June 30, 2003 and 2002

	2003	2002
ASSETS		
Current Assets		
Cash and cash equivalents	$ 128,754,311	$ 124,212,445
Accounts receivable	33,157,491	41,061,276
Student loans receivable, net	2,107,343	1,968,986
Due from State of Connecticut	31,333,474	44,688,601
Due from related agencies	407,875	1,660
State debt service commitment	51,092,208	44,918,611
Inventories	2,059,975	2,088,378
Deposit with bond trustee	86,601,751	156,361,821
Deferred charges	759,818	794,651
Other assets	43,560	42,457
Total Current Assets	336,317,806	416,138,886
Noncurrent Assets		
Cash and cash equivalents	3,441,491	1,457,356
Investments	7,278,573	6,969,192
Student loans receivable, net	9,993,290	9,793,256
State debt service commitment	626,272,146	572,987,146
Property and equipment, net of accumulated depreciation	1,339,460,000	1,178,649,007
Deferred charges	6,472,344	10,335,635
Total Noncurrent Assets	1,992,917,844	1,780,191,592
Total Assets	$ 2,329,235,650	$ 2,196,330,478
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 42,777,221	$ 38,474,733
Deferred income	23,248,492	22,917,215
Wages payable	28,309,537	26,679,045
Compensated absences	13,900,248	13,664,623
Due to the State of Connecticut	8,513,083	7,420,575
Due to related agencies	51,977	9,225
Current portion of long-term debt and bonds payable	49,943,122	44,305,913
Other current liabilities	9,748,990	8,843,129
Total Current Liabilities	176,492,670	162,314,458
Noncurrent Liabilities		
Compensated absences	7,271,085	5,159,200
Deposits held for others	2,138,674	2,530,028
Long-term debt and bonds payable	834,763,060	788,000,301
Refundable for federal loan program	9,675,529	9,603,294
Total Noncurrent Liabilities	853,848,348	805,292,823
Total Liabilities	$ 1,030,341,018	$ 967,607,281
NET ASSETS		
Invested in capital assets, net of related debt	$1,148,711,532	$ 1,020,536,235
Restricted nonexpendable	9,717,395	6,674,263
Restricted expendable		
Research, instruction, scholarships and other	12,515,767	12,907,097
Loans	3,126,304	3,044,756
Capital projects	34,431,219	89,436,633
Debt service	8,141,983	12,457,244
Unrestricted (See Note 14)	82,250,432	83,666,969
Total Net Assets	$ 1,298,894,632	$ 1,228,723,197

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2003 and 2002

	2003	2002
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of $49,728,391 in 2003 and $46,734,320 in 2002. Revenues totaling approximately $21,912,000 in 2003 and $19,978,000 in 2002 are used as security for revenue bonds. See Note 4)	$ 120,275,694	$ 102,200,333
Federal grants and contracts	73,342,732	67,753,605
State and local grants and contracts	16,511,793	17,859,232
Nongovernmental grants and contracts	10,329,075	12,760,474
Sales and services of educational departments	13,514,914	12,020,682
Sales and services of auxiliary enterprises (net of scholarship allowance of $1,283,335 in 2003 and $824,538 in 2002. Revenues totaling approximately $16,445,000 in 2003 and $9,522,000 in 2002 are used as security for revenue bonds. See Note 4)	89,438,533	81,002,139
Other sources (Revenues totaling approximately $2,548,000 in 2003 and $2,066,000 in 2002 are used as security for revenue bonds. See Note 4)	8,228,181	10,442,761
Total Operating Revenues	331,640,922	304,039,226
OPERATING EXPENSES		
Educational and general		
Instruction	210,682,856	198,738,445
Research	56,170,809	49,310,979
Public service	25,125,045	21,754,712
Academic support	61,117,844	61,853,232
Student services	25,494,540	23,785,758
Institutional support	50,604,026	46,956,545
Operations and maintenance of plant	45,246,949	39,588,031
Depreciation	63,402,505	50,624,858
Student aid	557,919	241,509
Auxiliary enterprises	93,185,331	90,957,783
Total Operating Expenses	631,587,824	583,811,852
Operating Loss	(299,946,902)	(279,772,626)
NONOPERATING REVENUES (EXPENSES)		
State appropriation	258,751,010	259,447,742
State debt service commitment for interest	29,228,519	25,907,563
Gifts	18,936,287	16,202,233
Investment income (Income totaling approximately $857,000 in 2003 and $1,077,000 in 2002 are used as security for revenue bonds. See Note 4)	3,565,261	5,572,628
Interest expense	(39,794,329)	(33,955,787)
Other nonoperating revenues (expenses), net	522,514	(2,715,738)
Net Nonoperating Revenues	271,209,262	270,458,641
Loss Before Capital Additions (Deductions)	(28,737,640)	(9,313,985)
CAPITAL ADDITIONS (DEDUCTIONS)		
State debt service commitment for principal	96,210,000	100,000,000
Capital grants and gifts	7,558,843	12,316,127
Disposal of property and equipment, net	(2,454,738)	(3,102,251)
Capital other	(2,405,030)	13,357,569
Total Capital Additions (Deductions)	98,909,075	122,571,445
Increase in Net Assets	70,171,435	113,257,460
NET ASSETS		
Net Assets-beginning of year	1,228,723,197	1,203,523,254
Cumulative effects of changes in accounting principle	-	(88,057,517)
Net Assets-beginning of year, as adjusted	1,228,723,197	1,115,465,737
Net Assets-end of year	$ 1,298,894,632	$ 1,228,723,197

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2003 and 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 119,452,337	$ 104,725,776
Research grants and contracts	102,214,365	93,336,670
Payments to suppliers	(137,581,776)	(127,059,963)
Payments to employees	(334,415,524)	(315,716,189)
Payments for benefits	(90,278,832)	(91,379,591)
Loans issued to students and employees	(2,536,221)	(1,851,167)
Collection of loans to students and employees	2,197,830	2,018,806
Auxiliary enterprise charges	92,219,295	82,944,867
Sales and services of educational departments	13,056,071	11,839,919
Other receipts (payments)	6,748,737	13,368,000
Net Cash Used in Operating Activities	(228,923,718)	(227,772,872)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	258,132,174	258,485,108
Gifts	18,720,530	16,771,387
Other nonoperating revenue (expense)	700,259	(7,216,318)
Net Cash Provided from Noncapital Financing Activities	277,552,963	268,040,177
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from bonds and installment loans	100,532,528	175,430,000
State debt service commitment	65,979,922	57,447,563
Purchases of property and equipment	(204,049,185)	(170,279,419)
Principal paid on debt and bonds payable	(44,327,207)	(37,051,423)
Interest paid on debt and bonds payable	(38,936,213)	(33,542,921)
Capital grants and gifts	2,458,273	11,920,339
Capital other	2,977,014	12,720,811
Net Cash Provided from (Used in) Capital Financing Activities	(115,364,868)	16,644,950
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from (purchase of) investments, net	(209,041)	499,383
Interest on investments	3,710,595	6,022,604
Deposits with bond trustee	69,760,070	(40,397,631)
Net Cash Provided from (Used in) Investing Activities	73,261,624	(33,875,644)
INCREASE IN CASH AND CASH EQUIVALENTS	6,526,001	23,036,611
BEGINNING CASH AND CASH EQUIVALENTS	125,669,801	102,633,190
ENDING CASH AND CASH EQUIVALENTS	$ 132,195,802	$ 125,669,801
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	$ (299,946,902)	$ (279,772,626)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation expense	63,402,505	50,624,858
Changes in Assets and Liabilities:		
Receivables, net	2,176,348	(2,167,654)
Inventories	28,403	44,222
Other assets	(1,099)	1,664
Accounts payable	5,020,038	31,308
Deferred revenue	331,277	3,557,713
Deferred charges	(91,726)	264,968
Deposits	(391,354)	670,044
Due from state	1,083,419	(1,418,650)
Due from related agencies	(363,463)	260,737
Other liabilities	167,226	(37,095)
Loans to students and employees	(338,390)	167,639
Net Cash Used in Operating Activities	$ (228,923,718)	$ (227,772,872)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS		
Cash and cash equivalents classified as current assets	$ 128,754,311	$ 124,212,445
Cash and cash equivalents classified as noncurrent assets	3,441,491	1,457,356
	$ 132,195,802	$ 125,669,801

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

NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements
For the Years Ended June 30, 2003 and 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related Entities

The University of Connecticut is a comprehensive institution of higher education, which includes the University of Connecticut Health Center (Health Center). Although governed by a single Board of Trustees, the University of Connecticut and its Health Center maintain separate budgets and are by statute separate entities for purposes of maintaining operating funds and state appropriations. The Health Center also has a Board of Directors to whom the Board of Trustees has delegated certain responsibility and authority. This financial report for the fiscal years ended June 30, 2003 and 2002 represents the transactions and balances of the University, here defined as all programs except the Health Center. Two related, but independent, corporate entities also support the mission of the University: The University of Connecticut Foundation, Inc. (Foundation) and the University of Connecticut Law School Foundation, Inc. The Foundation and The University of Connecticut Law School Foundation, Inc. raise funds to promote, encourage, and assist education and research at the University and the Health Center.

Financial Statement Presentation

The University 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, 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 GASB statements provide accounting and financial reporting guidelines and enhance the usefulness and comprehension of financial reports by external users. Statements No. 34 and 35 significantly changed the financial statement format, eliminating multiple column fund reporting.

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

- Management's Discussion and Analysis (required supplemental information)
- Basic financial statements which include Statements of Net Assets; Statements of Revenues, Expenses, and Changes in Net Assets; and Statements 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.

GASB 35 established standards for external reporting by public colleges and universities that classify resources in 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 14).

The provisions of GASB 35 have been applied to years presented. The net cumulative effect of the change in accounting principles resulting from the adoption of GASB 35 in fiscal 2002 is shown in the table that follows. The effect of the changes is recorded as a restatement to beginning net assets on the Statements of Revenue, Expenses and Changes in Net Assets. 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 following 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 accordance with specified activities or objectives.

Cash Equivalents (see Note 2)

For the purposes of the Statements 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 (see Note 2)

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 in nonoperating revenues (expenses) in the accompanying Statements 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 General Obligation 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 General Obligation 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 for 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 (see Note 10)

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

Noncurrent Cash and Cash Equivalents (see Note 2)

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

Property and Equipment (see Note 3)

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 (see Note 10)

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

Compensated Absences (see Note 7)

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 Statements of Net Assets and in the various expense functions on the Statements 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 enterprises revenue and other sources of revenue. Operating expenses, except for depreciation, are reported using functional classification, including those under educational and general and auxiliary enterprises. See Note 13 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, and 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.

During fiscal 2003, certain operating expenditure classifications were revised to more appropriately reflect expenses by function. For comparative purposes, fiscal 2002 operating expenses were reclassified from the prior year financial statements, reflecting the change in the functional classification of expenditures. Total 2002 operating expenses did not change from what was previously reported.

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 was $132,195,802 and $125,669,801, as of June 30, 2003 and 2002, respectively and included the following:

	2003	2002
Cash maintained by State of Connecticut Treasurer	$ 105,774,031	$ 98,178,606
Invested in State of Connecticut Investment Pool	16,659,325	18,285,717
Invested in State of Connecticut Investment Pool - Endowments	3,441,491	1,457,356
Invested in Short-term Corporate Notes	5,872,658	6,829,290
Deposits with Financial Institutions and Other (category 3 investments)	448,297	918,832
Total cash and cash equivalents	132,195,802	125,669,801
Less: current balance	128,754,311	124,212,445
Total noncurrent balance	$ 3,441,491	$ 1,457,356

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 Foundation as the manager of the University's endowment funds. Gifts that are internally designated as endowments, and externally designated endowment gifts that are to be processed for transfer to the

Foundation ($2,000,000 in 2003 and $-0- in 2002), are included in cash and cash equivalents (see above table for total amounts). 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, according to 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 1.25% (5% per annum) of the prior twelve-quarter average market value will be distributed for spending in accordance with the respective purposes of the individual endowment funds. Beginning July 1, 2003, the quarterly amount was changed to 1% (4% per annum). 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 from the previous quarter.

The cost and fair value of the University's investments including those managed by the Foundation at June 30 are:

	2003		2002	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Endowments:				
Foundation Managed (Category 1)	$ 5,322,876	$ 6,262,643	$ 4,362,835	$ 5,203,676
Corporate Bonds (Category 1)	12,000	11,260	13,000	12,230
Other:				
U.S. Government Agency Securities (see Note 4) (Category 1)	1,000,000	1,004,670	1,750,000	1,753,286
Total Investments	$ 6,334,876	$ 7,278,573	$ 6,125,835	$ 6,969,192

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%. Effective on June 7, 2002 the Foundation Board of Directors adopted a new asset allocation policy for the long-term pooled investment portfolio (see following table). The prior guidelines provided a target asset class allocation of 25% to 40% for fixed income and 60% to 75% for equities. 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, 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%

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 was $11,877,642 and $12,101,345 as of June 30, 2003 and 2002, respectively. 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 years ended June 30, 2003 and 2002 was $ 570,741 and $589,757, respectively.

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 required 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. These assets are depreciated on a straight-line basis. The implementation of this accounting principle 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 $57,763,227 and $53,411,936 at June 30, 2003 and 2002, respectively, 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 was recorded as an adjustment to beginning net assets in fiscal year 2002. Historical collections and art totaled $44,362,816 and $38,560,944 at June 30, 2003 and 2002, respectively, and is included in equipment in the analysis of changes in property and equipment.

The cumulative effect of theses changes in fiscal 2002 was $70,867,588. This amount is shown as a portion of the cumulative effects of changes in accounting principle in the Statements of Revenues, Expenses, and Changes in Net Assets in 2002 (see Note 1).

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 Statements of Revenues, Expenses, and Changes in Net Assets in capital other. An accounts receivable for these surety payments is recorded in the accompanying Statements of Net Assets as of June 30, 2003 and 2002 totaling $5,175,000 and $10,350,000, respectively. 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 approximately $10,000,000 in 2002 and is recorded in capital other in the Statements of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2002. The insurance proceeds were adequate to complete the project as originally designed. Also, property and equipment has been reduced by the same amount. This is reflected in the table on the following page as a reduction to construction in progress in the "transfer/other" column in 2002.

The table on the following page describes the changes in property and equipment for the years ended June 30, 2003 and 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 in 2002.

Changes in Property and Equipment for the Year Ended June 30, 2003:

	2002 Beginning Balance	Additions	Retirements	Transfers and Other	2003 Ending Balance
Property and equipment:					
Land	$ 12,035,500	$ 79,780	$ (2,445)	$ -	$ 12,112,835
Non-structural Improvements	125,396,995	4,820,186	-	2,178,281	132,395,462
Buildings	909,271,698	52,956,215	(3,380,635)	90,116,750	1,048,964,028
Equipment	317,485,227	36,755,702	(6,761,278)	-	347,479,651
Construction in Progress	167,105,008	132,569,743	-	(92,295,031)	207,379,720
Total property and equipment	1,531,294,428	227,181,626	(10,144,358)	-	1,748,331,696
Less accumulated depreciation:					
Non-structural Improvements	34,980,223	5,270,852	(1,346)	-	40,249,729
Buildings	182,621,911	31,014,448	(1,653,753)	-	211,982,606
Equipment	135,043,287	27,117,205	(5,521,131)	-	156,639,361
Total accumulated depreciation	352,645,421	63,402,505	(7,176,230)	-	408,871,696
Property and equipment, net:					
Land	12,035,500	79,780	(2,445)	-	12,112,835
Non-structural Improvements	90,416,772	(450,666)	1,346	2,178,281	92,145,733
Buildings	726,649,787	21,941,767	(1,726,882)	90,116,750	836,981,422
Equipment	182,441,940	9,638,497	(1,240,147)	-	190,840,290
Construction in Progress	167,105,008	132,569,743	-	(92,295,031)	207,379,720
Property and equipment, net:	$ 1,178,649,007	$ 163,779,121	$ (2,968,128)	$ -	$ 1,339,460,000

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

	2001 Beginning Balance	Additions	Retirements	Transfers and Other	2002 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. LONG-TERM DEBT PAYABLE

In fiscal 2002, the General Assembly of the State of Connecticut enacted and the Governor signed into law Public Act No. 02-3, An Act Concerning 21st Century UConn (Act). This Act amended Public Act No. 95-230 that enabled 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. The Act extended the UCONN 2000 financing program that was scheduled to end in 2005, for an additional 10 years to June 30, 2015. The original Public Act No. 95-230 authorized projects for Phases I and II of UCONN 2000, estimated to cost $1,250,000,000, of which $962,000,000 was to be financed by bonds of the University; $18,000,000 was to be funded by State General Obligation bonds; and the balance of $270,000,000 to be financed by gifts, other revenue, or borrowing resources of the University. The new Act authorized additional projects for the University and the Health Center for what is to be called Phase III of UCONN 2000 at an estimated cost of $1,348,400,000, of which $1,300,000,000 is to be financed by bonds of the University and $48,400,000 is to be financed by the issuance of special obligation bonds of the University, from gifts, other revenue or borrowing resources of the University, or through the deferring of projects or achieved savings. The project costs authorized are $305,400,000 for the Health Center and $1,043,000,000 for the University. The UCONN 2000 program, including Phases I, II and III, is estimated to total $2,598,400,000.

General obligation bonds issued as of June 30, 2003 are (see Note 4 for outstanding balances):

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
2003 Series A	96,210,000
Total issued	$ 814,637,147

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 $96,210,000 and $100,000,000 for the years ended June 30, 2003 and 2002, respectively, representing the increase in the State of Connecticut's debt service commitment for principal as a result of the issuance of the 2003 and 2002 Series A bonds, respectively. In addition, for the years ended June 30, 2003 and 2002, revenues of $29,228,519 and $25,907,563, respectively, were recorded for the State of Connecticut's debt service commitment for interest on general obligation bonds.

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, of which $1,004,670 and $1,753,286 are included in noncurrent investments at June 30, 2003 and 2002, respectively; 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 $41,762,000 and $32,643,000 in fiscal years 2003 and 2002, respectively and are disclosed on the face of the Statements 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 2003, Special Obligation bond investment earnings amounted to approximately $857,000, and $1,077,000 in fiscal 2002. 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.

The State of Connecticut issues certain general obligation bonds that are categorized as self-liquidating bonds. These bonds were issued to fund the construction and renovations of revenue-generating capital projects. The University reimburses the State primarily with revenue from student fee charges in the amount equal to the debt service on self-liquidating bonds. At June 30, 2003 self-liquidating bonds outstanding totaled $12,418,259.

Long-term debt activity, including refunding of debt, for the years ended June 30, 2003 and 2002 was as follows:

Long-term debt activity for year ended June 30, 2003:

	2002 Beginning Balance	**Additions**	**Retirements**	**2003 Ending Balance**	**2003 Current Portion**
General Obligation Bonds	$ 610,637,147	$ 96,210,000	$ (37,650,000)	$ 669,197,147	$ 42,925,000
Revenue Bonds	201,190,000	-	(3,665,000)	197,525,000	3,770,000
Self Liquidating Bonds	13,571,164	860,363	(2,013,268)	12,418,259	1,506,678
U.S. Dept. of Ed. Towers Loan	1,847,687	-	(35,742)	1,811,945	37,735
Installment Loans	5,060,216	532,528	(1,838,913)	3,753,831	1,703,709
Total long-term debt	$ 832,306,214	$ 97,602,891	$ (45,202,923)	$ 884,706,182	$ 49,943,122

Long-term debt activity for year ended June 30, 2002:

	2001 Beginning Balance	**Additions**	**Retirements**	**2002 Ending Balance**	**2002 Current Portion**
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
Self Liquidating Bonds	14,837,149	4,259,724	(5,525,709)	13,571,164	1,167,012
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

Long-term debt outstanding at June 30, 2003 and 2002 consisted of the following:

Type of Debt and Issue Date	Type of Issue	Principal Payable	Maturity Dates Through Fiscal Year	Interest Rate	Balance 2003	Balance 2002
Bonds:						
GO 1996 Series A	original	Annually	2016	3.4-5.5%	$ 53,899,715	$ 58,404,715
GO 1997 Series A	original	Annually	2017	3.7-5.375%	85,392,432	91,892,432
GO 1998 Series A	original	Annually	2018	3.6-5.25%	74,625,000	79,600,000
GO 1999 Series A	original	Annually	2019	2.95-4.85%	64,000,000	68,000,000
GO 2000 Series A	original	Annually	2020	4.0-5.75%	110,275,000	117,740,000
GO 2001 Series A	original	Annually	2021	3.15-5.375%	89,795,000	95,000,000
GO 2002 Series A	original	Annually	2022	3.0-5.375%	95,000,000	100,000,000
GO 2003 Series A	original	Annually	2023	2.0-5.25%	96,210,000	-
Total general obligation bonds					669,197,147	610,637,147
Rev 1998 Series A	original	Annually	2028	3.55-5.125%	30,525,000	31,180,000
Rev 2002 Ref. Series A	refund	Annually	2030	3.0-5.25%	93,025,000	94,580,000
Rev 2002 Series A	original	Annually	2030	2.15-5.25%	73,975,000	75,430,000
Total revenue bonds					197,525,000	201,190,000
March 1992	original	Various	2007	6.3-6.4%	881,278	1,175,037
March 1993	original	Annually	2012	5.1-5.5%	539,125	594,125
October 1993	refund	Annually	2012	4.5-6.0%	912,526	924,743
March 1994	original	Various	2010	5.2-5.65%	210,148	315,148
August 1994	original	Various	2009	5.375-5.8%	30,243	45,359
March 1995	original	-	-	-	-	255,207
March 1995	refund	-	-	-	-	183,135
October 1995	original	Annually	2007	5.0-6.0%	306,744	383,431
November 1996	refund	Annually	2005	4.6-6.0%	277,775	355,334
March 1997	original	Various	2017	4.625-6.0%	1,754,786	2,344,786
September 1997	refund	Annually	2013	4.3-5.0%	321,344	322,845
February 1998	refund	Annually	2015	4.1-5.125%	994,475	996,873
June 2001	refund	Various	2016	5.0-5.5%	1,415,418	1,415,418
November 2001	refund	Various	2014	3.0-5.125%	3,264,170	3,578,275
June 2002	refund	Various	2010	3.0-5.5%	681,448	681,448
August 2002	refund	Various	2016	3.0-5.5%	651,490	-
April 2003	refund	Annually	2007	4.0-6.0%	177,289	-
Total self-liquidating bonds					12,418,259	13,571,164
Total bonds					879,140,406	825,398,311
Loans:						
U.S. Dept. Ed. Towers Loan		Semi-annually	2027	5.5%	1,811,945	1,847,687
Installment Purchases		Various	various	3.03-6.33%	3,753,831	5,060,216
Total loans					5,565,776	6,907,903
Total bonds, loans and installment purchases					884,706,182	832,306,214
Less: current portion					49,943,122	44,305,913
Total noncurrent portion					$ 834,763,060	$ 788,000,301

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

	General Obligation Bonds			Long-term Debt Other than General Obligation Bonds			Total Obligations		
Year(s)	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2004	$ 42,925,000	$ 30,423,161	$ 73,348,161	$ 7,018,122	$ 10,360,662	$ 17,378,784	$ 49,943,122	$ 40,783,823	$ 90,726,945
2005	43,295,000	28,955,273	72,250,273	6,761,673	10,059,402	16,821,075	50,056,673	39,014,675	89,071,348
2006	42,530,000	27,202,648	69,732,648	5,729,997	9,810,503	15,540,500	48,259,997	37,013,151	85,273,148
2007	42,250,000	25,464,023	67,714,023	5,604,326	9,593,830	15,198,156	47,854,326	35,057,853	82,912,179
2008	40,818,792	26,603,714	67,422,506	5,563,456	9,318,298	14,881,754	46,382,248	35,922,012	82,304,260
2009-2013	197,453,355	101,556,608	299,009,963	29,467,885	42,875,476	72,343,361	226,921,240	144,432,084	371,353,324
2014-2018	182,725,000	46,553,264	229,278,264	35,192,078	35,083,238	70,275,316	217,917,078	81,636,502	299,553,580
2019-2023	77,200,000	8,839,295	86,039,295	43,230,963	25,233,994	68,464,957	120,430,963	34,073,289	154,504,252
2024-2028	-	-	-	55,310,535	13,025,235	68,335,770	55,310,535	13,025,235	68,335,770
2029-2030	-	-	-	21,630,000	1,328,250	22,958,250	21,630,000	1,328,250	22,958,250
Total	$669,197,147	$295,597,986	$964,795,133	$215,509,035	$166,688,888	$382,197,923	$884,706,182	$462,286,874	$1,346,993,056

5. 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.

6. 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 approximately 45% of 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 300 full-time employees, 96 participate in the State Employees' Retirement System and 204 are eligible to participate in two retirement plans: the Department of Dining Services Money Purchase Pension Plan and optionally the University of Connecticut Department of Dining Services 403(b) Retirement Plan.

7. COMPENSATED ABSENCES AND WAGES PAYABLE

Compensated absences includes accrued unused vacation and sick leave balances for employees, and at June 30, 2003 totaled $18,862,956 and $2,308,377, respectively, and at June 30, 2002 totaled $17,458,966 and $1,364,857, respectively. During fiscal 2003, the State of Connecticut offered an Early Retirement Incentive Plan (ERIP) to University employees which is funded by the State and its various retirement plans. By the terms of the ERIP, unused vacation and sick leave will be paid in three equal payments on July 1 of each year, beginning July 1, 2005, with optional payment before July 1, 2005 to employees with balances below $2,000. The State has not committed to reimburse the University for the amounts due to its employees. Therefore, included in the noncurrent compensated absences liability as of June 30, 2003 are $2,321,481 for accrued vacation and $914,897 for sick leave for University employees that participated in ERIP. Compensated absences are recorded in accordance with GASB Statement No. 16 and represent the amounts earned by eligible employees through June 30, 2003 and 2002. The 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 includes salaries and wages for amounts owed at June 30. 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.

8. POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, 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 by 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.

9. COMMITMENTS

On June 30, 2003, the University had outstanding commitments (over $100,000 each) totaling $88,229,273, which included $77,262,802 of commitments related to capital projects. Of the total amount, $15,179,439 was included in accounts payable at June 30, 2003. In addition to the amount for capital outlay, commitments were also related to research, academic, and institutional support. Of these commitments, the University expects $3,914,211 to be reimbursed by Federal grants.

In December 2003, the University entered into a lease purchase agreement for a project to provide on-site generation of electricity, steam and chilled water for cooling for the University at its Storrs campus. The project assumes a total cost of $75,000,000 and includes construction of a building, engineering, design and installation of certain equipment at the Storrs campus. Monthly lease payments, beginning May 1, 2005, of $471,254 over 20 years include interest at an effective rate 4.51%, maturing on April 1, 2025. During the construction period, which is anticipated to begin in early calendar 2004, there are no required lease payments, although interest during this time will be capitalized and added to the principal amount of the advances made. At the completion of the lease term the University has an option to purchase the project assets for $1.

10. DEFERRED INCOME AND CHARGES

Deferred income is comprised of: certain restricted research grants that are not included in revenue until the funds are expended; tuition and fees and auxiliary enterprises fees received in advance of services rendered for summer and fall sessions; athletic tickets sales and commitments received in advance of the season; a contingent grant received for which conditions were not satisfied as of year end; and other revenues received but not earned. As of June 30, 2003 and 2002 deferred income is as follows:

	2003	**2002**
Certain restricted research grants	$ 5,239,986	$ 7,151,318
Tuition and fees and auxiliary services	12,061,197	11,010,118
Athletic ticket sales and commitments	3,648,922	-
Contingent grant	1,000,000	3,500,000
Other	1,298,387	1,255,779
Total deferred income	$ 23,248,492	$ 22,917,215

A portion of current deferred charges totaling $381,504 and $508,063 and noncurrent deferred charges totaling $6,472,344 and $10,335,635 at June 30, 2003 and 2002, respectively, represent the cost of issuance and discounts, net of premiums, on certain bond issues, which will be amortized over the terms of the respective bond issues.

11. 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 $25,601,506 and $23,522,067 in fiscal year 2003 and 2002, respectively. In fiscal 2003, approximately 83% of such waivers were provided to graduate assistants, with 81% in 2002.

12. 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.

13. OPERATING EXPENSES BY OBJECT

The following table details the University's operating expenses by object for the years ended June 30, 2003 and 2002:

Operating Expenses by Object for the year ended June 30, 2003

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salary and Wages	$159,990,687	$24,946,922	$16,720,941	$39,109,719	$17,188,065	$29,387,826	$14,990,508	$ -	$248,060	$34,950,918	$337,533,646
Fringe Benefits	41,058,857	4,413,144	3,964,702	11,789,395	4,633,047	10,127,862	5,847,549	-	549	10,011,237	91,846,342
Supplies & Other Expenses	9,633,312	26,810,743	4,439,402	10,218,730	3,537,059	11,082,701	10,840,504	-	309,310	41,318,746	118,190,507
Utilities	-	-	-	-	136,369	5,637	13,568,388	-	-	6,904,430	20,614,824
Depreciation	-	-	-	-	-	-	-	63,402,505	-	-	63,402,505
	$210,682,856	$56,170,809	$25,125,045	$61,117,844	$25,494,540	$50,604,026	$45,246,949	$63,402,505	$557,919	$93,185,331	$631,587,824

Operating Expenses by Object for the year ended June 30, 2002

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salary and Wages	$147,968,442	$21,882,090	$15,932,609	$38,239,512	$15,656,903	$28,387,407	$14,999,674	$ -	$237,486	$33,603,796	$316,907,919
Fringe Benefits	40,062,865	4,055,515	4,043,058	12,048,328	4,444,149	10,081,746	6,103,667	-	-	10,065,549	90,904,877
Supplies & Other Expenses	10,707,138	23,373,374	1,779,045	11,565,392	3,538,780	8,482,195	8,108,278	-	4,023	40,055,862	107,614,087
Utilities	-	-	-	-	145,926	5,197	10,376,412	-	-	7,232,576	17,760,111
Depreciation	-	-	-	-	-	-	-	50,624,858	-	-	50,624,858
	$198,738,445	$49,310,979	$21,754,712	$61,853,232	$23,785,758	$46,956,545	$39,588,031	$50,624,858	$241,509	$90,957,783	$583,811,852

14. UNRESTRICTED NET ASSETS

The following table details the University's unrestricted net assets as of June 30:

	2003	**2002**
Current funds	$ 33,988,306	$ 32,129,849
Unexpended plant funds	11,931,721	22,793,798
Internally restricted for retirement of indebtedness	36,330,405	28,743,322
Total Unrestricted net assets	$ 82,250,432	$ 83,666,969

TRUSTEES AND FINANCIAL OFFICERS
June 30, 2003

BOARD OF TRUSTEES

FINANCIAL OFFICERS

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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].

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[1] Pursuant to the Tenth Supplemental Indenture, the 2004 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 2004 Series A Bonds shall be issued subsequently pursuant to a Supplemental Indenture.

Pursuant to the Eighth Supplemental Indenture, the 2004 Refunding 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.

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 Trustee 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, for UConn Phase II projects and for UConn Phase III projects and a sub-account for proceeds of Special Eligible Gifts, each of which shall be maintained by the Trustee. 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 may be invested by the Trustee, at the direction of the University with the consent of the Treasurer and amounts in the Costs of Issuance Account may be invested by the Treasurer each 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]

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

[2] Pursuant to the Tenth Supplemental Indenture, the University covenants that it will not take any action or fail to take any action that would cause the 2004 Series A Bonds to be "arbitrage bonds" within the meaning of the Code.

Pursuant to the Eighth Supplemental Indenture, the University covenants that it will not take any action or fail to take any action that would cause the 2004 Refunding Series A Bonds to be "arbitrage bonds" within the meaning of the Code.

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".

APPENDIX I-C

FORMS OF OPINION OF BOND COUNSEL

Upon the delivery of the 2004 Series A Bonds, Pullman & Comley, LLC, Bond Counsel, proposes to issue its final approving opinion in substantially the following form:

January 22, 2004

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 $97,845,000 General Obligation Bonds, 2004 Series A (the "2004 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 2004 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 Tenth Supplemental Indenture (the "Tenth Supplemental Indenture"). Together with the Master Indenture, the supplemental indentures thereto, including the Tenth 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 2004 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 2004 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 2004 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 2004 Series A Bonds in order that interest on and amounts treated as interest on the 2004 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 2004 Series A Bonds, which, in our opinion contain provisions under which such requirements can be met. The University has covenanted with respect to the 2004 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 2004 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 2004 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 2004 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 2004 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 2004 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 2004 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 2004 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 2004 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 2004 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 2004 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 2004 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 2004 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 2004 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

Upon the delivery of the 2004 Refunding Series A Bonds, Pullman & Comley, LLC, Bond Counsel, proposes to issue its final approving opinion in substantially the following form:

January 29, 2004

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 $216,950,000 General Obligation Bonds, 2004 Refunding Series A (the "2004 Refunding 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 2004 Refunding 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 Eighth Supplemental Indenture (the "Eighth Supplemental Indenture"). Together with the Master Indenture, the supplemental indentures thereto, including the Eighth 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 2004 Refunding 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 2004 Refunding 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 2004 Refunding 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 2004 Refunding Series A Bonds in order that interest on and amounts treated as interest on the 2004 Refunding 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 2004 Refunding Series A Bonds, which, in our opinion contain provisions under which such requirements can be met. The University has covenanted with respect to the 2004 Refunding 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 2004 Refunding 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 2004 Refunding 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 2004 Refunding 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 2004 Refunding 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 2004 Refunding 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 2004 Refunding 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 2004 Refunding 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 2004 Refunding 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 2004 Refunding 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 2004 Refunding 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 2004 Refunding 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 2004 Refunding 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 2004 Refunding 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

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.

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 [22nd] [29th] day of January, 2004 by the State of Connecticut (the "State") acting by its undersigned officer, duly authorized, in connection with the issuance of [$97,845,000 University of Connecticut General Obligation Bonds, 2004 Series A] [$216,950,000 University of Connecticut General Obligation Bonds, 2004 Refunding Series A], dated January 15, 2004 (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 January 14, 2004 prepared in connection with the Bonds.

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

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

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

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

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

Standard & Poor's Securities Evaluations, Inc.
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 Direct General Obligation Debt (as of end of most recent fiscal year or a later date) (See Table 12).

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

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

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

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

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

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

Section 3. Material Events.

(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 Tenth Supplemental Indenture, except as otherwise defined:

"2004 Series A Bonds" means the Bonds authorized by, and issued in one or more series, pursuant to Article II of the Tenth Supplemental Indenture.

"2004 Refunding Series A Bonds" means the Bonds authorized by, and issued in one or more series, pursuant to Article II of the Eighth 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 2004 Series A Bonds and the 2004 Refunding 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 or satisfactory to, the Treasurer, in consultation with the University (who may be the Attorney General or other 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.

"Current Interest Bonds" shall mean those Bonds which bear interest payable on January 15 and July 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.

"Eighth Supplemental Indenture" shall mean the Eighth Supplemental Indenture dated as of January 15,2004, as amended, authorizing The University of Connecticut General Obligation 2004 Refunding Series A Bonds (secured by the State Debt Service Commitment).

"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.

"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 Securities Evaluations, Inc. (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 2004 Series A Bonds and the 2004 Refunding 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.

"Tenth Supplemental Indenture" shall mean the Tenth Supplemental Indenture dated as of January 15, 2004, as amended, authorizing The University of Connecticut General Obligation 2004 Series A Bonds (secured by the State Debt Service Commitment).

"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 Phase III Project**" means any Project which is identified and referenced in section 10a-109e of the Act as a Phase III project, as the 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 Project, UConn 2000 Phase II Project and UConn Phase III 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 2004 Series A Bonds and the 2004 Refunding 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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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

SPECIMEN

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PART II

INFORMATION SUPPLEMENT

OF THE STATE OF CONNECTICUT

January 14, 2004

The Annual Information Statement of the State of Connecticut (the "State"), dated December 19, 2003, appears in this Official Statement as **Part III** and contains information through December 19, 2003. The State expects to provide an updating Information Supplement from time to time in the future, which will appear in this location as Part II of future Official Statements of the State.

This Information Supplement updates certain information in the December 19, 2003 Annual Information Statement through January 14, 2004. The information in this **Part II** and **Part III** is subject to change without notice, and investors should not assume that there has been no change in the affairs of the State since the date of this **Part II**.

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.

INVESTIGATIONS

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

STATE GENERAL FUND

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

Pursuant to section 4-66 of the Connecticut General Statutes, the Office of Policy and Management provides estimates of revenues and expenditures for the current fiscal year by the twentieth day of each month to the Comptroller for use by the Comptroller in preparing the Comptroller's monthly report. In the monthly estimates provided by the Office of Policy and Management on December 22, 2003, as of November 30, 2003, General Fund revenues are estimated at $12,428.1 million, General Fund expenditures and miscellaneous adjustments are estimated at $12,512.9 million and the General Fund balance for the 2003-2004 fiscal year is estimated to have a deficit of $84.8 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. As of November 30, 2003, the monthly report of the Comptroller dated January 2, 2004 estimates 2003-2004 fiscal year General Fund revenues of $12,428.1 million, General Fund expenditures and miscellaneous adjustments of $12,512.5 million and an estimated operating deficit of $84.4 million. The next monthly report of the Comptroller is anticipated on February 2, 2004.

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

PART III
ANNUAL INFORMATION STATEMENT
STATE OF CONNECTICUT

DECEMBER 19, 2003

This Annual Information Statement of the State of Connecticut (the "State") contains information through December 19, 2003. For information about the State after December 19, 2003, the State expects to provide an updating Information Supplement from time to time. The reader should refer to the Information Supplement, if any, set forth in this Official Statement immediately preceding this Annual Information Statement. This Annual Information Statement and the Information Supplement that precedes it, if any, and any appendices attached thereto, should be read collectively and in their entirety.

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

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

Constitutional Elected Officers

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

Executive Branch Officers

*** Secretary of the Office of Policy and Management**	**Marc S. Ryan**
*** Acting Commissioner of Public Works**	**James T. Fleming**
Commissioner of Transportation	**James F. Byrnes, Jr.**

Legislative Branch Officers

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

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* Denotes member of the State Bond Commission

PART III
DECEMBER 19, 2003

ANNUAL INFORMATION STATEMENT OF THE STATE OF CONNECTICUT

TABLE OF CONTENTS

INTRODUCTION

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

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

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

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

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

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

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

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

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

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

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

THE STATE OF CONNECTICUT

Governmental Organization and Services

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

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

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

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

State Economy

Connecticut is a highly developed and urbanized state. It is situated directly between the financial centers of Boston and New York. Connecticut is located on the northeast coast and is the southernmost of the New England States. It is bordered by Long Island Sound, New York, Massachusetts and Rhode Island. More than one-quarter of the total population of the United States and more than 50% of the Canadian population live within 500 miles of the State. The State's population grew at a rate which exceeded the United States' rate of population growth during the period 1940 to 1970, and slowed substantially during the past three decades. The State has extensive transportation and utility services to support its economy.

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

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

FINANCIAL PROCEDURES

The Budgetary Process

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

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

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

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

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

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

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

Financial Controls

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

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

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

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

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

By statute, the Treasurer may not pay compensation, expenses or fees or otherwise enter into contractual arrangements with any firm providing legal services, investment banking services, investment advisory services, underwriting services, financial advisory services or brokerage firm services if such firm, through its political committee or certain managerial level officers or employees, makes or solicits contributions to any committee established by a candidate for nomination or election to the Office of Treasurer of the State. The statute also prohibits the making or solicitation of contributions by such firms.

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

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

Unappropriated Surplus. The State Constitution provides that any resulting unappropriated surplus shall be used to fund a budget reserve fund, to reduce bonded indebtedness or for any other purpose authorized by at least three-fifths of each house of the General Assembly. The General Statutes provide that the Treasurer shall transfer any unappropriated surplus in the General Fund to a budget reserve fund, unless otherwise directed by law. When the amount in the budget reserve fund in any fiscal year equals 10 % of the net General Fund appropriations, no further transfers shall be made by the Treasurer.

As of June 30, 2003, there was a zero balance (unaudited) in the budget reserve fund. In the past, moneys in the budget reserve fund were applied to partially offset a general fund deficit and surplus moneys in excess of amounts transferred to the budget reserve fund have been held or applied to provide for the retirement of outstanding indebtedness or for debt avoidance.

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

Accounting Procedures

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

At the present time the State is not required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP") and does not prepare GAAP statements on an interim basis. However, since 1988 the State has issued comprehensive annual financial reports in accordance with the guidelines established by the Governmental Accounting Standards Board ("GASB"). These reports include audited annual financial statements prepared in accordance with GAAP. A 1993 statute authorized the OPM to implement the use of GAAP with respect to the preparation of the annual budget effective with the fiscal year commencing July 1, 1995, and provided for the amortization of the GAAP-based deficit commencing with the fiscal year ending June 30, 1997. Subsequent legislation has extended the implementation date to July 1, 2005 and the amortization date to June 30, 2007.

As specifically permitted by statute, the only present modifications from the cash basis in recording revenues under the modified cash method are: (1) the accrual of the sales and use taxes to be received for the calendar quarter ending at the close of such fiscal year as estimated by the Secretary of the OPM; (2) the accrual of cigarette tax revenue received by the Commissioner of Revenue Services no later than the last day of July immediately following the end of such fiscal year; (3) the accrual of alcoholic beverage tax revenue received by the Commissioner of Revenue Services no later than the last day of July immediately following the end of such fiscal year; (4) the accrual of the motor fuels tax revenue and the motor carrier road tax revenue on all fuel sold or used prior to the end of such fiscal year and which tax is received by letter postmarked no later than the last day of July immediately following the end of such fiscal year; (5) the accrual of utility company tax revenue and tax revenue on gross earnings from the sale of petroleum products which is received by letter postmarked no later than the last day of July immediately following the end of such fiscal year; (6) the accrual of corporation business tax revenue which is received by the Department of Revenue Services no later than the fifteenth day of August immediately following the end of such fiscal year; (7) the accrual of income tax revenue which is received by the Commissioner of Revenue Services from employers no later than the last day of July immediately following the end of such fiscal year; (8) the accrual of payments received from any Indian tribe, pursuant to a memorandum of understanding, which is received by the Treasurer no later than the last day of July immediately following the end of such fiscal year; (9) the accrual of real estate conveyance tax revenue which is received by the Commissioner of Revenue Services no later than the last day of July immediately following the end of such fiscal year; and (10) the recording as grants receivable of certain amounts of restricted grants for which the State has the contractual right to be reimbursed by the federal government or other parties.

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

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

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

Investment and Cash Management

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

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

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

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

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

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

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

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

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

STATE GENERAL FUND

The State finances most of its operations through its General Fund. However, certain State functions, such as the State's transportation budget, are financed through other State funds. See **OTHER FUNDS, DEBT AND LIABILITIES** herein. For budgetary purposes, the State's General Fund is accounted for on a modified cash basis of accounting (the "budgetary-basis"), which differs from generally accepted accounting principles ("GAAP"). For an explanation of the differences between the budgetary-basis and GAAP based accounting, see **FINANCIAL PROCEDURES — Accounting Procedures** herein. The State is not presently required to prepare GAAP financial statements, although it has prepared such statements annually since 1988. GAAP based audited financial statements for all civil list funds of the State for the fiscal year ending June 30, 2002 are included as **Appendix III-C** to this Annual Information Statement. The State gives no assurance that it will continue to prepare GAAP based financial statements in the future. Budgetary-basis financial statements for the General Fund audited for the fiscal years ending June 30, 1999 through June 30, 2002 and the unaudited financial statements for the fiscal year ending June 30, 2003 are included in **Appendix III-D** to this Annual Information Statement. The adopted budgets for the fiscal years ending June 30, 2004 and June 30, 2005, the actual budgetary-basis results for the fiscal year ending June 30, 2003 and the estimated (as of October 31, 2003) budgetary-basis results for the fiscal year ending June 30, 2004 are included as **Appendix III-E** to this Annual Information Statement. Unless otherwise stated, amounts set forth in the discussion which follows under this caption **STATE GENERAL FUND** refer to such amounts as calculated on the budgetary-basis of accounting.

General Fund Revenues

Forecasted, Adopted and Historical Revenues

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

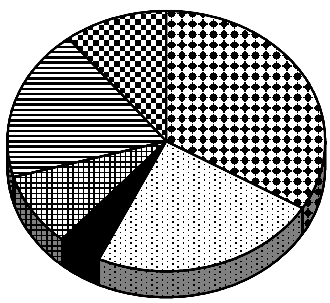
Because of the vast number of variables that can impact the revenue forecast, the State considers forecasting to be a process and not a product. While the economic data from available sources is analyzed and used to anticipate overall direction and trends, the revenue forecast is generated through a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

Fiscal 2003 and 2004 Adopted Revenues. General Fund revenues as forecasted at the adoption of the budgets for the fiscal year ending June 30, 2004 and June 30, 2005 ("Adopted Revenues") are reflected in **Appendix III-E** to this Annual Information Statement. The State, as of the forecast date, expected to derive approximately seventy-one percent of its General Fund revenues from taxes during the 2003-04 fiscal year and approximately seventy-two percent of its General Fund revenues from taxes during the 2004-05 fiscal year. Fiscal year 2002-2003 actual revenues, based on information contained in the Comptroller's annual report for the fiscal year ending June 30, 2003, and fiscal year 2003-2004 revenue forecasts based on information contained in the monthly report of the Office of Policy and Management for the period ending October 31, 2003, are also reflected in **Appendix III-E** to this Annual Information Statement.

General Fund revenues are derived primarily from the collection of State taxes, including the personal income tax, the sales and use tax and the corporation business tax. Miscellaneous fees, receipts, transfers and unrestricted Federal grants account for most of the other General Fund revenue. A summary of anticipated General Fund revenue sources for the fiscal year ending June 30, 2003 and for the fiscal year ending June 30, 2004, are set forth below:

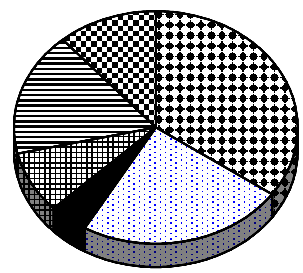
Adopted General Fund Revenues (In Millions)

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



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

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



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

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

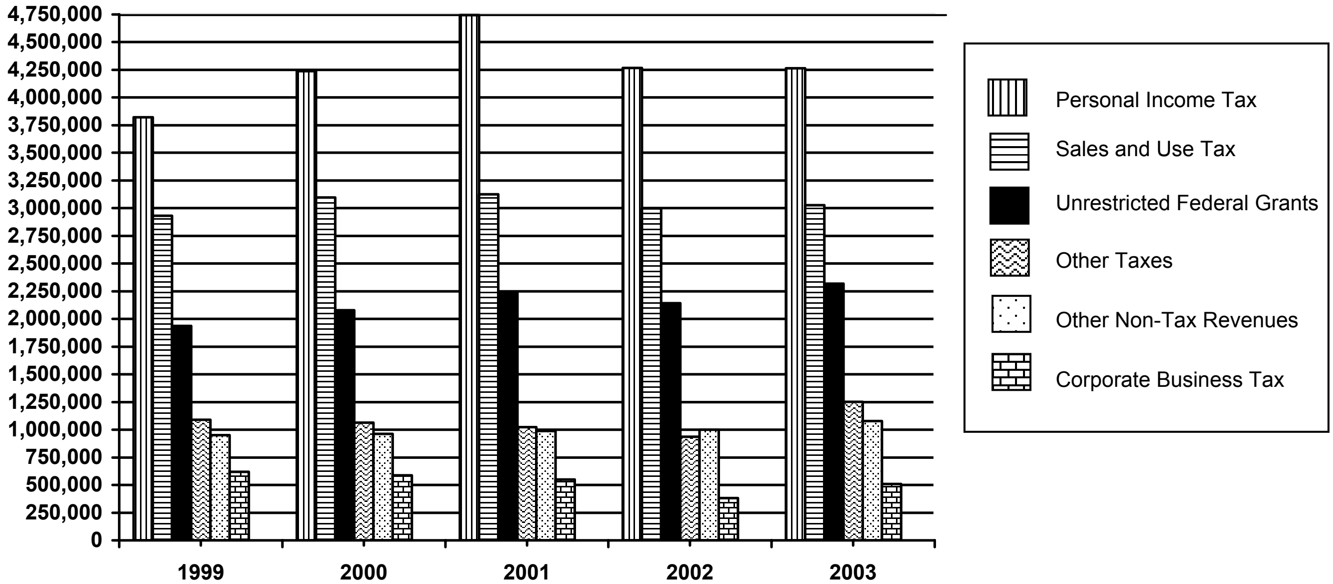
(b) Other taxes are comprised of inheritance and estate taxes, taxes on gross receipts of public service corporations, taxes on net direct premiums of insurance companies, taxes on oil companies, cigarettes and alcoholic beverages, real estate transfers, taxes on admissions and dues and other miscellaneous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

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

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

Historical General Fund Revenues. Actual General Fund revenues for the fiscal years 1999 through 2003 are set forth in **Appendix III-D** to this Annual Information Statement. A summary of the composition of General Fund gross revenues for the last five fiscal years is illustrated below:

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



	1999	2000	2001	2002	2003
Taxes:					
Personal Income Tax	$ 3,820,837	$ 4,238,228	$ 4,744,233	$ 4,265,912	$ 4,263,070
Sales Tax..................................	2,932,191	3,096,780	3,125,078	2,997,766	3,025,743
Corporate Business Tax	619,539	587,756	550,509	380,985	507,975
Other Taxes [(b)]..........................	1,089,738	1,063,543	1,022,755	937,782	1,252,375
Subtotal..............................	8,462,305	8,986,307	9,442,575	8,582,445	9,049,163
R & D Credit Exchange……….	-	-	-	-	(11,148)
Refunds of Taxes	(645,000)	(713,359)	(735,482)	(851,491)	(808,209)
Total Net Taxes	$ 7,817,305	$ 8,272,948	$ 8,707,093	$ 7,730,954	$ 8,229,806
Other Revenue:					
Federal Grants (Unrestricted).........................	1,938,271	2,078,914	2,237,045	2,142,269	2,318,421
Other Non-Tax Revenues (Unrestricted)[(c)]	950,813	963,784	987,932	999,888	1,078,621
Transfers to Other Funds	(90,000)	(180,000)	(85,400)	(147,686)	(93,009)
Transfers from Other Funds......	0	78,000	138,800	120,000	489,486
Total Other Revenues	$ 2,799,084	$ 2,940,698	$ 3,278,377	$ 3,114,471	$ 3,793,519
Total Revenues	$ 10,616,389	$ 11,213,646	$ 11,985,470	$ 10,845,425	$ 12,023,325

(a) The bar graph reflects the total of the listed tax and revenue amounts and does not reflect the listed adjustments for tax refunds and transfers to or from other funds. See **Appendix III-D** for adjustments to revenues.
(b) Other taxes are comprised of inheritance and estate taxes, taxes on gross receipts of hospitals (until April 1, 2000) and public service corporations, net direct premiums of insurance companies, taxes on oil companies, cigarettes and alcoholic beverages, real estate transfers, taxes on admissions and dues and cabarets and other miscellaneous taxes.
(c) Other non-tax revenues are comprised of special revenue transfers, Indian gaming payments, licenses, permits and fees, sales of commodities and services, rents, fines and escheats, investment income and other miscellaneous revenues.

SOURCE: 1999, 2000, 2001, 2002 and 2003 Annual Reports of the State Comptroller.

Components of Revenue

Personal Income Tax. The State imposes a personal income tax on the income of residents of the State (including resident trusts and estates), part-year residents and certain non-residents who have taxable income derived from or connected with sources within Connecticut. The tax imposed is at the maximum rate of 5% on Connecticut taxable income. Depending on federal income tax filing status, the taxable year and Connecticut adjusted gross income, personal exemptions are available to taxpayers, ranging from $12,000 to $24,000, with the lower end of the range increasing annually to $15,000 by taxable year 2009 for certain taxpayers. In addition, tax credits ranging from 1% to 75% of a taxpayer's Connecticut tax liability are also available depending upon federal income tax filing status, the taxable year and Connecticut adjusted gross income. Such exemptions and tax credits are phased out at certain higher income levels. Neither the personal exemption nor the tax credit described above is available to trusts or estates. Legislation enacted in 1995 effected a graduated rate structure beginning in tax year 1996. Under this revised structure, the top rate remains at 5% with a rate of 3% applicable to taxable income up to certain amounts. Subsequent legislation has increased the amount of taxable income subject to the 3% rate. By tax year 1999 and thereafter, the first $20,000 of taxable income for a joint filer and the first $10,000 of taxable income for a single filer is taxed at the 3% rate. In addition, an income tax credit for property taxes paid has been decreased from a maximum of $500 per filer to $350 per filer beginning with the taxable year commencing January 1, 2003. Taxpayers also are subject to a Connecticut minimum tax based on their liability, if any, for payment of the federal alternative minimum tax.

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

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

The first method of computation is a tax measured by the net income of a taxpayer (the "Income-Base Tax"). Net income means federal gross income with limited variations less certain deductions, most of which correspond to the deductions allowed under the Internal Revenue Code of 1986, as amended from time to time. The Income-Base Tax had been levied at the rate of 10.75% in 1996 and was phased down over subsequent years to 7.5% for taxable years commencing on and after January 1, 2000. The second method of computing the Corporation Business Tax is an alternative tax on capital. This alternative tax is determined either as a specific maximum dollar amount or at a flat rate on a defined base, usually related in whole or in part to its capital stock and balance sheet surplus, profit and deficit. The third method of computing the Corporation Business Tax is the minimum tax which is a flat $250. Corporations must compute their tax liability under all three methods, determine which calculation produces the greatest tax, and pay that amount to the State.

Public Act No. 02-1 of the May 9th Special Session instituted a $250 charge on LLCs, LLPs and S corporations, and limited corporation credits from reducing tax liability by more than 70%. Public Act No. 02-4 of the May 9th Special Session extended the tax to single-member LLCs that are not considered entities separate from their owners for federal tax purposes. Public Act No. 03-2 institutes a one time corporation business tax surcharge of 20% in income year 2003 and Public Act No. 03-1 of the June 30th Special Session imposes another one time corporation business tax surcharge of 25% in income year 2004.

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

Federal Grants. Federal grants in aid are normally conditioned to some degree, depending upon the particular program being funded, on resources provided by the State. More than 99% of unrestricted federal grant revenue is expenditure driven. The largest federal grants in fiscal 2003 were made for the purposes of providing medical assistance payments to the indigent and temporary assistance to needy families. The State also receives certain restricted federal grants which are not reflected in annual appropriations but which nonetheless are accounted for in the General Fund. In addition, the State receives certain federal grants which are not accounted for in the General Fund but are allocated to the Transportation Fund, various Capital Project Funds and other funds.

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

General Fund Expenditures

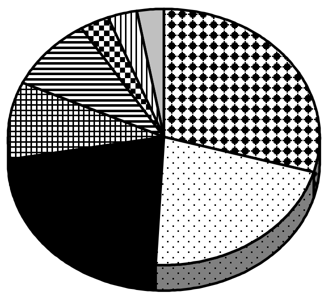
Appropriated and Historical Expenditures

Fiscal 2004 and 2005 Appropriated Expenditures. State expenditures are categorized for budget and appropriation purposes under ten functional headings, with expenditures by agency generally shown as subheadings in the following functional categories, listed in order of magnitude of expenditure for the current budget biennium: Human Services; Education, Libraries and Museums; Non-Functional (debt service and miscellaneous expenditures including fringe benefits); Health and Hospitals; Corrections; General Government; Judicial; Regulation and Protection of Persons and Property; Conservation and Development; and Legislative. State expenditures for Department of Transportation functions are paid from the Transportation Fund, not the General Fund.

Appropriated expenditures included in adopted budgets for fiscal years ending June 30, 2004 and June 30, 2005, final budget expenditures for the fiscal year ending June 30, 2003 based on information contained in the Comptroller's Annual Report and the estimated expenditures for the fiscal year ending June 30, 2004 based on information contained in the Comptroller's Monthly Report dated December 1, 2003 are set forth in **Appendix III-E** to this Annual Information Statement. A summary of appropriated General Fund expenditures for the fiscal years ending June 30, 2004 and June 30, 2005 is set forth below.

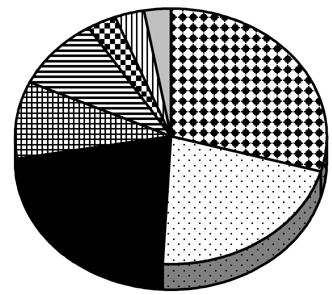
Appropriated General Fund Expenditures (In Millions)

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



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

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



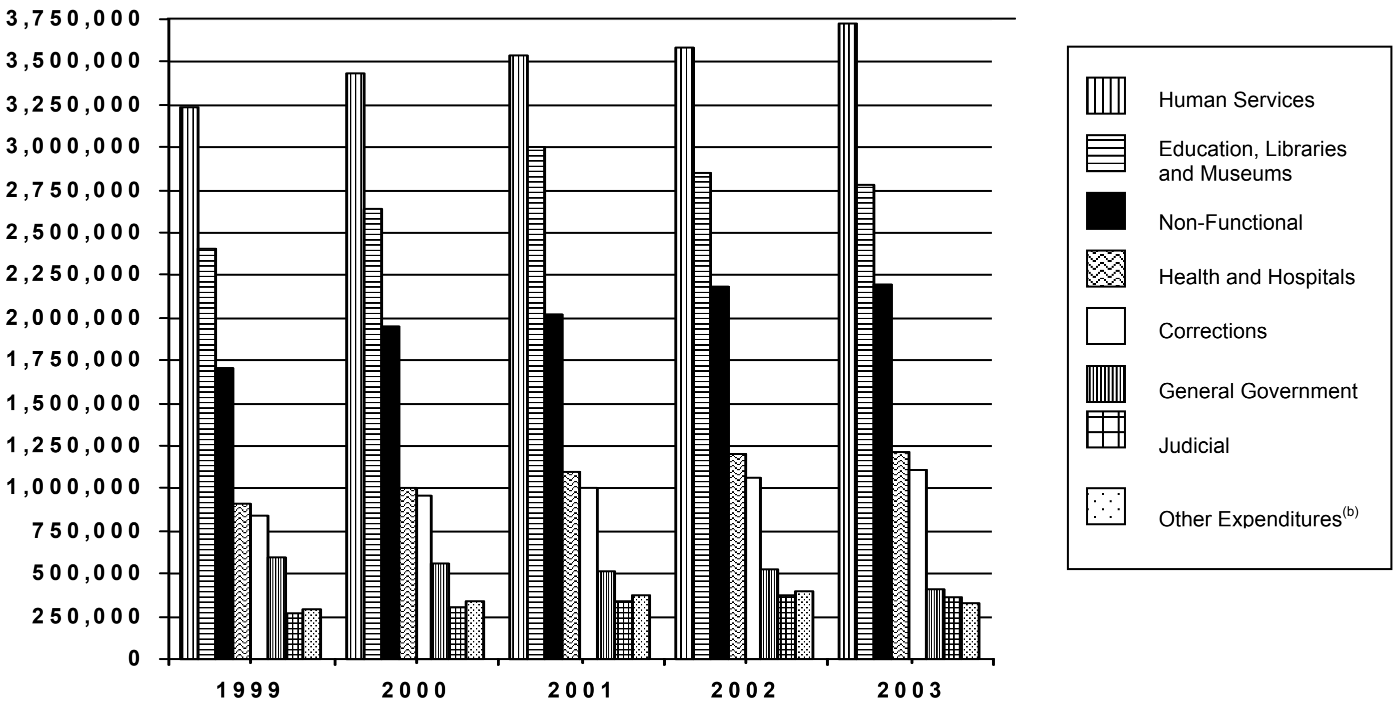
Human Services	$3,901.1	29.4%
Education, Libraries and Museums	2,851.6	21.5%
Non-Functional	2,846.5	21.4%
Health and Hospitals	1,290.6	9.7%
Corrections	1,197.0	9.0%
General Government	431.3	3.2%
Judicial	402.5	3.0%
Other Expenditures[(b)]	353.7	2.7%

(a) The pie charts reflect the total listed expenditures of $12,712.3 for 2003-2004 and $13,274.3 for 2004-2005, and do not reflect adjustments for unallocated lapses of $260.3 for 2003-2004 and $307.4 for 2004-2005. See **Appendix III-E** for anticipated adjustments to appropriated expenditures.

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

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

Historical General Fund Expenditures. Actual General Fund expenditures for the fiscal years 1999 through 2003 are set forth in **Appendix III-D** to this Annual Information Statement. A summary of the composition of General Fund expenditures for last five fiscal years is illustrated below:



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

	1999	2000	2001	2002	2003
Human Services	$ 3,231,095	$ 3,430,561	$ 3,537,462	$ 3,589,653	$ 3,724,789
Education, Libraries and Museums	2,411,479	2,637,518	3,007,391	2,847,540	2,789,051
Non-Functional	1,705,133	1,954,711	2,019,041	2,182,512	2,224,838
Health and Hospitals	905,529	1,005,233	1,092,361	1,198,335	1,222,978
Corrections	845,239	957,555	999,052	1,068,183	1,111,416
General Government	594,847	566,310	511,430	527,287	420,702
Judicial	266,043	309,319	338,568	376,813	368,143
Other Expenditures(b)	291,444	339,697	377,395	396,703	348,877
Totals	$ 10,250,809	$ 11,200,904	$ 11,882,700	$ 12,187,026	$ 12,210,794

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

(b) Other expenditures are comprised of expenditures for Regulation and Protection, Conservation and Development, and Legislative, and in some years, certain Transportation expenditures.

SOURCE: 1999, 2000, 2001, 2002 and 2003 Annual Reports of the State Comptroller.

Components of Expenditures

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

Education, Libraries and Museums. Based upon the adopted budget for the 2003-2004 fiscal year, approximately 71% of the State expenditures for Education, Libraries and Museums is allocated to the Department of Education, with the largest share consisting of payments to local governments. The remaining 29% consists of expenditures for higher education (including the University of Connecticut, the Connecticut State University System and Regional Community-Technical Colleges), the Teachers' Retirement Board, the State Library and services for the blind and deaf.

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

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

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

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

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

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

Conservation and Development. State expenditures for Conservation and Development fall into three general categories: agriculture; development of historical sites, commerce and industry; and environment, the latter accounting for approximately 54% of all appropriations for Conservation and Development based upon the adopted budget for the 2003-2004 fiscal year.

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

Expenditures by Type

General Fund appropriations and the State expenditures to which they relate are divided for both administrative and budgetary purposes among appropriation account categories based on the type of appropriation. Appropriation account types may be grouped conceptually into two broad categories: payments to third parties and costs of State administration. Payments to third parties consist of two major appropriation account types: payments to local governments, and payments to parties other than local governments (which include debt service payments). Such payments to third parties amount to approximately 63% of total General Fund appropriations under the adopted budget for the 2003-2004 fiscal year. Costs of State administration consist of three major appropriation account types: personal services, equipment, and other expenses. These expenditures are used directly to operate the facilities and programs of State agencies and include such items as salaries, wages, pension and other benefits for State employees; utility and fuel costs; food; institutional and office supplies; equipment; rent for office space and other facilities; and other current expenses. Appropriations for costs of State administration represent approximately 37% of all General Fund appropriations under the adopted budget for the 2003-2004 fiscal year.

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

TABLE 1

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

	Fiscal Year 2002* (Actual)		Fiscal Year 2003 (Unaudited)		Fiscal Year 2004 (Appropriated)	
	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments
LEGISLATIVE						
Total – Legislative	255	0	261	0	275	0
GENERAL GOVERNMENT						
One Time Surplus Revenue Sharing	31,250	31,250	0	0	0	0
Property Tax Relief Elderly Circuit Breaker	20,337	20,337	20,506	20,506	20,506	20,506
P.I.L.O.T. – New Manufacturing Machinery and Equipment	76,459	76,459	55,828	55,828	50,730	50,730
Undesignated	64,906	39,805	40,187	25,274	30,514	16,366
Total – General Government	192,952	167,851	116,521	101,608	101,750	87,602
REGULATION AND PROTECTION						
Total – Regulation and Protection	313	0	273	0	37	0
CONSERVATION AND DEVELOPMENT						
Total – Conservation and Development	11,371	5,143	11,914	4,821	13,175	4,886

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

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

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

SOURCE: Office of Policy and Management

Fiscal Year 2002-2003 Operating Results:

The State ended the 2002-2003 fiscal year with a deficit. The possibility of a deficit was recognized early in the fiscal year. On December 6, 2002, the Governor issued a plan to address the budget shortfall calling for $200 million in expenditure reductions and $200 million in revenue enhancements for the General Fund. The Governor also initiated the process of laying off almost 3,000 state employees based upon the lack of progress in terms of the State Employees Bargaining Agent Coalition (SEBAC). On December 18, 2002, a special session called to enact legislation necessary to adjust the state budget for fiscal year 2002-2003 did not enact legislation to address the budget shortfall. Per the Comptroller's monthly report for the period ending January 31, 2003, based on the estimate of the Office of Policy and Management, there was an estimated $628.3 million budget deficit for the 2002-2003 fiscal year. The deficit was comprised of an estimated $387.6 million revenue shortfall and $240.7 million in higher than anticipated expenditures. The shortfall in revenue was primarily due to lower personal income tax collections, down $421.0 million and the sales and use tax, down $81.9 million. These shortfalls were partially offset by higher than anticipated collections under the corporation tax and from federal grants. The expenditure increases were due primarily to deficiencies in the Department of Social Services and the fact that the Office of Policy and Management was no longer anticipating savings of $94 million in union concessions. On February 28, 2003, Governor Rowland signed into law Public Act 03-2. This act included numerous tax and expenditure changes aimed at mitigating the projected budget deficit. Included in the act, according to estimates of the Office of Policy and Management, were approximately $485 million in revenue enhancements for the 2002-2003 fiscal year and approximately $108 million in attainable expenditure reductions. In late February 2003, the Office of Policy and Management estimated that with the changes contained in Public Act No. 03-2 the State's projected deficit would be erased and the result would be a surplus of $39.7 million.

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

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

Budget for Fiscal Years 2003-2004 and 2004-2005

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

Pursuant to Article XXVIII of the Amendments to the Constitution of the State of Connecticut and Section 2-33a of the Connecticut General Statutes, the budget for fiscal year 2003-2004 remains $381.2 million below the expenditure cap and for fiscal year 2004-2005, $115.4 million below the expenditure cap.

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

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

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

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

Fiscal Year 2003-2004 Operations:

Pursuant to section 4-66 of the Connecticut General Statutes, the Office of Policy and Management provides estimates of revenues and expenditures for the current fiscal year by the twentieth day of each month to the Comptroller for use by the Comptroller in preparing the Comptroller's monthly report. Per section 3-115 of the Connecticut General Statutes, the State's fiscal position is reported monthly by the Comptroller. In the monthly report of the Comptroller dated December 1, 2003, as of October 31, 2003, General Fund revenues are estimated at $12,452.1 million, General Fund expenditures and miscellaneous adjustments are estimated at $12,503.8 million, and the General Fund deficit for the 2003-2004 fiscal year is estimated to be $51.7 million. The next monthly report of the Comptroller is anticipated on January 2, 2004.

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

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

General Fund Budget History

Table 2 summarizes the results of operation of the General Fund on the budgetary-basis. Summaries of actual revenues and expenditures on the budgetary (modified cash) basis for the fiscal years 1999 through 2003 are set forth in **Appendix III-D** to this Annual Information Statement.

TABLE 2

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

(In Millions)

Fiscal Years Ending June 30

	1999	2000	2001	2002	2003
Total General Fund Revenues[(a)]	$10,616.4	$11,213.6	$11,985.5	$10,845.4	$ 12,023.3
Net-Appropriations/Expenditures[(b)]	10,544.6	10,913.2	11,954.8[(c)]	11,662.5	12,120.1
Operating Surplus/(Deficit)	$ 71.8[(d)]	$ 300.4[(e)]	$ 30.7[(f)]	$ (817.1)[(g)]	$ (96.8)[(h)]

(a) Does not include Restricted Accounts and Federal and Other Grants. See **Appendix III-D-6**.
(b) Does not include expenditures for Restricted Accounts and Federal and Other Grants. Includes Amounts Reserved for Prior Year Appropriations Less Appropriations Carried Forward and Other Adjustments. See **Appendix III-D.**
(c) Does not include expenditures which were financed from fiscal year 2000 reserves for debt avoidance.
(d) $30.5 million of the operating surplus was reserved for transfer to the Budget Reserve Fund while the remaining $41.3 million was reserved for the retirement of bonded debt.
(e) $34.9 million of the operating surplus was reserved for transfer to the Budget Reserve Fund while the remaining $265.5 million was reserved for debt avoidance.
(f) $30.7 million of the operating surplus was reserved for transfer to the Budget Reserve Fund.
(g) $594.7 million from the Budget Reserve Fund was applied to partially fund the deficit. The remaining deficit balance was financed through the issuance of economic recovery notes.
(h) The deficit balance will be financed through the issuance of economic recovery notes. In addition to the deficit balance, there is an estimated $25 million in lagged hospital service claims which will also be financed by economic recovery notes.

SOURCE: Comptroller's Office

Table 3 shows the reconciliation of the actual operations surplus (deficit) under the budgetary (modified cash) basis to the GAAP basis of accounting. Adopted GAAP based financial statements for fiscal year 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 Ending June 30

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

(a) Since GAAP-based financial statements for fiscal year 2003 are not yet available, figures for this column could not be determined.

SOURCE: Comptroller's Office

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

TABLE 4

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

(In Millions)

Fiscal Years Ending June 30

	1999	2000	2001	2002	2003
Operating Surplus/Deficit	$ 71.8	$300.4	$ 30.7	$ (817.1)	$ (96.8)
Fund Transfers and Reserves					
Transfers to Budget Reserve Fund	30.5	34.9	30.7	--	--
Transfers from Budget Reserve Fund	--	--	--	594.7	
Economic Recovery Note Debt Retirement	--	--	--	--	--
Reserve for Debt Service Appropriation	41.3	--	--	--	--
Reserve for Debt Avoidance	--	265.5	--	--	--
Total Transfers/Reserves	71.8	300.4	30.7	594.7	0
Unreserved Fund Balance					
Surplus/(deficit)	$ 0.0	$ 0.0	$ 0.0	$ (222.4)	$ (96.8)

SOURCE: Comptroller's Office

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

TABLE 5

General Fund

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

(In Millions)

Fiscal Years Ending June 30

	1999	2000	2001	2002	2003[b]
Unreserved Fund Balance (Deficit)					
Modified Cash Basis	$ 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	(170.0)	(151.3)	(194.1)	(221.8)	
Eliminate Corporation Accrual	(22.1)	(19.5)	(23.3)	(16.9)	
Additional Taxes Receivable	5.0	4.0	7.0	9.3	
Net Increase (Decrease) Taxes	(187.1)	(166.8)	(210.4)	(229.4)	
Net Accounts Receivable	29.7	76.2	83.8	57.3	
Federal and Other Grants Receivable[a]	428.4	435.7	525.8	582.0	
Due From Other Funds	7.9	4.8	7.2	13.1	
Total Additional Assets	$ 278.9	$ 349.9	$ 406.4	$423.0	
Additional Liabilities					
Salaries and Fringe Payable	(279.9)	(158.0)	(173.4)	(189.3)	
Accounts Payable—Department of Social Services	(525.7)	(676.7)	(773.3)	(704.8)	
Accounts Payable—Trade & Other	(142.1)	(175.6)	(191.2)	(180.7)	
Payable to Local Governments	-	-	-	-	
Payable to Federal Government	(72.0)	(48.8)	(72.6)	(62.0)	
Due to Other Funds	(3.7)	(.8)	(3.1)	(7.8)	
Total Additional Liabilities	$(1,023.4)	$(1,059.9)	$(1,213.6)	$(1,144.6)	
Unreserved Fund Balance (Deficit)					
GAAP Basis	$ (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.
(b) Since GAAP-based financial statements for fiscal year 2003 are not yet available, figures for this column could not be determined.

SOURCE: Comptroller's Office

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

TABLE 6

General Fund Fund Balances-GAAP Basis

(In Millions)

Fiscal Years Ending June 30

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

(a) Since GAAP-based financial statements for fiscal year 2003 are not yet available, figures for this column could not be determined.

SOURCE: Comptroller's Office

STATE DEBT

Constitutional Provisions

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

Types of State Debt

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

State Direct General Obligation Debt

General

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

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

Statutory Debt Limit. Section 3-21 of the General Statutes provides that no bonds, notes or other evidences of indebtedness for borrowed money payable from General Fund tax receipts of the State shall be authorized by the General Assembly or issued except as shall not cause the aggregate amount of (1) the total amount of bonds, notes or other evidences of indebtedness payable from General Fund tax receipts authorized by the General Assembly but which have not been issued and (2) the total amount of such indebtedness which has been issued and remains outstanding, to exceed 1.6 times the total estimated General Fund tax receipts of the State for the fiscal year in which any such authorization will become effective or in which such indebtedness is issued, as estimated for such fiscal year by the joint standing committee of the General Assembly having cognizance of finance, revenue and bonding. However, in computing the aggregate amount of indebtedness at any time, there shall be excluded or deducted revenue anticipation notes having a maturity of one year or less, refunded indebtedness, bond anticipation notes, borrowings payable solely from the revenues of a particular project, the balances of debt retirement funds associated with indebtedness subject to the debt limit as certified by the Treasurer, the amount of federal grants certified by the Secretary of the Office of Policy and Management as receivable to meet the principal of certain indebtedness, all authorized and issued indebtedness to fund any budget deficits of the State for any fiscal year ending on or before June 30, 1991 and for the fiscal year ending June 30, 2002, all authorized debt to fund the Connecticut Development Authority's tax increment bond program, and any indebtedness represented by agreements entered into pursuant to certain provisions of the General Statutes, provided the indebtedness in connection with which such agreements were entered into shall be included in such aggregate amount of indebtedness. For purposes of the debt limit statute, all bonds and notes issued or guaranteed by the State and payable from General Fund tax receipts are counted against the limit, except for the exclusions or deductions described above. In addition, under Public Act No. 95-230 and Public Act No. 02-3, the amount of authorized but unissued debt for UConn 2000 and UConn 21st Century programs is limited to the amount permitted to be issued under the cap. See ***Types of Direct General Obligation Debt — UConn 2000 Financing.***

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

The total tax receipts for the fiscal year beginning July 1, 2003 as last estimated by the General Assembly's joint standing committee on finance, revenue and bonding, and the calculation of the debt limit, the aggregate amount of outstanding debt and of authorized but unissued debt subject to such limit, and the debt incurring margin, all as of December 16, 2003 is described in the following table.

TABLE 7

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

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

(a) Economic Recovery Notes are not included in calculations.
(b) See ***Table 8***. Includes accreted value of capital appreciation bonds. Excludes UConn 2000 Bonds, tax increment financings and short term revenue anticipation notes and lease financings other than the Middletown Courthouse and the Juvenile Training School.
(c) See **OTHER FUNDS, DEBT AND LIABILITIES – Contingent Liability Debt.** Guarantees for certain outstanding debt of Southeastern Connecticut Water Authority and UConn 2000 Bonds. Excludes accreted value of UConn 2000 capital appreciation bonds.
(d) Includes guarantee for UConn 2000 Bonds authorized but unissued under cap for 2003-2004 fiscal year.
(e) Includes debt service funds for self-liquidating debt issued to finance facilities at University of Connecticut and Connecticut State University.

SOURCE: State Treasurer's Office

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

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

Types of Direct General Obligation Debt

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

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

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

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

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

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

The total amount of University bonds and State general obligation bonds authorized by the acts is approximately $368 million less than the estimated costs of the infrastructure improvements set forth in the acts. This difference is expected to be addressed by capital cost reductions, deferring certain projects to a future date, and by securing additional funding sources, such as private fundraising and special obligation bonds. Special obligation bonds are to be secured by particular revenues of the University pledged therefore, are not subject to the cap on the University's general obligation bonds and are not counted against the State's debt limit.

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

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

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

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

CCEDA Financing. In addition to general obligation bonds for Hartford development projects, the legislature created the Capital City Economic Development Authority in 1998 and granted it the power to issue revenue bonds for a convention center in Hartford. The bonds will be backed by State contractual assistance equal to annual debt service. In December 2003, the State Bond Commission approved up to $100 million of such bonds. Various other conditions and approvals remain to be satisfied, and the Authority must determine the extent to which incremental tax revenues to be derived as a result of construction and operation of the project and visitor spending with respect thereto are reasonably expected to offset debt service.

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

Economic Recovery Notes. In 2002, the General Assembly authorized the Treasurer to issue notes of up to five years to fund the State's budget deficit for the fiscal year ending June 30, 2002 and to exempt these notes from the overall limit on state debt. In 2003, the General Assembly authorized the Treasurer to issue notes of up to five years to fund (1) the amount required to pay any remaining retrospective reimbursements billed by hospitals for inpatient and outpatient services for services rendered to recipients of medical assistance in the State Administered General Assistance and General Assistance programs; and (2) the State's budget deficit for the fiscal year ending June 30, 2003.

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

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

Debt Statement

The following table shows all direct general obligation indebtedness (including the accreted value of capital appreciation bonds as of December 16, 2003) for the payment of the principal and interest on which the State has pledged its full faith and credit or which is otherwise payable from the State's General Fund.

TABLE 8

Direct General Obligation Indebtedness [(a)]
Principal Amount Outstanding as of December 16, 2003
(In Thousands)

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

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

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

SOURCE: State Treasurer's Office

Debt Ratios

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

TABLE 9

Debt Ratios - Long Term General Obligation Debt
(As of June 30 – in Thousands)

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

(a) In thousands. Includes gross and net long-term direct general obligation bonded indebtedness as set out in ***Table 11***.
(b) See ***Appendix III-B, Table B-2***. Personal Income: 1999—$130,579 million; 2000—$141,413 million; 2001—$145,548 million; 2002—$148,211 million; and 2003 ratio uses 2002 data.
(c) Full value estimated by Office of Policy and Management. Uses final equalized net grand lists: 1997— $276 billion; 1998 — $296 billion; 1999 – $320 billion; 2000—$360 billion; and 2001—392 billion. Property is assessed as of October 1 in each year for the tax levy effective the following July 1. The 1999 ratio uses 1997 data; 2000 ratio uses 1998 data; 2001 ratio uses 1999 data; 2002 ratio uses 2000 data; and 2003 uses 2001 data.
(d) See ***Appendix III-B, Table B-1***. State population: 1999—3,386,000; 2000—3,412,000; 2001—3,435,000; 2002—3,461,000; and 2003 ratio uses 2002 data.

Debt Service Schedule

The following table sets forth the principal, sinking fund and interest payments required on all outstanding long-term direct general obligation debt of the State, as of December 16, 2003. Although not specifically reflected as a result of combining all outstanding long-term direct debt, the State generally issues general obligation bonds maturing within twenty years. The exceptions include thirty-year Rental Housing Term Bonds and certain other bonds with maturities of less than twenty years where required by statute or in instances where the expected period of usefulness of the project or purpose financed does not warrant a maturity of twenty years.

TABLE 10

Summary of Principal, Mandatory Sinking Fund Payments, and Interest on Long-Term Direct General Obligation Debt[(a)] as of December 16, 2003

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

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

(b) Principal payments include aggregate stated initial values of capital appreciation bonds. Interest payments include the difference between the aggregate stated initial values and the aggregate maturity amounts of capital appreciation bonds, including capital appreciation bonds issued pursuant to the College Savings Bond Program and UConn 2000 bonds. Capital appreciation bonds mature in fiscal years 2004-2014.

(c) On May 14, 1997 the State issued $100,000,000 General Obligation Variable Rate Demand Bonds of which $99,235,000 remain outstanding. The interest on these securities is estimated herein at a 3.75% average rate. The balance of the Bonds mature in the years 2005-2014.

(d) On February 22, 2001 the State issued $100,000,000 General Obligation Variable Rate Demand Bonds of which $100,000,000 remain outstanding. The interest on these securities is estimated herein at a 3.75% average rate. The balance of the Bonds mature in the years 2017-2020.

(e) On May 22, 2002 the State issued $100,000,000 Taxable General Obligation Auction Rate Bonds of which $100,000,000 remain outstanding. The interest on these securities is estimated herein at a 4.25% average rate. The balance of the Bonds mature in the years 2005-2012.

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

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

SOURCE: State Treasurer's Office

Outstanding Long-Term Direct General Obligation Debt

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

TABLE 11

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

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

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

SOURCE: State Treasurer's Office

Future Issuance of Direct General Obligation Debt

Authorized But Unissued Direct General Obligation Debt. The General Assembly has empowered the State Bond Commission to authorize direct obligation bonds pursuant to certain bond acts. The table below shows, as of December 16, 2003, the amount of bonds authorized by bond acts in effect, the amount the State Bond Commission has authorized, the amount of bonds issued pursuant to State Bond Commission authorizations, the balance remaining authorized but unissued and the balance available for authorization. The table shows the same information for UConn 2000 bonds secured by the State's debt service commitment authorized to be issued under the cap through June 30, 2004.

TABLE 12

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

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

(a) Economic Recovery Notes are not included in calculations.
(b) Includes bonds which may be issued under the cap in effect on the date of the table. The amount available for authorization does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest. Amount Issued has been adjusted to reflect increases due to closing costs and decreases due to premiums.
(c) The amount of tax increment bonds authorized is based on the amount authorized by the State Bond Commission, since there is no statutory amount of authorization.

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

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

TABLE 13

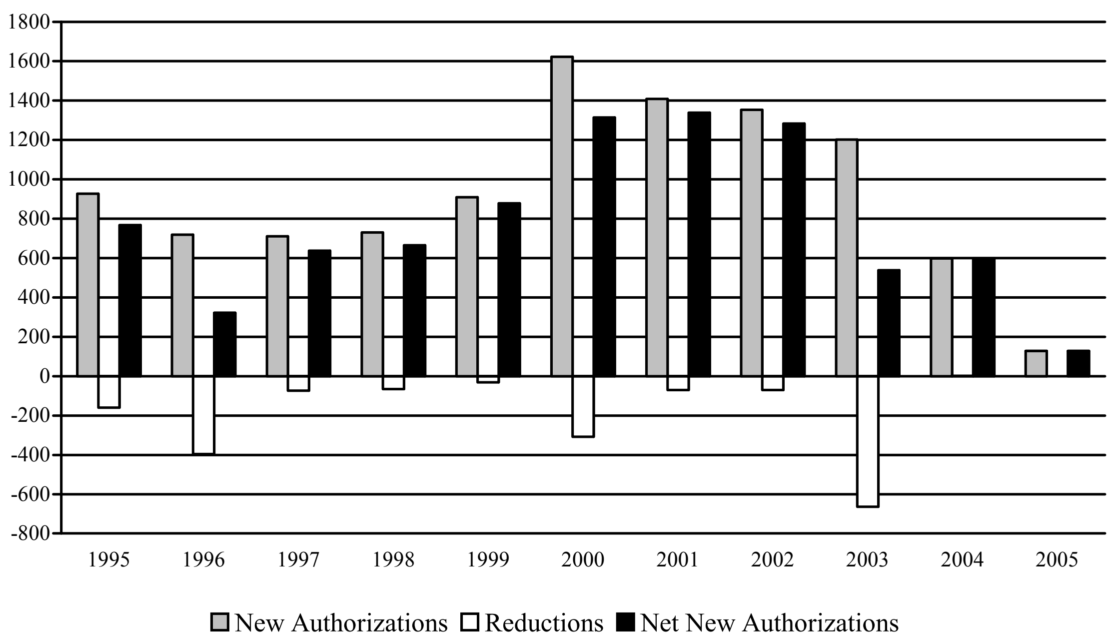
Statutory General Obligation Bond Authorizations and Reductions[a]
(In Millions)

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

(a) Does not include lease financings, tax increment or cash flow borrowings. Includes amount for UConn 2000 available under the cap for 1997 through 2005, but does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest. Does not include authorizations which take effect after 2005.

SOURCE: Office of Policy and Management

Statutory Bond Authorizations and Reductions
(In Millions)



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

TABLE 14

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

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

(a) To be issued by University of Connecticut based on cap for the year indicated prior to actual bond issuance. Does not include additional amounts which may exceed cap to finance reserve funds, issuance costs and capitalized interest. Does not include the $1,250 million authorized for UConn 2000 for fiscal years 2006 through 2015.

SOURCE: Office of Policy and Management

OTHER FUNDS, DEBT AND LIABILITIES

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

Transportation Fund and Debt

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

The cost of the infrastructure program for State fiscal years 1985-2008, which is to be met from federal, State, and local funds, is currently estimated at $17.6 billion. During fiscal years 1985-2004, $14.8 billion of the total infrastructure program was approved. The remaining $2.8 billion is required for fiscal years 2005-2008. The $2.8 billion is comprised of $663.2 million from the anticipated issuance of new special tax obligation bonds, $49.3 million in anticipated revenues, and $2.1 billion in anticipated federal funds. The State's share of the 1985-2008 infrastructure program costs, estimated at $6.3 billion, is to be funded from transportation related taxes, fees and revenues deposited in the Special Transportation Fund, as described below, and from the proceeds of STO bonds. The portion of State program costs not financed by STO bonds is estimated at $0.6 billion and includes the expenses of the infrastructure program which either are not sufficiently large or do not have a long enough life expectancy to justify the issuance of long-term bonds. Such expenses currently include liquid resurfacing, minor bridge repairs, highway maintenance activities, safety improvements, and other minor transportation improvements.

The State's share of the cost of the infrastructure program for State fiscal years 1985-2008 to be financed by STO bonds is estimated at $5.7 billion. The issuance of such STO bonds has eliminated the need for the authorization of additional general obligation bonds of the State for surface transportation purposes. STO bonds may also be issued for the purpose of refunding general obligation bonds of the State issued for transportation infrastructure purposes.

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

The following table shows the amount of STO bonds authorized by the General Assembly for the program, the amount issued and the amount outstanding (excluding refunded bonds) as of December 16, 2003. It is anticipated that additional STO bonds will be authorized by the General Assembly annually in an amount necessary to finance and to complete the infrastructure program. Such additional bonds may be issued on an equal rank with the outstanding bonds provided certain pledged revenue coverage requirements of the STO indentures controlling the issuance of such bonds are met. The State expects to continue to offer bonds for this program.

TABLE 15

Special Tax Obligation Bonds
As of December 16, 2003
(In Millions)[(a), (b)]

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

(a) The amounts under the New Money column include only new money borrowings, and not refundings. The amounts under the Total column include both new money borrowings and refundings.
(b) Includes authorizations effective December 16, 2003 or before.

SOURCE: State Treasurer's Office

Debt service on State direct general obligation bonds for transportation purposes may be paid from resources of the Special Transportation Fund provided there is sufficient funding first to pay all STO debt service. For the year ended June 30, 2003, the Special Transportation Fund paid $17.3 million of State direct general obligation transportation debt service payments. The amount budgeted by the Special Transportation Fund for State direct general obligation transportation debt service payments for fiscal year 2003-04 is $13.8 million.

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

In addition, legislation passed in 2001 created the Connecticut Transportation Strategy Board ("TSB"). The 15 member board consists of five appointed members from the private sector, five appointed members from each of the five Transportation Investment Areas established in the legislation, the Commissioners of Transportation, Environmental Protection, Economic and Community Development, and Public Safety, and the Secretary of the Office of Policy and Management. The TSB's strategic goals are: 1) improve personal mobility within and through Connecticut; 2) improve the movement and goods and freight within and through Connecticut; 3) integrate transportation with economic, land use, environmental and quality of life issues; 4) develop policies and procedures that will integrate the state economy with regional, national and global economies; and 5) identify policies and sources that provide an adequate and reliable flow of funding necessary for a quality multi-modal transportation system. In January 2003, the TSB presented its recommendations to the Governor and the General Assembly. Legislation passed later in 2003 authorized bonding for TSB projects of $265 million during fiscal years 2004-2013. The legislation also approved the principles set forth in the TSB recommendations.

Other Special Revenue Funds and Debt

Bradley Airport

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

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

On October 1, 1982 the State issued $100 million Bradley International Airport Revenue Bonds. All of the outstanding maturities of this issue were subsequently refunded. On March 15, 2001, the State issued $213.18 million Bradley International Airport Revenue Bonds, comprised of $194 million General Airport Revenue Bonds to fund a major terminal expansion, and $19.18 million General Airport Revenue Refunding Bonds to refund certain 1992 Bradley bonds. As of December 16, 2003, there were $252 million of Bradley International Airport Revenue Bonds (excluding refunded bonds) outstanding.

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

Clean Water Fund

The General Assembly authorized the issue of up to $1,180.1 million revenue bonds for the purpose of funding various State and federally mandated water pollution control and drinking water projects. The revenue bonds are payable solely from the revenues or other receipts, funds or moneys pledged therefor. The proceeds of the revenue bonds are loaned to Connecticut municipalities to finance water pollution control and drinking water improvements, and the loan repayments by the municipalities secure the bonds. The loans are evidenced by interim funding obligations and project loan obligations of the municipalities, pursuant to which either the full faith and credit of each such municipality is pledged, or the revenues of a municipal sewer system are pledged. As of December 16, 2003, $263.7 million revenue bonds (excluding refunded bonds) were outstanding.

Unemployment Compensation

The State pays unemployment compensation benefits from the State's Unemployment Compensation Fund, which is funded by unemployment compensation taxes collected from employers. In 1993, the State responded to a deficit in the Fund by, among other things, issuing three series of special obligation bonds totaling $1,020.7 million to repay certain federal borrowings and to fund certain reserves. All of these bonds were defeased in June 2001. To fund future shortfalls, the State has reserved the authority to issue bonds in an aggregate amount outstanding at any time not in excess of $1,000 million, plus amounts for certain reserves and costs of issuance. The State has not incurred any additional borrowing since 1993 other than borrowings from the Federal Unemployment Trust Fund for cash flow purposes which have been repaid prior to September 30 in each case and which therefore have not been subject to federal interest charges.

Second Injury Fund

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

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

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

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

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

As of June 30, 2003, the Second Injury Fund had settled approximately 6,490 cases since January 1, 1995 at a cost of $453.1 million. Through a review of cases conducted by staff, using guidelines established in consultation with Deloitte & Touche, more than 1,700 inactive cases have been closed and approximately 2,285 cases remain open/active.

The State issued $100 million Second Injury Fund Revenue Bonds in 1996 and an additional $124.1 million in 2000, which have a final maturity of 2011. As of December 16, 2003, the amount of bonds outstanding was $41.1 million and $70.1 million, respectively. The bonds are payable solely from amounts held in the Finance Account of the Second Injury Fund, revenues pledged for their payment pursuant to legislation and amounts held under the indenture of trust with respect to the bonds, including a special assessment premium surcharge on employers. Based on the Second Injury Fund's experience to date, it is not expected that additional revenue bonds will be issued. The management objective is to pay additional claims and settlements from current income and, if necessary, short term borrowings.

Rate Reduction Bonds

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

Contingent Liability Debt

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

Special Capital Reserve Funds

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

Quasi-Public Agencies

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

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

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

Under the Umbrella Bond Program the CDA issues bonds to provide loans to private entities for the acquisition of industrial land, buildings, machinery, equipment and pollution control devices. Loan payments from the borrower to the CDA provide funds to service the debt on such bonds. Loans financed under the Umbrella Bond Program are secured by real and/or personal property of the borrower and by the Insurance Fund, which is, in part, State funded and insures payment of the loans. Loans may be insured up to an aggregate outstanding principal amount not to exceed four times the funds available to the Insurance Fund. As of June 30, 2003 the assets in the Insurance Fund totaled $7.0 million and an additional $20.45 million of State bonds have been authorized to fund the Insurance Fund but remain unissued. As of June 30, 2003, loans insured by the Insurance Fund totaled $8.0 million.

Under the General Obligation Bond Program (the "Program"), the CDA issues bonds to finance eligible economic development and information technology projects. Pursuant to an Indenture of Trust between the CDA and Fleet National Bank (formerly Shawmut Bank Connecticut, N.A.), general revenues of the CDA, which are not otherwise pledged, are made available to service the debt of bonds issued under the Program. Although such bonds may also be secured by a special capital reserve fund, to date under the Program only $30.56 million 1993 Series A (Hartford Whalers Project) bonds have been secured by such a fund. As of December 16, 2003, $15.26 million of such bonds remain outstanding.

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

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

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

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

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

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

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

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

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

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

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

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

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

CRRA has approximately $168.8 million outstanding Special Capital Reserve Debt as of December 16, 2003 pertaining to the Mid-Connecticut waste to energy plant in Hartford, Connecticut. In addition to tipping fees under service agreements with participating municipalities, CRRA's bonds are payable from the sale of steam and electricity. Enron Power Marketing, Inc. ("Enron") is the entity which is obligated to pay the Authority a monthly "capacity charge" for the purchase of steam and an additional charge for electrical output from the facility. Enron filed for bankruptcy on December 2, 2001 and has not made its capacity or electricity payments since that time. Additionally, Covanta Mid-Conn., Inc., operator of the steam and electricity production components of the Mid-Connecticut facility, filed for bankruptcy on April 1, 2002. Thus far the bankruptcy has not affected Covanta's operation of the Mid-Connecticut facility.

CRRA, in an effort to generate adequate revenues to pay debt service on its bonds for the Mid-Connecticut facility following the Enron bankruptcy, has increased tipping fees, is pursuing remedies in bankruptcy court and civil court with the Attorney General, and has entered into a two year-year electricity sales agreement with Select Energy. The agreement with Select Energy, a subsidiary of Northeast Utilities, provides for the sale to Select Energy of the output that would have been sold to Enron. In addition to attempting to increase its revenues, CRRA has decreased its expenses by implementing certain cuts in administrative and operational expenses. The State is obligated to maintain the Minimum Capital Reserve Requirement for these bonds to the extent CRRA uses monies in the capital reserve fund to pay debt service on CRRA's outstanding bonds. It is unclear at this time whether there will be any need for the State to make payments to maintain the Minimum Capital Reserve Requirement, but the maximum obligation of the State in each year to maintain the reserve fund is limited to approximately $25.3 million.

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

The Board of Directors of CRRA is comprised of eleven members: three members appointed by the Governor; two members appointed by each of the president pro-tempore of the Senate, the speaker of the House of Representatives, the minority leader of the Senate and the minority leader of the House of Representatives.

Assistance to Municipalities

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

The City of Waterbury. In March and June 2001, the State adopted legislation to assist the City of Waterbury in financing its budget deficits (the "Act"). The Act imposed certain financial controls on the City and created a Waterbury Financial Planning and Assistance Board. The Act authorizes the City, subject to approval of the Board and the State Treasurer, to issue bonds for the purpose of funding the City's budget deficits. Payment of the bonds is serviced through the City's taxing authority. The Act requires the City to direct certain of its tax revenues to a trustee through a tax intercept mechanism for the purpose of servicing the debt on its bonds. The Act also provides for the establishment of a special capital reserve fund to further secure up to $100 million bonds issued by the City to fund its budget deficits. The State is contingently obligated to restore the special capital reserve fund to its required minimum. The City issued $97.5 million Special Capital Reserve Fund Bonds in April 2002. The Minimum Capital Reserve Requirement is $10.1 million.

The Waterbury Financial Planning and Assistance Board is comprised of the Secretary of the Office of Policy and Management, the State Treasurer, the Mayor of the City, and four members appointed by the

Governor, one of whom shall be affiliated with a business located in the City, one of whom shall have expertise in finance, one of whom shall be a resident of the City and one of whom shall be a representative of organized labor. The Board may be terminated when the City meets certain conditions outlined in the Act.

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

State Treasurer's Role

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

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

Outstanding Contingent Debt

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

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

	Authorized SCRF or Guaranteed Debt	Outstanding SCRF or Guaranteed Debt As of 12/16/03	Minimum Capital Reserve Requirement As of 12/16/03
	-	-	-
INDEBTEDNESS SECURED BY SPECIAL CAPITAL RESERVE FUNDS			
Connecticut Development Authority			
Umbrella Bond Program	300.0	4.8	2.0
General Obligation Bond Program	30.6	15.3	2.4
Connecticut Health and Educational Facilities Authority			
Nursing Home Program	(a)	87.6	8.9
Connecticut State University System	(a)	286.4	25.2
Connecticut Higher Education Supplemental Loan Authority	170.0	121.5	8.5
Connecticut Housing Finance Authority			
Housing Mortgage Finance Program	(a)	3,029 (b)	256.5 (b)
Special Needs Housing Mortgage Finance Program	(a)	45.6	2.9
Connecticut Resources Recovery Authority (c)	725.0	240.3	33.7
University of Connecticut Student Fee			
Revenue Bonds	(a)	29.8	2.1
City of Waterbury Special Capital Reserve Fund Bonds	100.0	97.5	10.1
INDEBTEDNESS GUARANTEED BY STATE			
Southeastern Connecticut Water Authority	15.0	0.7	N.A.

(a) **No statutory limit.**

(b) **Between December 16, 2003 and December 31, 2003 Connecticut Housing Finance Authority expects to issue an aggregate of approximately $125 million in additional SCRF debt for its programs and for refunding, and to increase its Minimum Capital Reserve Requirement by approximately $5 million.**

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

School Construction Grant Commitments

The State is obligated to various cities, towns and regional school districts under a grant-in-aid public school building program to fund certain of the costs of construction and alteration of school buildings and to support part of the interest payments on municipal debt issued to fund the State's share of such school building projects. Pursuant to this program, which applies to certain school projects approved by the General Assembly prior to 1997, cities, towns and districts are ranked according to their adjusted equalized net grand list per capita and based on such rankings a percentage is assigned which determines the amount of grant money a town or regional school district is eligible to receive for a project or type of project authorized by the legislature and approved by the Commissioner of Education. Grants for construction costs are paid to the cities, towns and districts in installments which correspond to the number and time of principal payments due on municipal bonds, or temporary notes renewed for a third or subsequent year, issued to finance project costs. If a project is fully paid from sources other than borrowing, such grants are paid in five annual installments. Grants in support of interest payments correspond to the number and time of such interest payments. As of June 30, 2003, the State is obligated to various cities, towns and regional districts for $792 million in aggregate installment payments and $235 million in aggregate interest subsidy, for a total of $1,027 million. Funding for these payments may come from future State direct general obligation bond sales. The State legislature and the Commissioner of Education have authorized additional grant commitments to be made under this program which could also be funded by general obligation bonds. The Commissioner estimates that these additional grants may be approximately $30 million for installment payment grants and approximately $8 million for interest subsidy grants.

Legislation enacted in 1997 significantly changed the method of financing the State's share of local school construction projects. For school construction projects approved during the 1997 legislative session and thereafter, the State no longer participates in the payment of debt service on municipal bonds and therefore no longer contributes to the cost of interest incurred by the municipalities. The State now pays the costs of its share of construction projects on a progress payment basis during the construction period. Legislation enacted in 1997 and subsequent years approved additional grant commitments for local school construction projects under the new grant program. As of June 30, 2003 the Commissioner estimates that grant payments under this program will be approximately $2,480 million. During a special legislative session in September 2003, an additional $468 million in grant commitments were authorized under this program.

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

The legislature has authorized bonds for both grant programs based on the amount of grants that the Commissioner of Education estimates will be paid during each fiscal year. Since there is generally a lapse of one or more years from the time grant commitments are approved to the time grant payments are required to be made, the amount of unpaid grant commitments will be significantly greater than the amount of bonds authorized to fund the grant commitments. The State has authorized a net increase in school construction grant commitments of $585.1 million which take effect in the 2003-2004 fiscal year.

Child Care Facilities Debt Service Commitments

Legislation enacted in 1997 authorized the Connecticut Health and Educational Facilities Authority to issue bonds and loan the proceeds to various entities to finance child care facilities. The Department of Social Services may enter into commitments to apply monies for each such entity to pay the debt service on the loans in amounts sufficient to cover a portion of the debt service on the Authority's bonds. Legislation enacted in 1999 provided for the obligation of the Department of Social Services to make debt service payments to be made by the State Treasurer. Any obligation by the Department or the State Treasurer to pay is subject to annual appropriation. The Authority first issued special obligation bonds under this program in 1998. The Authority has approximately $38.8 million bonds outstanding under this program with annual debt service of approximately $3.0 million, of which the Department is committed to pay approximately $2.4 million.

Two other Child Care Facilities programs also authorize the Commissioner of the Department of Social Services to enter into guaranties of loans made to entities to finance the development of child care and child development centers or programs. The Authority is administering this program on behalf of the Department, and is currently limiting the aggregate amount of guaranties to the balance of monies in the reserve funds for the respective programs.

Other Contingent Liabilities

The Connecticut Lottery Corporation was created in 1996 as a public instrumentality of the State to operate the State's lottery pursuant to the Connecticut Lottery Corporation Act (the "Act"). The State and the Corporation purchase annuities under group contracts with insurance companies which provide payments corresponding to the obligation for payments to lottery prize winners. The State has transferred to the Corporation all annuities purchased by it and the Corporation has assumed responsibility for the collection of revenue generated from the lottery and for the payment of all lottery prizes. Under the Act, the termination of the Corporation shall not affect any outstanding contractual obligation of the Corporation and the State shall succeed to the obligations of the Corporation under any such contract. As of June 30, 2003 the future obligation to lottery prize winners is $488 million.

PENSION AND RETIREMENT SYSTEMS

State Employees' Retirement Fund

The State Employees' Retirement Fund is the largest system maintained by the State with approximately 47,100 active members, 1,600 inactive (vested) members and 37,000 retired members as of June 30, 2003. Generally employees hired before July 1, 1984 participate in the Tier I plan, which includes employee contributions. As of July 1, 2003 approximately 18.0% of the total work force was covered under the Tier I Plan. Other employees generally participate in the Tier II plan, which is non-contributory and provides somewhat lesser benefits. As of July 1, 2003 approximately 55.0% of the total workforce was covered under the Tier II plan. Employees hired after July 1, 1997 participate in the Tier IIA plan, which requires contributions from its employee members. As of July 1, 2003 approximately 27.0% of the total work force was covered under the Tier IIA Plan.

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

The most recent actuarial valuation, dated November 12, 2002, indicated that as of June 30, 2002 the State Employees' Retirement Fund had an actuarial accrued liability of $12,806,115,474 and had assets with an actuarial value of $7,893,683,977. This resulted in an unfunded accrued liability of $4,912,431,497 as of June 30, 2002. As of June 30, 2002 the market value of the fund's investment assets was $7,090,508,997, which amount was less than the actuarial value by $803,174,980. As of June 30, 2003 the market value of the fund's investment assets was $6,987,179,350.

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

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

TABLE 17

State Employees' Retirement Fund

	Year Ending June 30				
	1999	**2000**	**2001**	**2002**	**2003**
General Fund Contributions.................	$199,304,785	$212,947,331	$257,806,736	$284,527,059	$285,694,490
Transportation Fund Contributions.................	28,419,000	27,636,000	31,321,880	36,676,000	40,214,000
Federal and other (Reimbursements)	87,838,000	102,176,999	86,494,566	94,289,540	95,543,241
Employee Contributions....	38,897,333	43,782,742	46,088,785	49,577,375	50,953,367
Total Contributions	$354,459,118	$386,543,072	$421,711,967	$465,069,974	$472,405,098
Investment Income[(a)]	$245,642,870	$286,587,354	$276,494,999	$271,253,981	$319,223,363
Net Realized Gains (Losses)	$1,350,241	$299,651,658	($2,140,298)	$1,341,884	$9,032,166
Benefits Paid	$572,003,425[(b)]	$596,333,139	$619,174,473	$651,201,069	$702,878,746

(a) Investment Income (exclusive of net realized gains and losses).
(b) Includes Benefits Paid and Refunds.

Teacher's Retirement Fund

The Teachers' Retirement Fund, administered by the Teachers' Retirement Board, provides benefits for any teacher, principal, supervisor or superintendent in the public school systems of the State, with certain exceptions. While establishing salary schedules for teachers, municipalities do not provide contributions to the maintenance of the Fund. As of June 30, 2003, there were approximately 57,230 active and former employees with accrued and accruing benefits and approximately 22,770 retired members.

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

The most recent actuarial valuation, dated November 19, 2002, indicated that as of June 30, 2002 the Teachers' Retirement Fund, inclusive of the excess earnings account, had an actuarial accrued liability of $15,253,882,989 and had assets with an actuarial value of $11,961,346,260. This resulted in an unfunded accrued liability of $3,292,536,729 as of June 30, 2002. As of June 30, 2002 the market value of the fund's investment assets was $10,107,301,878, which amount was less than the actuarial value by $1,854,044,382. As of June 30, 2003 the market value of the fund's investment assets was $9,846,014,159.

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

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

TABLE 18

Teachers' Retirement Fund

	Year Ending June 30				
	1999	2000	2001	2002	2003
General Fund Contributions	$188,334,000	$204,445,443	$214,665,698	$204,511,460	$179,823,603
Employee Contributions[(a)]	154,682,000	168,207,183	173,884,438	187,095,618	204,659,700
Total Contributions	$343,016,000	$372,652,626	$388,550,136	$391,607,078	$384,483,303
Investment Income[(b)]	$347,734,968	$410,683,507	$399,305,587	$388,785,006	$453,002,988
Net Realized Gains (Losses)	$777,827	$461,947,176	($3,335,159)	$1,584,432	$11,694,321
Benefits Paid	$562,962,086	$630,885,706	$690,674,530	$754,655,476	$811,028,527

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

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

Other Retirement Systems

The other minor retirement systems funded by the State include the Judicial Retirement System, the General Assembly Pension System, the State Attorneys' Retirement Fund and the Public Defenders' Retirement Fund. As of June 30, 2003, there were approximately 218 active members of these plans and approximately 239 retired members.

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

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

Social Security and Other Post-Employment Benefits

State employees, except for police and members of a retirement system other than the State Employees' Retirement Fund, whose employment commenced after February 21, 1958, are entitled to Social Security coverage. Certain employees hired prior to that date have also elected to be covered. Pursuant to a collective bargaining agreement, State Troopers hired on or after May 8, 1984 are entitled to Social Security coverage. As of June 30, 2003, approximately 69,232 State employees were entitled to Social Security coverage. The amount expended by the State for Social Security coverage for fiscal year 2002-03 was $187.4 million. Of this amount, $174.9 million was paid from the General Fund and $12.4 million was paid from the Transportation Fund.

The State provides post-retirement health care and life insurance benefits to all employees who retire from State employment. As of June 30, 2003, a total of 37,233 retirees were eligible to receive such benefits; and a total of 35,280 retirees and 23,734 retirees, respectively, were actually receiving health care benefits and life insurance benefits. For the fiscal year 2002-03, $242.2 million was expended for such coverage. The State finances the cost of such benefits on a pay-as-you-go basis; as such, the State has not established any fund for the accumulation of assets with which to pay post-retirement health care and life insurance benefits in future years. The State will need to make significant General Fund appropriations for such benefits each fiscal year. For the fiscal year 2003-04, $240.0 million was appropriated.

The State makes a General Fund appropriation to the Teachers' Retirement Fund to cover the portion of retiree health insurance costs which is not funded from the amounts available in the Teachers' Retirement Health Insurance Fund: $8,445,295 was expended for fiscal year 1998-99; $8,007,343 was expended for fiscal year 1999-00; $9,440,747 was expended for fiscal year 2000-01; $10,485,936 was expended for fiscal year 2001-02; $11,367,016 was expended for fiscal year 2002-03; and $12,825,814 has been appropriated for fiscal year 2003-04. No fund has been established for the accumulation of assets with which to pay such benefits in future years; therefore, significant General Fund appropriations will be required for each fiscal year. Legislation which became effective July 1, 1998 generally requires the State to subsidize the health insurance costs of retired teachers who are not members of the Board's health benefit plan in a manner consistent with its prior practice of subsidizing the health insurance costs of those retired teachers who were members of the Board's health benefit plan. Of the total expenditures for fiscal years 1999-00, 2000-01, 2001-02, 2002-03 and the total appropriation for fiscal year 2003-04, expenditures of $4,323,636 for fiscal year 1999-00, $4,454,670 for fiscal year 2000-01, $4,751,670 for fiscal year 2001-02 and $5,051,970 for fiscal year 2002-03 and an appropriation of $5,447,989 for fiscal year 2003-04 are attributable to this legislation. Since July 1, 1994, retiree health benefits have been self-insured.

Additional Information

The June 30, 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. Before the filing of briefs, the parties reached a settlement. The agreement was submitted to the General Assembly on January 26, 2003, and was deemed approved pursuant to Section 3-125a of the Connecticut General Statutes on February 25, 2003, when it was not rejected by 3/5 vote of both houses of the legislature. The Court approved the settlement on March 12, 2003.

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

Hospital Tax Cases. In 1999 several hospitals appealed to the Superior Court from the Commissioner of Revenue Services' denial of their claims for partial refunds of the hospital tax imposed on a hospital's gross earnings and for partial refunds of sales tax imposed upon patient care services. The hospitals claim that these taxes should not be imposed with regard to charges for tangible property transferred incidental to the provision of patient care services. Refunds are claimed for the last three years. It is anticipated that other hospitals in the State may bring similar suits. The Superior Court has decided one suit in favor of the State. The decision has been appealed to the Supreme Court. The appeal to the Supreme Court was heard in January 2003. A decision in the State's favor was rendered in September 2003. The Hospitals have indicated that they may seek review by the United States Supreme Court and will litigate the constitutionality of clarifying legislation regarding the tax.

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

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

Doe v. State is a Federal District Court action brought in October 2000 on behalf of all juveniles who have been strip searched at the State's juvenile detention centers. The plaintiffs claim that the blanket policy of strip searching all juveniles upon arrival at the detention centers is unconstitutional. The plaintiffs seek damages, declaratory and injunctive relief, plus attorneys' fees and costs. On September 27, 2002, the District Court entered judgment for the defendants after trial. Class certification was denied at the same time. The plaintiffs have appealed both the judgment and the denial of class certification.

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

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

While the various cases described in this paragraph involving alleged ***Indian Tribes*** do not specify the monetary damages sought from the State, the cases are mentioned because they claim State land and/or sovereignty over land areas that are part of the State of Connecticut. Several suits have been filed since 1977 in the Federal District Court and the Connecticut Superior Court on behalf of alleged ***Indian Tribes*** in various parts of the State, claiming monetary recovery as well as ownership to land in issue. Some of these suits have been settled or dismissed. The plaintiff group in the remaining suits is the alleged Golden Hill Paugussett Tribe and the lands involved are generally located in Bridgeport, Trumbull and Orange. An additional suit has been filed by the alleged Schaghticoke Indian Tribe claiming privately and town held lands in the Town of Kent. The State is not a party to that action. It is possible that other such land claims could be brought by other Indian groups, who have petitioned the Federal Government for Federal recognition. The State has also challenged the decision of the Federal Department of the Interior which allows the Mashantucket Pequot Tribe to add land holdings of the Tribe outside of its reservation to the land held in trust for its benefit by the Department. The added land was not part of the Tribe's original reservation designated under the Federal Settlement Act with the Tribe. The additional land was purchased by the Tribe. The United States Court of Appeals for the Second Circuit has recently rejected the State's claim that the Federal Settlement Act does not allow the Federal Department of the Interior to take this additional land and add it to the Tribe's reservation land. The Mashantucket Pequot Tribe has withdrawn its application to take the additional lands outside its reservation into trust. Therefore, the case pending before the United States District Court was dismissed as moot in April 2002. In June 2002, the Federal Bureau of Indian Affairs issued a final determination granting federal recognition to the Historic Eastern Pequot tribe. The State has appealed that decision to the Interior Board of Appeals. If federal recognition is upheld, the tribe could institute land claims against the State or others.

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

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

Rabin v. Wilson-Coker is a purported class action filed in the United States District Court pursuant to 42 U.S.C. section 1983 in which the plaintiffs assert that the defendant Commissioner of the Department of Social Services has violated federal law by implementing Public Act No. 03-02, which limits eligibility for Medicaid benefits under Connecticut's Husky A for Families coverage program to individuals with income of up to 100% of the federal poverty level. State law previously provided such benefits to individuals with income of up to 150% of the federal poverty level. The plaintiffs specifically claim that the Commissioner provided defective notices, that the plaintiffs were deprived of due process, and they are entitled to a continuation of benefits for a longer period of time than the state Act provides. The number of individuals alleged to be affected is approximately 30,000. On March 31, 2003, the Court issued a temporary restraining order enjoining the Commissioner from terminating the plaintiffs' continued receipt of Medicaid benefits under the Husky A for Families program unless and until they are given notice that complies with applicable law. On May 29, 2003, the Court denied the plaintiffs' motion for a preliminary injunction and entered summary judgment for the state defendants. The plaintiffs appealed to the United States Court of Appeals for the Second Circuit, which issued a stay in the form of an injunction enjoining the Commissioner from terminating the plaintiffs' continued receipt of Medicaid benefits under the Husky A for Families program until further order of that Court. The Court of Appeals heard argument on the merits of the case on August 4, 2003.

INDEX TO APPENDICES

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GOVERNMENTAL ORGANIZATION AND SERVICES

Introduction

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

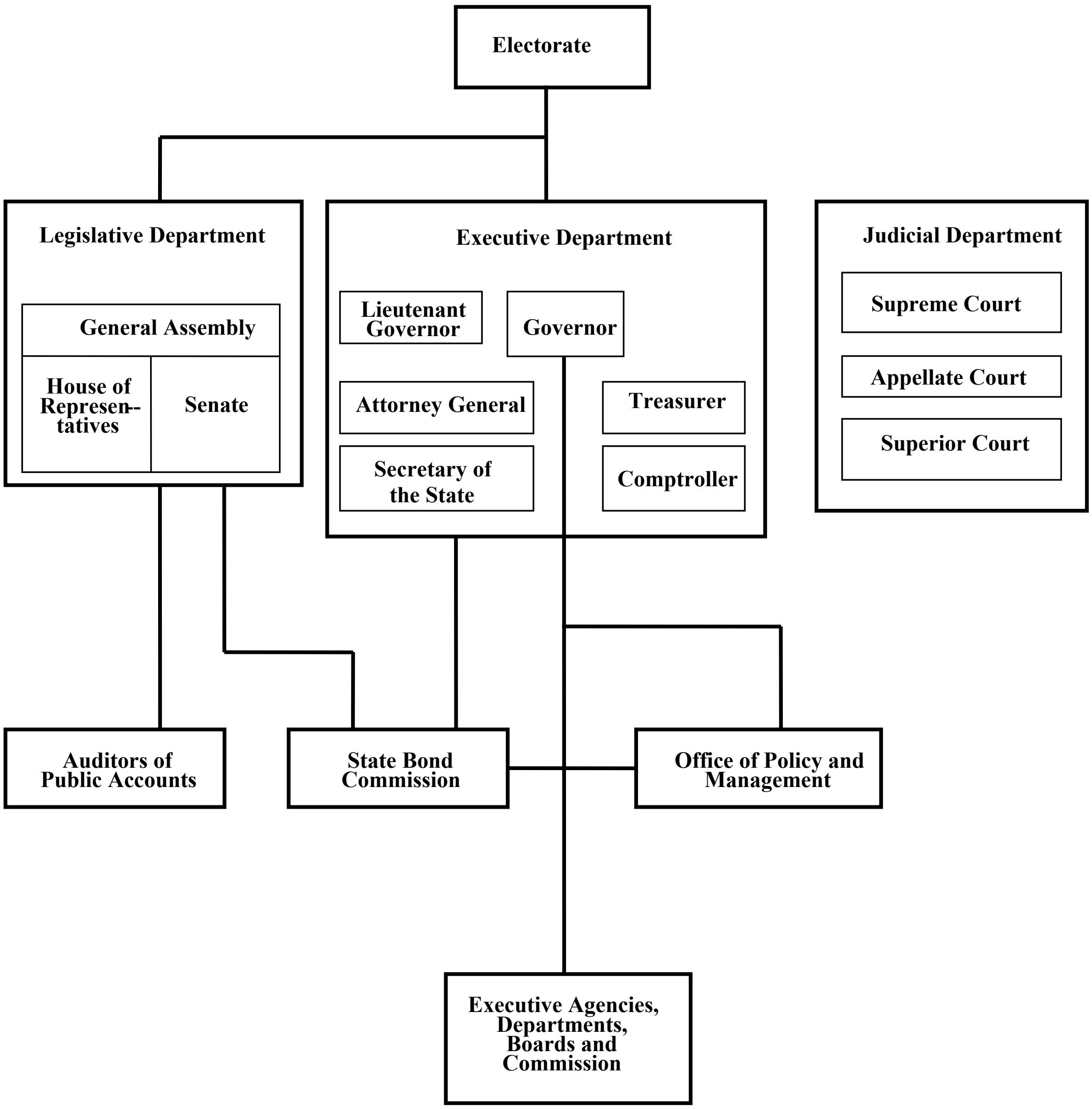
Under Connecticut law, all municipal governmental bodies have only the powers specifically granted to them by the State and the ancillary powers that are necessarily implied by powers explicitly granted. Municipalities which have the power to tax and to issue debt are explicitly denied the power by statute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

State Government Organization

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

TABLE A-1

Structure of State Government



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

General Assembly members are elected biennially at the general election in November in even numbered years and take office in the January following their election. Elections for the General Assembly were held in November 2002, and the new members took office in January 2003.

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

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

Executive Department. The present Governor, Lieutenant Governor, Secretary of the State, Treasurer, Comptroller and Attorney General, whose offices are mandated by the State's Constitution, were elected at the general election in November 1998 and assumed office in January 1999. Elections for all of these offices are held every four years. The Governor and Lieutenant Governor are elected as a unit. A general election was held in November 2002, and the same officials were reelected to their respective offices for terms beginning in January 2003.

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

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

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

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

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

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

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

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

The Superior Court is vested with original trial court jurisdiction over all civil and criminal matters. There are approximately 168 sitting Superior Court judges, each nominated by the Governor and appointed by the General Assembly to eight-year terms.

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

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

In addition to the principal trial and appellate courts, there is a Court of Probate in each of 123 probate districts situated throughout the State.

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

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

State Employees

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

TABLE A-2

State Employees[(a)]
By Function of Government

Function Headings[(b)]	1999	2000	2001	2002	2003
Legislative	438	434	447	509	502
General Government	3,853	3,910	3,910	3,909	3,261
Regulation and Protection	4,319	4,550	4,592	4,620	3,950
Conservation and Development	1,420	1,463	1,457	1,496	1,261
Health and Hospitals	8,709	8,747	8,635	8,710	7,330
Transportation	3,610	3,643	3,626	3,631	2,918
Human Services	2,391	2,375	2,332	2,315	1,847
Education	14,130	14,357	14,921	15,331	14,384
Corrections	9,454	10,027	9,956	10,168	9,485
Judicial	3,068	3,224	3,342	3,369	3,769
Total	51,392	52,730	53,218	54,058	48,707

(a) Table shows approximate filled full-time positions as of June 30 in each of the listed years.
(b) A breakdown of the agencies, boards, commissions and similar bodies included in each of the listed government function headings is shown in **Table A-5**.

SOURCE: Office of Policy and Management

TABLE A-3
State Employees as of June 30, 2003[a]

By Function of Government and Fund Categories

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

[a] Table shows approximate filled full-time positions.

SOURCE: Office of Policy and Management

Collective Bargaining Units and Process*.* The General Statutes guaranty State employees, other than elected or appointed officials and certain management employees and others with access to confidential information used in collective bargaining, the right to organize and participate in collective bargaining units. There are presently 32 such bargaining units representing State employees.

The General Statutes establish the general parameters of the collective bargaining process with respect to bargaining units representing State employees. At any given point in time, there are generally a number of collective bargaining units with agreements under negotiation. All collective bargaining agreements require approval of the General Assembly. The General Assembly may approve any such agreement as a whole by a majority vote of each house or may reject any such agreement as a whole by a majority vote of either house. An arbitration award may be rejected in whole by a two-thirds vote of either house of the General Assembly upon a determination that there are insufficient funds for full implementation of the award.

The General Statutes deny State employees the right to strike. Questions concerning employment or bargaining practices prohibited by the sections of the General Statutes governing collective bargaining with regard to State employees may generally be brought before the State Board of Labor Relations.

Information regarding employees participating in collective bargaining units and employees not covered by collective bargaining is shown on the following table:

TABLE A-4

Full-Time Work Force
Collective Bargaining Units and
Those Not Covered by Collective Bargaining

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

(a) Percentage expressed reflects approximately 48,707 filled full-time positions as of June 30, 2003.
(b) The agreement for the successor four year contract has been issued by the arbitrator but has not yet been taken up by the General Assembly.
(c) The arbitration award for the successor four year contract has been issued by the arbitrator but has not yet been taken up by the General Assembly.
(d) The State and the bargaining unit are currently in negotiations or arbitration for a successor agreement.

Source: Office of Policy and Management.

Governmental Services

Services provided by the State or financed by State appropriations are classified under one of ten major government function headings or are classified as "non-functional". These function headings are used for the State's General Fund and for other funds of the State used to account for appropriated moneys. State agencies, boards, commissions and other bodies are each assigned to one of the function headings for budgeting purposes. The following table shows a breakdown of the government function headings according to the major agencies, boards, commissions and other bodies assigned to them.

TABLE A-5
Function of Government Headings(a)(b)

Legislative
Legislative Management
Auditors of Public Accounts
Permanent Commission on the Status of Women
Commission on Children
Latino and Puerto Rican Affairs Commission
African-American Affairs Commission

General Government
Governor's Office
Secretary of the State
Lieutenant Governor's Office
Elections Enforcement Commission
Ethics Commission
Freedom of Information Commission
Judicial Selection Commission
State Properties Review Board
State Treasurer
State Comptroller
Department of Revenue Services
Division of Special Revenue
State Insurance and Risk Management Board
Gaming Policy Board
Office of Policy and Management
Department of Veterans' Affairs
Office of Workforce Competitiveness
Department of Administrative Services
Department of Information Technology
Department of Public Works
Attorney General's Office
Office of the Claims Commissioner
Division of Criminal Justice
Criminal Justice Commission
State Marshal Commission

Regulation and Protection
Department of Public Safety
Police Officer Standards and Training Council
Board of Firearms Permit Examiners
Department of Motor Vehicles
Military Department
Commission on Fire Prevention and Control
Department of Banking
Insurance Department
Office of Consumer Counsel
Department of Public Utility Control
Office of Managed Care Ombudsman
Department of Labor
Office of the Victim Advocate
Commission on Human Rights and Opportunities
Office of Protection and Advocacy for Persons with Disabilities
Office of the Child Advocate
Workers' Compensation Commission

Conservation and Development
Department of Agriculture and Consumer Protection
Department of Environmental Protection
Council on Environmental Quality
Connecticut Commission on Art, Tourism, Culture, History and Film
Department of Economic and Community Development
Agricultural Experiment Station

Health and Hospitals
Department of Public Health
Office of Health Care Access
Office of the Chief Medical Examiner
Department of Mental Retardation
Department of Mental Health and Addiction Services
Psychiatric Security Review Board

Transportation
Department of Transportation

Human Services
Department of Social Services
Soldiers', Sailors' and Marines' Fund

Education, Libraries and Museums
Connecticut State Department of Education
Board of Education and Services for the Blind
Connecticut Commission on the Deaf and Hearing Impaired
Connecticut State Library
Department of Higher Education
University of Connecticut
University of Connecticut Health Center
Charter Oak State College
Teachers' Retirement Board
Connecticut Community-Technical Colleges
Connecticut State University System

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

Judicial
Judicial Department
Division of Public Defender Services

(a) In addition to the ten listed government function headings, the State also employs a "non-functional" heading under which are grouped various miscellaneous accounts including debt service and State employee fringe benefit accounts.
(b) Listing of agencies, boards, commissions and similar bodies is as of July 1, 2003.

SOURCE: Office of Policy and Management

In addition to services provided directly by the State, various State-wide and regional quasi-public agencies, authorities and similar bodies also provide services. Such entities principally assist in the financing of various types of facilities and projects. In addition to their own budgetary resources and the proceeds of their borrowings, a number of such entities have received substantial funding from the State, which the entities generally use to provide financial assistance to the general public and the private and nonprofit sectors.

Because Connecticut does not have an intermediate county level of government between State and local government, local entities provide all governmental services not provided by the State and quasi-public agencies. Such services are financed principally from property tax revenues, State funding of various types and federal funding.

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STATE ECONOMY

Connecticut is a highly developed and urbanized state. It is situated directly between the financial centers of Boston and New York. Connecticut is located on the northeast coast and is the southernmost of the New England States. It is bordered by Long Island Sound, New York, Massachusetts and Rhode Island. More than one quarter of the total population of the United States and more than 50% of the Canadian population live within 500 miles of the State.

Economic Resources

Population Characteristics. Connecticut had a population count of 3,405,565 in April 2000, an increase of 118,449, or 3.6%, from the 3,287,116 figure of 1990. The State's population growth rate, which exceeded the United States' rate of population growth during the period 1940 to 1970, slowed substantially and trailed the national average markedly during the past three decades. The following table presents the population trends of Connecticut, New England and the United States since 1940. Connecticut's population increased 3.6% from 1990 to 2000 versus 5.4% in New England. Within New England, only Vermont and New Hampshire experienced growth significantly higher than the region. The mid-2002 population in Connecticut was estimated at 3,460,503 up 0.8% from a year ago, compared to increases of 0.7% and 1.1% for New England and the United States, respectively.

TABLE B-1

Population
(In Thousands)

	Connecticut		New England		United States	
Calendar Year	Total	% Change	Total	% Change	Total	% Change
1940 Census	1,709	%	8,437	%	132,165	%
1950 Census	2,007	17.4	9,314	10.4	151,326	14.5
1960 Census	2,535	26.3	10,509	12.8	179,323	18.5
1970 Census	3,032	19.6	11,847	12.7	203,302	13.4
1980 Census	3,108	2.5	12,349	4.2	226,542	11.4
1990 Census	3,287	5.8	13,207	6.9	248,710	9.8
2000 Census	3,406	3.6	13,923	5.4	281,422	13.2
1993….	3,309	0.3	13,334	0.5	259,919	1.3
1994….	3,316	0.2	13,396	0.5	263,126	1.2
1995….	3,324	0.2	13,473	0.6	266,278	1.2
1996….	3,337	0.4	13,555	0.6	269,394	1.2
1997….	3,349	0.4	13,642	0.6	272,647	1.2
1998….	3,365	0.5	13,734	0.7	275,854	1.2
1999….	3,386	0.6	13,838	0.8	279,040	1.2
2000….	3,412	0.8	13,952	0.8	282,224	1.1
2001….	3,435	0.7	14,052	0.7	285,318	1.1
2002….	3,461	0.8	14,144	0.7	288,369	1.1

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

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

The State is highly urbanized with a 2002 population density of 714 persons per square mile, as compared with 82 for the United States as a whole and 225 for the New England region. Of the 8 counties in the State, 75% of the population resides within Fairfield (26%), Hartford (25%), and New Haven (24%) counties.

Transportation. Connecticut has an extensive network of expressways and major arterial highways which provide easy access to local and regional markets. Bradley International Airport, in Windsor Locks, is well situated for overseas air freight operations and is accessible from all areas of the State and Western Massachusetts.

Railroad freight service is provided to most major towns and cities in the State, and connections are provided with major eastern railroads as well as direct access to Canadian markets. In addition, Connecticut's proximity to the ports of New York and Boston provides it with access to European and South American export markets. The State's harbors at Bridgeport, New Haven and New London can accommodate deep draft vessels.

Connecticut provides financial assistance for all of the urban and rural bus services operating in the State. In addition, the State supports commuter express bus operations, Americans with Disabilities Act and paratransit services, and ridesharing programs. Rail commuter service operates between New Haven and New York City and related points. Also, rail commuter service operates between New London and Stamford.

Connecticut initiated a transportation infrastructure renewal program in 1984 and continues that program today. It has resulted in the restoration and enhancement of the major components of the transportation system and provides for the continued maintenance of these systems.

Utility Services. The power grid that supplies electricity to the entire State is owned and operated by both private and municipal electric companies. Transmission lines connect Connecticut with New York, New England and Canada. These interconnections allow the companies serving Connecticut to meet large or unexpected electric load requirements from resources located outside of Connecticut's boundaries. All electric utilities in the State are members of the New England Power Pool and operate as part of the regional bulk power system. An independent system operator, ISO New England, Inc., operates this regional system.

Legislation passed in 1998 provided for the restructuring of the electric industry in Connecticut. As of July 2000, most consumers in Connecticut can choose an independent electric supplier as their provider of electricity. The electricity is still delivered to the consumer over the wires of the regulated distribution companies (Connecticut Light & Power Company and The United Illuminating Company). Electric suppliers are not subject to rate regulation by the State Department of Public Utility Control (DPUC), but must receive a license issued by the DPUC before commencing service to consumers. In general, Connecticut consumers located in a municipally owned electric service territory are not subject to the 1998 restructuring legislation. These consumers continue to purchase and receive their electrical needs from the municipal electric company.

The restructuring legislation mandated a 10 percent rate reduction (from 1996 levels) subject to specific adjustments during the period of 2000 to 2003. This "standard offer" service was available to all consumers except those who had already entered into special contracts with the electric companies. The legislation also provided a procedure allowing for the recovery of utility's stranded costs, including the issuance of revenue bonds.

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

Natural gas service is provided to parts of the State through one municipal and three private gas distribution companies, including Yankee Gas Services Company, Connecticut Natural Gas Company, and Southern Connecticut Gas Company. Over the past few years, Energy East Corp. has acquired both Connecticut Natural Gas and Southern Connecticut Gas. Energy East is a New York-based regional utility holding company. Yankee Gas has also been recently acquired by Northeast Utilities.

Since 1996 the DPUC is allowing some competitive market forces to enter the natural gas industry in Connecticut. Commercial and industrial gas consumers can choose non-regulated suppliers for their natural gas requirements. The gas is delivered to the consumer using the local distribution company's mains and pipelines. This competitive market is not yet available to the residential consumer.

In addition to the electric and natural gas industries, telecommunications services are also in the process of being opened to competition. Local exchange telephone service is provided in the State by local exchange carriers (LECs) and competitive local exchange carriers (CLECs). Two LECs currently offer local telephone services in Connecticut. They are The Southern New England Telephone Company (SNET), which has been acquired by SBC Communications, Inc. and Verizon New York, Inc. Connecticut also has approximately 139 CLECs certified to provide local exchange services including Comcast, Cox Connecticut Telecommunication, LLC and Connecticut Telephone and Communications Systems, Inc.

Connecticut is dependent upon oil, including imported oil, for a portion of its energy requirements. This dependence is greatest in the transportation sector. Connecticut also relies on heating oils in both the residential and commercial sectors, and is reliant on residual oils and diesel fuels for the production of electricity. This petroleum dependence can make Connecticut particularly affected by developments in the oil commodity markets. Events that affect the international or domestic production of oil, the domestic and international refining capabilities, or the transportation of petroleum products within the United States or into the New England region can affect Connecticut's local oil markets.

Economic Performance

Personal Income. Connecticut has a high level of personal income. Historically, the State's average per capita income has been among the highest in the nation. The high per capita income is due to the State's concentration of relatively high paying manufacturing jobs along with a higher portion of residents working in the non-manufacturing sector in such areas as finance, insurance and real estate, as well as educational services. A concentration of major corporate headquarters located within the State also contributes to the high level of income. The following table shows total and per capita personal income for Connecticut residents during the period from 1993 to 2002 and compares Connecticut per capita personal income as a percentage of both New England and the United States.

TABLE B-2

Connecticut Personal Income by Place of Residence

Calendar Year	Connecticut Total (Millions of Dollars)	Connecticut Per Capita[a] (Dollars)	Connecticut Per Capita as % of New England	Connecticut Per Capita as % of United States
1993	96,867	29,274	117.2	135.9
1994	99,788	30,093	116.1	134.7
1995	104,315	31,382	116.1	135.0
1996	109,354	32,770	115.6	135.0
1997	116,420	34,763	116.2	136.8
1998	124,880	37,111	116.6	138.0
1999	130,579	38,564	116.1	138.3
2000	141,413	41,446	114.5	139.3
2001	145,548	42,372	114.2	139.3
2002	148,211	42,823	114.2	138.9

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The following table indicates the annual growth rate of personal income, on a current and constant dollar basis, of Connecticut, New England and the United States.

TABLE B-3

Annual Growth Rates in Personal Income By Place of Residence

Calendar Year	Conn. (Current)	New England (Current)	U.S. (Current)	Conn. (Constant)	New England (Constant)	U.S. (Constant)
1992	3.3%	3.3%	4.1%	-1.5%	-1.5%	-0.7%
1993	3.0%	4.3%	5.0%	0.9%	2.1%	2.8%
1994	4.5%	4.9%	5.3%	2.4%	2.7%	3.2%
1995	4.8%	5.4%	5.6%	2.7%	3.3%	3.5%
1996	6.5%	6.3%	6.0%	4.6%	4.4%	4.1%
1997	7.3%	7.1%	7.1%	5.7%	5.5%	5.5%
1998	4.6%	5.2%	4.9%	3.1%	3.7%	3.4%
1999	8.3%	9.8%	8.0%	6.0%	7.5%	5.7%
2000	2.9%	3.2%	3.3%	0.6%	0.9%	1.0%
2001	1.8%	1.7%	2.5%	10.3%	10.2%	11.0%

Note—Constant dollars are adjusted for inflation using the GDP deflator.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The following table indicates the sources of personal income by place of residence for the State and the United States in 2002.

TABLE B-4

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

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

Note—Columns may not add due to rounding.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

Gross State Product. The State and the region's economic vitality is evidenced in the rate of growth of its Gross State Product. Gross State Product is the market value of all final goods and services produced by labor and property located within the State. The economies of Connecticut and New England were, for much of the 1980s, among the strongest performers in the nation in this category. The growth rates of both Connecticut and New England slowed in the first half of the 1990s, then improved and remained higher in the second half of the 1990s. The growth rates for Connecticut as well as the New England region and the United States, however, slowed in 2001 due to a recession.

The following table shows the Gross State Product in current dollars for Connecticut, New England and the United States.

TABLE B-5

Gross State Product
(In Millions of Dollars)

	Connecticut		New England[(a)]		United States[(b)]	
Year	**$**	**% Growth**	**$**	**% Growth**	**$**	**% Growth**
1992	103,794	3.4	357,145	3.8	6,209,096	5.3
1993	107,924	4.0	373,298	4.5	6,513,026	4.9
1994	112,395	4.1	394,406	5.7	6,930,791	6.4
1995	118,645	5.6	416,166	5.5	7,309,516	5.5
1996	124,157	4.6	439,596	5.6	7,715,901	5.6
1997	134,968	8.7	471,336	7.2	8,224,960	6.6
1998	142,701	5.7	503,940	6.9	8,750,174	6.4
1999	149,010	4.4	533,324	5.8	9,251,541	5.7
2000	161,929	8.7	582,874	9.3	9,891,187	6.9
2001	166,165	2.6	594,686	2.0	10,137,190	2.5

(a) Sum of the GSP for the States in New England.
(b) Denotes the Gross Domestic Product, which is the total market value of all final goods and services produced in the U.S.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The following table shows the Gross State Product in 1996 chained dollars.

TABLE B-6

Gross State Product
(In Millions of 1996 Chained Dollars)

	Connecticut		New England		United States	
Year	**$**	**% Growth**	**$**	**% Growth**	**$**	**% Growth**
1992	114,830	0.2	391,385	0.7	6,774,505	2.4
1993	115,725	0.8	397,470	1.6	6,918,388	2.1
1994	117,489	1.5	410,014	3.2	7,203,002	4.1
1995	120,792	2.8	422,524	3.1	7,433,965	3.2
1996	124,157	2.8	439,596	4.0	7,715,901	3.8
1997	132,620	6.8	463,498	5.4	8,093,396	4.9
1998	138,159	4.2	488,673	5.4	8,502,663	5.1
1999	142,699	3.3	511,623	4.7	8,882,613	4.5
2000	151,987	6.5	549,341	7.4	9,298,227	4.7
2001	152,985	0.7	549,472	0.0	9,335,399	0.4

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

The table below shows the contribution to Connecticut's Gross State Product of the manufacturing and non-manufacturing sectors in the State's diverse economy. The table shows that, in 2001, Connecticut's output was concentrated in three areas: finance (31.0%), services (21.5%) and manufacturing (14.6%), which contributed two-thirds of the State's total output. The output contribution of manufacturing has been declining over time as the contribution of finance and services has been rapidly increasing. In 1992, Connecticut's outputs from these three areas were: finance, 25.6%; services, 20.2%; and manufacturing, 18.7%. The increasing share of the non-manufacturing sector may help smooth the business cycle by prolonging the length of expansion and reducing the span and depth of recession.

TABLE B-7

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

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

Note—Columns may not add due to rounding.

(a) Includes mining.
(b) Includes forestry and fisheries.
(c) Includes transportation, communications, electric, gas and sanitary services.
(d) Includes finance, insurance and real estate.
(e) Covers a variety of activities, including professional, business and personal services.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis

Employment

Non-agricultural employment includes all persons employed except federal military personnel, the self-employed, proprietors, unpaid workers, farm and household domestic workers. The following table compares non-agricultural establishment employment for Connecticut, New England and the United States between 1993 and 2002. In Connecticut, approximately 60% of total personal income is derived from wages and salaries earned by workers classified in the non-agricultural employment sector. Therefore the non-agricultural employment figure is a valuable indicator of economic activity. Connecticut's nonagricultural employment reached its decade-long high in the first quarter of 1989 with 1,675,900 persons employed, but began declining with the onset of the recession in the early 1990s. It was not until 1994 that the State's economy started to gain momentum, adding tens of thousands of new workers. In the third quarter of 2000, nonagricultural employment surpassed the previous peak with a total employment of 1,697,600. Total nonagricultural employment declined in 2001 as the economy softened beginning with the first quarter of 2001.

TABLE B-8

Non-agricultural Employment[a]
(In Thousands)

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

(a) Non-agricultural employment excludes agricultural workers, proprietors, self-employed individuals, domestic workers, family workers and members of the armed forces.

SOURCE: United States Department of Labor, Bureau of Labor Statistics

Composition of Employment. The following table shows the distribution of non-agricultural employment in Connecticut and the United States in 2002. The table shows that Connecticut has a larger share of employment in services, manufacturing and finance than the nation as a whole.

TABLE B-9

Connecticut Non-agricultural Employment, 2002
(In Thousands)

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

(a) Covers a considerable variety of activities, including professional, business and personal services.
(b) Includes wholesale and retail trade, transportation, communication, electricity and gas.
(c) Includes finance, insurance, and real estate.
(d) Includes publishing, broadcasting, telecommunications, internet providers and data processing.
(e) Includes mining.

SOURCE: United States Department of Labor, Bureau of Labor Statistics

Recent trends in the State's non-agricultural employment are reflected in the following table. Throughout the last four decades, while manufacturing employment in Connecticut has been steadily declining, employment in non-manufacturing industries has surged. In calendar 2002, approximately 87% of the State's workforce was employed in non-manufacturing jobs, up from roughly 50% in the early 1950s.

TABLE B-10

Connecticut Non-agricultural Employment
(Annual Averages In Thousands)

Year	Manufacturing	Trade[(a)]	Services[(b)]	Government	Finance[(c)]	Information[(d)]	Construction[(e)]	Total Non-agricultural Employment[(f)]
1993	261.54	288.14	542.18	210.68	140.30	39.64	48.71	1,531.19
1994	253.43	290.69	556.41	217.17	135.63	40.39	49.97	1,543.69
1995	248.51	294.80	572.40	220.84	132.39	41.49	51.17	1,561.60
1996	245.33	299.12	591.32	222.80	128.58	43.28	53.20	1,583.63
1997	245.39	302.49	607.77	225.73	130.13	44.49	56.55	1,612.55
1998	247.87	308.58	618.61	227.82	136.99	44.28	59.32	1643.47
1999	240.23	312.11	634.55	235.13	140.82	44.67	61.64	1,669.15
2000	235.72	317.47	643.33	241.86	143.05	46.24	65.35	1,693.02
2001	226.69	312.16	644.15	244.46	142.93	44.67	66.09	1,681.15
2002	212.93	308.04	649.98	248.84	143.00	41.14	64.30	1,668.23

(a) Includes wholesale and retail trade, transportation, communication, electricity and gas.
(b) Covers a considerable variety of activities, including professional, business and personal services.
(c) Includes finance, insurance and real estate.
(d) Includes publishing, broadcasting, telecommunications, internet providers and data processing.
(e) Includes mining.
(f) Totals may not equal sum of individual categories due to rounding.

SOURCE: United States Department of Labor, Bureau of Labor Statistics, Connecticut Labor Department

Manufacturing

The manufacturing industry, despite its continuing downward employment trend over the past five decades, has traditionally served as an economic base industry and has been of prime economic importance to Connecticut. Based on the level of personal income derived from this sector, Connecticut ranks thirteenth in the nation for its dependency on manufacturing in fiscal 2002. Manufacturing has traditionally been of prime economic importance to Connecticut but has continued to trend down during the last decade. The following table provides a ten-year historical picture of manufacturing employment in Connecticut, the New England region and the United States. This downward movement in employment levels is also reflected in the New England region while manufacturing employment for the nation has remained somewhat steady for the decade. The transformation in the State's manufacturing base confirms that the State's employment share in the manufacturing sector is converging to the national average. Thus, Connecticut has been successful in diversifying itself away from dependence on just one type of industry. In calendar 2002, approximately 13% of the State's workforce, versus 12% for the nation, was employed in the manufacturing industry, down from roughly 50% in the early 1950s.

TABLE B-11

Manufacturing Employment
(In Thousands)

Calendar	Connecticut		New England		United States	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1993	261.5	(3.61)	983.8	(2.79)	16,778	(0.19)
1994	253.4	(3.10)	972.6	(1.14)	17,023	1.46
1995	248.5	(1.93)	967.8	(0.49)	17,245	1.30
1996	245.3	(1.29)	961.4	(0.66)	17,238	(0.04)
1997	245.4	0.04	965.1	0.38	17,418	1.04
1998	247.9	1.02	970.2	0.53	17,560	0.82
1999	240.2	(3.11)	944.8	(2.62)	17,323	(1.35)
2000	235.7	(1.87)	943.2	(0.17)	17,265	(0.33)
2001	226.7	(3.82)	899.9	(4.59)	16,440	(4.78)
2002	212.9	(6.09)	816.8	(9.23)	15,305	(6.90)

SOURCE: United States Department of Labor, Bureau of Labor Statistics, Connecticut State Labor Department.

Connecticut has a diverse manufacturing sector, with the construction of transportation equipment (primarily aircraft engines and submarines) being the dominant industry. The State is also a leading producer of military and civilian helicopters. Employment in the transportation equipment sector is followed by fabricated metals, machinery and computer and electronics for the total number employed in 2002.

TABLE B-12

Manufacturing Employment
By Industry
(In Thousands)

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

(a) Includes other industries such as wood products, furniture, glass/stone, primary metals and instruments in the durable sector, as well as all industries such as chemicals, paper and plastics in the nondurable sector.

SOURCE: United States Department of Labor, Bureau of Labor Statistics.

During the past ten years, Connecticut's manufacturing employment was at its highest in 1993 at 261,540 workers. Since that year, employment in manufacturing was on a downward trend with only a slight increase in 1997 and 1998. A number of factors, such as heightened foreign competition and improved productivity, played a significant role in affecting the overall level of manufacturing employment. Total manufacturing jobs in Connecticut continued to decline to a recent low of 212,930 in 2002, after a rebound to 247,870 in 1998. The total number of manufacturing jobs dropped 48,610, or 18.6% for the ten year period since 1993.

Exports. In Connecticut, the export sector of manufacturing has assumed an important role in overall economic growth. According to figures published by the United States Department of Commerce, which were adjusted and enhanced by the University of Massachusetts (MISER), exports of manufacturing products registered at $8.3 billion in 2002, accounting for approximately 5.1% of Gross State Product. From 1998 to 2002, the State's export of goods grew at an average annual rate of 3.5%. The following table shows the growth in exports of manufacturing products.

TABLE B-13

Exports Originating in Connecticut
(In Millions)

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

(a) In millions.
(b) Gross State Product for 2002 is estimated by the Office of Policy and Management and is assumed to grow at the same rate as income derived from wages and salary, which is estimated by the United States Department of Commerce, Bureau of Economic Analysis.

SOURCE: United States Department of Commerce, Bureau of Economic Analysis
Massachusetts Institute for Social and Economic Research, University of Massachusetts (MISER)

Defense Industry. One important component of the manufacturing sector in Connecticut is the defense industry. Approximately one quarter of the State's manufacturing employees are employed in defense related business. Nonetheless, this sector's significance in the State's economy has declined considerably since the early 1980s. Connecticut has witnessed a marked reduction in the amount of federal spending earmarked for defense related industries in the State. In federal fiscal year 2002, Connecticut received $5.6 billion of prime contract awards. These total awards accounted for 3.6% of national total awards and ranked ninth in total defense dollars awarded and second in per capita dollars awarded among the 50 states. In fiscal year 2002, Connecticut had $1,629 in per capita defense awards, compared to the national average of $550. As measured by a three year moving average of defense contract awards as a percent of Gross State Product, awards to Connecticut based firms have fallen to 2.0% of Gross State Product in fiscal year 2002, down from 3.4% of Gross State Product in fiscal year 1993. The increase in 2002 was primarily due to the procurement of helicopters and submarines.

Connecticut is a leading producer of aircraft engines and parts, submarines, and helicopters. The largest employers in these industries are United Technologies Corporation, including its Pratt and Whitney Aircraft Division with headquarters in East Hartford, and Sikorsky Aircraft Corporation in Stratford, as well as General Dynamics Corporation's Electric Boat Division in Groton.

The following table provides a historical perspective of defense contract awards for the past ten fiscal years. Defense contracts are awarded in their entirety and multi-year awards are credited in the year they are awarded, thus giving rise to some of the fluctuation.

TABLE B-14

Defense Contract Awards

Federal Fiscal Year	Connecticut Total Contract Award (Thousands)	Connecticut Rank Among States Total Awards	% Change from Prior Year	
			Connecticut	U.S.
1992-93	$2,894,638	12th	(6.6)	1.7
1993-94	$2,450,069	14th	(15.4)	(3.4)
1994-95	$2,718,021	12th	10.9	(1.2)
1995-96	$2,638,260	13th	(2.9)	0.4
1996-97	$2,535,981	13th	(3.9)	(2.6)
1997-98	$3,408,719	9th	34.4	2.7
1998-99	$3,169,394	12th	(7.0)	5.0
1999-00	$2,177,462	17th	(31.3)	7.3
2000-01	$4,269,536	10th	96.1	9.7
2001-02	$5,638,582	9th	32.1	17.4

SOURCE: United States Department of Defense

Non-manufacturing. The non-manufacturing sector is comprised of industries that primarily provide services. Services differ significantly from manufactured goods in that the output is generally intangible, it is produced and consumed concurrently and it cannot be inventoried. Consumer demand for services is not as postponable as the purchase of goods, making the flow of demand for services more stable. An economy will therefore generally become more stable as it becomes more service oriented. Over the past several decades the non-manufacturing sector of the State's economy has risen in economic importance, from just over 50% of total State employment in 1950 to approximately 87% by 2002. This trend has decreased the State's dependence on manufacturing. Over the course of the last ten years, there were approximately 185,700 jobs created in this sector, an increase of 14.6%. Moreover, this sector has more than compensated for the loss in manufacturing jobs, fueling the recovery in nonagricultural employment since 1993.

The table below provides a ten year profile of non-manufacturing employment in Connecticut, New England and the United States.

TABLE B-15
Non-manufacturing Employment
(In Thousands)

Calendar	Connecticut		New England		United States	
Year	Number	% Growth	Number	% Growth	Number	% Growth
1993	1,269.6	1.29	5,096.6	2.10	94,058	2.31
1994	1,290.2	1.62	5,227.4	2.57	97,268	3.41
1995	1,313.1	1.77	5,358.8	2.51	100,068	2.88
1996	1,338.3	1.92	5,470.4	2.08	102,463	2.39
1997	1,367.1	2.15	5,610.2	2.56	105,350	2.82
1998	1,395.6	2.08	5,753.3	2.55	108,363	2.86
1999	1,428.9	2.39	5,910.5	2.73	111,668	3.05
2000	1,457.5	2.00	6,074.2	2.77	114,528	2.56
2001	1,454.5	(0.21)	6,126.7	0.86	115,395	0.76
2002	1,455.3	0.06	6,106.0	(0.34)	115,073	(0.28)

Source: United States Department of Labor, Bureau of Labor Statistics
Connecticut State Labor Department

Services, retail and wholesale trade, state and local government, as well as finance, insurance and real estate (FIRE) collectively comprise approximately 90% of the State's employment in the non-manufacturing sector. Connecticut non-manufacturing employment for 1993, 2000, 2001 and 2002 is shown in the table below. Total non-manufacturing employment has been broken down by industry. Percent changes over the fiscal year and over the decade are also provided. Between 1993 and 2002, service industry employment expanded by 107,800 workers, adding more than one out of every two jobs statewide, which registered an increase of 185,650 jobs. State and local governments expanded by 41,610 jobs. The increase in this line item over the ten-year period can be attributed to the Federal Government's decision to categorize all workers employed on Indian Reservations as state government employees. There are approximately 22,000 employees working at the State's two tribal casinos.

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

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

(a) Includes mining.
(b) Covers a considerable variety of activities, including professional and business services.
(c) Totals may not agree with detail due to rounding.

Source: Connecticut State Labor Department

Retail Trade. Personal spending on goods and services generally accounts for two-thirds of the Gross Domestic Product. Approximately half of personal spending is generally done through retail stores. At the State level, retail trade therefore constitutes approximately one third of the State's economic activity, measured as Gross State Product. During the last decade, variations in retail trade closely matched variations in Gross State Product growth, making retail trade an important barometer of economic health.

The following table shows the major group in each SIC code as well as the State's retail trade history for the past five fiscal years. It demonstrates the fluctuating pattern of retail sales in Connecticut. Connecticut retail trade in fiscal 2002 totaled $43.9 billion, an increase of 4.0% from fiscal 2001. This increase reflects the sales improvement in those industries such as general merchandise, hardware stores and food products.

TABLE B-17

Retail Trade In Connecticut
(In Millions)

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

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

SOURCE: Connecticut Department of Revenue Services

Unemployment Rates. The unemployment rate is the proportion of persons in the civilian labor force who do not have jobs but are actively looking for work. Unemployment rates tend to be high during economic slowdowns and low when the economy is expanding. The rate is widely utilized as a proxy for consumer confidence. In general, when the unemployment rate is high consumer spending is lower and vice versa.

After enjoying an extraordinary boom during the mid-1980s, Connecticut, as well as the rest of the Northeast, experienced an economic slowdown during the recession of the early 1990s. The unemployment rate in the State rose to a high of 6.3% in 1993, which was below the New England average of 6.8% and the national average of 6.9%. Through calendar 2000, Connecticut's unemployment rate generally declined and mostly remained below the New England and the national average. Connecticut's unemployment rate of 5.0% for the first six months of 2003 is below the New England and national average of 5.1% and 6.0%, respectively, for the same period.

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

TABLE B-18

Unemployment Rate

Year	Unemployment Rate		
	Connecticut	New England	United States
1993	6.3	6.8	6.9
1994[(a)]	5.6	5.9	6.1
1995	5.5	5.4	5.6
1996	5.7	4.8	5.4
1997	5.1	4.4	4.9
1998	3.4	3.5	4.5
1999	3.2	3.3	4.2
2000	2.2	2.8	4.0
2001	3.3	3.7	4.8
2002	4.3	4.9	5.8
2003[(b)]	5.0	5.1	6.0

(a) Beginning with estimates for January 1994, State and area labor force statistics reflect a number of important changes. These include implementation of a major redesign of the Current Population Survey (CPS); introduction of updated population controls to the CPS; improved regression models for smaller states such as Connecticut; and incorporation of selected 1990 Census data in the geographic redefinition of labor market areas and in local area labor force estimation.

(b) Reflects average for the first six months of Calendar 2003.

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

APPENDIX III-C

NANCY WYMAN
COMPTROLLER

STATE OF CONNECTICUT

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

MARK E. OJAKIAN
DEPUTY COMPTROLLER

February 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.

<u>Changes in budgetary reporting</u>. 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.

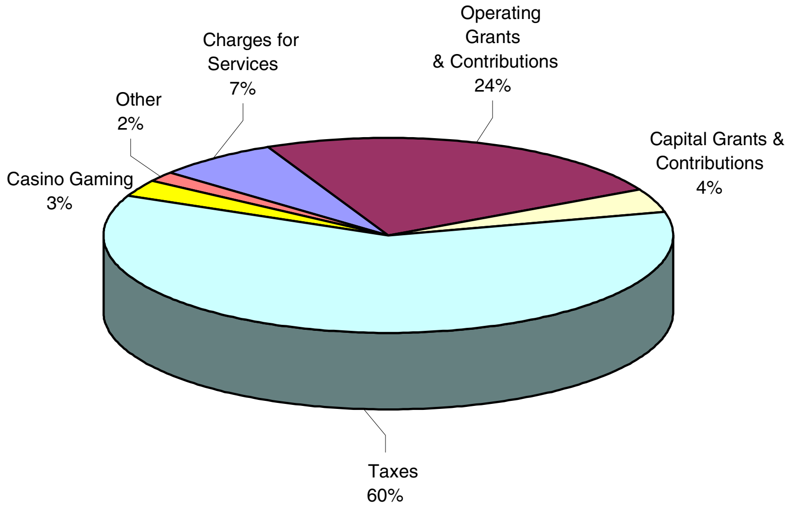
State of Connecticut's Changes in Net Assets
(Expressed in Millions)

	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)

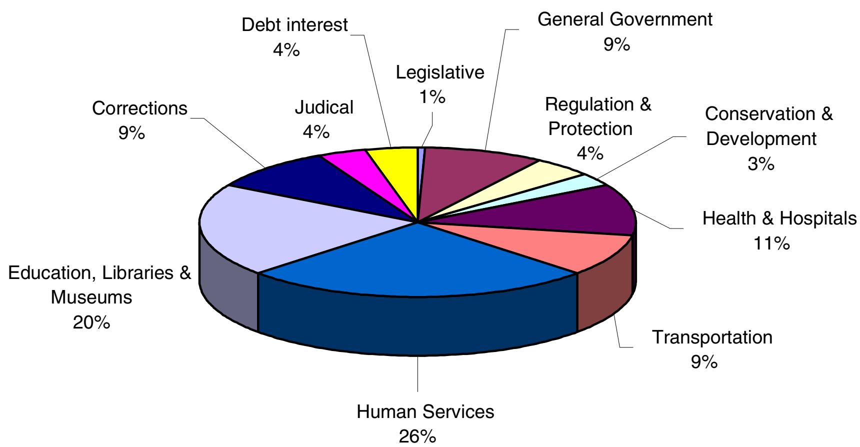
GOVERNMENTAL ACTIVITIES

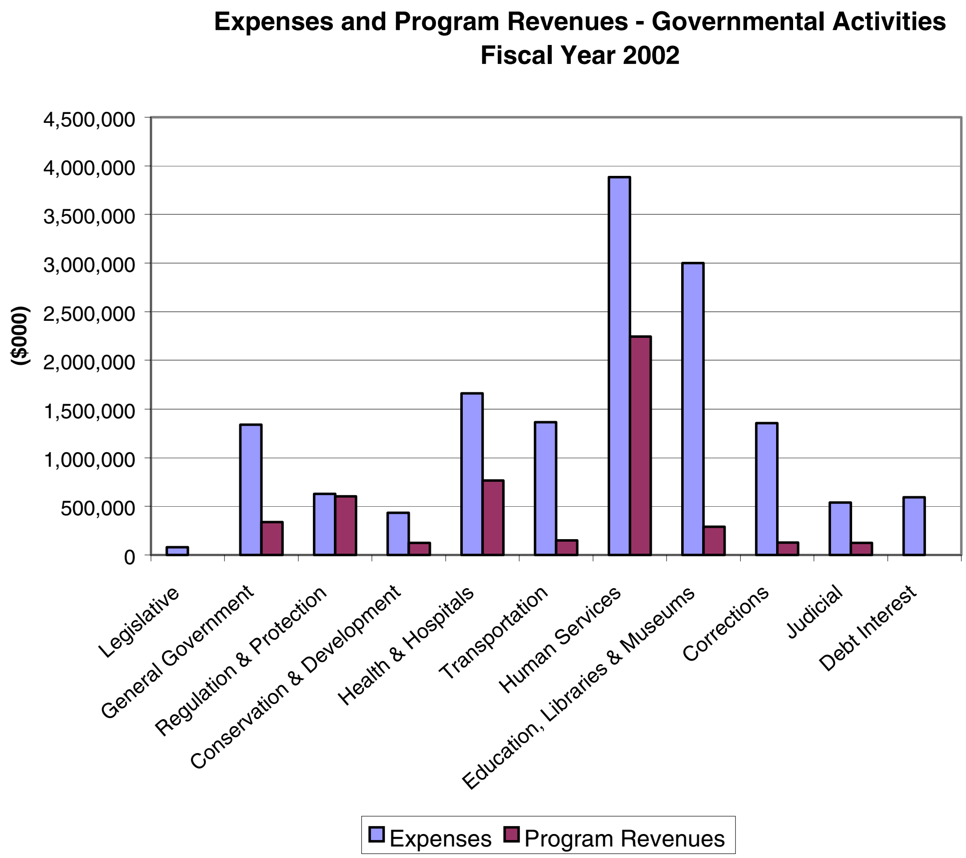
The following charts depict the distribution of revenues and expenses for Fiscal Year 2002.

Revenues - Governmental Activities
Fiscal Year 2002



Expenses- Governmental Activities
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.

Employment Security	Second Injury & Compensation Assurance	Clean Water	Other	Totals	Governmental Activities Internal Service Funds
	Business-Type Activities Enterprise 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 re-

corded 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 <u>Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments.</u>

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

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
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

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
JRS						
9/30/1997	$87.8	$167.5	$79.7	52.4%	$20.2	394.6%
6/30/1998	$98.1	$168.1	$70.0	58.4%	$21.2	330.2%
6/30/1999	$110.7	$172.5	$61.8	64.2%	$21.9	282.2%
6/30/2000	$123.4	$181.7	$58.3	67.9%	$24.1	241.9%
6/30/2001	$133.1	$193.8	$60.7	68.7%	$26.3	230.8%
6/30/2002	$138.4	$209.4	$71.0	66.1%	$28.9	245.7%
MERS						
6/30/1996	$782.0	$692.2	$(89.8)	113.0%	$242.8	(37.0)%
6/30/1997	$872.0	$731.1	$(140.9)	119.3%	$246.0	(57.3)%
6/30/1998	$980.4	$814.1	$(166.3)	120.4%	$258.2	(64.4)%
6/30/1999	$1,100.7	$860.1	$(240.6)	128.0%	$269.4	(89.3)%
6/30/2000	$1,251.6	$1,153.2	$(98.4)	108.5%	$290.3	(33.9)%
6/30/2001	$1,353.1	$1,238.1	$(115.0)	109.3%	$311.2	(37.0)%

PJRS

For the Probate Judges Retirement System because the UAAL is zero, the actuarial cost method becomes the aggregate cost method and a schedule of funding progress is not required.

Required Supplementary Information
Schedules of Employer Contributions

(Expressed in Millions)

	SERS		TRS		JRS		MERS		PJRS	
Fiscal Year	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
1997	$542.8	64.3%	$174.0	85.0%	$9.3	100.0%	$21.3	100.0%	$0.32	100.0%
1998	$567.6	59.0%	$211.0	85.0%	$9.3	100.0%	$18.8	100.0%	$0.25	100.0%
1999	$315.6	100.0%	$221.6	85.0%	$9.3	100.0%	$18.1	100.0%	$0.32	100.0%
2000	$342.8	100.0%	$240.5	85.0%	$9.3	100.0%	$32.0	100.0%	$-	-
2001	$375.6	100.0%	$252.5	85.0%	$9.8	100.0%	$15.5	100.0%	$-	-
2002	$415.5	100.0%	$210.7	97.1%	$9.6	100.0%	$15.3	100.0%	$-	-

Note: During 2000, 2001 and 2002 the only contributions to the Probate Judges Retirement System were the required member contributions.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	SERS	TRS	JRS	MERS	PJRS
Valuation date	6/30/2002	6/30/2002	6/30/2002	6/30/2001	12/31/2001
Actuarial cost method	Projected unit credit	Entry age	Projected unit credit	Entry age	Entry Age
Amortization method	Level percent of pay, closed	Level percent of pay, closed	Level percent of pay, closed	Level percent of pay, closed	-
Remaining amortization period	30 Years	10-29 Years	29 Years	10-25 Years	-
Asset valuation method	5 year smoothed market	4 year smoothed market	5 year smoothed market	5 year smoothed market	Asset smoothing
Actuarial assumptions:					
Investment rate of return	8.5%	8.5%	8.5%	8.5%	8.5%
Projected salary increases	4.25-15%	4-8%	5.5%	4.5-11.25%	6%
Includes inflation at	5%	4%	5.5%	3.75%	3.5%
Cost-of-living adjustments	2.75-3.75%	3%	3-5.5%	2.5-5.0%	3%

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APPENDIX III-D

NANCY WYMAN
COMPTROLLER

STATE OF CONNECTICUT

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

MARK E. OJAKIAN
DEPUTY COMPTROLLER

December 19, 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, 1999-2003. This review also covered the accompanying statements of unappropriated surplus, revenues and expenditures for the years ended on those dates. The statements are based on the annual report of the Office of the State Comptroller, which is prepared in compliance with Section 3-115 of the General Statutes, as well as reports of the Auditors of Public Accounts with respect to the balance sheets and related statements for the fiscal years ending June 30, 1999-2002.

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 and in accordance with the governing statutory requirements for all periods shown.

Sincerely,

Nancy Wyman

Nancy Wyman
State Comptroller

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS
STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

CERTIFICATE OF AUDIT

We have audited the accompanying balance sheet of the General Fund of the State of Connecticut as of June 30, 1999, 2000, 2001 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, 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 Annual Information Statement, the State of Connecticut is a defendant in certain legal proceedings. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements. However, as indicated in that section, an adverse judgement in any one of these cases could have a material fiscal impact on the State.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

December 31, 2002
State Capitol
Hartford, Connecticut

GENERAL FUND[a]

Balance Sheet
As of June 30
(In Thousands)

	1999	2000	2001	2002	2003 (unaudited)
Assets					
Cash and Short-Term Investments	$ 263,256	$ 150,871	$ 178,428	$ --	$ --
Accrued Taxes Receivable	664,504	667,036	751,329	731,462	759,320
Accrued Accounts Receivable	24,378	26,285	30,897	31,726	35,139
Federal and Other Grants Receivable and Unexpended	704,982	656,289	745,655	839,676	886,205
Investments	54,867	47,705	50,460	40,813	--
Due from Other Funds	4,753	4,692	4,499	594,698	--
Total Assets	$ 1,716,740	$ 1,552,878	$ 1,761,268	$2,238,375	$1,680,664
Liabilities, Reserves and Surplus					
Liabilities					
Deficiency in Cash and Short-Term Investments	$ -	$ -	$ -	$ 1,071,882	$ 554,118
Accounts Payable[b]				85,032	--
Deferred Restricted Accounts and Federal and Other Grant Revenue	319,484	266,260	301,801	320,716	333,324
Due to Other Funds	13,643	13,707	15,254	16,656	1,029
Total Liabilities	$ 333,127	$ 279,967	$ 317,055	$1,494,286	$888,471
Reserves					
Petty Cash Funds	$ 1,088	$ 1,092	$ 1,043	$ 1,031	$ 991
Statutory Surplus Reserves	71,759	300,435	30,660	--	--
Appropriations Continued to Following Year	1,310,766	971,384	1,412,510	965,446	887,987
Total Reserves	$ 1,383,613	$ 1,272,911	$ 1,444,213	$ 966,477	$888,978
Unappropriated Surplus (Deficit)	0	0	0	(222,388)	(96,785)
Total Liabilities, Reserves and Surplus	$ 1,716,740	$ 1,552,878	$ 1,761,268	$2,238,375	$1,680,664

(a) The State of Connecticut's policy, which was formulated in accordance with State fiscal statutes, is to prepare the accompanying financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Connecticut. The modified cash basis of accounting, as used by the State, records expenditures when they are paid and recognizes revenues when received, except for the accrual at June 30 of State collections in July and August of certain taxes levied, Indian gaming payments, and the accounting for restricted grants on an earned basis. Public Act No. 99-173 revised the accrual date for corporation business taxes to July 31st. Those taxes for which July collections are accrued include sales and use tax, personal income tax, corporation business tax, gross earnings taxes on utility and petroleum companies, hospital gross receipts tax, real property conveyance taxes, taxes on alcoholic beverages, cigarettes, gasoline and special motor fuels. Beginning in 2001, there is no longer a hospital gross receipts tax. Additionally, Indian gaming payments received through July 31 are accrued. Public Act 03-2 extended the date for corporation business tax accruals from July 31st to August 15th, expanded the categories of income tax subject to July 31st accruals, revised the accrual date for personal income tax to August 15, and added the real estate conveyance tax to the July 31st accrual.

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

GENERAL FUND

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

	1999	2000	2001	2002	2003 (unaudited)
Unappropriated Surplus (Deficit), July 1	$ - 0 -	$ - 0 -	$ -0-	$ - 0 -	$ (222,388)
Resources from Reserve for Debt Avoidance/ERN[i]			265,474		222,388
Total Revenues (per Appendix III-D-6)	11,360,260[a]	12,151,287[c]	12,885,980[e]	11,943,683[g]	13,278,034[j]
Total Expenditures (per Appendix III-D-7)	10,994,680[b]	12,138,545[d]	12,783,210[f]	13,285,284[h]	13,465,503[k]
Operating Balance	365,580	12,742	368,244	(1,341,601)	(187,469)
Reserved for Prior Year Appropriations Less Appropriations Carried Forward	(294,077)	289,764	(333,999)	543,806	82,268
Transferred (Out) or Reserved for:					
Budget Reserve Fund	(30,474)	(34,960)	(30,660)	--	--
Reserve for Debt Retirement/Avoidance	(41,285)	(265,474)	--	--	--
Other Adjustments	256	(2,072)	(3,585)	(19,291)	8,416
Subtotal	-0-	-0-	-0-	(817,086)	(96,785)
Transferred from Budget Reserve Fund	-0-	-0-	-0-	594,698	--
Unappropriated Surplus (Deficit), June 30	$ - 0 -	$ - 0 -	$ - 0 -	$(222,388)	$(96,785)

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

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

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

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

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

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

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

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

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

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

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

GENERAL FUND

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

	1999	2000	2001	2002	2003 (unaudited)
Taxes:					
Personal Income	$ 3,820,837	$ 4,238,228	$ 4,744,233	$4,265,912	$4,263,070
Sales and Use	2,932,191	3,096,780	3,125,078	2,997,766	3,025,743
Corporations	619,539	587,756	550,509	380,985	507,975
Insurance Companies	196,195	201,225	191,107	217,371	239,358
Inheritance and Estate	237,573	228,072	252,802	153,092	184,320
Alcoholic Beverages	40,281	40,965	41,145	41,619	42,490
Cigarettes	123,345	122,045	119,476	160,904	256,052
Admissions, Dues, Cabaret	26,942	26,716	25,811	26,905	31,696
Oil Companies	22,170	54,285	64,497	24,309	117,451
Public Service Corporations	167,704	166,263	180,547	166,597	197,959
Real Estate Conveyance	106,813	114,565	112,282	120,717	149,317
Hospital Gross Receipts	128,079	69,180	-	--	--
Miscellaneous	40,635	40,227	35,088	26,267	33,731
Refunds of Taxes	(645,000)	(713,359)	(735,482)	(829,558)	(808,209)
R&D Credit Exchange	--	--	--	(21,933)	(11,148)
Other Revenue:					
Licenses, Permits, Fees	122,062	127,544	124,331	137,518	125,179
Sales of Commodities and Services	30,110	32,941	31,312	30,479	32,869
Transfer – Special Revenue	280,529	259,785	258,181	277,589	262,776
Investment Income	60,856	53,371	67,868	23,828	7,083
Transfers — To Other Funds	(90,000)	(180,000)	(85,400)	(147,685)	(93,009) [a]
Fines, Escheats and Rents	55,763	45,659	48,228	47,620	81,490
Miscellaneous	112,962	125,498	125,594	114,273	182,364
Refunds of Payments	--	--	--	(373)	(397)
Federal Grants	1,938,271	2,078,914	2,237,045	2,142,269	2,318,421
Indian Gaming Payments	288,532	318,986	332,418	368,954	387,255
Statutory Transfers From Other Funds	--	78,000	138,800	120,000 [b]	489,486
Total Unrestricted Revenue	10,616,389	11,213,646	11,985,470	10,845,425	12,023,325
Restricted Accounts and Federal and Other Grants	743,871	937,641	900,510	1,098,258	1,254,709
Total Revenues[c]	$ 11,360,260	$ 12,151,287	$ 12,885,980	$ 11,943,683	$ 13,278,034

(a) Transfer to Pequot/Mohegan Fund.

(b) Transfer from Tobacco Settlement Fund.

(c) See Operating Balance on **Appendix III-D-5** for surplus or deficit for each fiscal year.

GENERAL FUND

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

	1999	2000	2001	2002	2003 (unaudited)
Legislative	$ 50,978	$ 54,541	$ 55,406	$ 58,095	$ 57,340
General Government					
Executive	8,731	9,929	10,018	9,569	8,650
Financial Administration	532,374	495,118	438,800	451,738	346,743
Legal	53,742	61,263	62,612	65,980	65,309
Total General Government	594,847	566,310	511,430	527,287	420,702
Regulation and Protection of Persons and Property					
Public Safety	107,942	129,216	130,051	141,830	138,450
Regulative	61,764	77,785	73,427	80,660	73,881
Total Regulation and Protection	169,706	207,001	203,478	222,490	212,331
Conservation and Development					
Agriculture	8,885	10,026	10,500	11,015	10,521
Environment	39,138	45,621	47,668	42,716	40,837
Historical Sites, Commerce and Industry	22,737	22,508	25,486	24,733	22,117
Total Conservation and Development	70,760	78,155	83,654	78,464	73,475
Health and Hospitals					
Public Health	70,334	79,445	82,225	85,058	80,171
Mental Retardation	579,290	627,435	654,698	701,343	719,964
Mental Health	255,905	298,353	355,438	411,934	422,843
Total Health and Hospitals	905,529	1,005,233	1,092,361	1,198,335	1,222,978
Transportation	-	-	34,857	37,653	5,731
Human Services	3,231,095	3,430,561	3,537,462	3,589,653	3,724,789
Education, Libraries and Museums					
Department of Education	1,683,536	1,825,305	2,169,762	1,995,545	1,989,531
Education of the Blind and Deaf	14,618	16,052	16,757	15,978	14,864
University of Connecticut	234,464	260,972	271,378	265,854	265,450
Higher Education and the Arts	39,385	55,326	61,888	66,425	47,511
Libraries	13,729	14,326	14,800	17,439	13,126
Teachers Retirement	201,105	215,396	226,663	217,762	193,780
Community—Technical Colleges	105,064	115,432	115,587	129,262	126,664
State University	119,578	134,709	130,556	139,276	138,125
Total Education, Libraries and Museums	2,411,479	2,637,518	3,007,391	2,847,541	2,789,051
Corrections	845,239	957,555	999,052	1,068,183	1,111,416
Judicial	266,043	309,319	338,568	376,813	368,143
Non-Functional					
Debt Service	848,391	926,365	973,554	992,071	986,130
Miscellaneous	856,742	1,028,346	1,045,487	1,190,441	1,238,708
Total Non-Functional	1,705,133	1,954,711	2,019,041	2,182,512	2,224,838
Totals	10,250,809	11,200,904	11,882,700	12,187,026	12,210,794
Restricted Accounts and Federal and Other Grants	743,871	937,641	900,510	1,098,258	1,254,709
Total Expenditures[(a)]	$ 10,994,680	$ 12,138,545	$ 12,783,210	$13,285,284	$13,465,503

(a) See Operating Balance on **Appendix III-D-5** for surplus or deficit for each fiscal year.

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

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

	Actual Budget 2002-03[d]	Budget 2003-04[l]	Estimated Budget 2003-04[p]	Budget 2004-05[l]
Appropriations/Expenditures				
Legislative	$53.1	$62.0	$62.0	$65.9
General Government	413.9	413.8	417.1	431.3
Regulation & Protection	207.5	213.1	213.1	219.5
Conservation & Development	64.3	69.3	69.3	68.3
Health & Hospitals	1,216.2	1,256.8	1,258.8	1,290.6
Transportation	(0.4)	0.0	0.0	0.0
Human Services	3,721.8	3,767.1	3,798.5	3,901.1
Education, Libraries & Museums	2,783.2	2,826.6	2,826.6	2,851.6
Corrections	1,109.0	1,172.0	1,184.0	1,197.0
Judicial	365.0	390.3	390.3	402.5
Non-Functional				
Debt Service	921.1	1,164.2	1,164.2	1,337.5
Miscellaneous	1,273.9	1,377.1	1,377.1	1,509.0
Subtotal	$12,128.5	$12,712.3	$12,761.0	$13,274.3
Unallocated Lapse	0.0	(260.3) [o]	(260.3) [o]	(307.4) [o]
Net Appropriations/Expenditures	$12,128.5	$12,452.0	$12,500.7	$12,966.9
Surplus (or Deficit) from Operations	($105.2)	0.1	(48.6)	0.2
Miscellaneous Adjustments	8.4	0.0	(3.1)	0.0
Balance[c]	($96.8)[k]	$0.1	$(51.7)	$0.2

NOTE: Columns may not add due to rounding.

(a) Reflects the combination of the phase-out in the Connecticut Succession Tax pursuant to Public Act No. 95-256, Public Act No. 01-1 of the November Special Session, Public Act No. 03-1 of the June Special Session, and changes to the federal estate pick-up tax pursuant to federal law P.L. 107-16. The imposition of a temporary estate tax is estimated to raise $55 million in fiscal year 2005 if the State fails to receive extraordinary federal assistance similar to that contained in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.

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

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

(d) Figures from the Comptroller's annual report dated October 1, 2003 based on information for the period ending June 30, 2003. The line item expenditures exclude expenditures of appropriations carried over from the prior fiscal year and include expenditures carried over to the next fiscal year, as determined by the Office of Policy and Management.

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

(f) Includes enacted legislative changes that affect revenues as follows:
i: Per Public Act No. 03-2, the increase in Cigarette Tax from $1.11 per pack to $1.51 per pack effective March 15, 2003 is estimated to yield $ 70.9 million in fiscal year 2004 and $70.9 million in fiscal year 2005 in cigarette and sales taxes.
ii: Per Public Act No. 02-3, eliminating the HMO HUSKY tax credit is estimated to save $15.6 million in fiscal year 2002-03.

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

(h) Accelerate escheats to the State of Connecticut.

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

(j) The figure reflected for Restricted Accounts and Federal & Other Grants reflects an estimate for the Budgets and Estimated Budget for 2003-04 and 2004-05. Additional revenues may be received with respect to Restricted Accounts and Federal & Other Grants. Expenditures of these grants are not included; the amount of such expenditures is generally the same as the amount of grants received.

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

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

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

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

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

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

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

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

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

(p) Per the Comptroller's monthly report dated December 1, 2003 for the period ending October 31, 2003, with presentation modifications as to certain line items as determined by the Office of Policy and Management. See page II-4 of this Part II (see discussion under STATE GENERAL FUND – Fiscal Year 2003-2004 Operations). The next monthly report of the Comptroller is anticipated on January 2, 2004.

NOTE: The information in **Appendix III-E** contains only projections and no assurances can be given that subsequent projections will not indicate changes in the items of revenue and expenditure and in the final result of the operations of the General Fund. Changes may also occur as the result of legislative action adjusting the budget or taking other actions which impact revenues or expenditures.

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