



\$98,110,000
UNIVERSITY OF CONNECTICUT
General Obligation Bonds, 2005 Series A

Dated: Date of Delivery

Due: February 15, as shown on inside cover

The University of Connecticut General Obligation Bonds, 2005 Series A (the “2005 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, as amended (the “UConn 2000 Act”), and the General Obligation Master Indenture of Trust, dated as of November 1, 1995 as supplemented by certain supplemental indentures, including the Eleventh Supplemental Indenture (collectively, the “Indentures”) for the purpose of providing funds for the UCONN 2000 Infrastructure Improvement Program. The 2005 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 2005 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 the Indentures, when due. In the opinions of Bond Counsel and Co-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 2005 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 2005 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 2005 Series A Bonds. Purchases of the 2005 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 interests in the 2005 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 2005 Series A Bonds. See “DESCRIPTION OF THE 2005 SERIES A BONDS—Book-Entry-Only System” herein. Principal of and interest on the 2005 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 2005 Series A Bonds will be payable semiannually on February 15 and August 15, in each year, commencing August 15, 2005. 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 2005 Series A Bonds maturing on February 15 of the years 2011 through 2025, inclusive (the “Insured Bonds”) when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Insured Bonds by FINANCIAL SECURITY ASSURANCE INC. See “BOND INSURANCE” herein and Appendix I-F herein.

The 2005 Series A Bonds are subject to redemption prior to maturity as more fully described herein.

In the opinions of Pullman & Comley, LLC and the Law Offices of Joseph C. Reid, PA., rendered in reliance upon and assuming the accuracy of and continuing compliance by the University and the State Treasurer with their representations and covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended, under existing law, interest on the 2005 Series A Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the alternative minimum tax, such interest is taken into account in computing the alternative minimum tax, as described under “Tax Exemption” herein.

In the opinions of Pullman & Comley, LLC and the Law Offices of Joseph C. Reid, PA., under existing statutes, interest on the 2005 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.

The 2005 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 Law Offices of Joseph C. Reid, PA., Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their Counsel, Robinson & Cole LLP. 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 2005 Series A Bonds in definitive form will be available for delivery at The Depository Trust Company in New York, New York on or about March 16, 2005.

JPMorgan

Advest, Inc.	A.G. Edwards	First Albany Capital	Wachovia Bank, National Association
Banc of America Securities LLC		Citigroup	Fidelity Capital Markets
Jackson Securities, LLC		Morgan Stanley	Oppenheimer & Co. Inc.
Raymond James & Associates, Inc.	RBC Dain Rauscher, Inc.	Roosevelt & Cross, Inc.	UBS Financial Services Inc.

Dated: March 10, 2005

\$98,110,000
THE UNIVERSITY OF CONNECTICUT
General Obligation Bonds, 2005 Series A

MATURITY SCHEDULE

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2006	\$4,900,000	3.000%	2.330%	914233LX7
2007	4,900,000	3.000	2.600	914233LY5
2008	4,900,000	3.000	2.710	914233LZ2
2009	6,540,000	3.000	2.890	914233MA6
2010	4,900,000	3.250	3.060	914233MB4
2011*	6,540,000	3.375	3.230	914233MC2
2012*	4,900,000	3.625	3.460	914233MD0
2013*	2,525,000	3.625	3.620	914233ME8
2013*	2,375,000	5.000	3.620	914233MF5
2014*	4,895,000	3.700	3.740	914233MG3
2015*	2,765,000	3.750	3.850	914233MH1
2015*	2,130,000	5.000	3.850	914233MJ7
2016*	1,035,000	3.800	3.930	914233MK4
2016*†	750,000	5.000	3.930	914233ML2
2017*	905,000	3.900	4.000	914233MM0
2017*†	3,990,000	5.000	4.000	914233MN8
2018*	290,000	4.000	4.050	914233MP3
2018*†	4,605,000	5.000	4.050	914233MQ1
2019*	435,000	4.000	4.110	914233MR9
2019*†	4,460,000	5.000	4.110	914233MS7
2020*	1,595,000	4.100	4.170	914233MT5
2020*†	3,300,000	5.000	4.170	914233MU2
2021*	650,000	4.100	4.210	914233MV0
2021*†	4,245,000	5.000	4.210	914233MW8
2022*	950,000	4.200	4.250	914233MX6
2022*†	3,945,000	5.000	4.250	914233MY4
2023*	315,000	4.250	4.280	914233MZ1
2023*†	4,580,000	5.000	4.280	914233NA5
2024*	140,000	4.300	4.330	914233NB3
2024*†	4,755,000	5.000	4.330	914233NC1
2025*	2,620,000	4.300	4.370	914233ND9
2025*†	2,275,000	5.000	4.370	914233NE7

* Payment of the principal and interest on such maturities of the 2005 Series A Bonds will be insured under a municipal bond insurance policy to be issued concurrently with the delivery of such bonds by Financial Security Assurance Inc.

† Priced to the call date of February 15, 2015 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 2005 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 2005 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 2005 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.

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

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CONTENTS OF OFFICIAL STATEMENT

This Official Statement of the University of Connecticut, including the cover and inside cover, 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 \$98,110,000 aggregate principal amount of its 2005 Series A Bonds.

Part I of this Official Statement, including the cover and inside cover and the Appendices thereto, contains information relating to the 2005 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 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, inside cover, Parts I, II, and III and the Appendices and Schedules thereto should be read collectively and in their entirety.

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OFFICIAL STATEMENT
relating to

\$98,110,000
UNIVERSITY OF CONNECTICUT
General Obligation Bonds, 2005 Series A

INTRODUCTORY STATEMENT

This Official Statement, including the cover, the inside cover, the appendices and schedules attached hereto, is provided for the purpose of presenting certain information in connection with the offering and sale of \$98,110,000 General Obligation Bonds, 2005 Series A (the “2005 Series A Bonds”), of the University of Connecticut (the “University”). The 2005 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 Eleventh Supplemental Indenture dated as of March 16, 2005 (the “Eleventh Supplemental Indenture”). The Master Indenture and supplements thereto, including the Eleventh 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 University is defined by the Act as a constituent unit of the state system of public higher education which includes the University of Connecticut Health Center. 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 with an estimated cost of \$1,250 million. 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 \$2,262 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 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. See “UCONN 2000 INFRASTRUCTURE IMPROVEMENT PROGRAM” below. To date, the University has outstanding \$695,877,147 of its General Obligation Bonds, secured by the State Debt Service Commitment, \$191,395,000 of its Special Obligation Bonds and 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 2005 Series A Bonds represent the eleventh series of General Obligation Bonds being issued pursuant to the Act and the Master Indenture. To date, pursuant to the Indentures, \$1,012,000,000 of General Obligation

Bonds have been authorized to be issued for UCONN 2000 projects, of which \$912,000,000 have been issued (par amount of \$906,055,000 of Bonds plus \$5,945,000 of original issue premium to total \$912,000,000 available for projects) (excluding Costs of Issuance), resulting in an unissued balance of \$100,000,000 prior to the issuance of the 2005 Series A Bonds. See "UCONN 2000 INFRASTRUCTURE IMPROVEMENT PROGRAM."

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

NATURE OF OBLIGATION AND SOURCE OF REPAYMENT

The Bonds (including the 2005 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 2005 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 Bonds or sinking fund installments on term Bonds (the "Principal Installments") and interest accruing thereon.

As part of the contract of the State with the holders of the Bonds, including the 2005 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 (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 Bonds.

In the opinions of Bond Counsel and Co-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 Eleventh Supplemental Indenture provides for the pledge of and a lien upon the State Debt Service Commitment. Assured Revenues, as more particularly defined by the Act and Master Indenture, include general revenues from fees, tuition and other like charges, grants and gifts, all to the extent not otherwise pledged, as well as annual State appropriations for operating expenses and the annual amounts of the State Debt Service Commitment. Assured Revenues do not include patient revenues or any other revenues derived from clinical operations of the University. The 2005 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 2005 Series A Bonds and, accordingly, is not planning to budget any of the other Assured Revenues for the payment of the Bonds, including the 2005 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 to \$2,262 million, 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 of such disapproval 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 2005 Series A Bonds and the Eleventh Supplemental Indenture was submitted to the Governor on April 7, 2004 and has been deemed approved by the Governor.

Pursuant to the Act, the Bonds, including the 2005 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 2005 Series A Bonds. The issuance of the 2005 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 2005 Series A Bonds. The University has no taxing power.

However, pursuant to the Act, the 2005 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

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy (the "Policy") for the Bonds maturing on February 15 of the years 2011 through 2025, inclusive (the "Insured Bonds"). The Policy guarantees the scheduled payment of principal of and interest on the Insured Bonds when due as set forth in the form of the Policy included as Appendix I-F to this Official Statement.

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

Financial Security Assurance Inc.

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

At September 30, 2004 Financial Security's total policyholders' surplus and contingency reserves were approximately \$2,255,933,000 and its total unearned premium reserve was approximately \$1,561,771,000 in accordance with statutory accounting practices. At September 30, 2004, Financial Security's total shareholder's equity was approximately \$2,612,989,000 and its total net unearned premium reserve was approximately \$1,286,985,000 in accordance with generally accepted accounting principles.

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

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

DESCRIPTION OF THE 2005 SERIES A BONDS

The 2005 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 2005 Series A Bonds will be dated the Date of Delivery and will mature on February 15 in each of the years and in the amounts and will bear interest payable semiannually on February 15 and August 15 in each year, commencing August 15, 2005, at the rates per annum set forth on the inside cover of this Official Statement. Interest will be calculated on the basis of a 360-day year of twelve 30 day months and will be paid to the person in whose name the Bond is registered as of the close of business on the last day of January and July in each year or the preceding business day if such last day is not a business day.

Principal of and interest on the 2005 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 2005 Series A Bonds maturing on and after February 15, 2016 will be subject to redemption prior to their maturity, at the election of the University upon the direction of the Treasurer at any time, on or after February 15, 2015, 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 2005 Series A Bonds, all notices of redemption will be sent only to DTC.

Sources and Uses of Proceeds of the 2005 Series A Bonds

The University expects to apply the proceeds from the sale of the 2005 Series A Bonds as follows:

Sources

Par Amount of the 2005 Series A Bonds.....	\$ 98,110,000.00
Net Original Issuance Premium.....	<u>3,004,101.20</u>
Total Sources.....	<u>\$101,114,101.20</u>

Uses

Construction Account.....	\$100,000,000.00
Costs of Issuance Account*.....	434,740.38
Underwriters’ Discount.....	<u>679,360.82</u>
Total Uses.....	<u>\$101,114,101.20</u>

*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.

Book-Entry-Only System

Unless otherwise noted, the description which follows of the procedures and record-keeping with respect to beneficial ownership interests in the 2005 Series A Bonds, payment of interest and other payments on the 2005 Series A Bonds to DTC Participants (as hereinafter defined) or Beneficial Owners (as hereinafter defined) of the 2005 Series A Bonds, confirmation and transfer of beneficial ownership interests in the 2005 Series A Bonds and other bond-related transactions by and between DTC (as hereinafter defined), the DTC Participants and Beneficial Owners of the 2005 Series A Bonds is based solely on information provided on the DTC's website and presumed to be reliable. Accordingly, the University, the State and the Trustee do not and cannot make any representation concerning these matters.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2005 Series A Bonds. The 2005 Series A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2005 Series A Bonds certificate will be issued for each maturity of the 2005 Series A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity, 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 2005 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2005 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2005 Series A Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written 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 2005 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 2005 Series A Bonds, except in the event that use of the book-entry system for a Series of the 2005 Series A Bonds is discontinued.

To facilitate subsequent transfers, all 2005 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 2005 Series A Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2005 Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2005 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 DTC. If less than all of the 2005 Series A Bonds within a maturity of the 2005 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 such other DTC nominee) will consent or vote with respect to the 2005 Series A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 2005 Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and payments on the 2005 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, upon DTC's receipt of funds and corresponding detail information from the Trustee, the Paying Agent, the University or the State on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], the 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 redemption proceeds, distributions, and payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the Trustee, the University or the State, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The University, the State and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the 2005 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 2005 Series A Bonds, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the 2005 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 2005 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 2005 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 2005 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 2005 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 2005 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 2005 Series A Bonds of a series may thereafter be exchanged for an equal aggregate principal amount of 2005 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 2005 Series A Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the 2005 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 2005 Series A Bonds.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the University believes to be reliable, but the University takes no responsibility for the accuracy thereof.

Effect of Discontinuance of Book-Entry System. The following procedures shall apply if the book-entry system is discontinued with respect to the 2005 Series A Bonds.

Principal and Interest Payments. Principal of the 2005 Series A Bonds will be payable at the corporate trust office of the Trustee in Hartford, Connecticut, and interest on the 2005 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 2005 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 2005 Series A Bonds, and, upon presentation of

2005 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 2005 Series A Bonds. Any 2005 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 2005 Series A Bond for cancellation, accompanied by delivery of a written instrument of transfer executed in a form approved by the Trustee. Whenever any 2005 Series A Bond shall be surrendered for transfer, the University shall execute and the Trustee shall authenticate and deliver a new 2005 Series A Bond and maturity and for a like aggregate principal amount. The Trustee is not required to transfer or exchange any 2005 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.

The UCONN 2000 program is to be funded in the amount of \$2,262 million by the proceeds of 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 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.

The 2005 Series A Bonds represent the eleventh series of General Obligation Bonds being issued pursuant to the Act and the Master Indenture. To date, pursuant to the Indentures, \$1,012,000,000 of General Obligation Bonds have been authorized to be issued for UCONN 2000 projects, of which \$912,000,000 have been issued (par amount of \$906,055,000 of Bonds plus \$5,945,000 of original issue premium to total \$912,000,000 available for projects) (excluding Costs of Issuance), resulting in an unissued balance of \$100,000,000 prior to the issuance of the 2005 Series A Bonds. In addition, the University has authorized and in 2004 issued its \$216,950,000 General Obligation Bonds, 2004 Refunding Series A to refund \$223,160,000 of its prior 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, \$29,140,000 of which remains outstanding as of the date of this Official Statement. See Appendix I-A under the subsection “UNIVERSITY FINANCES-University Indebtedness and Capitalized Lease Obligations.” A Special Capital Reserve Fund is not available to secure the 2005 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 under the subsection "UNIVERSITY FINANCES - Gifts to the University of Connecticut Foundation, Inc."

Construction of Projects. The UConn Infrastructure Improvement Program currently comprises numerous projects ranging in cost from under \$1,000,000 to over \$200,000,000. Phase I and phase II projects are 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.

Recent Events

In August 2004, the University discovered a problem with the ventilation system at Hilltop apartments. In response to the problem, the University secured the services of architectural firms specializing in code compliance, as well as the services of a mechanical engineering firm, to perform detailed code inspection work, to assess the nature and extent of code violations, and develop recommended solutions to be integrated into a corrective action plan. Code violations were identified in the Hilltop apartments, Husky Village residential complex and Charter Oak apartments and suites.

The University Fire Marshal's office with the concurrence of the State Fire Marshal's office has assured the University that the buildings in these complexes remain safe for occupancy. These buildings, and all other University residence halls, have automatic sprinkler systems, fire doors for egress, automatic door closers, and smoke/fire/heat alarm systems hardwired to the University's Fire Department for fire safety protection. In addition, residence halls with gas-fired equipment have carbon monoxide detectors.

Most of the identified problems have been corrected. All work has proceeded in collaboration with the Offices of the State Fire Marshall and the State Building Inspector. Corrective action on remaining items will continue; some may await summer break so as to minimize disruption to students. Since the code violations date to the construction of the buildings, the University is pursuing all available remedies with regard to the contractors and design professionals involved. The University also has taken personnel action, and is reviewing supervision, program policies and procedures, and reporting/organizational structure in order to identify and control weaknesses that may have contributed to these code compliance issues.

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 2005 Series A Bonds, or in any way contesting or affecting the validity of the 2005 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 2005 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 2005 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 2005 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 2005 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 2005 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 2005 Series A Bonds are subject to the approval of Pullman & Comley, LLC, Hartford, Connecticut, Bond Counsel to the University, and the Law Offices of Joseph C. Reid, P.A., New York, New York, as Co-Bond Counsel to the University. Bond Counsel and Co-Bond Counsel propose to deliver their approving opinions with respect to the 2005 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 currently serves 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 2005 Series A Bonds in order that interest on the 2005 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 Agreement of the University and the Treasurer which will be delivered concurrently with the delivery of the 2005 Series A Bonds will contain representations, covenants and procedures relating to compliance with such requirements of the Code. Pursuant to the Tax Regulatory Agreement, 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 opinions of Pullman & Comley, LLC and the Law Offices of Joseph C. Reid, P.A., rendered in reliance upon and assuming the accuracy of and continuing compliance by the University and the Treasurer with their representations and covenants relating to certain requirements of the Code, under existing law, interest on the 2005 Series A Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the federal alternative minimum tax, such interest is taken into account in determining adjusted current earnings for purposes of computing the federal alternative minimum tax. For other federal tax information, see “Original Issue Discount”, “Original Issue Premium” and “Other Federal Tax Matters” herein.

Original Issue Discount

The initial public offering prices of certain maturities of the 2005 Series A Bonds (the “OID Bonds”) may be 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 2005 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 2005 Series A 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 is 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 OID that accrues in each year to such an owner of an OID Bond will be included in the calculation of the corporation’s federal alternative minimum tax liability. As a result, ownership of an OID Bond by such a corporation may result in an alternative minimum tax liability even though such owner has not received a corresponding cash payment.

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

Original Issue Premium

The initial public offering prices of certain maturities of the 2005 Series A Bonds (the "OIP Bonds") may be more than their stated principal amounts. An owner who purchases a 2005 Series A Bond at a premium to its principal amount must amortize bond premium as provided in applicable Treasury Regulations, and amortized premium reduces the owner's basis in the OIP Bonds for federal income tax purposes. Prospective purchasers of OIP Bonds should consult their tax advisors regarding the amortization of premium and the effect upon basis.

Other Federal Tax Matters

In addition to the matters addressed above, prospective purchasers of the 2005 Series A Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation, financial institutions, certain insurance companies, S corporations, foreign corporations subject to the branch profits tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the 2005 Series A Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Legislation affecting the exclusion from gross income of interest on bonds is regularly under consideration by the United States Congress. There can be no assurance that legislation enacted or proposed after the date of issuance of the 2005 Series A Bonds will not have an adverse effect upon the tax-exempt status or the market price of the 2005 Series A Bonds.

State Taxes

In the opinions of Pullman & Comley, LLC and the Law Offices of Joseph C. Reid, P.A., under existing statutes, interest on the 2005 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.

Interest on the 2005 Series A Bonds is included in gross income for purposes of the Connecticut corporation business tax.

Accrued original issue discount on a 2005 Series A Bond is also excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

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

Owners of the 2005 Series A Bonds should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the 2005 Series A Bonds and the disposition thereof.

General

The opinions of Pullman & Comley, LLC and the Law Offices of Joseph C. Reid, P.A. are rendered as of their date, and Pullman & Comley, LLC and the Law Offices of Joseph C. Reid, P.A. assume no obligation to update or supplement their opinions to reflect any facts or circumstances that may come to their attention or any changes in law or the interpretation thereof that may occur after the date of their opinions.

The discussion above does not purport to deal with all aspects of federal, state or local taxation that may be relevant to a particular owner of a 2005 Series A Bond. Prospective owners of the 2005 Series A Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal, state and local tax consequences of owning and disposing of the 2005 Series A Bonds.

RATINGS

The 2005 Series A Bonds with stated maturities of February 15, 2006 through February 15, 2010 inclusive 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 IBCA, Inc. (“Fitch”), One State Street Plaza, New York, New York.

The 2005 Series A Bonds with stated maturities of February 15, 2011 through February 15, 2025 inclusive have been rated “Aaa” by Moody’s Investors Service (“Moody’s”), 99 Church Street, New York, New York, “AAA” 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 “AAA” by Fitch IBCA, Inc. (“Fitch”), One State Street Plaza, New York, New York, with the understanding that upon delivery of the 2005 Series A Bonds, a municipal bond insurance policy will be issued by Financial Security Assurance Inc. 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 2005 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 2005 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 2005 Series A Bonds under the Rule has included an article (the “Continuing Disclosure Article”, a summary of which is set forth in Appendix I-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 2005 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 2005 Series A Bonds shall be conditioned upon their receiving, at or prior to the delivery of the 2005 Series A Bonds, an executed copy of the Continuing Disclosure Undertaking.

The State has never defaulted in its obligation to provide annual financial information pursuant to a Continuing Disclosure Agreement executed by the State except for a failure to make a timely provision to the nationally recognized municipal securities information repositories (the “NRMSIRs”) by February 28, 2005 of audits of its financial statements and certain operating data comparing operating results and unreserved fund

balances on a budgetary and GAAP basis for its fiscal year ending June 30, 2004, as required under the State's various continuing disclosure agreements in connection with certain of its prior bond issues. The operating data is included in Part III. As soon as the audits are available they will be filed with the NRMSIRs. The State experienced delays in completing its financial statements due to implementation of a new financial management software system, which has resulted in delays in completing its audits, as explained in Part III. The State has filed with the NRMSIRs its financial statements and other operating data, which has not been audited, but which the State believes to be accurate in all material respects.

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 2005 Series A Bonds from the University at an aggregate purchase price of \$100,434,740.38 (representing the aggregate principal amount of the 2005 Series A Bonds plus net original issue premium of \$3,004,101.20 and less Underwriters' discount of \$679,360.82). The 2005 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 2005 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 2005 Series A Bonds.

FINANCIAL STATEMENTS OF THE UNIVERSITY AND THE STATE

Included in Appendix I-A of Part I is various financial information relating to the University. The audited financial statements of the University (excluding the University of Connecticut Foundation) contained in Schedule 1 and Schedule 2 have been included herein in reliance upon the Certificates of Audit of the Auditors of Public Accounts of the State, each dated December 29, 2004.

Included in Appendices III-C and III-D of Part III is various financial information relating to 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 2005 Series A Bonds.

This Official Statement is submitted only in connection with the issuance and sale of the 2005 Series A Bonds by the University and may not be reproduced or used in whole or in part for any other purpose.

Dated: March 10, 2005

Pursuant to the UCONN 2000 Act,
the 2005 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**

UNIVERSITY OF CONNECTICUT

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

By: /s/ Lorraine M. Aronson
Lorraine M. Aronson
Vice President and
Chief Financial Officer

**APPENDIX I-A
UNIVERSITY OF CONNECTICUT
INFORMATION CONCERNING THE UNIVERSITY**

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**APPENDIX I-A
UNIVERSITY OF CONNECTICUT**

March 10, 2005

This Appendix I-A, furnished by the University of Connecticut (the “University”) contains information through March 10, 2005, except as expressly provided herein. This Appendix A and the schedules attached hereto should be read collectively and in their entirety.

Board of Trustees

The Honorable M. Jodi Rell, Governor, ex-officio
The Honorable Betty J. Sternberg, Commissioner of Education, ex-officio
The Honorable Bruce Gresczyk, Commissioner of Agriculture, ex-officio

John W. Rowe, M.D., Chairman
Louise M. Bailey, Secretary

James F. Abromaitis
Philip P. Barry
William R. Berkley
Andrea Dennis-LaVigne, D.V.M.
Peter S. Drotch
Linda P. Gatling
Lenworth M. Jacobs, Jr., M.D.

Stephen A. Kuchta
Rebecca Lobo
Michael J. Martinez
Denis J. Nayden
Michael J. Nichols
Thomas D. Ritter, Esq.
Richard Treibick

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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 Storrs Agricultural 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 2004, the University had over 166,000 alumni and 27,579 students (including the Health Center) studying in 17 colleges and schools offering eight undergraduate and 19 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, the Commissioner of Education and the Commissioner of Agriculture 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 Health Center maintains a separate budget and is by statute a separate entity 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. Information concerning the Health Center is included under the heading "UNIVERSITY OF CONNECTICUT HEALTH CENTER" below in this Appendix A.

Membership as of January, 2005. The name, term, position and affiliation or profession of each member of the Board of Trustees is as follows:

<u>Name</u>	<u>Term Ends</u>	<u>Position</u>	<u>Affiliation/Profession</u>
The Honorable M. Jodi Rell		President ex-officio	Governor of the State of Connecticut
The Honorable Bruce Gresczyk		Member ex-officio	Commissioner of Agriculture
The Honorable Betty J. Sternberg		Member ex-officio	Commissioner of Education
John W. Rowe, M.D.	2009	Chair	Chairman and CEO, Aetna Inc.
Louise M. Bailey	2009	Secretary and Vice-Chair	Government Affairs Consultant
The Honorable James F. Abromaitis	2007	Member	Commissioner of Economic and Community Development, State of Connecticut
Philip P. Barry	2005	Member	Retired University Employee and Former Member of Mansfield Town Council
William R. Berkley	2005	Vice-Chair	Chairman and CEO, W. R. Berkley Corporation
Andrea Dennis-LaVigne, D.V.M.	2007	Member	Veterinarian, Bloomfield Animal Hospital
Peter S. Drotch	2007	Member	Retired Partner, PricewaterhouseCoopers LLP
Linda P. Gatling	2009	Member	Teacher, Southington Public Schools
Lenworth M. Jacobs, Jr., M.D.	2007	Vice-Chair	Surgeon, Hartford Hospital
Stephen A. Kuchta	2006	Member	Graduate Student, University of Connecticut
Rebecca Lobo	2009	Member	Sports Broadcaster
Michael J. Martinez	2005	Member	President, Martinez & Associates, LLC
Denis J. Nayden	2007	Vice-Chair	Managing Partner, Oak Hill Capital
Michael J. Nichols	2005	Member	Student, University of Connecticut
Thomas D. Ritter, Esq.	2005	Member	Attorney, Brown Rudnick Berlack Israels LLP
Richard Treibick	2005	Vice-Chair	Chairman of the Board, Alexcom, Inc.

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.

During fiscal year 2004, the Board of Trustees restructured and expanded the role of its Joint Audit and Compliance Committee, with a charge that includes oversight of all University financial reporting and processes and internal control systems, as well as direct engagement in the approval of independent auditing services to augment the University's internal audit capacity and the work performed by the Auditors of Public Accounts. In addition, the University's internal audit function has been reorganized and expanded with the infusion of additional resources. While the provisions of the Sarbanes-Oxley Act may be designed for private corporate entities, under the Board's guidance the University is moving forward in keeping with the spirit of the Sarbanes-Oxley Act and is continuing to strengthen its audit, compliance and risk assessment functions.

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 of the University.

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

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

<u>Name</u>	<u>Position</u>	<u>Background</u>
Peter J. Nicholls	Provost and Executive Vice President for Academic Affairs	Ph.D. Mathematics, Cambridge University (England), 1970; 34 years in higher education including Kansas State and Northern Illinois University; 3 years in an administrative capacity at Colorado State 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; 20 years administrative and clinical experience served at the University of Connecticut Health Center.
Lorraine M. Aronson	Vice President and Chief Financial Officer	B.A., Harvard University; J.D., Boston University School of Law; over 28 years in administration, including as Deputy Commissioner of the Connecticut State Department of Education, Commissioner of the Connecticut Department of Income Maintenance (now called Social Services), Deputy Secretary of the Connecticut Office of Policy and Management and various positions at 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. Assistant Attorney Generals are in residence at the Storrs campus and at the Health Center. The University also retains private counsel on occasion through the Office of the Attorney General. The Act authorizes the University, independent of the Attorney General's Office, 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 61 percent and minority enrollment is up 77 percent at the main campus. The average SAT score of the freshman class for Fall 2004 was 64 points higher than the entering class of Fall 1996. The number of Honors Scholars has increased from 207 in Fall 1995 to 266 in Fall 2000 which reflects a growth of 29 %, and the number of out-of-state freshmen has increased from 436 in 1995 to 997 in Fall 2004 which reflects a growth of 129%.
- 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 and Maritime Studies at Avery Point, and Urban and Community Studies, Psychology, Family Studies, and Nursing at Tri-Campus. The Board of Trustees has recently approved Bachelors programs in American Studies for Tri-Campus.
- Over 80% of the first year students, including students at the regional campuses, 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 which will, in turn, promote the University's "Finish in Four" initiative to provide comprehensive planning and services to help students graduate within four years.

- The Honors Program grows in strength and prestige through a quality program that attracts high-achieving students through individual attention, opportunities for research, projects, theses, small honors seminars and a sense of community. On average, first-year Honors students have a combined score of 1380 on the SAT (31 on the ACT) and a class rank in the top 4 percent.
- 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.
- Continued investment in our high-technology classrooms has brought a multiplicity of instructional options to the faculty, one of which is the ability to teach across campus boundaries through the installation of Internet Protocol (IP) video communications from classroom to classroom.
- In January 2004, the Center for Undergraduate Education (CUE) opened in the center of campus across from the library. CUE provides one-stop shopping for students' academic needs and houses units that include the Writing and Quantitative Centers, the Advising Center for Exploratory Students, the First Year Experience, Study Abroad, Individualized Major, Undergraduate Research, Honors, the Office of National Scholarships, Student Support Services, the Institute for Teaching and Learning and Career Services.
- The University has implemented living/learning environments for students throughout the campus. Special programming for the Living/Learning Communities is provided by all Schools and Colleges in order to involve students in the academic and co-curricular life of the University through infusing an intellectual component into residence halls.

Significant Improvements and Achievements Fiscal Year 2004

The University is nationally recognized for the quality of its programs. The following institutional rankings are recent examples of this recognition:

- The University continued to be the best public university in New England in the annual U.S. News & World Report rankings. It was ranked 25th among 162 public universities in the nation.
- The University's graduate and professional programs were highly rated by U.S. News in the latest issue of America's Best Graduate Schools. Among public graduate and professional programs nationwide, UConn ranked: 17th in the health discipline of Audiology; 20th in Law; 21st in Education doctoral programs (14th in the Elementary Education doctoral specialty); 22nd in Medical Schools-Primary Care; 27th in Business master's programs (14th in the Information Systems graduate specialty); 28th in Medical Schools-Research; 39th in Engineering; 39th in Public Administration master's (5th in the specialty of Public Finance and Budgeting); 41st in Clinical Psychology; and 46th in Social Work. The U.S. News rankings are based on expert opinion about program quality and statistical indicators of quality of faculty, research, and students.
- The MBA Program was included in the Forbes "Top 50", among 1,200 business schools nationwide, for best return on investment and was a "Top Pick" by The Wall Street Journal.

Business Week also has listed the University as a “Best B-School”. The University’s undergraduate real estate program in Business was ranked 7th in the nation by U.S. News.

- OR/MS Today, an industry journal for operations research/management sciences, ranked the Department of Operations and Information Management 7th in the world for research productivity in key journals.
- The Department of Journalism joined an elite list of programs, becoming one of only about 100 programs in the world and the only journalism program in New England, to be accredited by the Accrediting Council on Education in Journalism and Mass Communication. The accrediting team cited the department’s service to a large number of majors and its accommodation of non-journalism students in its introductory writing course.
- The University, including both the Health Center and the Storrs-based programs, ranked 68th among all institutions and 46th among public universities nationwide in research and development expenditures, as measured by the National Science Foundation.

External support of the University and its academic and research programs continues to be outstanding, as the following examples indicate:

- Campaign UConn, the University’s \$300 million six-year capital campaign, far exceeded its goal when it ended June 30, 2004. Donations totaled \$471 million, including \$146 million gift-in-kind of computer software donated to the School of Engineering. Gifts and pledges were received from 115,000 corporations, charitable foundations and individuals. More than 61,000 were first-time donors. Most of the money will go toward programs, scholarships, and the hiring of faculty, including endowed chairs. About one-fifth of the money was designated for athletics.
- The Carnegie Corporation of New York named the University one of seven institutions nationwide to be designated as a “Teachers for a New Era” school and awarded a five-year, \$5 million grant to be shared by the University’s Neag School of Education and College of Liberal Arts and Sciences to improve the quality of teachers in the classroom. Part of the grant will be used to establish a Center for Collaborative Learning with academies of faculty and doctoral students focusing on seven areas: assessment, analysis and development; teaching and learning; technological advancement; numeration and literacy; multicultural issues; continuous learning; and research and practice.
- The History Department was one of ten departments of history nationwide to be selected to participate in the Carnegie Initiative on the Doctorate, a three-year research and action project aimed at improving doctoral education at American universities. The project is sponsored by the Atlantic Philanthropies and the Carnegie Foundation for the Advancement of Teaching.
- UGS PLM Solutions, a product lifecycle management subsidiary of EDS, the world's largest independent information technology services company, donated a software grant with a commercial value of \$146.1 million -- the largest contribution ever received by the University. The gift-in-kind from EDS will provide students and faculty in the School of Engineering with a suite of leading industry software for computer aided design, computer aided manufacturing, computer aided engineering, collaborative visualization, finite element analysis, optimization programs, and advanced solid modeling.
- The Chemistry Department was awarded \$4.2 million from *I'm PACT World Ltd.*, a Japanese corporation, to endow the Yuji Hayashi Distinguished Chair in Plasma Chemistry. Plasma chemistry provides significant advances in catalysis, energy use, enhanced efficiency of vehicles, improvements in fuel cell applications and improvements in clean processing of chemicals and materials.

- The School of Pharmacy received a \$2 million gift from Pfizer Global Research and Development, a division of Pfizer Inc., to endow the Distinguished Endowed Chair in Pharmaceutical Technology, the applied science for development of medicinal agents and dosage forms. It is the first Distinguished Chair and the largest single gift ever received by the school. With the addition of the Pfizer Chair, the University now has a total of 47 endowed chairs and 12 endowed professorships, including 24 chairs at the Health Center and one chair and three professorships at the School of Law.

The University's student services in general and intercollegiate athletics in particular receive nation-wide attention and acclamation. For example:

- The University has the fifth largest residential program and the highest percentage of students living on campus of any public university nationally, according to the Association of College and University Housing Officers International. More than 11,000 students live on the main campus at the University, including 74% of the Storrs undergraduate population.
- Usage of the Storrs campus bus system has more than doubled since 1998, leading the Federal Transit Administration to recognize the University as a model for the region. The University's campus transit system was ranked with the campus systems in Seattle, Knoxville, and Birmingham for the number of riders.
- The University's twin NCAA national championships in men's and women's basketball made NCAA Division 1 Basketball history, as this was the first time the same school won the men's and women's basketball championships in the same year. Nearly 300,000 attended a parade in Hartford to honor the teams.

The University provides national and international leadership in a variety of public service arenas, including technologies and training for homeland security and emergency response programs, human rights and ecological conservation:

- The School of Engineering organized and hosted the International Conference on Advanced Technologies for Homeland Security. The conference explored technical challenges involved in homeland security: recognition and identification, biological and chemical threat detection, secure information systems, secure infrastructures and the politics of homeland security policy. More than 500 attended the conference, including faculty from 25 research universities, scientists from federal research centers and representatives of defense contractors and high tech industries.
- The College of Continuing Studies also was involved in activities for the Division of Homeland Security: an education center for training first responders and overseeing exercises in terrorist attack simulations, and citizen corps and communication emergency response teams for coordinating statewide training programs. The college also established a management development program for the U.S. Bureau of Customs and Border Protection.
- Two world leaders were awarded the inaugural Thomas J. Dodd Prize in International Justice and Human Rights by the University. Prime Minister Tony Blair of Great Britain and Taoiseach (Prime Minister) Bertie Ahern of Ireland were honored for developing the Good Friday Agreement, a blueprint for peace and justice following decades of conflict in Northern Ireland. Senator Christopher Dodd presented the awards, which were named for his late father, a U.S. senator from 1959 to 1971 and executive trial counsel during the post-World War II Nuremberg Trials.
- More than 21,000 plant enthusiasts visited the Ecology and Evolutionary Biology Conservatory to see the blooming of the titan arum (*Amorphophallus titanum*), also known as the corpse flower. This is the first time a titan arum, the world's largest un-branched inflorescence and most

malodorous plant, has bloomed in New England, and the first time a bloom has appeared in the Northeast since 1937. More than two million hits were recorded on the University's website Web cam that provided continuous coverage of the plant's progress until it bloomed. The University plant is ten years old, grown from seed collected in the equatorial rainforests on the Indonesian island of Sumatra. The Conservatory is home to about 3,000 species of plants, is utilized by dozens of research projects in biology, conservation, and plant ecology, and serves some 50 University classes.

Status of UCONN 2000 Projects

The following table lists the UCONN 2000 Projects, the funding source and the status of the project:

<u>Projects Authorized</u>	<u>Project Status</u> ¹
<u>General Obligation Bonds</u>	
<u>Total – Storrs and Regional Campus Project List</u>	
Agricultural Biotechnology Facility	Completed August 2002
Agricultural Biotechnology Facility Completion	Completed August 2002
Alumni Quadrant Renovations ⁴	Completed August 2002
Arjona and Monteith (new classroom buildings)	Planning
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	Design and Construction
Benton State Art Museum Addition	Completed December 2003
Business School Renovations	Completed December 2003
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
Deferred Maintenance/Code/ADA Renovation Lump Sum	Design
East Campus North Renovations ⁴	Completed August 2003
Equipment, Library Collections & Telecommunications - Phase I	Completed
Equipment, Library Collections & Telecommunications - Phase II	Continuing
Farm Buildings Repairs/Replacement	Continuing
Gant Plaza Deck	Completed September 2001
Gentry Renovations	Completed July 2004
Grad Dorm Renovations	Completed August 2003
Heating Plant Upgrade ²	Construction
Hilltop Dormitory Renovations	Completed October 2001
Ice Rink Enclosure	Completed November 1998
International House Conversion	Completed May 2001
Intramural, Recreational and Intercollegiate Facilities	Construction
Lakeside Renovation	Design
Law School Renovations/Improvements	Design
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
Natural History Museum Completion	Design
North Campus Renovation ⁴	Completed August 2003
North Hillside Road Completion	Design
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
Residential Life Facilities	Planning
School of Business - New	Completed September 2001
School of Pharmacy	Construction
Shippee/Buckley Renovations ⁴	Completed August 2002
South Campus Complex ⁶	Completed January 1999
Stamford Campus Improvements	Design
Stamford Downtown Relocation	Completed December 1998
Student Union Addition	Construction
Technology Quadrant-Phase IA ³	Completed December 2002
Technology Quadrant-Phase II	Completed May 2003
Torrey Life Science Renovation	Design and Construction
Torrey Renovation Completion and Biology Expansion	Planning
Towers Renovation ⁴	Completed August 2003
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	Completed August 2004
West Hartford Campus Renovations/Improvements	Design
White Building Renovation	Completed May 1999
Wilbur Cross Building Renovation	Completed August 2002

HEALTH CENTER

CLAC Renovation Biosafety Level 3 Lab	Planning
Deferred Maintenance/Code/ADA Renovation Lump Sum - Health Center	Design
Dental School Renovation	Design
Equipment, Library Collections and Telecommunications - Health Center	Continuing
Library/Student Computer Center Renovation	Planning
Main Building Renovation	Planning
Medical School Academic Building Renovation	Planning
Research Tower	Planning

Special Obligation Student Fee Revenue Bonds

Alumni Quadrant Renovations ⁴	Completed August 2002
East Campus North Renovations ⁴	Completed August 2003
Hilltop Dormitory New ⁵	Completed August 2001
Hilltop Student Rental Apartments ⁵	Completed August 2001
North Campus Renovation (including Suites & Apartments) ⁴	Completed August 2003
Parking Garage-South ⁵	Completed November 2002
Shippee/Buckley Renovations ⁴	Completed August 2002
South Campus Complex ⁶	Completed January 1999
Towers Renovation (including Greek Housing) ⁴	Completed August 2003

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, signed a Fronting Agreement whereby Liberty Mutual agreed to pay the University \$25.3 million to complete the project.

⁴ Partially funded with proceeds from the University's General Obligation Bonds and partially funded with the proceeds of the University's 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 the University's 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 2004, 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 27,000 in the 2004-2005 academic year. The University is involved in over a \$2.3 billion construction program for UCONN 2000 for which the proceeds of the 2005 Series A Bonds will be used. See "UCONN 2000 INFRASTRUCTURE IMPROVEMENT PROGRAM" in this Official Statement.

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, 14 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 ranks the University 51 out of 374 public universities in the country in research and development spending. The Carnegie Foundation classifies the institution with only 150 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 5,489 matriculated graduate students at both the master's and doctoral levels in academic year 2003-2004, approximately 2,100 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 2004-2005, undergraduate degree enrollment increased by 4.8% (including an 3.8% increase in freshmen); and graduate degree student enrollment increased by 1.0%. Law school enrollment increased by 1.7%. 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)¹ Fall 2000 - 2004

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Undergraduates					
Storrs	13,208	14,030	14,693	15,163	15,722
Regional Campuses ²	<u>3,473</u>	<u>3,600</u>	<u>3,969</u>	<u>4,124</u>	<u>4,429</u>
Total	16,681	17,630	18,662	19,287	20,151
Graduates/Professionals³	6,254	5,950	6,711	6,869	6,943
Health Center					
Medicine	324	316	311	312	318
Dental Medicine	<u>160</u>	<u>155</u>	<u>158</u>	<u>161</u>	<u>167</u>
Total	<u>484</u>	<u>471</u>	<u>469</u>	<u>473</u>	<u>485</u>
GRAND TOTAL	<u>23,419</u>	<u>24,051</u>	<u>25,842</u>	<u>26,629</u>	<u>27,579</u>

¹ Includes non-degree and part-time students.

² Includes miscellaneous locations.

³ Includes master's and doctoral students at all campuses, including the Health Center, and students in the professional degree programs in Law and Pharmacy.

Percentage of Enrollment by Residence Status Fall 2000 – 2004

	<u>Undergraduate</u>				<u>Graduate/Professional</u>	
	<u>Storrs Campus</u>		<u>Total University</u>		<u>Total University (excl. Schools of Medicine and Dental Medicine)</u>	
	<u>In-State</u>	<u>Out-of-State</u>	<u>In-State</u>	<u>Out-of-State</u>	<u>In-State</u>	<u>Out-of-State</u>
Fall 2000	78.9%	21.1%	83.0%	17.0%	77.7%	22.3%
Fall 2001	76.9%	23.1%	81.2%	18.8%	76.0%	24.0%
Fall 2002	76.1%	23.9%	80.5%	19.5%	69.0%	31.0%
Fall 2003	75.5%	24.5%	80.2%	19.8%	70.1%	29.9%
Fall 2004	75.4%	24.6%	80.1%	19.9%	70.4%	29.6%

**Schedule of Freshmen Enrollment - All Campuses
Fall 2000 - 2004**

<u>Fall</u>	<u>Freshmen Applications</u>	<u>% Change in Applications</u>	<u>Accepted</u>	<u>Enrolled</u>	<u>% Change in Enrolled</u>	<u>Enrolled as a % of Accepted</u>
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%
2004	19,574	4.4%	11,584	4,275	3.8%	36.9%

Admissions. The University of Connecticut is rated as “very competitive” by Barron’s Profiles of American Colleges, Edition 26 for 2005. For the past nine 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 2000 – 2004**

<u>Fall</u>	<u>Storrs Campus</u>	<u>Regional Campuses</u>	<u>State of Connecticut Average</u>	<u>National Average</u>
2000	1140	1020	1017	1019
2001	1140	1008	1019	1020
2002	1149	1012	1018	1020
2003	1167	1018	1026	1026
2004	1177	1035	1030	1026

Tuition and Other Fees (Storrs and Regional Campuses)

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 2005, students classified as full-time undergraduate residents of Connecticut pay tuition of \$5,772. Full-time out-of-state undergraduates pay \$17,604 per year. In the 2004 academic year, total tuition revenues were \$136.8 million of which \$59.3 million were out-of-state tuition revenues. Undergraduate degree seeking students accounted for 85.7% of tuition revenues in the 2004 academic year. In June 2004, the Board of Trustees approved a tuition rate increase of 5.6% over the 2005 rate for academic year 2006.

Mandatory Fees. For academic year 2005, undergraduate students must pay a General University Fee of \$1,200 per year. Students also pay \$518 per year in other fees, of which \$144 is for various student-controlled organizations, \$308 is for infrastructure maintenance, \$40 is a transit fee, and \$26 is for a Student Union Building Fee. For academic year 2004, the General University fee generated \$18.0 million of revenue. In June 2004, the Board of Trustees approved increases in mandatory fees for academic year 2006 to the following amounts: General University Fee - \$1,272 and other fees - \$544. Commencing in 1998, 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.

Other Fees. There are numerous optional fees at the University. The primary optional fees for the academic year 2005 are the room (\$3,872) and board (\$3,532) fee, which includes the charge for

technology services (\$250) and parking and transportation. In June 2004, the Board of Trustees approved an increase in the Room Fee for 2006 to \$4,104 and the Board Fee to \$3,744.

**Annual Cost of an Undergraduate In-State Student Enrolled at the University
Academic Years 2001– 2005**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Tuition	\$ 4,282	\$ 4,448	\$ 4,730	\$ 5,260	\$ 5,772
Room & Board	6,062 ¹	6,298	6,542	6,888	7,404
General University Fee	958	994	1,032	1,092	1,200
Other Fees ²	<u>356</u>	<u>382</u>	<u>392</u>	<u>460</u>	<u>518</u>
TOTAL	\$11,658	\$12,122	\$12,696	\$13,700	\$14,894

¹ 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.

² 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 Tuition, Fees, Room and Board
for the University's Top Competitors,
for Fiscal Year 2004-2005**

	<u>In-State Student Cost</u>	<u>Out-of-State Student Cost</u>
Boston University	\$40,082	\$40,082
Boston College	\$39,351	\$39,351
Fairfield University	\$37,685	\$37,685
Northeastern University	\$36,946	\$36,946
Syracuse University	\$36,694	\$36,694
Providence College	\$33,325	\$33,325
University of Hartford	\$32,894	\$32,894
Quinnipiac College	\$32,400	\$32,400
University of Vermont	\$17,246	\$30,886
Pennsylvania State	\$17,008	\$26,936
University of New Hampshire	\$15,838	\$26,868
University of Maryland	\$15,340	\$26,640
University of Massachusetts	\$15,197	\$24,050
<i>University of Connecticut</i>	<i>\$14,894</i>	<i>\$26,726</i>
University of Rhode Island	\$14,562	\$26,148
University of Delaware	\$13,412	\$23,098

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 2004, 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 2004 academic year was \$30.0 million, of which 84% was provided to graduate assistants.

**Financial Aid to University Students
for Fiscal Years 2000 - 2004**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Scholarships/Grants					
Institutional	\$ 22,837,475	\$ 21,538,333	\$ 24,891,455	\$ 28,567,656	\$ 32,244,454
State - CT	7,184,256	8,173,545	8,683,447	8,153,671	7,792,037
State - Non CT	109,860	122,775	138,725	157,632	164,822
Federal Funds	6,035,420	6,716,856	8,110,336	8,685,342	9,305,797
Private	7,579,949	9,299,653	12,409,479	13,757,017	14,553,849
Total Scholarships/Grants	<u>43,746,960</u>	<u>45,851,162</u>	<u>54,233,442</u>	<u>59,321,318</u>	<u>64,060,959</u>
Loans					
Private	2,866,080	3,895,012	6,385,001	10,099,864	3,895,012
Federal	51,374,234	49,840,439	50,413,401	62,749,260	87,027,907
Total Loans	<u>54,240,314</u>	<u>53,735,451</u>	<u>56,798,402</u>	<u>72,849,124</u>	<u>90,922,919</u>
Student Employment					
University Student Payroll	8,564,241	8,879,451	9,537,588	10,263,498	10,880,971
Federal Work Study	1,339,723	1,321,277	1,231,242	1,269,757	1,232,696
Total Student Employment	<u>9,903,964</u>	<u>10,200,728</u>	<u>10,768,830</u>	<u>11,533,255</u>	<u>12,113,667</u>
GRAND TOTAL	<u><u>\$107,891,238</u></u>	<u><u>\$109,787,341</u></u>	<u><u>\$121,800,674</u></u>	<u><u>\$143,703,697</u></u>	<u><u>\$167,097,545</u></u>

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 University of Connecticut Foundation, Inc.) for the fiscal year ended June 30, 2004 are included as Schedule 1 and Schedule 2 to this Official Statement. See Explanatory Note below for information regarding the revised reporting format.

Below is a two-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 Fiscal Years 2000-2001

	<u>2000³</u>	<u>2001</u>
Revenues		
Tuition and Fees ¹	\$122,141,197	\$134,465,735
State Appropriations	234,872,559	238,381,846
Federal Grants & Contracts	48,111,674	57,982,340
State Grants & Contracts	20,339,588	19,909,298
Local Grants & Contracts	16,000	2,000
Private Gifts, Grants & Contracts	23,071,543	23,234,698
Investment Income	5,956,148	6,467,580
Sales & Service of Educational Activities	11,508,457	12,411,491
Sales & Service of Auxiliary ²	67,681,421	78,055,811
Other Sources	<u>7,149,818</u>	<u>9,320,834</u>
Total Current Revenues	<u>\$540,848,405</u>	<u>\$580,231,633</u>
Expenditures and Mandatory Transfers		
Education and General		
Instruction	\$157,545,658	\$171,004,504
Research	64,796,851	62,086,721
Public Service	22,650,386	29,015,612
Academic Support	63,745,185	61,724,033
Student Services	17,465,140	17,149,855
Institutional Support	43,835,480	42,236,499
Scholarships & Fellowships	36,452,073	41,270,209
Plant Operations	<u>34,439,472</u>	<u>40,732,089</u>
Total Education and General Expenditures	440,930,245	465,219,522
Mandatory Transfer for Debt Retirement	<u>8,706,751</u>	<u>13,918,507</u>
Total Education and General	449,636,996	479,138,029
Auxiliary Services Expenditures	<u>83,907,813</u>	<u>91,379,252</u>
Total Expenditures and Mandatory Transfers	<u>\$533,544,809</u>	<u>\$570,517,281</u>
Other Transfers and Additions (Deductions)		
Excess of Restricted Receipts		
Over Transfers to Revenues	\$ 1,851,590	\$ (1,748,585)
Transfers From:		
Unrestricted Funds	311,286	(691,774)
Restricted Funds		691,774
Loan Funds	225	12,163
Endowment Principal		
Transfers To:		
Unrestricted Funds	(311,286)	
Restricted Funds		
Endowment Principal	(57,637)	
Loan Funds	3,627	(116,909)
Plant Funds	<u>(3,564,624)</u>	(7,005,645)
Total Other Transfers and Additions (Deductions)	<u>\$ (1,766,819)</u>	<u>\$ (8,858,976)</u>
Net Income (Loss) in Fund Balance	<u>\$ 5,536,777</u>	<u>\$ 855,376</u>
Current Funds Fund Balance	<u>\$ 54,293,673</u>	<u>\$ 55,149,049</u>

¹Commencing in 1998, certain fees have been pledged for the payment of debt service of the University's Student Fee Revenue Bonds.

²Auxiliary Enterprise Revenues consist primarily of room and board fees and Athletic Department income.

³The comparative figures for fiscal year 2000 have not been restated to reflect the cumulative effect of the adoption of GASB Statement No. 33 that became effective with fiscal year 2001.

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 2000 – 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 three-year presentation of the Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2004, 2003 and 2002.

University of Connecticut
Statements of Revenues, Expenses and Changes in Net Assets
for the Years Ended June 30, 2004, 2003 and 2002

OPERATING REVENUES	<u>2004</u>	<u>2003</u>	<u>2002</u>
Student tuition and fees (Net of scholarship allowances of \$55,028,975 for 2004, \$49,728,391 for 2003 and \$46,734,320 for 2002. Revenues totaling approximately \$24,230,000 for 2004, \$21,912,000 for 2003 and \$19,978,000 for 2002 are used as security for revenue bonds.)	\$141,573,265	\$120,275,694	\$102,200,333
Federal grants and contracts	78,454,917	73,342,732	67,753,605
State and local grants and contracts	17,486,752	16,511,793	17,859,232
Nongovernmental grants and contracts	7,952,256	10,329,075	12,760,474
Sales and services of educational departments	12,166,016	13,514,914	12,020,682
Sales and services of auxiliary enterprises (Net of scholarship allowance of \$1,386,360 for 2004, \$1,283,335 for 2003 and \$824,538 for 2002. Net revenues totaling approximately \$17,195,000 for 2004, \$13,822,000 for 2003 and \$9,522,000 for 2002 are used as security for revenue bonds.)	104,784,446	89,438,533	81,002,139
Other sources (Net revenues totaling approximately \$3,098,000 for 2004, \$2,629,000 for 2003 and \$2,066,000 for 2002 are used as security for revenue bonds.)	<u>9,007,326</u>	<u>8,228,181</u>	<u>10,442,761</u>
Total Operating Revenues	<u>371,424,978</u>	<u>331,640,922</u>	<u>304,039,226</u>
OPERATING EXPENSES			
Educational and general			
Instruction	200,872,187	210,682,856	198,738,445
Research	61,993,855	56,170,809	49,310,979
Public service	29,480,541	25,125,045	21,754,712
Academic support	63,932,206	61,117,844	61,853,232
Student services	24,958,903	25,494,540	23,785,758
Institutional support	49,439,568	50,604,026	46,956,545
Operations and maintenance of plant	44,935,019	45,246,949	39,588,031
Depreciation	69,594,696	63,402,505	50,624,858
Student aid	548,932	557,919	241,509
Auxiliary enterprises	<u>102,573,786</u>	<u>93,185,331</u>	<u>90,957,783</u>
Total Operating Expenses	<u>648,329,693</u>	<u>631,587,824</u>	<u>583,811,852</u>
Operating Loss	<u>(276,904,715)</u>	<u>(299,946,902)</u>	<u>(279,772,626)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriation	256,467,347	258,751,010	259,447,742
State debt service commitment for interest	27,852,310	29,228,519	25,907,563
Gifts	15,319,152	18,936,287	16,202,233
Investment income (Income totaling approximately \$169,000 for 2004, \$857,000 for 2003 and \$1,077,000 for 2002 are used as security for revenue bonds.)	2,388,513	3,565,261	5,572,628
Interest expense	(37,817,551)	(39,794,329)	(33,955,787)
Other nonoperating revenues (expenses), net	<u>(6,802,412)</u>	<u>522,514</u>	<u>(2,715,738)</u>
Net Nonoperating Revenues	<u>257,407,359</u>	<u>271,209,262</u>	<u>270,458,641</u>
Loss Before Capital Additions (Deductions)	<u>(19,497,356)</u>	<u>(28,737,640)</u>	<u>(9,313,985)</u>
CAPITAL ADDITIONS (DEDUCTIONS)			
State debt service commitment for principal	91,635,000	96,210,000	100,000,000
Capital grants and gifts	8,243,365	7,558,843	12,316,127
Disposal of property and equipment, net	(4,190,358)	(2,454,738)	(3,102,251)
Capital other	<u>(19,566,305)</u>	<u>(2,405,030)</u>	<u>13,357,569</u>
Total Capital Additions (Deductions)	<u>76,121,702</u>	<u>98,909,075</u>	<u>122,571,445</u>
Increase in Net Assets	<u>56,624,346</u>	<u>70,171,435</u>	<u>113,257,460</u>
NET ASSETS			
Net Assets-beginning of year	1,298,894,632	1,228,723,197	1,203,523,254
Cumulative effects of changes in accounting principle	N/A	N/A	(88,057,517)
Net Assets-beginning of year, as adjusted	<u>1,298,894,632</u>	<u>1,228,723,197</u>	<u>1,115,465,737</u>
Net Assets-end of year	<u>\$1,355,518,978</u>	<u>\$1,298,894,632</u>	<u>\$1,228,723,197</u>

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 5% 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 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 funded by State general obligation bonds. Gifts or other revenue may finance the balance unless projects are deferred or savings are achieved. phase I for fiscal years 1996-99 totaled \$382 million, phase II for fiscal years 2000-05 totaled \$580 million and phase III for fiscal years 2005-2015 totals \$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 (Storrs and Regional Campuses)

Fiscal Year 2005. The fiscal year 2005 spending plan was presented to and approved by the Board of Trustees on June 22, 2004. Since its approval, the proposed spending plan was adjusted for a change in state fringe benefit rates. The 2005 spending plan includes total revenues of \$757.2 million and total expenditures of \$756.2 million, resulting in a net surplus of \$1.0 million which will be used to repay a draw down that was made by the University during fiscal year 2002 of \$11.5 million from the University's reserves. Such draw down was approved by the Board of Trustees in November 2001 and is

being used to partially finance the construction of the Towers Dining Center and the renovated Student Union.

Revenue. For fiscal year 2005, State support is budgeted at a level of \$269.7 million (appropriation/allotments \$197.0 million; fringe benefits \$72.7 million), an increase of \$13.2 million or 5.1% over the fiscal year 2004 amount. State support is the largest source of revenue for the University. Tuition is the second largest source of revenue (excluding waivers) and is budgeted at \$151.4 million, an increase of \$14.6 million or 10.7% over the fiscal year 2004 amount. Tuition revenue collections reflect a 9.7% rate increase coupled with a 4.8% increase in undergraduate degree seeking students. Fee revenue is comprised of course fees from summer school, part-time, and non-degree students as well as self-supporting programs (off-campus MBA, EMBA, etc). Also included in this category is the General University Fee, which primarily supports four Auxiliary Enterprise programs. Finally, there are various other fees included in this category such as the Infrastructure Maintenance Fee, Application Fee and Late Payment Fees. The Fee collections for fiscal year 2005 are projected to be \$64.2 million, an increase of \$4.4 million or 7.4% over the fiscal year 2004 amount. Auxiliary Enterprise Sales/Services revenue is projected to be \$112.8 million, which is an increase of \$6.6 million or 6.2% over the fiscal year 2004 amount. Residence halls and rental properties, dining services and athletics generate most of the Auxiliary Enterprise Revenue. With respect to the Research Fund, the granting agency or donor restricts most of the revenues. Research Fund revenues for fiscal year 2005 are projected to be \$81.9 million, an increase of \$11.1 million or 15.7% more than fiscal year 2004.

Expenditures/Transfers. Total fiscal year 2005 expenditures and transfers of \$756.2 million are budgeted to increase by \$54.0 million or 7.7% over the fiscal year 2004 amount. The University's Operating Fund is budgeted to increase by 7.1%. Personal services expenditures are expected to reach \$321.1 million or \$32.4 million more than fiscal year 2004. Fringe benefit expenditures are expected to be \$105.5 million or \$17.0 million more than fiscal year 2004. The combined increase of 13.2% reflects the delayed replacement in fiscal year 2004 of faculty and staff who chose to take advantage of the Early Retirement Incentive Plan (ERIP) which was offered in fiscal year 2003. Financial Aid expenditures are projected to be \$64.7 million, which is an increase of \$6.5 million or 11.2% over the fiscal year 2004 amount. Additional expenditure highlights for fiscal year 2005 include investments in the Undergraduate Education Program for general improvements and additional course offerings, the Honors Program, Enrollment Management, the School of Business, the School of Law, the Human Rights Institute, the School of Pharmacy, Multicultural Affairs and the Provost's Academic Plan Grant Competition.

Preliminary fiscal year 2006 and 2007 budgets were presented to the Board of Trustees on June 22, 2004 and submitted to the State in August 2004. Additional details can be found below in a three-year presentation of the Current Funds budgets for FY 2005 - FY 2007.

These budgets will be updated and presented to the Board of Trustees for final approval in 2005 and 2006 respectively. On February 9, 2005, the Governor, as part of her State budget message, recommended reductions to the requested appropriations for the University. The Legislature is expected to consider both the University's request and the Governor's proposal.

Current Funds Budgets
Fiscal Years Ended June 30, 2005-2007

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Revenues:			
Operating Fund			
State Support	\$269.7	\$286.8	\$300.9
Tuition (Net of Discounts)	151.4	160.6	169.6
Fees	64.2	68.5	71.5
Auxiliary Enterprise Revenue	112.8	119.2	128.1
All Other Revenues	<u>77.2</u>	<u>79.1</u>	<u>82.4</u>
Total Operating Fund	675.3	714.2	752.5
Research Fund	<u>81.9</u>	<u>89.0</u>	<u>96.7</u>
Total Revenues	<u><u>\$757.2</u></u>	<u><u>\$803.2</u></u>	<u><u>\$849.2</u></u>
Expenditures / Transfers:			
Operating Fund			
Personal Services	\$321.1	\$337.1	\$354.0
Fringe Benefits	105.5	111.7	118.4
Other Expenses	156.3	166.8	175.8
Equipment	5.6	5.7	6.0
Student Financial Aid	64.7	67.4	70.3
Transfers	<u>21.1</u>	<u>24.5</u>	<u>27.0</u>
Total Operating Fund	674.3	713.2	751.5
Research Fund Expenditures	<u>81.9</u>	<u>89.0</u>	<u>96.7</u>
Total Expenditures / Transfers	<u><u>\$756.2</u></u>	<u><u>\$802.2</u></u>	<u><u>\$848.2</u></u>
Net Gain (Loss)	\$1.0	\$1.0	\$1.0

State Support of the University - Appropriations

The State of Connecticut develops a biennial budget which contains the University budget. However, the appropriations are applicable to each specific year and the second year's appropriation is subject to review and adjustment. The University has historically received a substantial percentage of its operating revenue from the State General Fund Appropriation. In the State system of higher education, the University of Connecticut receives more State support than any other State institution of higher education. The 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, 2005 is \$197.0 million. For fiscal years 2006 and 2007, the University has requested State appropriations of \$210.6 million and \$220.9 million, respectively, to maintain current services.

**Schedule of State Operating Support and Fringe Benefits to the University
for Fiscal Years 2003 – 2007 (in millions)**

Fiscal Year	Operating Appropriations¹ and Allotments	Fringe Benefits	Operating Total
2003	\$206.2	\$54.7	\$260.9
2004	\$192.5	\$64.0	\$256.5
2005	\$197.0	\$72.7	\$269.7
2006	\$210.6	\$76.2	\$286.8
2007	\$220.9	\$80.0	\$300.9

¹Excludes State general obligation bonds issued to fund University capital projects.

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.

**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 Obligation Bonds	UConn 2000¹	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 \$103.9 million in fiscal year 2004, representing 28.0% 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, 2004, included in this Appendix A. Revenue from federal, State and local governmental grants and contracts, including financial aid and recovery of indirect costs, totaled \$95.9 million for this time period, which represented 25.8% of total operating revenues.

Governmental Grants and Contracts for Fiscal Years 2000 - 2004 (in Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>
2000	\$68.4
2001	\$77.9
2002	\$85.6
2003	\$89.9
2004	\$95.9

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 \$44.8 million (receipts only) during fiscal year 2004, as compared to \$8.2 million in 1995. Total endowment assets have grown from \$50 million to \$252 million between June 30, 1995 and June 30, 2004. Total assets of the University of Connecticut Foundation reached \$311 million on June 30, 2004. The University's alumni giving rate places it among the best public universities in the country.

On June 30, 2004, the University successfully brought *Campaign UConn* to a close, having raised \$471.1 million in new gifts and commitments and exceeding its \$300 million goal by \$171.1 million. More than 115,000 individuals, corporations, charitable foundations, and other organizations made over 323,000 gifts and pledges during New England's largest private fund-raising effort ever by a public university. During the Campaign, more than 61,000 donors made their first gifts ever to the University.

Every school, college and campus has benefited from *Campaign UConn*, which began in 1998 with the goal of increasing support for the University's students, faculty, and programs. Six years later, \$314.3 million for Storrs and the regional campuses, \$64.3 million for the Health Center, \$92 million for athletics, \$32 million to supplement the State's support for facilities – this is, in aggregate, a phenomenal contribution to a great university's transformation into something even more extraordinary.

Seventy-five new endowment funds were established in fiscal year 2004. From the beginning of *Campaign UConn*, the number of these funds has increased from 601 to 1,016, comprising 629 for student support, 95 for faculty support and 292 for program support.

In October, 2004, the University received \$18.6 million in State matching funds for gifts to endowment received during calendar years 2000-2003. To date, the University has received more than \$54 million in State matching funds, with another approximately \$6.7 million expected as a result of calendar year 2004 submissions.

The infrastructure rebuilding programs of UCONN 2000, the success of the University's athletics teams on the national stage, and the excitement surrounding the recent upsurge in enrollments have generated a level of excitement about the University that has sustained the momentum behind private giving by alumni and other benefactors. During the past two years, the University has received several gifts of \$1 million or more. These include:

- Ray and Carole Neag made a commitment of \$10 million to name and support the Carole and Ray Neag Comprehensive Cancer Center at the UConn Health Center. Half of the gift will go to endowment.
- The Neag School of Education and the College of Liberal Arts & Sciences were jointly awarded a five-year, \$5 million grant from the Carnegie Corporation of New York as part of the "Teachers for a New Era" program aimed at strengthening teacher preparation and assessing their impact on student performance.
- SS&C Technologies committed more than \$5 million in technology and financial support to the establishment of the Graduate Learning Center and SS&C Technologies Financial Accelerator in downtown Hartford.

- *I'm PACT World, Ltd.* made a \$4.2 million gift to the University establishing the Yuji Hayashi Distinguished Chair in Plasma Chemistry and the Yuji Hayashi Fellows within the Chemistry Department.
- Connecticut telecommunications pioneer SBC SNET completed a significant donation of its early corporate archives to the Thomas J. Dodd Research Center valued at \$3.8 million.
- Alumnus Mark R. Shenkman '65 made a \$2.5 million gift to fund the building of the Mark R. Shenkman Training Center on the Storrs campus. The Center will provide an indoor training facility to be used by the football program, other varsity sports and the Department of Recreational Services.
- The School of Pharmacy received a \$2 million gift from Pfizer Global Research and Development, a division of Pfizer Inc., to endow the school's first distinguished chair, the Pfizer Distinguished Endowed Chair in Pharmaceutical Technology. It is the largest single gift ever received by the School and the first such endowment Pfizer has made in the United States.
- The Aetna Foundation donated \$2 million to fund the Health Professions Partnership Initiative at the UConn Health Center. The program has been renamed the Aetna Health Professions Partnership Initiative.
- Dr. John W. Rowe, chairman and CEO of Aetna Inc., and his wife, Valerie, have made a \$1.5 million gift to endow the John and Valerie Rowe Health Professions Scholars Program.
- The Robert Wood Johnson Foundation made a \$1.4 million grant to the School of Dental Medicine to enable it to expand services to underserved populations during the next five years. The School will revise its curriculum to increase its students' commitment to inner city and other disadvantaged populations in Connecticut.
- An anonymous donor gave \$1 million to fund the Linda and David Roth Chair in Cardiovascular Research at the UConn Health Center.
- The Estate of Marianne Hartly left \$2 million to establish the Dr. Manfred J. Sakel Endowed Fund at the UConn Health Center.
- The Estate of Geraldine Waring left \$888,000 to enhance the Dr. Charles E. Waring Chemistry Scholarship Fund and \$111,000 for the Dr. Charles E. Waring Football Scholarship Fund.
- The Edgemer Foundation, Inc. committed \$1 million to establish an endowed chair for Cardiovascular Research at the UConn Health Center's School of Medicine.

University of Connecticut Foundation, Inc.
Summary of Total Assets, Revenue and Expenditures
for Fiscal Years 2000 - 2004

	2000	2001	2002	2003	2004
	<u>\$000's</u>	<u>\$000's</u>	<u>\$000's</u>	<u>\$000's</u>	<u>\$000's</u>
Assets					
Endowment assets	\$221,208	\$209,001	\$196,784	\$209,132	\$252,383
All other assets	<u>42,307</u>	<u>42,094</u>	<u>47,591</u>	<u>48,359</u>	<u>58,890</u>
Total Assets	<u>\$263,515</u>	<u>\$251,095</u>	<u>\$244,375</u>	<u>\$257,491</u>	<u>\$311,273</u>
Support and Revenue					
Contributions and educational support	\$ 42,427	\$ 39,148	\$ 38,334	\$ 29,998	\$ 54,179
Payment from the University	3,150	3,300	3,482	5,676	6,082
Investment income, net	28,083	(26,139)	(17,658)	11,762	27,447
Other revenues	<u>1,236</u>	<u>2,130</u>	<u>1,028</u>	<u>1,015</u>	<u>1,022</u>
Total Support and Revenue	<u>74,896</u>	<u>18,448</u>	<u>25,186</u>	<u>48,451</u>	<u>88,730</u>
Expenditures					
Disbursements to and on behalf of the University	18,668	22,322	22,327	25,624	23,518
Foundation expenses (development, asset mgt, admin.)	<u>8,295</u>	<u>10,382</u>	<u>11,128</u>	<u>9,417</u>	<u>9,531</u>
Total Expenditures	<u>26,963</u>	<u>30,704</u>	<u>33,455</u>	<u>35,041</u>	<u>33,049</u>
Support and Revenues Over/Under Expenditures	<u>\$ 47,933</u>	<u>\$ (12,256)</u>	<u>\$ (8,269)</u>	<u>\$ 13,410</u>	<u>\$ 55,681</u>

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 2005 Series A Bonds, the State of Connecticut has outstanding \$10,429,607 of self-liquidating bonds for University capital projects. The University also has outstanding its general obligation bonds secured by the State Debt Service Commitment, in the amount of \$695,877,147, not including refunded bonds, or the accounting treatment for unamortized premium, discount or debt difference due to refunding and excluding the 2005 Series A Bonds. Additionally, there is outstanding \$1,734,372 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. On May 15, 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 2005 Series A Bonds, the amount of Special Obligation Bonds outstanding is \$191,395,000, not including refunded bonds or the accounting treatment for unamortized premium, discount or debt difference due to refunding.

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 after substantial completion of the construction (estimated to be October 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, 2004 the project is expected to generate substantial present value savings compared to the cost of capital improvement and operation of its existing power, heating and cooling system. The amount advanced through February 3, 2005 is \$41,680,545 which includes capitalized interest through June 30, 2004.

Additionally, the University has outstanding approximately \$1,046,000 of capital lease obligations subject to annual appropriation payable on various dates through 2009.

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 by the University as of the date of delivery of the 2005 Series A Bonds:

**University of Connecticut
Debt Service on General Obligation Bonds¹
as of March 10, 2005**

FY Ending June 30th	Outstanding General Obligation Bonds			This Issue General Obligation Bonds			Total Debt Service
	Principal²	Interest³	Subtotal	Principal²	Interest³	Subtotal	
2005	\$ 26,220,000	\$ 5,113,398	\$ 31,333,398				\$ 31,333,398
2006	47,485,000	29,815,487	77,300,487	\$ 4,900,000	\$ 3,664,028	\$ 8,564,028	85,864,515
2007	47,210,000	27,977,762	75,187,762	4,900,000	3,862,271	8,762,271	83,950,033
2008	45,688,792	29,018,254	74,707,046	4,900,000	3,715,271	8,615,271	83,322,317
2009	47,653,639	27,641,844	75,295,483	6,540,000	3,568,271	10,108,271	85,403,754
2010	43,402,274	24,982,652	68,384,926	4,900,000	3,372,071	8,272,071	76,656,997
2011	44,737,440	23,373,741	68,111,182	6,540,000	3,212,821	9,752,821	77,864,002
2012	42,970,000	19,159,470	62,129,470	4,900,000	2,992,096	7,892,096	70,021,566
2013	40,790,000	17,166,402	57,956,402	4,900,000	2,814,471	7,714,471	65,670,873
2014	44,005,000	15,195,355	59,200,355	4,895,000	2,604,190	7,499,190	66,699,545
2015	44,055,000	13,048,440	57,103,440	4,895,000	2,423,075	7,318,075	64,421,515
2016	42,440,000	10,886,567	53,326,567	1,785,000	2,212,888	3,997,888	57,324,455
2017	37,995,000	8,758,380	46,753,380	4,895,000	2,136,058	7,031,058	53,784,438
2018	34,995,000	6,865,630	41,860,630	4,895,000	1,901,263	6,796,263	48,656,893
2019	31,060,000	5,091,721	36,151,721	4,895,000	1,659,413	6,554,413	42,706,134
2020	26,055,000	3,532,437	29,587,437	4,895,000	1,419,013	6,314,013	35,901,450
2021	19,665,000	2,270,651	21,935,651	4,895,000	1,188,618	6,083,618	28,019,269
2022	14,670,000	1,337,132	16,007,132	4,895,000	949,718	5,844,718	21,851,850
2023	9,890,000	638,095	10,528,095	4,895,000	712,568	5,607,568	16,135,663
2024	4,890,000	210,270	5,100,270	4,895,000	470,180	5,365,180	10,465,450
2025				4,895,000	226,410	5,121,410	5,121,410
Totals⁴	\$695,877,146	\$272,083,694	\$967,960,840	\$98,110,000	\$45,104,692	\$143,214,692	\$1,111,175,532

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 2005 Series A Bonds, not including the 2005 Series A Bonds.

**University of Connecticut
Total Bonds and Leases Outstanding**

	<u>Original Par Amount</u>	<u>Amount Outstanding Currently</u>	<u>Dated Date</u> ¹
General Obligation Bonds²			
1996 Series A	\$ 83,929,715	\$ 13,379,715	January 1, 1996
1997 Series A	124,392,432	26,892,432	April 1, 1997
1998 Series A	99,520,000	34,825,000	June 1, 1998
1999 Series A	79,735,000	59,000,000	March 1, 1999
2000 Series A	130,850,000	47,480,000	March 1, 2000
2001 Series A	100,000,000	56,655,000	March 15, 2001
2002 Series A	100,000,000	61,315,000	April 1, 2002
2003 Series A	96,210,000	86,490,000	March 1, 2003
2004 Series A	97,845,000	92,950,000	January 15, 2004
2004 Refunding Series A ³	<u>216,950,000</u>	<u>216,890,000</u>	January 15, 2004
Total	\$1,129,432,147	\$695,877,147⁴	
Student Fee Revenue Bonds			
1998 Series A	\$ 33,560,000	\$ 29,140,000	January 1, 1998
2002 Series A	75,430,000	72,485,000	January 15, 2002
2002 Series A Refunding ⁵	<u>96,130,000</u>	<u>89,770,000</u>	February 1, 2002
Total	\$205,120,000	\$191,395,000⁴	
Capital Leases⁶			
Governmental Lease Purchase Agreement	\$ 75,000,000	\$ 41,680,545 ⁷	December 18, 2003

¹The General Obligation Bonds issued in 1996 and 1997 include capital appreciation bonds, which were dated their date of delivery.

²Debt service on the General Obligation Bonds is payable from the Debt Service Commitment of the State.

³The General Obligation 2004-A Refunding Bonds refunded \$223,160,000 of the outstanding GO DSC Series 1996-A, 1997-A, 2000-A, 2001-A and 2002-A Bonds.

⁴The amount does not include refunded bonds or the accounting treatment for unamortized premium, discount or debt difference due to refunding.

⁵The SFR 2002-A Refunding Bonds refunded all of the outstanding \$89,570,000 SFR Series 2000-A Bonds.

⁶Does not include capital lease obligations subject to annual appropriation.

⁷Amount advanced through February 3, 2005 including capitalized interest through June 30, 2004.

Employee Data

Faculty and Staff. As of October 2004, the University had 4,146 full-time equivalent (“FTE”) employees. Full and part-time faculty accounted for 1,226 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 2004, 65% of full-time teaching faculty were tenured, 19% were tenure track and the remaining were non-tenure track faculty. The average age of full-time faculty was 49. Additionally, the University also has 446 FTE graduate student assistants who receive stipends.

Eight bargaining units represented approximately 3,803 FTE union members as of October 2004. Approximately 8% of University faculty and staff were non-union employees. The University bargains with two units covering 2,826 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 977 FTE employees bargain directly with the State and have settled contracts with expiration dates ranging from June 30, 2005 to June 30, 2008. One union does 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 43% 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 has directly purchased workers' compensation insurance as part of an owner-controlled insurance program (OCIP) for most UCONN 2000 projects. Depending upon insurance markets, the University may not choose to extend the OCIP program to 21st Century UConn projects. In that eventuality, workers' compensation and general liability will be provided by contractors' policies.

UNIVERSITY OF CONNECTICUT HEALTH CENTER

General

An academic and organizational unit of the University of Connecticut, the Health Center is a comprehensive State-owned education, 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 2004, the Health Center has 478 professional students in the Schools of Medicine and Dental Medicine, 380 graduate students in Masters and Doctoral programs, and 659 residents, interns and postdoctoral fellows. It also provides an extensive array of continuing education activities to health professionals throughout the state. 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.

GOVERNANCE, ACADEMIC PROGRAMS AND CAMPUSES

Board of Directors

Composition. The Board of Directors of the University of Connecticut Health Center consists of 18 members. Pursuant to Section 35 of Public Act No. 01-173, the Board of Trustees for the University created the board of directors for the governance of the Health Center, and has determined such duties and authority as it deemed necessary and appropriate to delegate to said board of directors. The Board consists of nine members at large appointed by a nominating committee of the Board of Directors, three members appointed by the Chairperson of the Board of Trustees, three members appointed by the Governor, and three voting Ex Officio members (the Secretary of OPM, the President of the University and the Commissioner of Public Health).

Membership as of January 2005. The name, term, position and affiliation or profession of each member of the Board of Directors is as follows:

<u>Name</u>	<u>Term Ends</u>	<u>Position</u>	<u>Affiliation/Profession</u>
Philip E. Austin		Member ex-officio	President, University of Connecticut
Anne Gnazzo		Member ex-officio, Secretary	Deputy Secretary, Office of Policy and Management
Claire Rochat Leonardi	2005	Chair, Appointed by Chairperson, Board of Trustees	General Partner, Fairview Capital, L.P.
The Honorable James F. Abromaitis	2006	Appointed by Chairperson, Board of Trustees	Commissioner, Economic and Community Development, State of Connecticut
Gerard N. Burrow	2007	Member at Large	President and CEO, Sea Research Foundation, Inc.
Bruce Chudwick	2005	Member at Large	Partner, Shipman and Goodwin
Aldrage B. Cooper	2005	Member at Large	Vice President, Johnson and Johnson, retired
Thomas J. Devers, M.D.	2004	Appointed by the Governor	Attending Physician, New Britain General Hospital, and Consultant, Hospital for Special Care, New Britain
David B. Friend, M.D.	2006	Appointed by the Governor	Senior Partner, Watson Wyatt
The Honorable Robert Galvin		Member ex-officio	Commissioner, Public Health
A. Jon Goldberg	2006	Member at Large	Professor, Department of Prosthodontics and Operative Dentistry, and Director, Center for Biomaterials, University of Connecticut Health Center
John L. Haberland	2005	Appointed by the Governor	Vice President, Business Controls, United Technologies Corporation
Robert Hennessey	2007	Member at Large	President and CEO, Genome Therapeutics Corporation (retired)
Nancy J. Hutson	2006	Member at Large	Senior Vice President, Pfizer Global Research and Development
Lenworth M. Jacobs, Jr., M.D.	2005	Appointed by Chairperson, Board of Trustees	Director, Emergency Medical Services/Trauma and Rehabilitation Medicine, Hartford Hospital, and Chairman, Department of Traumatology and Emergency Medicine, University of Connecticut School of Medicine
Gerard J. Lawrence, M.D.	2005	Member at Large	Orthopedic Surgeon, Windham Community Memorial Hospital
David P. Marks	2007	Member at Large	Chief Investment Officer, Citi Group Insurance Investments
Robert T. Samuels	2006	Member at Large	Founder, ABS Development Company

Duties of the University of Connecticut Health Center Board of Directors. Subject to duties outlined by the University's Board of Trustees, the Board is authorized to establish rules and general policies for the governance of the Health Center, including its mission and academic programs. The Board of Directors manages and directs the expenditures of the Health Center. The Board of Directors is required by law to review and approve Health Center budget requests and propose facility, planning and capital expenditure budget priorities.

Officers of the Board of Directors. The officers of the Board of Directors are the Chair 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.

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 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 2004 by the research activities of the various faculties which supplements appropriations from the State of Connecticut.

Student Enrollment and Admission

Enrollment. The Health Center's enrollment in fiscal year 2004 was 320 in the School of Medicine, 158 in the School of Dental Medicine, and 380 Graduate students, taught by 634 full time faculty members.

Average Total MCAT and DAT Scores Fall 2000 – 2004

<u>Fall</u>	<u>MCAT</u>	<u>DAT</u>
2000	30.1	19.6
2001	30.6	20.2
2002	29.7	20.1
2003	30.5	19.8
2004	30.8	20.0

Each year, about 320 students work toward their medical doctor's degree and 160 toward their doctor of medical dentistry degree. Admission to each school is highly competitive, but both schools offer preferential consideration to qualified Connecticut residents in their admissions policies. School of Dental

Medicine students have a long history of outstanding performance on the National Boards, ranking first among the country's 55 dental schools on these examinations in 2001 and again in 2003.

**Passing Rates on National Exams
2000 – 2004**

<u>Year</u>	<u>School of Medicine</u>	<u>School of Dental Medicine</u>
2000	98%	100%
2001	97%	100%
2002	100%	100%
2003	99%	100%
2004	97%	100%

Tuition and Other Fees

Pursuant to State law, the Board of Directors 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 residents of Connecticut paid tuition of \$12,000 for the School of Medicine and \$9,643 for the School of Dental Medicine. Regional students paid \$18,000 for the School of Medicine and \$14,467 for the School of Dental Medicine per year. Out-of-state students paid \$27,300 for the School of Medicine and \$24,714 for the School of Dental Medicine per year. The Board of Directors approved a tuition rate increase of 15% over the 2004 rate for academic year 2005.

Mandatory Fees. For academic year 2004, students must pay a Fee of \$5,040 for the School of Medicine and \$5,010 for the School of Dental Medicine per year. This fee includes payments for student health, commencement, student affairs and a student activity fee.

**Annual Cost of In-State Student Enrolled at the Health Center by School
Academic Years 2000 – 2004**

School of Medicine

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Tuition	\$ 9,375	\$ 9,655	\$ 10,040	\$ 10,440	\$12,000
Fees	<u>3,785</u>	<u>3,950</u>	<u>4,100</u>	<u>4,380</u>	<u>5,040</u>
TOTAL	\$13,160	\$13,605	\$14,140	\$14,820	\$17,040

**School of
Dental Medicine**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Tuition	\$ 8,140	\$ 8,385	\$ 8,385	\$ 8,385	\$ 9,643
Fees	<u>3,835</u>	<u>3,950</u>	<u>4,080</u>	<u>4,355</u>	<u>5,010</u>
TOTAL	\$11,975	\$12,335	\$12,465	\$12,740	\$14,653

**Percentage of Enrollment by Residence Status
Fall 2000 - 2004**

	<u>School of Medicine</u>		<u>School of Dental Medicine</u>	
	<u>In-State</u>	<u>Out-of-State</u>	<u>In-State</u>	<u>Out-of-State</u>
Fall 2000	94.1%	5.9%	78.1%	21.9%
Fall 2001	94.3%	5.7%	71.4%	28.6%
Fall 2002	92.9%	7.1%	77.1%	22.9%
Fall 2003	92.2%	7.8%	76.5%	23.5%
Fall 2004	90.4%	9.6%	75.4%	24.6%

University of Connecticut Health Center 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 and 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. The Hospital also provides dental care through the 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 predoctoral 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).

Patient Service Revenue

Pursuant to the Master Indenture, patient revenues or any other revenues derived from clinical operations of the University are excluded from the definitions of Assured Revenues.

Strategic Plan Initiative

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

The 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.

In June 2004, the University of Connecticut Health Center Board of Directors approved the following vision statement for the year 2020:

The University of Connecticut Health Center will be nationally recognized for improving the health of the citizens of Connecticut through innovative integration of research, education and clinical care.

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 challenged by managed care and federal reimbursement rates. 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 shared risk agreements and will likely be requested 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, 2004, the Fund had a balance of \$10.3 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 approximately 5,020 employees. Health Center employees are State employees. See “Pension and Retirement Systems” in Part III of this Official Statement for information pertaining to the employees of the Health Center. The terms and conditions of employment of approximately 3,500 employees as of January 2005 are governed by collective bargaining agreements with eight bargaining units. 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. The UHP, covering 2,169 employees, has a settled contract that expires on June 30, 2006. The remaining six unions covering 1,331 employees bargain directly with the State and have settled contracts with expiration dates ranging from June 30, 2005 to June 30, 2008. One union does not have a settled contract. Faculty, University exempt (management) and certain temporary and part-time employees are not represented by bargaining units. This includes approximately 640 faculty and 880 additional exempt personnel.

HEALTH CENTER FINANCES

Financial Statements of the Health Center

Following is an unaudited two-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 Fiscal Years 2000 through 2001**

	<u>2000</u>	<u>2001</u>
Revenues		
Student Fees and Tuition	\$ 7,553,607	\$ 7,846,259
State Appropriations	122,516,470	112,486,860
Federal Grants and Contracts	36,990,744	39,290,688
State Grants & Contracts	2,711,618	2,884,444
Private Gifts, Grants & Contracts	15,194,714	16,134,460
Investment Income	920,945	1,670,339
Sales and Services of Auxiliary Enterprises	41,528,460	45,237,600
Patient Revenues	232,610,067	239,505,184
Other Sources	<u>574,385</u>	<u>946,109</u>
Total Revenues	460,601,010	466,001,943
Less Patient Revenues and Independent Operations	<u>232,610,067</u>	<u>239,505,184</u>
Total Education and General Revenues	<u>\$227,990,943</u>	<u>\$226,496,759</u>
Expenditures and Mandatory Transfers		
Education and General:		
Instruction	\$ 94,668,196	\$ 86,025,280
Research	39,428,482	43,560,535
Public Service	13,770,343	1,039,211
Academic Support	12,143,899	9,906,838
Student Services	881,894	682,041
Institutional Support	30,759,133	38,384,165
Operation and Maintenance of Plant	14,338,898	12,806,379
Scholarships & Fellowships	<u>1,141,689</u>	<u>1,192,769</u>
Educational and General Expenditures	207,132,534	193,597,218
Mandatory Transfers for:Principal and Interest	<u>353,913</u>	<u>356,298</u>
Total Education and General	207,486,447	193,953,516
Other Expenditures - Patient Care	<u>255,134,816</u>	<u>281,597,322</u>
Total Expenditures and Mandatory Transfers	<u>\$462,621,263</u>	<u>\$475,550,838</u>
Other Transfers and Additions (Deductions)		
Excess of Restricted Receipts Over Transfers to Revenues	\$ 1,409,836	\$ 3,305,709
Excess of Employee Advances Over Payments Refunded to Grantors	(268,716)	(300,072)
Subsidy Transfer		
Interest Transfer		
Research Project Award		
Grant Funding Transfer		
Administrative Programs		
Non-Mandatory Transfers	(590,963)	(302,087)
State Transfer		
Loan Transfer		
Student Activities Fund Transfer		
Total Other Transfers and Additions (Deductions)	<u>\$ 550,157</u>	<u>\$ 2,703,550</u>
Net Increase (Decrease) in Fund Balance	<u>\$(1,470,096)</u>	<u>\$(6,845,345)</u>

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 2000 – 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 Health Center has used functional expense on 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 three-year presentation of the Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2004, 2003 and 2002.

**University of Connecticut Health Center
Statement of Revenues, Expenses, and Changes in Net Assets
for the Years Ended June 30, 2004, 2003 and 2002**

	<u>2004</u>	<u>2003</u>	<u>2002</u> Memo Only
OPERATING REVENUES			
Student tuition and fees (net of scholarship allowances of \$1,793,336, \$1,636,773 and \$1,085,674 respectively)	\$ 7,659,757	\$ 6,588,157	\$ 6,535,261
Patient services (net of charity care of \$231,712, \$117,773 and \$108,502 respectively)	319,777,310	298,136,870	288,842,328
Federal grants and contracts	65,019,826	59,266,016	46,934,848
Nongovernmental grants and contracts	23,856,803	21,536,972	19,952,258
Contract and other operating revenues	<u>48,442,838</u>	<u>50,088,959</u>	<u>45,758,622</u>
Total operating revenues	<u>464,756,534</u>	<u>435,616,974</u>	<u>408,023,317</u>
OPERATING EXPENSES			
Educational and General			
Instruction	98,274,728	94,139,803	97,334,274
Research	56,597,973	49,861,751	44,554,808
Patient services	336,255,034	321,285,349	304,006,148
Academic support	14,326,226	12,657,206	13,448,798
Student services	565,681	720,032	908,227
Institutional support	43,974,145	38,529,599	32,752,767
Operations and maintenance of plant	14,889,973	14,158,592	14,839,374
Depreciation	19,511,082	18,991,156	17,654,076
Loss on disposal	340,629	215,893	715,635
Student aid	<u>776,293</u>	<u>640,106</u>	<u>436,473</u>
Total operating expenses	<u>585,511,764</u>	<u>551,199,487</u>	<u>526,650,580</u>
Operating (loss) income	<u>(120,755,230)</u>	<u>(115,582,513)</u>	<u>(118,627,263)</u>
NONOPERATING REVENUES (EXPENSES)			
State appropriations	119,067,925	115,445,236	117,964,237
Gifts	688,133	30,030	506,526
Interest income (net of investment expense of \$63,996, \$71,471 and \$68,315 respectively for the primary institution)	2,103,722	3,537,322	1,835,409
Interest on capital asset – related debt	<u>(233,320)</u>	<u>(157,777)</u>	<u>(242,527)</u>
Net nonoperating revenues	<u>121,626,460</u>	<u>118,854,811</u>	<u>120,063,645</u>
Income before other revenues, expenses, gains or losses	<u>871,230</u>	<u>3,272,298</u>	<u>1,436,382</u>
Capital appropriations	<u>3,931,636</u>	<u>754,544</u>	<u>16,384,954</u>
Total other revenues	<u>3,931,636</u>	<u>754,544</u>	<u>16,384,954</u>
Increase in net assets	4,802,866	4,026,842	17,821,336
NET ASSETS			
Net assets-beginning of year	<u>225,766,144</u>	221,739,302	215,588,376
Cumulative effect of change in accounting principal	<u>N/A</u>	<u>N/A</u>	<u>(11,670,410)</u>
Net assets-beginning of year as restated	<u>225,766,144</u>	<u>221,739,302</u>	<u>203,917,966</u>
Net assets-end of year	<u>\$230,569,010</u>	<u>\$225,766,144</u>	<u>\$221,739,302</u>

Budget and Budgeting Procedure of the Health Center

The Health Center 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 expenditures plan for the amount necessary to meet cost increases while providing a constant level of service. The budget may also include funds for expansion of Health Center programs. The operating budget includes various revenue sources including patient services, federal and private grant funding and State appropriations.

The Health Center's Board of Directors approves annually the Unrestricted Operating Budgets for 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 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 Health Center containing such relevant information as the Board of Governors for Higher Education may require. Currently, the Health Center submits a quarterly report detailing the year-to-date annual budgeted and actual revenues and expenditures (including the State appropriation). Unlike the University, the Health Center has not combined its General and Operating Funds and maintains the two funds individually.

The Health Center 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 Health Center. The Health Center's Capital Budget request process is combined with the University as part of Phase III for fiscal years 2005-2015. 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.

Fiscal Year 2005. The fiscal year 2005 spending plan was presented to and approved by the Board of Trustees on June 22, 2004. The proposed spending plan includes total revenue of \$503.5 million, State appropriations and in-kind fringe benefits of \$98.7 million and total expenditures of \$601.7 million resulting in a net gain of \$.6 million.

Revenue. For fiscal year 2005, Net Patient Revenues are budgeted at a level of \$264.6 million, an increase of \$19.1 million or 8.1% over the fiscal year 2004 amount. Net Patient Revenues are the largest source of revenue for the Health Center. State support is the second largest source of revenue for the Health Center. State support of \$98.7 million (appropriation/allotments \$73.1 million; fringe benefits \$25.6 million) decreased \$1.4 million or 1.5% over the fiscal year 2004 amount. Research, both federal and non-federal research grants and contracts, represents the next largest revenue stream with \$95.9 million. This represents a \$7.4 million or 8.5% over the fiscal year 2004 amount. The Health Center was also projected to receive \$81.1 million in exchange for its services rendered to the Department of Corrections. This amount is \$3.7 or 4.8% higher than in fiscal year 2004. Tuition and fee revenue collections in the amount of \$11 million represent 2% of total revenue streams.

Expenditures/Transfers. Estimated fiscal year 2005 expenditures and transfers of \$601.7 million are budgeted to increase by \$35.7 million or 6.3% over the fiscal year 2004 amount. Personal services expenditures are expected to reach \$295.1 million or \$19.3 million more than fiscal year 2004. Fringe benefit expenditures are expected to be \$83.7 million or \$10.8 million more than fiscal year 2004. The combined increase of 8.6% reflects the recruitment of additional FTE's in the clinical capacity as well as the successful recruitment of several open positions. Additional expenditure highlights for fiscal year 2005 include investments in campus infrastructure and additional investments in clinical operations.

A preliminary fiscal year 2006/2007 budget was presented in the biennial budget report sent to the State on September 1, 2004. Additional details can be found below in the three-year presentation of the Health Center's budgets for FY 2005 - FY 2007.

Health Center Budgets
Fiscal Years Ended June 30, 2005-2007

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Revenues:			
Tuition	\$ 6,795,455	\$ 7,814,773	\$ 8,986,989
Fees	4,317,330	4,943,204	5,683,596
Federal Research Grants and Contracts	71,567,738	76,501,692	82,146,057
Non-Federal Research Grants and Contracts	25,500,000	26,821,928	28,289,472
Auxiliary Enterprises	13,664,549	14,223,113	14,797,261
Interns and Residents	29,868,321	31,063,054	32,305,576
Net Patient Care	264,611,537	276,230,110	290,782,532
Correctional Managed Healthcare	81,063,597	83,592,668	86,776,059
Endowment/Foundation Income	2,074,784	2,137,028	2,201,138
Investment Income	732,714	759,303	787,221
Other Income	<u>3,340,728</u>	<u>3,578,611</u>	<u>3,818,406</u>
Total Revenues	<u>\$503,536,753</u>	<u>\$527,665,484</u>	<u>\$556,574,307</u>
Expenditures / Transfers:			
Personal Services	\$295,143,382	\$309,923,745	\$325,054,710
State Supported Fringe Benefits	25,591,756	26,799,015	29,167,965
Fringe Benefits	58,114,845	57,884,257	63,435,546
Medical Contractual Support	7,995,289	7,092,407	7,354,088
Medical/Dental House Staff	32,692,880	35,563,078	36,985,601
Outside Agency Per Diems	4,035,063	3,127,404	3,504,275
Drugs/Medical Supplies	61,470,440	64,102,835	66,484,971
Utilities	9,666,551	10,287,884	10,905,157
Outside & Other Purchased Services	41,450,582	45,149,732	47,472,137
Insurance	4,355,035	4,588,686	4,726,347
Repairs & Maintenance	8,893,552	9,161,767	9,436,620
Provision for Bad Debts	10,264,775	10,585,213	10,906,410
Other Expenses	20,313,977	21,037,278	22,017,912
Depreciation	<u>21,665,745</u>	<u>23,135,745</u>	<u>24,166,745</u>
Total Expenditures / Transfers	<u>\$601,653,871</u>	<u>\$629,024,046</u>	<u>\$661,618,484</u>
Excess/(Deficiency) of Revenues over Expenses Prior to State Appropriations	(98,117,118)	(101,358,562)	(105,044,177)
State Appropriation-Block Grant	73,109,946	75,025,705	76,432,194
State Supported Fringe Benefits and Other Adjustments	<u>25,591,756</u>	<u>26,799,015</u>	<u>29,167,965</u>
Net Gain (Loss)	\$ 584,584	\$ 466,158	\$ 555,982

State Support of the Health Center - Appropriations

The State of Connecticut develops a biennial budget which contains the Health Center's budget. However, the appropriations are applicable to each specific year and the second year's appropriation is subject to review and adjustment. The Health Center's State appropriation for the current fiscal year

ending June 30, 2005 is \$73.2 million. At this time, the Health Center is uncertain of the FY 2006 appropriation.

Grants and Contracts

Revenue from federal, State, local and non-governmental grants and contracts totaled \$89.9 million in fiscal year 2004, representing 19.1% of total operating revenues reported by the Health Center in the Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2004, included in this Appendix A.

Governmental Grants and Contracts for Fiscal Years 2000 - 2004 (in Millions of Dollars)

<u>Fiscal Year</u>	<u>Amount</u>
2000	\$54.9
2001	\$58.3
2002	\$66.9
2003	\$80.8
2004	\$88.9

Health Center Indebtedness and Capitalized Lease Obligations

The Health Center has received a portion of the proceeds from the State's issuance of general obligation bonds and therefore maintains a debt to the State for these proceeds. Summarized information on the amounts owed is presented in the breakout of long term debt presented below. Bond proceeds allocated to the Health Center were used to fund capital additions such as buildings, a parking garage and a Magnetic Resonance Imaging (MRI) machine.

During fiscal year 2004, the Health Center entered into two capital leases through which it obtained its new Linear Accelerator and X-Ray Suite. Both leases have five year terms and were obtained at fixed interest rates of 3.97% and 3.80% respectively.

During fiscal year 2004, the Health Center entered in to \$23 million secured mortgage to finance the construction of the new Medical Arts Research Building (MARB) on campus. This is a 21 year mortgage obtained at a fixed interest rate of 6.43%.

The Health Center is self-insured with respect to medical malpractice risks. Estimated losses from asserted and unasserted claims identified under the Hospital's incident reporting system and an estimate of incurred but not reported claims are accrued based on actuarially determined present value estimates that incorporate the Health Center's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. Accrued malpractice losses have been discounted at a rate of 4% for the years ended June 30, 2004 and 2003. The estimated malpractice reserve was \$10,340,000 at June 30, 2004, of which it was estimated that \$2,308,000 could be used in fiscal 2005 in settling cases.

The scope of the Health Center's assessment for establishing reserves for malpractice costs encompasses physicians, dentists and all other University of Connecticut Health Center health care providers and support staff. The Health Center has established a trust fund for the payment of medical malpractice claim settlements. The trust is funded based on actuarially determined amounts.

The Health Center also maintains certain accrued compensated absences, to the extent that they are not expected to be utilized in the current year, as long term liabilities. These amounts have been accrued as payables and will offset future payroll expenses as they are utilized.

The following schedules present the Health Center's composition and current year activity related to long term debt and a breakout of debt service payments to be made in each of the Health Center's upcoming fiscal years related to debt outstanding as of June 30, 2004.

Long-term liability composition and activity for the years ended June 30, 2004 and 2003 was as follows:

Long-Term Liability for Years Ended June 30, 2003 and 2004					
	June 30, 2003			June 30, 2004	Amounts Due
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Within 1 Year</u>
Long-Term Debt					
Bonds Payable John Dempsey Hospital	\$ 807,430	-	\$ 217,215	\$ 590,215	\$ 186,300
Bonds Payable Primary Institution	1,419,233	-	382,645	1,036,588	326,702
Lease Agreements John Dempsey Hospital	-	\$ 4,171,780	385,117	3,786,663	790,129
Mortgage Agreements Primary Institution	<u>-</u>	<u>22,799,881</u>	<u>-</u>	<u>22,799,881</u>	<u>337,031</u>
Total Long-Term Debt	2,226,663	26,971,661	984,977	28,213,347	1,640,162
Malpractice Reserve	8,500,000	6,226,955	4,386,955	10,340,000	2,308,000
Compensated Absences	<u>28,291,855</u>	<u>24,213,636</u>	<u>21,121,285</u>	<u>31,384,206</u>	<u>21,655,102</u>
Total Long-Term Liabilities	<u>\$39,018,518</u>	<u>\$57,412,252</u>	<u>\$26,493,217</u>	<u>\$69,937,553</u>	<u>\$25,603,264</u>

**The University of Connecticut Health Center
Total Debt Service by Fiscal Year**

FY Ending June 30th	<u>Principal¹</u>	<u>Interest</u>	<u>Total Long Term Debt</u>
2005	\$ 1,639,807	\$ 1,099,956	\$ 2,739,763
2006	1,779,452	1,616,434	3,395,886
2007	1,828,523	1,521,561	3,350,084
2008	1,970,576	1,376,007	3,346,583
2009	1,210,563	1,292,416	2,502,979
2010	782,328	1,237,902	2,020,230
2011	833,395	1,186,835	2,020,230
2012	887,795	1,132,435	2,020,230
2013	945,746	1,074,484	2,020,230
2014	1,007,480	1,012,750	2,020,230
2015	1,073,243	946,987	2,020,230
2016	1,143,299	876,931	2,020,230
2017	1,217,928	802,302	2,020,230
2018	1,297,429	722,801	2,020,230
2019	1,382,118	638,112	2,020,230
2020	1,472,336	547,894	2,020,230
2021	1,568,443	451,787	2,020,230
2022	1,670,824	349,406	2,020,230
2023	1,779,887	240,343	2,020,230
2024	1,896,069	124,161	2,020,230
2025	<u>826,105</u>	<u>15,658</u>	<u>841,763</u>
Totals	<u>\$28,213,347</u>	<u>\$18,267,161</u>	<u>\$46,480,508</u>

¹Totals may not sum due to rounding

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SCHEDULE 1

**UNIVERSITY OF CONNECTICUT JUNE 30, 2004
AUDITED FINANCIAL STATEMENTS**

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University of Connecticut

Financial Report
For the Year Ended June 30, 2004

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Message from the Vice President and Chief Financial Officer

Founded in 1881, the University of Connecticut (University) 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 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 year ended June 30, 2004 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 2004 topped 26,000 students, taught by 1,107 full-time faculty members and an additional 708 part-time faculty and adjuncts. In total, the University employs more than 4,000 full and part-time faculty and staff. Two other 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 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 in this report.

During the course of fiscal year 2004, the Board of Trustees restructured and expanded the role of its Joint Audit and Compliance Committee, with a charge that includes oversight of all University financial reporting and processes and internal control systems, as well as direct engagement in the approval of independent auditing services to augment the University's internal audit capacity and the work performed by the Auditors of Public Accounts. In addition, the University's internal audit function has been reorganized and expanded with the infusion of additional resources. While the provisions of the Sarbanes-Oxley Act may be designed for private corporate entities, under the Board's guidance the University is moving forward in keeping with the spirit of the Act and is continuing to strengthen its audit, compliance and risk assessment functions.

The fiscal operations of the University are not an end in themselves—rather, the maintenance of fiscal health and stability serves the ultimate goal of enabling the University to achieve its academic, research and service mission. The growth and diversification of the University's funding streams, combined with the physical transformation through UCONN 2000, have led the University to record enrollments, research success and ever-growing contribution to the economic well-being of the State of Connecticut.

Among its many accomplishments, the University continues the distinction of being rated the best public university in New England in the annual *U.S. News and World Report* rankings. The University is currently ranked 25th among 162 public universities in the nation.

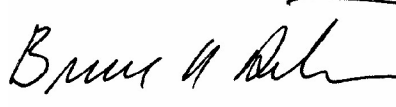
- Undergraduate enrollment is at an all-time high, while the quality and diversity of students choosing the University has shown a documented rise every year since the mid-1990's. Compared to fall of 1995, fall 2003 freshman enrollment at the main campus was up 59%, minority freshman enrollment was up 74% and average SAT scores were up nearly 54 points. Thirty percent of these students ranked in the top 10% of their high school class.
- Nearly 5,400 degrees were conferred in the 2003-2004 school year for the completion of undergraduate, graduate and professional programs at the Storrs and regional campuses.
- The University's graduate and professional program rankings continue to climb in *U.S. News and World Report's* latest issue of *America's Best Graduate Schools*. Among public graduate and professional programs nationwide, the University ranked: 17th in the health discipline of Audiology; 20th in Law; 21st in Education doctoral programs (14th in the Elementary Education doctoral specialty); 27th in Business master's programs (14th in the Information Systems graduate specialty); 39th in Engineering; 39th in Public Administration master's (5th in the specialty of Public Finance and Budgeting); 41st in Clinical Psychology; and 46th in Social Work. The MBA Program was included in the *Forbes* "Top 50", among 1,200 business schools nationwide, for the best return on investment and was also recognized by *The Wall Street Journal* and *Business Week*.
- Research awards for the Storrs-based program grew from \$59.6 million in fiscal year 1997 to \$92 million in fiscal year 2004.
- The Carnegie Corporation of New York named the University one of seven institutions nationwide to be designated as a "Teachers for a New Era" school and awarded a five-year, \$5 million grant to be shared by the University's Neag School of Education and College of Liberal Arts and Sciences to improve the quality of teachers in the classroom.
- UConn has the 5th largest residential program and the highest percentage of students living on campus of any public university nationally, according to the Association of College and University Housing Officers International. More than 11,000 students live on the main campus, including 74 percent of the Storrs undergraduate program.
- The Foundation's capital campaign, on behalf of the University, came to a successful conclusion in 2004 having raised \$471 million—well beyond its \$300 million goal. An endowment of \$49.5 million in 1995 had grown to \$250 million in 2004. The campaign engaged 115,000 donors, of whom 61,000 gave to the University for the first time.
- By 2004, the UCONN 2000 program had led to the completion of 30 new buildings and 50 major renovations.

Finally, even this financial report would be incomplete without mention of the UConn men's and women's basketball teams' historic achievement in 2004: dual national championships, the first ever in NCAA Division I history. The Huskies' victory parade in Hartford saw an estimated attendance of 300,000—nearly one-tenth of the state's population—ample evidence that the University of Connecticut has captured the hearts as well as the minds of Connecticut citizens statewide.

Respectfully Submitted,



Lorraine M. Aronson
Vice President and Chief Financial Officer
University of Connecticut

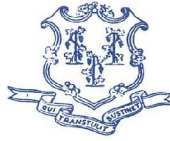


Bruce A. DeTora
Chief Financial Officer
Storrs-based Program

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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

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, 2004 and 2003, 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 did not audit the financial statements of the University of Connecticut Law School Foundation, Inc., a discretely presented component unit, which statements reflect assets constituting 1 percent and revenues constituting .1 percent of the related totals of the University in 2004. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the University of Connecticut Law School Foundation, Inc., are based solely on the reports of the other auditors. The audits of the University of Connecticut Law School Foundation were conducted in accordance with auditing standards generally accepted in the United States of America.

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.

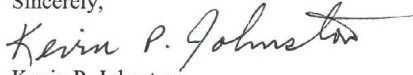
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2004 and 2003, and the changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the University adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39, Determining Whether Certain Organizations are Component Units – an amendment of GASB Statement No. 14, as of July 1, 2003.

The Management Discussion and Analysis on pages 4 through 17 is a not required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain

limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sincerely,



Kevin P. Johnston
Auditor of Public Accounts



Robert G. Jaekle
Auditor of Public Accounts

December 29, 2004
State Capitol
Hartford, Connecticut

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**MANAGEMENT'S
DISCUSSION AND
ANALYSIS**

Management's Discussion and Analysis

INTRODUCTION

The following unaudited 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, 2004, based on currently known facts, decisions, or conditions. It also includes selected comparative information for the years ended June 30, 2003 and 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, 2004 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.

During the year ended June 30, 2004, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which amends GASB Statement No. 14, *The Financial Reporting Entity*. As a result, The University of Connecticut Law School Foundation, Inc. (Law School Foundation) is included as a component unit with the University (See Note 1). A related, but independent, corporate entity, The University of Connecticut Foundation, Inc. (Foundation), operates exclusively for charitable and educational purposes, raising funds to promote, encourage, and assist education and research at the University and the Health Center. The Foundation solicits and accepts donations of properties, monies, and securities and invests and administers these gifts. The Foundation materially supports the mission of both the University and the Health Center which are both separately audited, producing their own financial statements. Displaying the Foundation's financial statements as a component unit of either the University or the Health Center would distort its actual contribution or economic benefit to that entity, and therefore the Foundation is not included as a component unit in the accompanying 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 and 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 Pages 1 and 2.

FINANCIAL HIGHLIGHTS AND ECONOMIC OUTLOOK

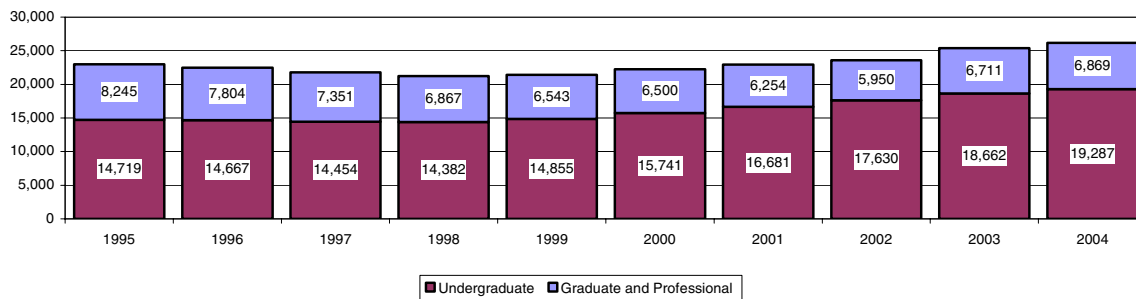
The University submits separate biennial operating and capital budgets to the Governor and General Assembly through the Board of Governors for Higher Education. The General Assembly appropriates and allocates funds directly to the University. The University's spending plan reflects a balanced budget. 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 \$276.9 million for the year ending June 30, 2004 (fiscal year 2004) as compared to \$299.9 million for the year ending June 30, 2003 (fiscal year 2003), and \$279.8 million for the year ending June 30, 2002 (fiscal year 2002). The improvement in operations in fiscal year 2004 from fiscal year

2003 was due to the combined effect of increased enrollment and tuition and fee increases, along with reductions in full-time staff as a result of early retirements that occurred at the end of fiscal year 2003. For public institutions, 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 \$19.5 million in fiscal year 2004 as compared to \$28.7 million and \$9.3 million for fiscal years 2003 and 2002, respectively. Total operating revenues grew \$39.8 million in fiscal year 2004, close to a one and one-half times greater increase than the \$27.6 million increase in fiscal year 2003. At the same time, operating expenses increased \$16.7 million, about one-third of the increase in fiscal year 2003 of \$47.8 million over fiscal year 2002. Investment income declined the last three fiscal years. It decreased \$1.2 million, \$2.0 million, and \$5.9 million in fiscal years 2004, 2003, and 2002, respectively.

Sources of recurring operating and nonoperating revenues continue to exhibit strength with increases in the past three fiscal years. The University’s core business of instruction, research and public service has provided consistent increases in revenues while State support decreased slightly for the second year in a row. The University’s total enrollment in fiscal year 2003 topped 25,000 students and grew to 26,156 students in fiscal year 2004. These students are taught by 1,107 full-time faculty members and an additional 708 part-time faculty and adjuncts. Undergraduate enrollment at the University reached 19,287 students in fiscal year 2004, 3.3% more than the prior year. With student growth outpacing State support, an in-state tuition and mandatory fee increase of 10.7% and out-of-state increase of 11.0% was approved for fiscal year 2004. Graduate and professional enrollment increased by 2.4% with the same overall increase in tuition and mandatory fee rates as experienced by undergraduate students. The increased enrollment of all students, when combined with the tuition and mandatory fee increases, resulted in an increase in tuition and fee revenue, before scholarship allowance, of \$26.6 million (15.6%) as compared to a \$21.1 million (14.1%) increase in 2003. Sales and services of auxiliary enterprises, before scholarship allowances, increased \$15.4 million (17.0%), primarily as a result of bringing on-line 1,155 additional beds resulting in a 7.4% increase in the number of fee paying students boarding on campus, and an overall increase in room and board fees of 5.3%. In fiscal year 2003, sales and services of auxiliary enterprises, before scholarship allowances, increased \$8.9 million (10.9%). Grant and contract revenues increased \$3.7 million (3.7%) in fiscal year 2004 as compared to an increase in fiscal year 2003 over 2002 of \$1.8 million (1.8%).

**HEADCOUNT ENROLLMENT IN FALL OF EACH FISCAL YEAR
TEN YEAR COMPARISON**



By the end of fiscal year 2004, it became apparent that the State’s significant revenue streams were beginning to reflect the improving economy. This financial improvement enabled a \$4.7 million add-back to the University’s original budget for the year ending June 30, 2005 (fiscal year 2005). Even if State tax revenues continue to rebound, the State’s budget cap on expenditures creates an important context as the University looks to the future. The University’s non-state revenue streams continue to play an ever-growing role in its financial health. These sources include private support, research funding, tuition and mandatory fees, and room and board fees.

As part of its response to the significant State 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. Because the ERIP was designed to reduce State spending, the State’s public higher education institutions were permitted to keep only half of the savings generated by the program. In short, \$8.9 million was removed from the University’s appropriation as a result of the State’s plan.

The combination of faculty retirements and growing enrollment has posed a number of challenges for the University. Without the voluntary return of many retirees (for the statutorily permissible 120 days per calendar year) and hiring of adjunct faculty to cover course offerings this past fiscal year, ERIP might otherwise have had a significant negative impact on the principal business of the University. An aggressive faculty hiring plan was undertaken in fiscal year 2004 to counter

the effect of ERIP and meet the demands of increasing enrollments of both undergraduate and graduate students. As a result of ERIP and savings from the wage concessions agreed to by faculty, professional staff and managers, the University achieved significant savings in operating expenditures of approximately \$23.8 million (\$12.5 million related to ERIP) during fiscal year 2004.

21st Century UConn, also known as Phase 3 of UCONN 2000, will begin in fiscal year 2005. It represents a \$1.3 billion, 10-year extension of the original UCONN 2000 program (see Note 4), and will provide \$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. This commitment from the State provides long-term funds for capital enhancement and preservation and will allow the University to keep pace with the enormous enrollment growth experienced in the last three years.

FINANCIAL STATEMENTS

Effective July 1, 2001, the University adopted GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. GASB Statement No. 35 establishes standards for financial reporting for public colleges and universities. 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.

GASB No. 35 focuses on the University as a whole rather than on accountability by individual fund groups and provides accounting and financial reporting guidelines, enhancing the usefulness and comprehension of financial reports by external users. The adoption of these standards resulted in the conversion from fund accounting statements to statements presented in a single-column format.

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.

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. Over time, an increase in net assets is an indicator of the University's improving financial strength.

The following table shows condensed Statements of Net Assets at June 30, 2004, 2003 and 2002:

	2004	2003	2002
Current assets	\$ 311,660,766	\$ 336,317,806	\$ 416,138,886
Noncurrent assets	2,147,963,680	1,992,917,844	1,780,191,592
Total assets	<u>\$ 2,459,624,446</u>	<u>\$ 2,329,235,650</u>	<u>\$ 2,196,330,478</u>
Current liabilities	\$ 181,341,222	\$ 176,492,670	\$ 162,314,458
Noncurrent liabilities	922,764,246	853,848,348	805,292,823
Total liabilities	<u>\$ 1,104,105,468</u>	<u>\$ 1,030,341,018</u>	<u>\$ 967,607,281</u>
Invested in capital assets, net	\$ 1,206,280,804	\$ 1,148,711,532	\$ 1,020,536,235
Restricted	47,753,495	67,932,668	124,519,993
Unrestricted	101,484,679	82,250,432	83,666,969
Total net assets	<u>\$ 1,355,518,978</u>	<u>\$ 1,298,894,632</u>	<u>\$ 1,228,723,197</u>

The total assets increased \$130.4 million in fiscal year 2004 over 2003 and \$132.9 million in fiscal year 2003 over 2002. The growth in fiscal year 2004 was primarily due to \$112.7 million (\$163.8 million in fiscal year 2003) of additions to property and equipment, net of accumulated depreciation, a \$30.0 million (\$6.5 million in fiscal year 2003) increase in cash and cash equivalents and a \$51.9 million (\$59.5 million in fiscal year 2003) 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 \$10.2 million (\$21.3 million in fiscal year 2003) and a \$55.3 million (\$69.8 million in fiscal year 2003) reduction in deposit with bond trustee used for construction projects.

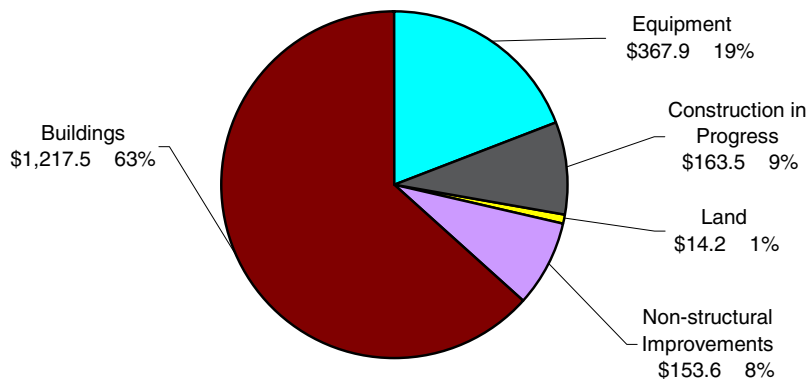
The total liabilities for the fiscal year 2004 increased \$73.8 million (\$62.7 million in fiscal year 2003) primarily due to newly acquired debt through the sale of general obligation bonds and other new debt, including refunded debt (see Note 4 to the financial statements), totaling \$347.9 million in fiscal year 2004 (\$97.6 million in fiscal year 2003) and the retirement of prior year debt on existing bonds and loans of \$274.4 million in fiscal year 2004 (\$45.2 million in fiscal year 2003). The combination of the increase in total assets of \$130.4 million (\$132.9 for fiscal year 2003) and total liabilities of \$73.8 million (\$62.7 million for fiscal year 2003) yields an increase in total net assets of \$56.6 million (\$70.2 million in fiscal year 2003).

Current assets less current liabilities represents working capital, which was \$130.3 million, \$159.8 million and \$253.8 million at June 30, 2004, 2003 and 2002, respectively. The current ratio, which is current assets divided by current liabilities, declined each of the three years presented, from 2.56 to 1 at June 30, 2002 to 1.91 to 1 at June 30, 2003 and 1.72 to 1 at June 30, 2004. The decline in the University’s liquidity is due primarily to the deposit held with bond trustee decreasing \$55.3 million and \$69.8 million in fiscal years 2004 and 2003, respectively, using the funds for construction projects related to UCONN 2000 (see Note 4).

Capital and Debt Activities

During fiscal year 2004, the University recorded additions to property and equipment totaling \$182.3 million (\$227.2 million and \$184.0 million in 2003 and 2002, respectively) of which \$145.5 million in fiscal year 2004 related to buildings and construction in progress (\$185.5 million and \$140.4 million in 2003 and 2002, respectively). This unprecedented growth of the University’s property and equipment is a direct result of the successful UCONN 2000 program. The third phase of the program, also known as 21st Century UConn, will expand and build on the success of UCONN 2000 with an additional \$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, 2004
 (\$ in Millions) Total \$1,916.7



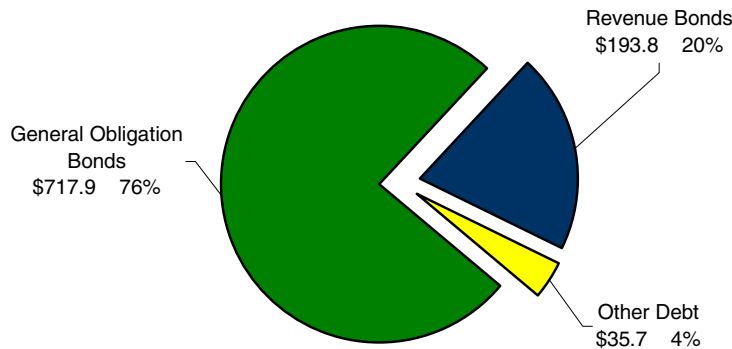
In fiscal year 2004, the University issued bonds with a total face value of \$314.8 million from the sale of UCONN 2000 general obligation bonds (\$96.2 million in fiscal year 2003). The issuance included \$217 million of bonds to refund previously issued general obligation bonds (see Note 4), resulting in a projected net present value savings of \$10.1 million. The State has made a commitment to fund the University for all principal and interest payments due on UCONN 2000, inclusive of 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.

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 heating and cooling for the University at its Storrs campus. The entire cost of the project is expected to be \$75 million and will be financed by a 20-year lease (see Note 4). Construction is currently

underway and at June 30, 2004, \$20.6 million was owed for amounts advanced by the lessor, including capitalized interest. Upon completion, the cogeneration facility is anticipated to produce savings from what the University would have expended for utilities.

See Notes 3 and 4 of the financial statements for further information on capital and debt activities.

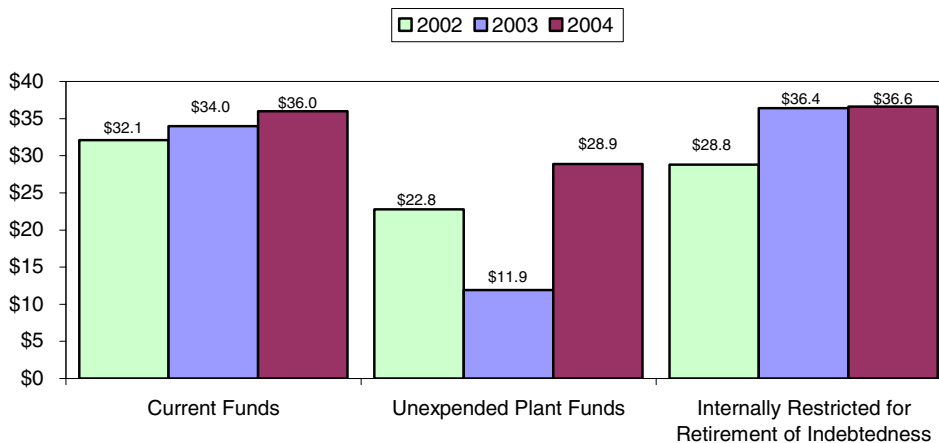
CATEGORIES OF DEBT AT JUNE 30,2004
 (\$ in millions) Total \$947.4



Net Assets

Net assets are divided into three major categories. The first category, invested in capital assets, net of related 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 year 2002) included in the balances of unrestricted current funds, retirement of indebtedness funds, and plant funds. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. 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 net assets:

UNRESTRICTED NET ASSETS (\$ in Millions)



Substantially all unrestricted net assets are internally designated for academic and research programs, capital programs, retirement of debt, and auxiliary enterprise activities.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

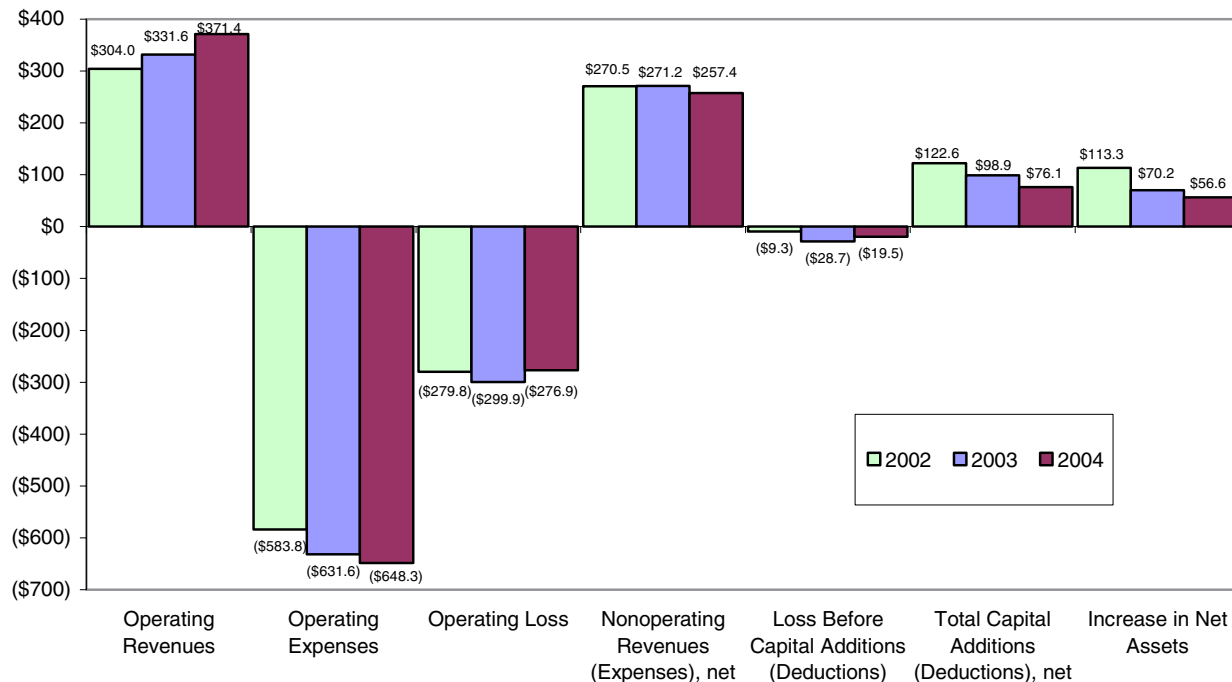
Revenues and expenses are classified as operating, nonoperating, or capital additions (deductions) according to definitions prescribed by GASB. Significant recurring sources of nonoperating revenue utilized in balancing the operating loss each year include state appropriations for general operations, 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, 2004, 2003 and 2002:

	2004	2003	2002
Operating revenues	\$ 371,424,978	\$ 331,640,922	\$ 304,039,226
Operating expenses	648,329,693	631,587,824	583,811,852
Operating loss	(276,904,715)	(299,946,902)	(279,772,626)
Nonoperating revenues (expenses), net	257,407,359	271,209,262	270,458,641
Loss before capital additions (deductions)	(19,497,356)	(28,737,640)	(9,313,985)
Total capital additions (deductions)	76,121,702	98,909,075	122,571,445
Increase in Net Assets	\$ 56,624,346	\$ 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.

STATEMENT 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 three positive years with an increase in the net assets of \$56.6 million, \$70.2 million and \$113.3 million at the end of the fiscal years 2004, 2003 and 2002, respectively.

Revenues

The following table summarizes operating and nonoperating revenues and capital additions for the fiscal years ended June 30, 2004, 2003 and 2002:

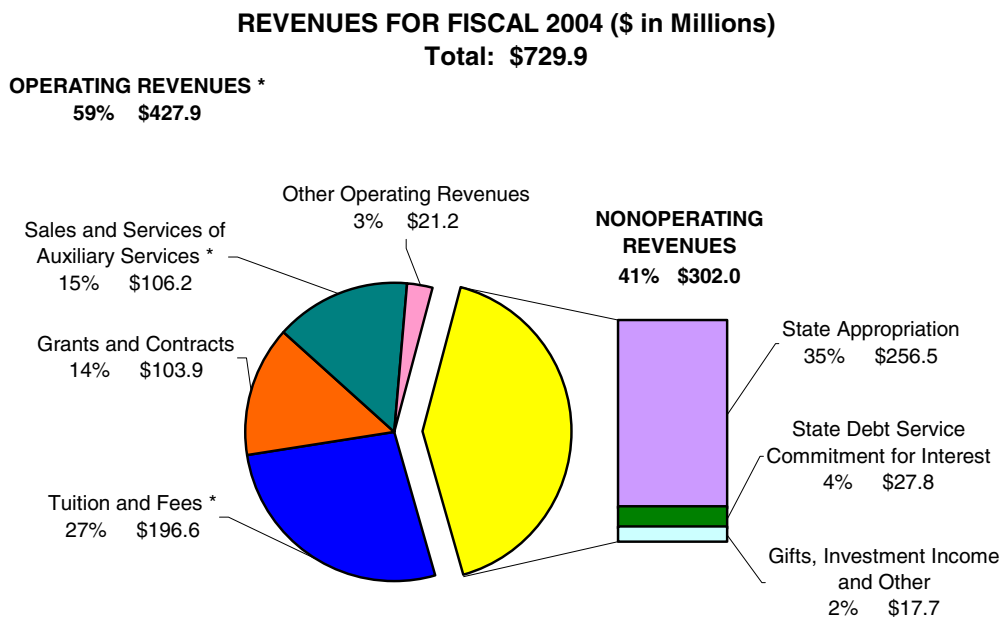
	2004	2003	2002
Operating revenues:			
Student tuition and fees, net	\$ 141,573,265	\$ 120,275,694	\$ 102,200,333
Grants and contracts	103,893,925	100,183,600	98,373,311
Sales and services of educational departments	12,166,016	13,514,914	12,020,682
Sales and services of auxiliary enterprises, net	104,784,446	89,438,533	81,002,139
Other sources	9,007,326	8,228,181	10,442,761
Total operating revenues	<u>371,424,978</u>	<u>331,640,922</u>	<u>304,039,226</u>
Nonoperating revenues:			
State appropriation	256,467,347	258,751,010	259,447,742
State debt service commitment for interest	27,852,310	29,228,519	25,907,563
Gifts	15,319,152	18,936,287	16,202,233
Investment income	2,388,513	3,565,261	5,572,628
Other nonoperating revenues, net (see <i>Expense</i> section below for 2004 and 2002)	-	522,514	-
Total nonoperating revenues	<u>302,027,322</u>	<u>311,003,591</u>	<u>307,130,166</u>
Capital additions:			
State debt service commitment for principal	91,635,000	96,210,000	100,000,000
Capital grants and gifts	8,243,365	7,558,843	12,316,127
Capital other, net (see <i>Expense</i> section below for 2004 and 2003)	-	-	13,357,569
Total capital additions	<u>99,878,365</u>	<u>103,768,843</u>	<u>125,673,696</u>
Total revenues	<u>\$ 773,330,665</u>	<u>\$ 746,413,356</u>	<u>\$ 736,843,088</u>

Revenue highlights, for fiscal years 2004 and 2003 with comparison to the prior fiscal years, 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% in both fiscal years 2004 and 2003 over the prior years (15.6% and 14.1% before scholarship allowance, respectively), due in part to 3.3% (5.9% in fiscal year 2003) more undergraduates enrolled at the University and an increase of 10.7% (5.7% in fiscal year 2003) for undergraduate in-state tuition and mandatory fees charged to undergraduate students (11.0% and 6.1% for out-of-state in fiscal years 2004 and 2003, respectively).
- Sales and services of auxiliary enterprises, net increased approximately 17.2% and 10.4% during fiscal years 2004 and 2003, respectively. This increase is consistent with the increase in available on-campus housing and the number of students living on campus. In fiscal year 2004, there were 7.4% more room fee-paying students living on campus, following fiscal year 2003 which experienced a 5.0% increase. Board fee-paying students increased 5.2% in fiscal year 2004 (5.3% in fiscal year 2003), and fees charged for both room and board increased approximately 5.3% (3.9% in fiscal year 2003).

- The largest source of revenue, state appropriation including fringe benefits, has decreased slightly each year since fiscal year 2002; it is included in the nonoperating section. The State also provides state debt service commitment for the interest payments made annually on general obligation bonds. State debt service commitment for interest revenue is also included with nonoperating revenues and corresponds to the total interest paid and accrued on general obligation bonds. Effectively, this revenue offsets a significant portion of interest expense each year. 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. This results in revenue that is recorded as a capital addition and totaled \$91.6 million in fiscal year 2004.
- 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, including capital gifts, received by the University from both Foundations totaled approximately \$16.3 million in fiscal year 2004 compared to \$18.3 million in fiscal year 2003. Both Foundations also paid approximately \$4.2 million in both fiscal years 2004 and 2003 to third parties on behalf of the University. This amount is not reflected in the University's financial statements. In addition, the University also receives gifts directly. Total nonoperating and capital gift and grant revenue to the University from all sources amounted to \$23.6 million and \$26.5 million in fiscal years 2004 and 2003, respectively.
- Capital other revenue (expense) in 2004 and 2003 is discussed below in *Expenses* section of this MD&A. In fiscal year 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. The remaining amount of capital other was related to expenses incurred in fiscal year 2002 for capital activities of the University, resulting in net revenue in fiscal year 2002.

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



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

Expenses

The following table summarizes operating and nonoperating expenses and capital deductions for the fiscal years ended June 30, 2004, 2003 and 2002:

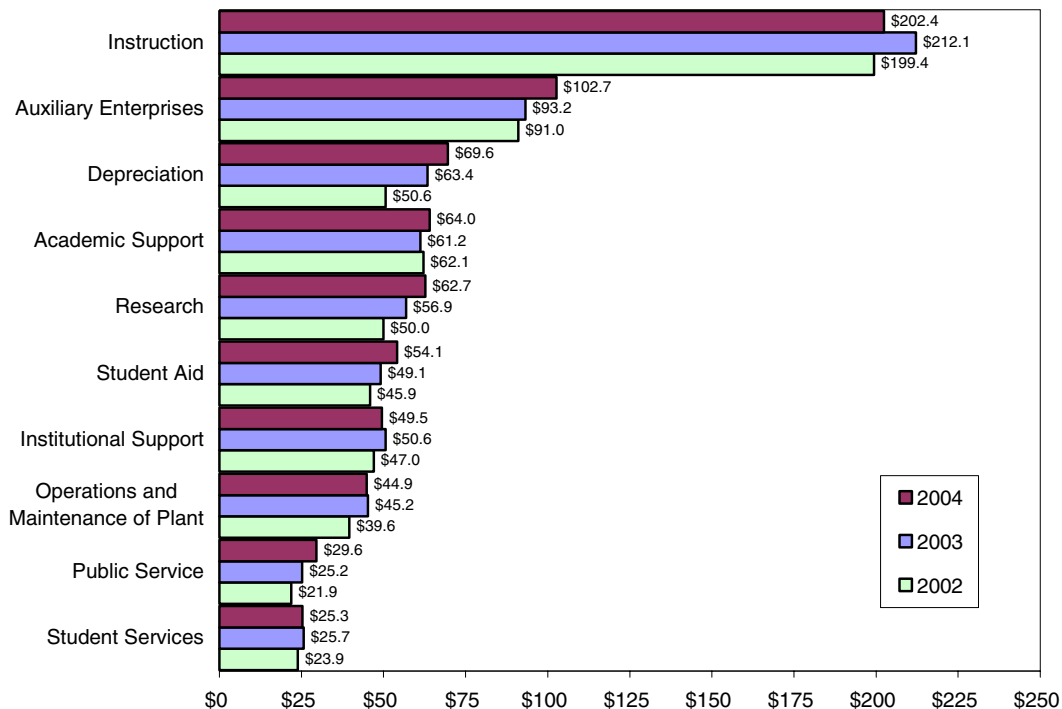
	2004	2003	2002
Operating expenses:			
Instruction	\$ 200,872,187	\$ 210,682,856	\$ 198,738,445
Research	61,993,855	56,170,809	49,310,979
Auxiliary enterprises	102,573,786	93,185,331	90,957,783
Depreciation	69,594,696	63,402,505	50,624,858
Other	213,295,169	208,146,323	194,179,787
Total Operating Expenses	<u>648,329,693</u>	<u>631,587,824</u>	<u>583,811,852</u>
Nonoperating expenses:			
Interest expense	37,817,551	39,794,329	33,955,787
Other nonoperating expense, net (see <i>Revenue</i> section above for 2003)	6,802,412	-	2,715,738
Total Nonoperating Expenses	<u>44,619,963</u>	<u>39,794,329</u>	<u>36,671,525</u>
Capital deductions:			
Disposal of property and equipment, net	4,190,358	2,454,738	3,102,251
Capital other, net (see <i>Revenue</i> section above for 2002)	19,566,305	2,405,030	-
Total Capital Additions Deductions	<u>23,756,663</u>	<u>4,859,768</u>	<u>3,102,251</u>
Total Expenses	<u>\$ 716,706,319</u>	<u>\$ 676,241,921</u>	<u>\$ 623,585,628</u>

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, utilities, and supplies and other expenses (see Note 12 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.
- **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 missions 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.)



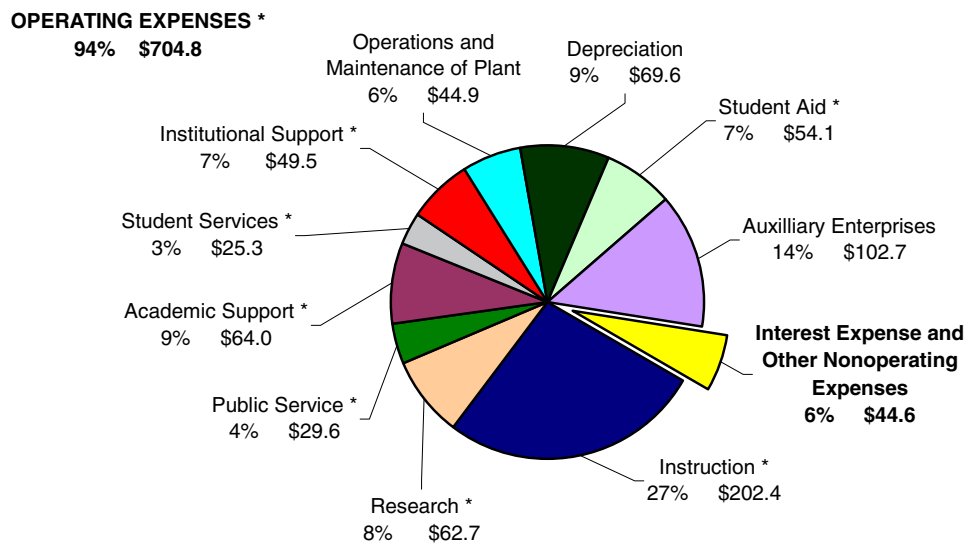
Highlights of expenses, including operating and nonoperating expenses and capital deductions, presented on the Statements of Revenues, Expenses, and Changes in Net Assets are as follows:

- Instruction, the University's largest operating expense, decreased in fiscal year 2004 primarily due to ERIP which resulted in a net reduction, after the rehiring, of approximately 102 full-time faculty and related staff. The \$9.8 million (4.7%) decrease was the result of ERIP combined with bargaining unit concessions that provided for no increase in compensation during the fiscal year, along with a reduction in supplies, commodities and other expenditures. In fiscal year 2003, instruction increased approximately 6.0% or \$11.9 million. This increase reflected an average pay raise for faculty of the University of 5.2% with the associated fringe benefits and a net increase of 35 full-time faculty positions over fiscal year 2002.
- In fiscal year 2004, research expenses increased \$5.8 million or 10.4% (\$6.9 million or 13.9% in fiscal year 2003). 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. Supplies, commodities and other expenditures decreased \$0.9 million (\$3.4 million in fiscal year 2003). Salaries and fringe benefits related to research grew \$6.7 million (\$3.4 million in fiscal year 2003).
- Public service expenses grew \$4.4 million, a 17.3% increase in fiscal year 2004 with \$2.3 million of the increase in salaries and an increase of \$1.5 million in supplies, commodities and other expense. In fiscal year 2003, these expenditures increased over fiscal year 2002 by \$3.4 million or 15.5%, with most of the increase in supplies, commodities and other expense.
- Academic support grew 4.6% in fiscal year 2004 with a significant increase of \$4.0 million in supplies, commodities and other expenditures primarily due to computer related costs. This was offset by decreases in salaries of \$1.6 million as a result of ERIP net reductions of approximately 35 staff. In fiscal year 2003, 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.
- In fiscal year 2004, a \$1.2 million decrease in institutional support resulted from salaries remaining level between years while supplies, commodities and other expenditures decreased \$2.2 million. For fiscal year 2003, an overall \$3.6 million increase 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 lost 42 staff, net of those rehired in fiscal year 2004 due to ERIP. This resulted in a decrease in salaries of \$1.3 million (8.7%). Utilities increased \$0.9 million as a result of a 6.2% overall increase in the consumption of gas, electricity, oil and water due to additional facilities and an increase in overall rates for these utilities of 12.6%. In fiscal year 2003, operations and maintenance of plant grew 14.3%, for a total of \$5.7 million, due in large part to a \$3.2 million increase in utility expenses resulting from increases in rates and consumption, with a harsher winter and new buildings coming on-line.
- Auxiliary enterprises expenditures increased 10.1% in fiscal year 2004, primarily due to a significant increase in supplies, commodities and other expenditures resulting from additional dormitories which included an increased design capacity of 1,155 beds. The \$7.5 million increase in these expenditures was primarily due to costs associated with this increased capacity, including maintenance, dining services and furniture expenditures that fall below the University's capitalization threshold. Salaries decreased slightly as a result of approximately 21 net positions lost due to ERIP. In fiscal year 2003, 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 during fiscal year 2003, especially for residential and dining facilities, staffing and other expenditures did not increase at the same rate.
- During fiscal year 2004, the ninth year of UCONN 2000 (see Note 4), the University recorded additions of \$182.3 million (\$227.2 million in fiscal year 2003) in property and equipment. These significant additions contributed to a 9.8% or \$6.2 million increase in depreciation expense in fiscal year 2004 (25.2% or \$12.8 million in fiscal year 2003).
- Interest expense, net of the state debt service commitment for interest, decreased slightly by \$0.6 million in fiscal year 2004 with retirements of revenue and other loans exceeding additional borrowings by \$6.6 million, and interest on the capital lease for cogeneration being capitalized during construction. In fiscal year 2003, interest expense 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 fiscal year 2003 and a partial year, beginning in February, for fiscal year 2002.

- In fiscal year 2004, other nonoperating expenditures totaled \$6.8 million and primarily consisted of certain legal fees and matters of a nonrecurring nature. Other nonoperating expenses was a net revenue in 2003, primarily due to an endowment grant earned totaling \$2 million. Without the endowment grant revenue in 2003 nonoperating expenses totaled \$1.5 million.
- In fiscal year 2004, capital other includes several items discussed in Note 3 including: \$16.0 million that was expended for and estimated to complete a project to remediate and close an existing landfill, and \$2.3 million for additional construction on an existing building which did not increase the value of the building.

Total operating expenses were \$648.3 million and \$631.6 million in fiscal years 2004 and 2003, respectively, netted for scholarship aid totaling \$56.4 million and \$51.0 million, respectively. Note 12 to the financial statements details operating expenses by object (natural classification), and shows notable savings in salaries and wages totaling \$7.6 million, a 2.2% decrease over fiscal year 2003, while fringe benefits increased 3.5%. This resulted because of a net decrease of approximately 187 full-time equivalent staff after rehiring for certain positions, and at the same time an overall average increase in fringe rates charged by the State of approximately 8.0%. The pie chart below 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 2004 (\$ in Millions)
Total \$749.4



* 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 preparing 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. The Statements of Cash Flows, on the other hand, show cash inflows and outflows without regard to accruals. The Statements of Cash Flows 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, 2004, 2003 and 2002 follow:

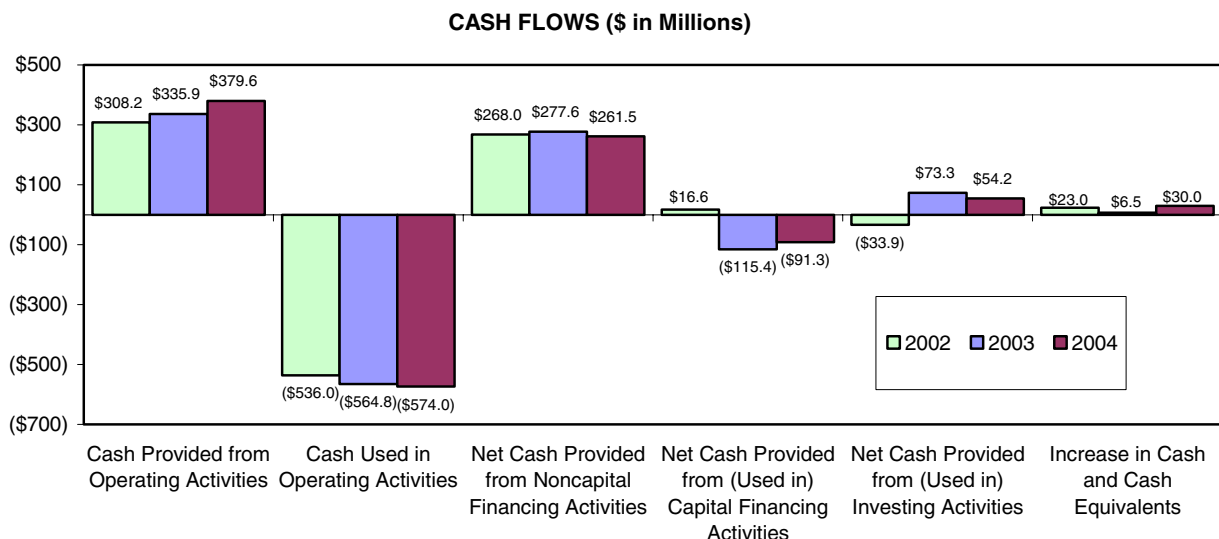
	2004	2003	2002
Cash provided from operating activities	\$ 379,558,282	\$ 335,888,635	\$ 308,234,038
Cash used in operating activities	(574,018,812)	(564,812,353)	(536,006,910)
Net cash used in operating activities	(194,460,530)	(228,923,718)	(227,772,872)
Net Cash Provided from Noncapital Financing Activities	261,530,023	277,552,963	268,040,177
Net Cash Provided from (Used in) Capital Financing Activities	(91,348,331)	(115,364,868)	16,644,950
Net Cash Provided from (Used in) Investing Activities	54,232,258	73,261,624	(33,875,644)
Net increase in cash and cash equivalents	<u>\$ 29,953,420</u>	<u>\$ 6,526,001</u>	<u>\$ 23,036,611</u>

Net cash used in operating activities was \$194.5 million and \$228.9 million in fiscal years 2004 and 2003, respectively, and is consistent with the operating loss discussed earlier after 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 \$261.5 million in fiscal year 2004 (\$277.6 million in fiscal year 2003), a \$16.1 decrease from 2003.

Cash flows used in capital financing activities were \$91.3 million and \$115.4 million in fiscal years 2004 and 2003, respectively, as compared to \$16.6 million provided for these activities in fiscal year 2002. There were no significant changes between fiscal years 2004 and 2003 except for a decrease in the amount of additions to property and equipment of \$18.1 million and an increase in principal paid on debt and bonds payable of \$6.5 million. The increase in cash used in fiscal year 2003 over fiscal year 2002 totaled \$132 million and is explained by the following. Cash used in fiscal year 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 \$54.2 million and \$73.3 million for fiscal years 2004 and 2003, respectively was provided from investing activities, primarily because of transfers of \$55.3 and \$69.8 million, respectively from the bond trustee to pay for authorized capital projects. This is compared to fiscal year 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 \$30.0 million and \$6.5 million in fiscal years 2004 and 2003, respectively, as a result of these activities. The following bar graph shows the cash flows from and used by major categories and as described in the preceding paragraphs:



FINANCIAL STATEMENTS

**UNIVERSITY OF CONNECTICUT
STATEMENTS OF NET ASSETS
As of June 30, 2004 and 2003**

ASSETS

Current Assets

	2004	2003
Cash and cash equivalents	\$ 160,699,557	\$ 128,754,311
Accounts receivable, net	24,290,498	33,157,491
Student loans receivable, net	2,229,432	2,107,343
Due from State of Connecticut	29,961,594	31,333,474
Due from related agencies	517,122	407,875
State debt service commitment	59,644,964	51,092,208
Inventories	2,179,004	2,059,975
Deposit with bond trustee	31,271,571	86,601,751
Deferred charges	817,856	759,818
Other assets	49,168	43,560
Total Current Assets	311,660,766	336,317,806

Noncurrent Assets

Cash and cash equivalents	1,449,665	3,441,491
Investments	11,514,353	7,278,573
Student loans receivable, net	10,083,238	9,993,290
State debt service commitment	669,657,147	626,272,146
Property and equipment, net of accumulated depreciation	1,446,108,537	1,339,460,000
Deferred charges	9,150,740	6,472,344
Total Noncurrent Assets	2,147,963,680	1,992,917,844
Total Assets	\$ 2,459,624,446	\$ 2,329,235,650

LIABILITIES

Current Liabilities

Accounts payable and accrued liabilities	\$ 23,642,019	\$ 42,777,221
Deferred income	25,394,070	23,248,492
Wages payable	31,866,498	28,309,537
Compensated absences	13,380,726	13,900,248
Due to the State of Connecticut	10,132,913	8,513,083
Due to related agencies	47,173	51,977
Current portion of long-term debt and bonds payable	55,966,581	49,943,122
Other current liabilities	20,911,242	9,748,990
Total Current Liabilities	181,341,222	176,492,670

Noncurrent Liabilities

Compensated absences	8,404,423	7,271,085
Deposits held for others	2,349,683	2,138,674
Long-term debt and bonds payable	902,267,349	834,763,060
Refundable for federal loan program	9,742,791	9,675,529
Total Noncurrent Liabilities	922,764,246	853,848,348
Total Liabilities	\$ 1,104,105,468	\$ 1,030,341,018

NET ASSETS

Invested in capital assets, net of related debt	\$ 1,206,280,804	\$1,148,711,532
Restricted nonexpendable	10,904,207	9,717,395
Restricted expendable		
Research, instruction, scholarships and other	9,929,683	12,515,767
Loans	3,314,153	3,126,304
Capital projects	12,811,778	34,431,219
Debt service	10,793,674	8,141,983
Unrestricted (See Note 13)	101,484,679	82,250,432
Total Net Assets	\$ 1,355,518,978	\$ 1,298,894,632

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, 2004 and 2003

	2004	2003
OPERATING REVENUES		
Student tuition and fees (Net of scholarship allowances of \$55,028,975 for 2004 and \$49,728,391 for 2003. Revenues totaling approximately \$24,230,000 for 2004 and \$21,912,000 for 2003 are used as security for revenue bonds. See Note 4)	\$ 141,573,265	\$ 120,275,694
Federal grants and contracts	78,454,917	73,342,732
State and local grants and contracts	17,486,752	16,511,793
Nongovernmental grants and contracts	7,952,256	10,329,075
Sales and services of educational departments	12,166,016	13,514,914
Sales and services of auxiliary enterprises (Net of scholarship allowance of \$1,386,360 for 2004 and \$1,283,335 for 2003. Net revenues totaling approximately \$17,195,000 for 2004 and \$13,822,000 for 2003 are used as security for revenue bonds. See Note 4)	104,784,446	89,438,533
Other sources (Net revenues totaling approximately \$3,098,000 for 2004 and \$2,629,000 for 2003 are used as security for revenue bonds. See Note 4)	9,007,326	8,228,181
Total Operating Revenues	371,424,978	331,640,922
OPERATING EXPENSES		
Educational and general		
Instruction	200,872,187	210,682,856
Research	61,993,855	56,170,809
Public service	29,480,541	25,125,045
Academic support	63,932,206	61,117,844
Student services	24,958,903	25,494,540
Institutional support	49,439,568	50,604,026
Operations and maintenance of plant	44,935,019	45,246,949
Depreciation	69,594,696	63,402,505
Student aid	548,932	557,919
Auxiliary enterprises	102,573,786	93,185,331
Total Operating Expenses	648,329,693	631,587,824
Operating Loss	(276,904,715)	(299,946,902)
NONOPERATING REVENUES (EXPENSES)		
State appropriation	256,467,347	258,751,010
State debt service commitment for interest	27,852,310	29,228,519
Gifts	15,319,152	18,936,287
Investment income (Income totaling approximately \$169,000 for 2004 and \$857,000 for 2003 are used as security for revenue bonds. See Note 4)	2,388,513	3,565,261
Interest expense	(37,817,551)	(39,794,329)
Other nonoperating revenues (expenses), net	(6,802,412)	522,514
Net Nonoperating Revenues	257,407,359	271,209,262
Loss Before Capital Additions (Deductions)	(19,497,356)	(28,737,640)
CAPITAL ADDITIONS (DEDUCTIONS)		
State debt service commitment for principal	91,635,000	96,210,000
Capital grants and gifts	8,243,365	7,558,843
Disposal of property and equipment, net	(4,190,358)	(2,454,738)
Capital other	(19,566,305)	(2,405,030)
Total Capital Additions (Deductions)	76,121,702	98,909,075
Increase in Net Assets	56,624,346	70,171,435
NET ASSETS		
Net Assets-beginning of year	1,298,894,632	1,228,723,197
Net Assets-end of year	\$ 1,355,518,978	\$ 1,298,894,632

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

**UNIVERSITY OF CONNECTICUT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2004 and 2003**

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 139,314,738	\$ 119,452,337
Research grants and contracts	105,113,017	102,214,365
Payments to suppliers	(152,699,572)	(137,581,776)
Payments to employees	(326,140,676)	(334,415,524)
Payments for benefits	(92,715,831)	(90,278,832)
Loans issued to students and employees	(2,462,733)	(2,536,221)
Collection of loans to students and employees	2,250,696	2,197,830
Sales and services of auxiliary enterprise	108,582,720	92,219,295
Sales and services of educational departments	12,449,139	13,056,071
Other receipts (payments)	11,847,972	6,748,737
Net Cash Used in Operating Activities	(194,460,530)	(228,923,718)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	254,230,692	258,132,174
Gifts	15,163,655	18,720,530
Other nonoperating revenue (expense)	(7,864,324)	700,259
Net Cash Provided from Noncapital Financing Activities	261,530,023	277,552,963
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from bonds and installment loans	100,609,672	100,532,528
State debt service commitment	67,549,554	65,979,922
Purchases of property and equipment	(185,935,726)	(204,049,185)
Principal paid on debt and bonds payable	(50,809,512)	(44,327,207)
Interest paid on debt and bonds payable	(35,059,743)	(38,936,213)
Capital grants and gifts	6,262,403	2,458,273
Capital other	6,035,021	2,977,014
Net Cash Provided from (Used in) Capital Financing Activities	(91,348,331)	(115,364,868)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from (purchase of) investments, net	(3,437,229)	(209,041)
Interest on investments	2,339,307	3,710,595
Deposits with bond trustee	55,330,180	69,760,070
Net Cash Provided from (Used in) Investing Activities	54,232,258	73,261,624
INCREASE IN CASH AND CASH EQUIVALENTS	29,953,420	6,526,001
BEGINNING CASH AND CASH EQUIVALENTS	132,195,802	125,669,801
ENDING CASH AND CASH EQUIVALENTS	\$ 162,149,222	\$ 132,195,802
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	\$ (276,904,715)	\$ (299,946,902)
Adjustments to Reconcile Operating Loss to Net Cash		
Used in Operating Activities:		
Depreciation expense	69,594,696	63,402,505
Changes in Assets and Liabilities:		
Receivables, net	3,993,182	2,176,348
Inventories	(119,029)	28,403
Other assets	(5,610)	(1,099)
Accounts payable	4,743,083	5,020,038
Deferred revenue	2,145,578	331,277
Deferred charges	105,351	(91,726)
Deposits	211,010	(391,354)
Due from state	1,634,324	1,083,419
Due from related agencies	(114,051)	(363,463)
Other liabilities	467,688	167,226
Loans to students and employees	(212,037)	(338,390)
Net Cash Used in Operating Activities	\$ (194,460,530)	\$ (228,923,718)
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS		
Cash and cash equivalents classified as current assets	\$ 160,699,557	\$ 128,754,311
Cash and cash equivalents classified as noncurrent assets	1,449,665	3,441,491
	\$ 162,149,222	\$ 132,195,802

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

**UNIVERSITY OF CONNECTICUT
COMPONENT UNIT
THE UNIVERSITY OF CONNECTICUT LAW SCHOOL FOUNDATION, INC.**

**STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2004 AND 2003**

ASSETS

Current Assets	2004	2003
Cash and cash equivalents	\$ 772,289	\$ 1,232,907
Investments	10,299,000	8,108,543
Pledges receivable, net of allowance	1,983,157	2,116,126
Prepaid expenses	12,878	13,110
Other receivables	32,229	34,749
Total Current Assets	13,099,553	11,505,435
Property and equipment, net of accumulated depreciation of \$66,320 for 2004 and \$64,642 for 2003	1,907	3,585
Total Assets	\$ 13,101,460	\$ 11,509,020

LIABILITIES AND NET ASSETS

LIABILITIES

Current Liabilities		
Accounts payable	\$ 34,169	\$ 26,732
Due to University of Connecticut Law School Alumni Association	23,653	20,821
Current portion of capital lease obligation	-	347
Total Liabilities	57,822	47,900

NET ASSETS

Unrestricted	1,007,536	600,932
Temporarily restricted	3,153,982	2,406,738
Permanently restricted	8,882,120	8,453,450
Total Net Assets	13,043,638	11,461,120
Total Liabilities and Net assets	\$ 13,101,460	\$ 11,509,020

**STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2004 and 2003**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2004 Total	2003 Total
REVENUES AND SUPPORT					
Contributions	\$ 327,885	\$ 7,912	\$ 428,670	\$ 764,467	\$ 830,973
Interest and dividends	18,594	228,562	-	247,156	267,092
Realized and unrealized gains and losses	485,253	876,060	-	1,361,313	(156,803)
Net assets released from restrictions	365,290	(365,290)	-	-	-
Total Revenues and Support	1,197,022	747,244	428,670	2,372,936	941,262
EXPENSES					
Program Expenses					
Scholarships and awards	77,984	-	-	77,984	78,930
Student support and faculty support	248,868	-	-	248,868	229,350
Alumni and graduate relations	121,275	-	-	121,275	121,868
Total Program Expenses	448,127			448,127	430,148
Support Expenses					
Management and general	293,422	-	-	293,422	115,573
Fundraising	48,869	-	-	48,869	34,689
Total Support Expenses	342,291			342,291	150,262
Total Expenses	790,418			790,418	580,410
Changes in Net Assets	406,604	747,244	428,670	1,582,518	360,852
Net Assets-beginning of year	600,932	2,406,738	8,453,450	11,461,120	11,100,268
Net Assets-end of year	\$ 1,007,536	\$ 3,153,982	\$ 8,882,120	\$ 13,043,638	\$ 11,461,120

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

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NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements For the Years Ended June 30, 2004 and 2003

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, 2004 and 2003 represents the transactions and balances of the University, here defined as all programs except the Health Center.

Two related, but independent, corporate entities 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). These Foundations raise funds to promote, encourage, and assist education and research at the University and the Health Center.

Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, requires that legally separate and tax exempt entities be presented as component units of the reporting entity if it meets all of the following criteria: the economic resources of the organization are entirely or almost entirely for the direct benefit of the reporting unit; the reporting unit is entitled to access all or a majority of the economic resources received or held by the organization; and the economic resources received or held by the organization are significant to the reporting unit. As a result, the Law School Foundation, which is organized for the benefit of the University and whose economic resources can only be used by or for the benefit of the University, is included as a component with the University.

The Foundation materially supports the mission of the University and the Health Center, which are both separately audited, producing their own financial statements. Displaying the Foundation's financial statements as a component unit of either the University or the Health Center would distort its actual contribution or economic benefit to that entity, and therefore, the Foundation is not included as a component unit in the accompanying financial statements.

Financial Statement Presentation

The financial statements have been prepared using the economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB. 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.

Effective July 1, 2001, the University adopted GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. GASB Statement No. 35 establishes standards for financial reporting for public colleges and universities. The new reporting standards focus on the University as a whole rather than on accountability by individual fund groups and provide accounting and financial reporting guidelines, enhancing the usefulness and comprehension of financial reports by external users. To that end, GASB requires that resources be classified for accounting and reporting purposes into the following three 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 13).

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. All significant intra-agency transactions have been eliminated.

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. 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, and amounts due from state and federal governments for grants and contracts. 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 remaining proceeds 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 9)

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 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 and fair value at date of donation as in the case of gifts. Property and equipment that are exchanged for other assets are recorded based on the fair value of the asset given up or the fair value of the asset received, whichever value is most clearly evident. 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 9)

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 6)

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 (net of unamortized premiums and discounts), 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 reported prior to July 1, 2001 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. GASB 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.

Operating expenses, except for depreciation, are reported using functional classification, including those under educational and general and auxiliary enterprises. See Note 12 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 (Deductions). Revenues are recognized when earned and expenses are recognized when incurred.

Component Unit

The Law School Foundation prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues and expenses are classified based on the terms of donor-imposed restrictions, if any. Accordingly, the Law School Foundation's net assets and changes therein are classified and reported as follows:

- **Unrestricted Net Assets:** Net assets that are not subject to donor-imposed restrictions.
- **Temporarily Restricted Net Assets:** Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Law School Foundation and/or passage of time. When the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.
- **Permanently Restricted Net Assets:** Net assets subject to donor-imposed stipulations that they be maintained permanently by the Law School Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized as revenue until the conditions on which they depend are substantially met.

Investments are reported at fair value based upon quoted market prices.

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 \$162,149,222 and \$132,195,802, as of June 30, 2004 and 2003, respectively and included the following:

	<u>2004</u>	<u>2003</u>
Cash maintained by State of Connecticut Treasurer	\$ 138,869,476	\$ 105,774,031
Invested in State of Connecticut Investment Pool	16,097,944	16,659,325
Invested in State of Connecticut Investment Pool - Endowments	1,449,665	3,441,491
Invested in Short-term Corporate Notes	5,324,415	5,872,658
Deposits with Financial Institutions and Other (category 3 investments)	407,722	448,297
Total cash and cash equivalents	<u>162,149,222</u>	<u>132,195,802</u>
Less: current balance	160,699,557	128,754,311
Total noncurrent balance	<u>\$ 1,449,665</u>	<u>\$ 3,441,491</u>

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 to at least 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 (\$0 in 2004 and \$2,000,000 in 2003), 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% (4% 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. For the year ending June 30, 2003, the quarterly amount was 1.25% (5% 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:

	2004		2003	
	Cost	Fair Value	Cost	Fair Value
<u>Endowments:</u>				
Foundation Managed				
(Category 1)	\$ 7,671,266	\$ 9,441,282	\$ 5,322,876	\$ 6,262,643
Corporate Bonds				
(Category 1)	12,000	11,260	12,000	11,260
<u>Other:</u>				
U.S. Government Agency Securities				
(see Note 4)				
(Category 1)	2,100,000	2,061,811	1,000,000	1,004,670
Total Investments	<u>\$ 9,783,266</u>	<u>\$ 11,514,353</u>	<u>\$ 6,334,876</u>	<u>\$ 7,278,573</u>

University endowment investments are managed by the Foundation in its pooled portfolio, which is actively managed by professional investment managers as determined by the Investment Committee of the Foundation's Board of Directors. The Foundation has established asset allocation guidelines for its pooled investment portfolio, which provides that the maximum exposure with any one manager would be 15%. The Foundation Board of Directors also established an asset allocation policy for the long-term pooled investment portfolio (see following table). The Foundation expects that cash equivalents will be kept to a minimum level and that portfolios will be invested in only the assets described in the table, not above or below the individual asset class percentage and its total percentage by group, unless otherwise specified by its Investment Committee.

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

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 \$12,270,725 and \$11,877,642 as of June 30, 2004 and 2003, 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, 2004 and 2003 was \$414,472 and \$570,741, respectively.

3. PROPERTY AND EQUIPMENT

Land, buildings, non-structural improvements, and equipment (including library materials) are reported at cost at date of acquisition or fair value at date of donation as in the case of gifts. Property and equipment that are exchanged for other assets are recorded based on the fair value of the asset given up or the fair value of the asset received, whichever value is most clearly evident. Any gains or losses on the exchange are recognized immediately.

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. Library materials have an estimated useful life of 15 years. The net book value of library materials is \$62,589,124 and \$57,763,227 at June 30, 2004 and 2003, respectively, and is included in equipment in the following table of the changes in property and equipment. Historical collections and art are recognized at their estimated fair values at the time of donation. Historical collections and art totaled \$44,731,368 and \$44,362,816 at June 30, 2004 and 2003, respectively, and is included in equipment in the analysis of changes in property and equipment. Collections and art are not depreciated.

Due to long delays in and quality of construction of a bonded building project, an estimated asset impairment loss of \$10,000,000 was recorded in fiscal year 2002, along with revenues of \$25,350,000 from an insurance company for surety payments to complete the project. Although this building was subsequently completed as originally designed, the University expended an additional \$2,258,092 for remedial construction in fiscal year 2004. These expenditures did not increase the building's value or extend its useful life and the total amount was recorded as an additional loss in the Capital Additions (Deductions) section of the Statements of Revenues, Expenses, and Changes in Net Assets in capital other.

Through June 30, 2004, \$10,959,906 was expended for a project to begin the closure and remediation of an existing landfill which involves capping and diversion of water from its vicinity. Expenditures to date primarily include professional fees, preparation for capping and contouring of surrounding land. Additional expenditures to complete this project are estimated to be \$5,000,000, and this amount is accrued for in other current liabilities in the Statement of Net Assets. The costs to remediate the landfill do not increase the value of the land and the total cost of \$15,959,906, which includes the amount to complete the remediation, is expensed in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets for the year ended June 30, 2004 in capital other.

The University received a software grant in November, 2003 from Unigraphics Solutions, Inc., a subsidiary of Electronic Data Systems Corporation, for computer aided design, manufacturing and engineering. This grant provides students and faculty with the same tools used by leading manufacturing and technology companies. The product lifecycle management software license was granted to the University's School of Engineering and while it had significant commercial value at the time of donation, a number of higher education institutions have received the software essentially free of charge. The University received a nonexclusive, nontransferable, limited license to install, access, and use the software, but it did not receive title to or ownership of the software, and therefore the University has not recorded it as a gift or asset in the accompanying financial statements.

The table on the following page describes the changes in property and equipment for the years ended June 30, 2004 and 2003.

Changes in Property and Equipment for the Year Ended June 30, 2004:

	2003				2004
	Beginning Balance	Additions	Retirements	Transfers and Other	Ending Balance
Property and equipment:					
Land	\$ 12,112,835	\$ 2,243,400	\$ (178,737)	\$ -	\$ 14,177,498
Non-structural Improvements	132,395,462	8,189,225	(1,156,064)	14,192,525	153,621,148
Buildings	1,048,964,028	75,041,534	(6,602,756)	100,083,565	1,217,486,371
Equipment	347,479,651	26,412,443	(5,983,342)	-	367,908,752
Construction in Progress	207,379,720	70,431,491	-	(114,276,090)	163,535,121
Total property and equipment	1,748,331,696	182,318,093	(13,920,899)	-	1,916,728,890
Less accumulated depreciation:					
Non-structural Improvements	40,249,729	5,486,529	(100,428)	28,975	45,664,805
Buildings	211,982,606	37,927,575	(2,685,851)	(28,975)	247,195,355
Equipment	156,639,361	26,180,592	(5,059,760)	-	177,760,193
Total accumulated depreciation	408,871,696	69,594,696	(7,846,039)	-	470,620,353
Property and equipment, net:					
Land	12,112,835	2,243,400	(178,737)	-	14,177,498
Non-structural Improvements	92,145,733	2,702,696	(1,055,636)	14,163,550	107,956,343
Buildings	836,981,422	37,113,959	(3,916,905)	100,112,540	970,291,016
Equipment	190,840,290	231,851	(923,582)	-	190,148,559
Construction in Progress	207,379,720	70,431,491	-	(114,276,090)	163,535,121
Property and equipment, net:	\$ 1,339,460,000	\$ 112,723,397	\$ (6,074,860)	\$ -	\$ 1,446,108,537

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

	2002				2003
	Beginning Balance	Additions	Retirements	Transfers and Other	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

4. LONG-TERM DEBT PAYABLE

In fiscal year 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, 2004 are (see page 35 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
2004 Series A	97,845,000
Total issued	<u>\$ 912,482,147</u>

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 in the Capital Additions (Deductions) section of the Statements of Changes in Net Assets totaling \$97,845,000 and \$96,210,000 for the years ended June 30, 2004 and 2003, respectively, representing the increase in the State's debt service commitment for principal as a result of the issuance of the 2004 and 2003 Series A bonds, respectively.

In addition to the 2004 Series A Bonds, in January of 2004 the University issued the Refunding Series A bonds to refund portions of the previously issued Series A General Obligation Bonds in advance of maturity. The face value of the Refunding Bonds is \$216,950,000, and these bonds have a final maturity date of January 15, 2020. Proceeds from the sale of the bonds totaled \$241,995,672 and comprised the face value plus the net premium and accrued interest, less the costs of issuance and \$5,798,606 of other available funds which represents budgeted fiscal year 2004 debt service for the refunded bonds. The proceeds were deposited with the Escrow Agent into an irrevocable trust fund which will provide amounts sufficient to meet principal, interest payments, and redemption prices on the Refunded Bonds on the dates such payments are due. The escrow is invested in State and Local Government Series securities. The difference between the carrying value of the defeased debt and its reacquisition price (refunding bonds) will be amortized over the remaining life of the debt, and the reduction of the face value of the bonds, \$6,210,000, is reflected as an expense (net of the \$97,845,000 revenue noted above) on the Statement of Revenues, Expenses, and Changes in Net Assets under State debt service commitment for principal.

The following table reflects the change in debt as a result of this refunding:

1996 Series A	\$ 31,510,000
1997 Series A	52,000,000
1998 Series A	34,825,000
2000 Series A	48,395,000
2001 Series A	27,745,000
2002 Series A	<u>28,685,000</u>
Total defeased debt	223,160,000
Total refunding bonds	<u>216,950,000</u>
Decrease in bonds as a result of refunding	<u>\$ 6,210,000</u>

In addition, for the years ended June 30, 2004 and 2003, nonoperating revenues of \$27,852,310 and \$29,228,519, respectively, were recorded for the State 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. Certain Special Obligation bonds may also be secured by the State's Special Capital Reserve Fund, which enables State funds to be used to pay debt service if the University does not meet its obligation. 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 (at cost) of a Special Capital Reserve Fund held by the Trustee Bank, of which \$2,061,811 and \$1,004,670 are included at fair value in noncurrent investments at June 30, 2004 and 2003 (see Note 2), 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 year 2002 with the issuance of Student Fee Revenue Bonds 2002 Refunding Series A on February 27, 2002 in the amount of \$96,130,000 and have a final maturity of November 15, 2029. Consistent with general obligation bonds refunding, the proceeds are deposited into an escrow account to meet all obligations.

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 \$44,692,000 and \$39,220,000 in fiscal years 2004 and 2003, 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, and 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. Special Obligation bond investment earnings amounted to approximately \$169,000 and \$857,000 for the fiscal years ending June 30, 2004 and 2003, respectively. 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. Self-liquidating bonds outstanding totaled \$10,871,410 and \$12,418,259 at June 30, 2004 and 2003, respectively.

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 heating and 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 of \$471,254 begin after substantial completion of the construction (estimated to be October, 2005) and mature in 20 years from commencement with interest at an effective rate 4.51%. During the construction period, which began in November 2003, there are no required lease payments, although interest during this time will be capitalized and added to the principal amount of the advances made. Through June 30, 2004, the University owed \$20,609,266 for amounts advanced by the lessor, including capitalized interest. This amount is reflected as long-term debt in the accompanying financial statements. The analysis on page 36 of long-term debt scheduled maturities includes what has been advanced to date, amortized over the term of the lease. At the completion of the lease term the University has an option to purchase the project assets for \$1.

Prior to fiscal year 2004, the outstanding debt included in long-term debt and bonds payable on the Statements of Net Assets for the revenue and general obligation bonds was the face value of the bonds payable. Due to the relative insignificance to total debt, any unamortized net premium, discount and debt difference (due to refunding) was included with the associated cost of issuance in deferred charges. The amortization of this total amount was included in other nonoperating revenues (expenses), net. In fiscal year 2004, net unamortized premium, discounts and debt difference due to refundings are recorded as additions to the face value of bonds payable. These amounts are amortized using the straight-line basis over the life of the bonds, reducing interest expense for premiums and increasing it for discounts.

Long-term debt activity, including refunding of debt, for the years ended June 30, 2004 and 2003 was as follows:

Long-term debt activity for year ended June 30, 2004:

	2003			2004	2004
	Ending		Retirements	Ending	Current
	Balance	Additions		Balance	Portion
General Obligation Bonds	\$ 669,197,147	\$ 314,795,000	\$ (266,085,000)	\$ 717,907,147	\$ 48,250,000
Revenue Bonds	197,525,000	-	(3,770,000)	193,755,000	3,900,000
Self Liquidating Bonds	12,418,259	838,857	(2,385,706)	10,871,410	1,199,751
U.S. Dept. of Ed. Towers Loan	1,811,945	-	(37,735)	1,774,210	39,839
Installment Loans	3,753,831	882,416	(2,131,255)	2,504,992	1,847,410
Obligation Under Capital Lease for Cogeneration	-	20,609,266	-	20,609,266	-
Total long-term debt	884,706,182	337,125,539	(274,409,696)	947,422,025	55,237,000
Premiums/discounts/debt difference due to refunding	-	10,811,905	-	10,811,905	729,581
Total long-term debt, net	\$ 884,706,182	\$ 347,937,444	\$ (274,409,696)	\$ 958,233,930	\$ 55,966,581

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

	2002			2003	2003
	Beginning		Retirements	Ending	Current
	Balance	Additions		Balance	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 outstanding at June 30, 2004 and 2003 consisted of the following:

Type of Debt and Issue Date	Type of Issue	Principal Payable	Maturity Dates Through Fiscal Year	Interest Rate	Balance	
					2004	2003
Bonds:						
GO 1996 Series A	original	various	2011	4.4-5.5%	\$ 17,884,715	\$ 53,899,715
GO 1997 Series A	original	annually	2009	4.875-5.3%	26,892,432	85,392,432
GO 1998 Series A	original	various	2018	4.15-5.0%	34,825,000	74,625,000
GO 1999 Series A	original	annually	2019	3.85-4.85%	59,000,000	64,000,000
GO 2000 Series A	original	various	2019	4.75-5.375%	55,330,000	110,275,000
GO 2001 Series A	original	various	2021	3.4-5.25%	56,655,000	89,795,000
GO 2002 Series A	original	various	2022	3.25-5.375%	61,315,000	95,000,000
GO 2003 Series A	original	annually	2023	2.0-5.25%	91,210,000	96,210,000
GO 2004 Series A	original	annually	2024	2.0-5.0%	97,845,000	-
GO 2004 Ref. Series A	refund	annually	2020	2.0-5.0%	216,950,000	-
Total general obligation bonds					717,907,147	669,197,147
Rev 1998 Series A	original	annually	2028	4.1-5.125%	29,845,000	30,525,000
Rev 2002 Ref. Series A	refund	annually	2030	3.5-5.25%	91,425,000	93,025,000
Rev 2002 Series A	original	annually	2030	2.7-5.25%	72,485,000	73,975,000
Total revenue bonds					193,755,000	197,525,000
March 1992	original	various	2007	6.3-6.45%	587,518	881,278
March 1993	original	annually	2012	5.1-5.5%	484,125	539,125
October 1993	refund	various	2012	4.5-6.0%	213,337	912,526
March 1994	original	various	2010	5.2-5.65%	148	210,148
August 1994	original	various	2009	5.375-5.8%	15,126	30,243
October 1995	original	annually	2006	5.0-6.0%	153,372	306,744
November 1996	refund	annually	2005	4.6-6.0%	201,563	277,775
March 1997	original	various	2017	4.625-6.0%	1,459,786	1,754,786
September 1997	refund	annually	2013	4.3-5.0%	319,777	321,344
February 1998	refund	annually	2015	4.1-5.125%	991,975	994,475
June 2001	refund	various	2016	5.0-5.5%	1,415,418	1,415,418
November 2001	refund	various	2014	3.0-5.125%	2,922,736	3,264,170
June 2002	refund	various	2010	3.0-5.5%	681,448	681,448
August 2002	refund	various	2016	3.0-5.5%	551,867	651,490
April 2003	refund	annually	2007	4.0-6.0%	43,971	177,289
December 2003	refund	annually	2011	4.4-5.5%	749,175	-
April 2004	refund	various	2007	4.5-6.0%	80,068	-
Total self-liquidating bonds					10,871,410	12,418,259
Total bonds					922,533,557	879,140,406
Loans:						
U.S. Dept. Ed. Towers Loan		semi-annually	2027	5.5%	1,774,210	1,811,945
Installment Purchases		various	various	2.24-13.630%	2,504,992	3,753,831
Obligation Under Capital						
Lease for Cogeneration		monthly	2026	4.42%	20,609,266	-
Total loans					24,888,468	5,565,776
Total bonds, loans and installment purchases					947,422,025	884,706,182
Premiums/discounts/debt difference due to refunding					10,811,905	-
Total bonds, loans and installment purchases, net					958,233,930	884,706,182
Less: current portion, net					55,966,581	49,943,122
Total noncurrent portion, net					\$ 902,267,349	\$ 834,763,060

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

Year(s)	General Obligation Bonds			Long-term Debt Other than General Obligation Bonds			Total Obligations		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 48,250,000	\$ 31,667,213	\$ 79,917,213	\$ 6,986,999	\$ 10,070,736	\$ 17,057,735	\$ 55,236,999	\$ 41,737,949	\$ 96,974,948
2006	47,485,000	29,815,488	77,300,488	6,319,783	10,490,190	16,809,973	53,804,783	40,305,678	94,110,461
2007	47,210,000	27,977,763	75,187,763	6,363,890	10,468,483	16,832,373	53,573,890	38,446,246	92,020,136
2008	45,688,792	29,018,254	74,707,046	6,294,045	10,162,186	16,456,231	51,982,837	39,180,440	91,163,277
2009	47,653,640	27,641,844	75,295,484	6,330,392	9,904,836	16,235,228	53,984,032	37,546,680	91,530,712
2010-2014	215,904,715	99,877,621	315,782,336	34,656,148	45,039,678	79,695,826	250,560,863	144,917,299	395,478,162
2015-2019	190,545,000	44,650,739	235,195,739	41,719,649	35,739,749	77,459,398	232,264,649	80,390,488	312,655,137
2020-2024	75,170,000	7,988,586	83,158,586	52,038,745	24,190,738	76,229,483	127,208,745	32,179,324	159,388,069
2025-2029	-	-	-	57,720,227	10,344,633	68,064,860	57,720,227	10,344,633	68,064,860
2030	-	-	-	11,085,000	396,625	11,481,625	11,085,000	396,625	11,481,625
Total	\$717,907,147	\$298,637,508	\$1,016,544,655	\$229,514,878	\$166,807,854	\$396,322,732	\$947,422,025	\$465,445,362	\$1,412,867,387

5. 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 40% 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 372 full-time employees, 78 participate in the State Employees' Retirement System and 294 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.

6. COMPENSATED ABSENCES AND WAGES PAYABLE

Compensated absences includes accrued unused vacation and sick leave balances for employees, and at June 30, 2004 totaled \$19,764,750 and \$2,020,399, respectively, and at June 30, 2003 totaled \$18,862,956 and \$2,308,377, respectively. During fiscal year 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, 2004 and 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, 2004 and 2003. 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.

7. POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 5, the State provides post retirement health care and life insurance benefits to University employees, in accordance with State Statutes, Sections 5-259(a) and 5-257(d). When employees retire, the State pays 100% of their health care insurance premium cost (including the cost of dependents' 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.

8. COMMITMENTS

On June 30, 2004, the University had outstanding commitments (over \$100,000 each) totaling \$26,844,466, which included \$15,741,487 of commitments related to capital projects. Of the total amount, \$3,772,096 was included in accounts payable at June 30, 2004. In addition to the amount for capital outlay, commitments were also related to research, academic, and institutional support. Of these commitments, the University expects \$4,945,602 to be reimbursed by federal grants.

9. 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 ticket 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, 2004 and 2003 deferred income is as follows:

	<u>2004</u>	<u>2003</u>
Certain restricted research grants	\$ 8,062,005	\$ 5,239,986
Tuition and fees and auxiliary services	10,102,900	12,061,197
Athletic ticket sales and commitments	5,180,160	3,648,922
Contingent grant	500,000	1,000,000
Other	1,549,005	1,298,387
Total deferred income	<u>\$ 25,394,070</u>	<u>\$ 23,248,492</u>

A portion of current deferred charges totaling \$544,894 and \$381,504 and noncurrent deferred charges totaling \$9,150,740 and \$6,472,344 at June 30, 2004 and 2003, respectively, represent the cost of issuance on certain bond issues, which will be amortized over the terms of the respective bond issues (see Note 4).

10. 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 \$30,044,499 and \$25,601,506 in fiscal year 2004 and 2003, respectively. In fiscal year 2004, approximately 84% of such waivers were provided to graduate assistants, with 83% in 2003.

11. 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.

12. OPERATING EXPENSES BY OBJECT

The following table details the University's operating expenses by object for the years ended June 30, 2004 and 2003:

Operating Expenses by Object for the year ended June 30, 2004											
	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salaries and Wages	\$148,574,964	\$30,451,254	\$19,000,055	\$37,551,316	\$16,650,086	\$29,608,022	\$13,688,431	\$ -	\$203,042	\$34,231,778	\$329,958,948
Fringe Benefits	39,908,945	5,587,859	4,526,885	12,179,166	4,931,715	10,976,471	6,054,157	-	-	10,878,933	95,044,131
Supplies & Other Expenses	12,388,278	25,954,742	5,953,601	14,201,724	3,252,795	8,848,813	10,747,555	-	345,890	48,828,768	130,522,166
Utilities	-	-	-	-	124,307	6,262	14,444,876	-	-	8,634,307	23,209,752
Depreciation	-	-	-	-	-	-	-	69,594,696	-	-	69,594,696
	<u>\$200,872,187</u>	<u>\$61,993,855</u>	<u>\$29,480,541</u>	<u>\$63,932,206</u>	<u>\$24,958,903</u>	<u>\$49,439,568</u>	<u>\$44,935,019</u>	<u>\$69,594,696</u>	<u>\$548,932</u>	<u>\$102,573,786</u>	<u>\$648,329,693</u>

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
Salaries 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
	<u>\$210,682,856</u>	<u>\$56,170,809</u>	<u>\$25,125,045</u>	<u>\$61,117,844</u>	<u>\$25,494,540</u>	<u>\$50,604,026</u>	<u>\$45,246,949</u>	<u>\$63,402,505</u>	<u>\$557,919</u>	<u>\$93,185,331</u>	<u>\$631,587,824</u>

13. UNRESTRICTED NET ASSETS

The University adopted GASB No. 35 for external reporting purposes, which requires net assets to be classified for accounting and reporting purposes into one of three net asset categories, as discussed in Note 1 to the financial statements. Unrestricted net assets, as defined by the GASB, are not subject to externally imposed stipulations; however, they are subject to internal restrictions. For example, unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are internally designated for academic and research programs, capital programs, retirement of debt, and auxiliary enterprise activities.

**TRUSTEES AND FINANCIAL OFFICERS
As of June 30, 2004**

BOARD OF TRUSTEES

MEMBERS EX OFFICIO

The Honorable John G. Rowland
Governor of the State of Connecticut
President ex officio Hartford

The Honorable Bruce Gresczyk
Acting Commissioner of Agriculture
Member ex officio Hartford

The Honorable Betty J. Sternberg
Commissioner of Education
Member ex officio West Hartford

APPOINTED BY THE GOVERNOR

John W. Rowe, M.D., *Chairman* Hartford
The Honorable James F.
Abromaitis Farmington
Louise M. Bailey, *Secretary* West Hartford
William R. Berkley Greenwich
Michael H. Cicchetti Litchfield
Linda P. Gatling Southington
Lenworth M. Jacobs, M.D. West Hartford
Michael J. Martinez East Lyme
Denis J. Nayden Stamford
David W. O'Leary Hartford
Thomas D. Ritter Hartford
Richard Treibick Greenwich

ELECTED BY THE ALUMNI

Philip P. Barry Storrs
Andrea Dennis-LaVigne, D.V.M. Simsbury

ELECTED BY THE STUDENTS

Michael J. Nichols Storrs
Richard Twilley Hartford

FINANCIAL OFFICERS

Lorraine M. Aronson, Vice President and Chief Financial Officer
Bruce A. DeTora, Chief Financial Officer
Paul R. McDowell, Controller
Charles H. Eaton, Associate Controller

SCHEDULE 2

**UNIVERSITY OF CONNECTICUT HEALTH CENTER JUNE 30, 2004
AUDITED FINANCIAL STATEMENTS**

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University of Connecticut
Health Center

Financial Report
For the Year Ended June 30, 2004

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Message from the Vice President and the Chief Financial Officer

Founded in 1881, the University of Connecticut (University) 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 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. The financial statements contained herein represent the transactions and balances of the Health Center only.

The University's Board of Trustees is vested by law with fiscal oversight of the University, but all University activities 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 and its Health Center. They are responsible for auditing its financial operations and their opinion appears in this report.

During the course of Fiscal Year 2004, the Board of Trustees restructured and expanded the role of its Joint Audit and Compliance Committee, with a charge that includes oversight of all University financial reporting processes and internal control systems, as well as direct engagement in the approval of independent auditing services to augment the University's internal audit capacity and the work performed by the Auditors of Public Accounts. In addition, the University's internal audit function has been reorganized and expanded with the infusion of additional resources. While the provisions of the Sarbanes-Oxley Act may be designed for private corporate entities, under the Board's guidance the University is moving forward in keeping with the spirit of the Act and is continuing to strengthen its audit, compliance and risk assessment functions.

The University of Connecticut Health Center is an academic medical center composed of the School of Medicine, School of Dental Medicine, John Dempsey Hospital, the UConn Medical Group, UConn Health Partners and University Dentists. Established in 1961, the Health Center pursues its mission of providing outstanding health care education in an environment of exemplary patient care, research and public service. With approximately 4,400 employees, the Health Center is Connecticut's 16th largest employer and an important contributor to the local and regional economy. The Health Center's campus in Farmington is situated on 162 acres of wooded hilltop from which the skyline of Hartford, the capital of Connecticut, can be seen about eight miles to the east. (The University's main campus is in Storrs, about 30 miles east of Hartford.) The Health Center campus includes 35 buildings totaling over 2 million square feet. Construction of a new 4-story, 99,000 square-foot musculoskeletal research and outpatient surgery facility began in late 2003, with completion and occupancy expected in spring 2005.

Educational Programs

Dedicated to providing broad educational opportunities in the biomedical sciences, the Health Center offers degree programs in medicine (M.D.), dental medicine (D.M.D.), and biomedical science (Ph.D.); master's degree programs in public health and dental science; postdoctoral fellowships; residency programs providing specialty training for newly graduated physicians and dentists; and continuing education programs for practicing health care professionals. Combined degree programs, such as the M.D./Ph.D., D.M.D./Ph.D., Dental Clinical Specialty/Ph.D. and M.D./M.P.H. are also offered.

The UConn Health Center is the only academic health center in the nation where a medical school was founded concurrently with a dental school, a circumstance which led to strong links. Medical and dental students share an essentially common curriculum during the first two years of their four-year degree programs and study the basic medical sciences together. This experience provides UConn's dental students with an especially strong foundation in the biomedical sciences, reflected in the dental school's decision to award its graduates the D.M.D. (doctor of dental medicine).

Each year in Farmington, about 320 students work toward the medical doctor's degree and 160 toward the doctor of medical dentistry degree. Admission to each school is highly competitive, but both schools offer preferential consideration to qualified Connecticut residents in their admissions policies. School of Dental

Medicine students have a long history of outstanding performance on the National Boards, ranking first among the country's 55 dental schools on these examinations in 2001 and again in 2003. In the years since the Health Center graduated its first students in 1972, 1,132 men and women have received the D.M.D. degree; 2,436 the M.D. degree.

Through a variety of residency programs, the School of Medicine provides postgraduate training for more than 550 newly graduated M.D.s each year. These physicians come from all over the country to acquire advanced skills in fields such as the surgical specialties, internal medicine, and primary care. Some of the residency training occurs on the Health Center's main campus, but much of it takes place in community hospitals in Greater Hartford, thereby extending the Health Center's positive impact on the region.

Research Programs

Since the Health Center's inception, its administration and faculty have been committed to maintaining high-quality research programs as part of the institution's fabric. This commitment has enabled the Health Center to recruit distinguished researchers with expertise in neuroscience, molecular biology, molecular pharmacology, biochemistry, cell physiology, toxicology, and endocrinology, among other fields. The Alcohol Research Center is one of only 14 such federally supported centers in the nation; the Connecticut Clinical Chemosensory Research Center, one of five. Clinical research is facilitated by the Lowell Weicker General Clinical Research Center and the Clinical Trials Unit. Research awards have grown from \$44.8 million in FY '97 to \$98.8 million in FY '04.

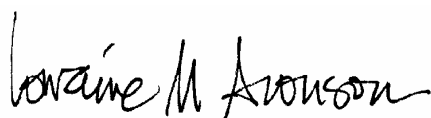
Health Care Services

Through John Dempsey Hospital (204 general acute care beds and 20 nursery beds), the Health Center provides specialized and routine inpatient and outpatient services, including comprehensive cardiovascular, cancer and musculoskeletal services, as well as high risk maternity and neonatal intensive care. John Dempsey Hospital is home to the only Emergency Department in Connecticut's fast-growing Farmington Valley and contributes to the region's health in other ways: in June 2004, John Dempsey Hospital was awarded the prestigious silver Connecticut Quality Improvement Award Innovation Prize for its volunteer staff support of American Red Cross blood drives. Also offered are a wide range of ambulatory and primary care services on the Health Center campus in Farmington and in physician offices conveniently located in West Hartford, Simsbury and East Hartford. The UConn Medical Group is the largest medical practice in Greater Hartford, offering patients access to health care services from more than 350 Health Center physicians in more than 50 specialties. The hospital, the faculty practice and the dental clinics all achieved record patient visits in FY '04. And with this tremendous increase in volume, the financial operation simultaneously achieved its best performance ever in accounts receivable management.

Connecticut Health

UConn Health Center faculty, staff, residents, and students, participate in a variety of joint efforts to address public health and community health needs of citizens throughout our state. Under the umbrella of Connecticut Health, hundreds of projects have been developed in collaboration with other state agencies, city and town governments, and community-based organizations and the public to serve the poor and uninsured by providing better medical care, health education, and research. The UConn Health Center is committed to finding new and effective ways to reach out to the public at large as part of the University's ongoing effort to bring a better quality of life to all our citizens.

Respectfully Submitted,



Lorraine M. Aronson
Vice President and Chief Financial Officer
University of Connecticut

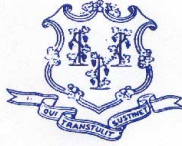


Daniel L. Upton
Chief Financial Officer
University of Connecticut Health Center

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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

Board of Directors of the
University of Connecticut Health Center

We have audited the accompanying statements of net assets of the University of Connecticut Health Center (Health Center) as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and statements of cash flows for the years then ended. The Health Center is a component unit of the University of Connecticut system, which includes the University of Connecticut, the 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 Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the John Dempsey Hospital, which represented 27 and 28 percent of the assets of the Health Center as of June 30, 2004 and 2003, respectively and 31 and 30 percent of the revenues of the Health Center for the years then ended. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the John Dempsey Hospital, is based on the report of the other auditors. The audit of the John Dempsey Hospital was conducted in accordance with auditing standards generally accepted in the United States of America.

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 and the reports of the other auditors 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 Health Center, as of June 30, 2004 and 2003, and the results of its operations and changes in net assets and its 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 1 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires 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 Health Center's basic financial statements. The introductory section and the consolidating statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The consolidating 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 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

Handwritten signature of Kevin P. Johnston in blue ink.

Kevin P. Johnston
Auditor of Public Accounts

Handwritten signature of Robert G. Jaekle in blue ink.

Robert G. Jaekle
Auditor of Public Accounts

December 29, 2004
State Capitol
Hartford, Connecticut

**MANAGEMENT'S
DISCUSSION & ANALYSIS**

Management's Discussion and Analysis

INTRODUCTION

The following discussion and analyses provide an overview of the financial position and activities of the University of Connecticut Health Center (the "Health Center") for the year ended June 30, 2004. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Founded in 1881, the University of Connecticut (University) 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 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.

The financial statements presented here represent the transactions and balances of the Health Center only. The Health Center offers medical and dentistry degrees and operates a physician/dentist practice and a teaching and research hospital. The Health Center's component parts are the School of Medicine, School of Dental Medicine, UConn Medical Group, the University of Connecticut Finance Corporation and University Dentists ("Primary Institution") and John Dempsey Hospital (the "Hospital"). The Health Center's enrollment in fiscal year 2004 was 320 in the School of Medicine, 158 in the School of Dental Medicine, and 380 Graduate students, taught by 634 full time faculty members. The Health Center employs approximately 5,000 people. John Dempsey Hospital (JDH) has 204 licensed beds and in fiscal year 2004 provided care to over 330,000 inpatient and outpatient visits. UConn Medical Group (UMG) in fiscal year 2004 provided care to over 490,000 patient visits.

During the year ended June 30, 2004, the University and the Health Center adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which amends GASB Statement No. 14, *The Financial Reporting Entity*. A related, but independent, corporate entity, The University of Connecticut Foundation, Inc. (Foundation), operates exclusively for charitable and educational purposes, raising funds to promote, encourage, and assist education and research at the University and the Health Center. The Foundation solicits and accepts donations of properties, monies, and securities and invests and administers these gifts. The Foundation materially supports the mission of both the University and the Health Center which are both separately audited, producing their own financial statements. Displaying the Foundation's financial statements as a component unit of either the University or the Health Center would distort its actual contribution or economic benefit to that entity, and therefore the Foundation is not included as a component unit in the accompanying financial statements.

The following Management's Discussion and Analysis (MD&A) is required supplemental information. Its purpose is to provide users of the basic financial statements with a narrative introduction, overview and analysis of those statements. It is designed to assist readers in understanding the accompanying financial statements required by new standards of the GASB. This discussion, which is unaudited, includes an analysis of the financial condition and results of activities of the Health Center for the fiscal year ended June 30, 2004, based on currently known facts, decisions, or conditions. 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.

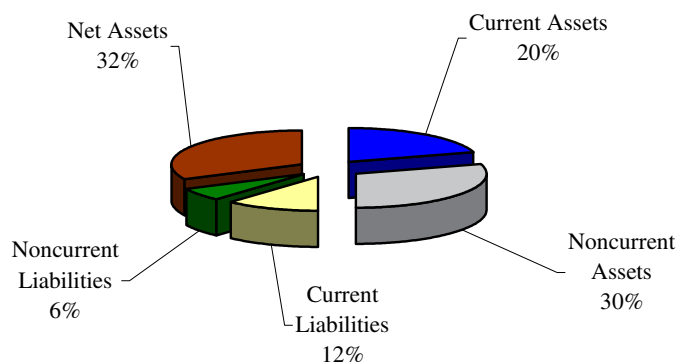
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of management's discussion and analysis and the financial statements. The basic financial statements (statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows) present the financial position of the Health Center at June 30, 2004 and the results of operations and financial activities for the year then ended. These statements report information about the Health Center using accounting methods similar to those used by private-sector companies. In addition a prior year column is presented for comparison purposes. The statement of net assets includes all of the Health Center's assets and liabilities. The statement of revenues, expenses and changes in net assets reflects the year's activities on the accrual basis of accounting, i.e., when services are provided or obligations are incurred, not when cash is received or paid. This statement reports the Health Center's net assets and how they have changed. Net assets (the difference between assets and liabilities) are one way to measure financial health or position. The statement of cash flows provides relevant information about each year's cash receipts and cash payments and classifies them as to operating, investing, noncapital financing and capital and related financing activities. The financial statements include notes that explain information in the financial statements and provide more detailed data.

FINANCIAL HIGHLIGHTS

The Health Center's financial position remained strong at June 30, 2004, with assets of \$358 million and liabilities of \$127.4 million. Net assets, which represent the residual interest in the Health Center's assets after liabilities are deducted, increased \$4.8 million in fiscal year 2004 to \$230.6 million at June 30, 2004.

Statement of Net Assets



The increase in net assets is primarily attributable to clinical operations of the John Dempsey Hospital and capital appropriations from the State of Connecticut.

Changes in net assets represent the operating activity of the Health Center, which results from revenues, expenses, gains and losses, and are summarized for the year ended June 30, 2004 and 2003 as follows:

	(in millions)	
	2004	2003
Total operating revenue	\$ 464.8	\$ 435.6
Total operating expenses	<u>585.5</u>	<u>551.2</u>
Operating (loss)	(120.7)	(115.6)
Other changes in net assets	<u>125.6</u>	<u>119.6</u>
Increase in net assets	<u>\$ 4.9</u>	<u>\$ 4.0</u>

The newly formatted financial statements contained herein show an operating loss of \$120.8 million for the year ending June 30, 2004 (fiscal year 2004). The measure more indicative of normal and recurring activities is net income before capital appropriations, which is revenue from state appropriations. Additions to capital assets are, in a large part, funded by capital appropriations from the state, which are not included in this measurement. However depreciation expense on those assets is included as an expense in calculating operating income, so a loss under this measurement is expected. The Health Center experienced a gain before capital appropriations of \$871,000.

Sources of recurring operating and nonoperating revenues were strong in 2004 and most are expected to remain strong in 2005, including tuition and fees revenue, patient service revenues, grants and contracts revenue. State support, not including state funded capital appropriations, increased 3.1% from the prior year mainly due to the increased in-kind fringe benefits associated with salary expense of general funded employees.

STATEMENT OF NET ASSETS

The statement of net assets presents the financial position of the Health Center at the end of the fiscal years and includes all assets and liabilities of the Health Center. The difference between total assets and total liabilities—net assets—is one indicator of the current financial condition of the Health Center, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summary of the Health Center's assets, liabilities and net assets at June 30, 2004 and 2003 is as follows:

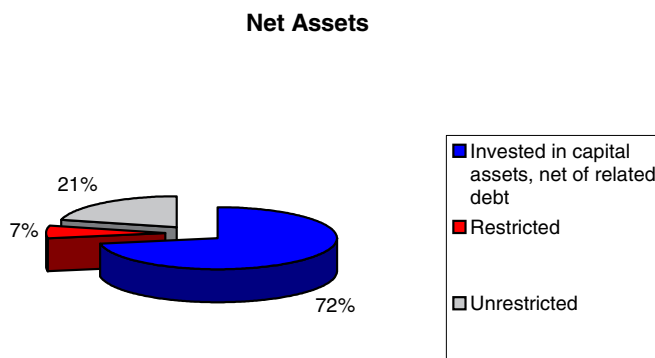
	(in millions)	
	<u>2004</u>	<u>2003</u>
Current assets	\$ 144.2	\$ 132.7
Noncurrent assets:		
Capital assets, net	178.3	167.2
Other	35.5	17.3
Total assets	<u>\$ 358.0</u>	<u>\$ 317.2</u>
Current liabilities	\$ 83.1	\$ 76.3
Noncurrent liabilities	44.3	15.2
Total liabilities	<u>\$ 127.4</u>	<u>\$ 91.5</u>

The total assets of the Health Center increased by \$40.8 million, or 12.9% over the prior year. The increase was primarily due to \$16 million increase in cash and cash equivalents of which the majority was from strong patient receivable collections and third party settlements with the Hospital, \$11.1 million of capital asset net additions and \$15 million increase in assets limited as to use mainly due to investments in a construction account held by the Finance Corporation for the construction of the Medical Arts and Research Building (MARB). This was offset by a \$4.1 million reduction in the receivable from third party which was switched to an estimated liability in fiscal year 2004 due to estimated settlements.

The total liabilities for the year increased by \$36 million or 39.4% primarily due to a \$26 million increase in long-term debt mainly due to the mortgage for the MARB as discussed in the above paragraph, \$3.1 million increase in compensated absences due to the accumulation of sick, vacation and compensatory time and a \$3.4 million increase in Due to third party payors as discussed in the above paragraph. The combination of the increase in total assets of \$40.8 million and total liabilities of \$36 million yields an increase in total net assets of \$4.8 million.

Net Assets

Net assets represent the residual interest in the Health Center's assets after liabilities are deducted. The Health Center had net assets of \$230.6 million at June 30, 2004, which was made up of the following:

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

The statement of revenues, expenses and changes in net assets presents the Health Center's results of operating and nonoperating activities. A summary of the Health Center's revenues, expenses and changes in net assets for the years ended June 30, 2004 and 2003 is as follows:

	(in millions)	
	2004	2003
Operating revenues		
Patient Services	\$ 319.8	\$ 298.1
Grants and Contracts	88.9	80.8
Other	56.1	56.7
Total operating revenue	<u>464.8</u>	<u>435.6</u>
Operating expenses		
Patient services	336.3	321.3
Instruction	98.3	94.1
Other	150.9	135.8
Total operating expenses	<u>585.5</u>	<u>551.2</u>
Operating (loss) income	(120.7)	(115.6)
Net nonoperating revenues	121.6	118.9
Total other revenues	3.9	0.8
Increase in net assets	<u>\$ 4.8</u>	<u>\$ 4.1</u>

Revenue highlights for the year ending June 30, 2004, including operating and nonoperating revenues and capital additions, presented on the Statement of Revenues Expenses, and Changes in Net Assets are as follows:

- The largest source of revenue was patient service revenue. Patient service revenue increased \$21.6 million or 7.3% over the prior year. The increase for the John Dempsey Hospital of \$18.4 million or 11.1% was mainly due to increased volume with admissions to the hospital increasing 5.2% and same day surgical procedures up 12.3%. More detailed information about the Health Center's patient revenue is presented in note 4 of the financial statements.
- The state appropriation (including in-kind fringe benefits), which is included in nonoperating revenues, totaled \$119.1 million. This represents a 3.1% increase over the prior year mainly due to the increased in-kind fringe benefits associated with salary expense of general funded employees.
- Federal grant and contract revenue increased \$5.7 million, or 9.7%, to \$65 million. This was due to an increase in the number of awards granted to the Health Center along with an increase in the dollars per award.

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

- Patient service expense is the largest expense category for the Health Center; it accounts for 57.4% of total operating expenses. It increased of \$15 million or 4.7% over the prior year. The increase is mainly attributable to the increase in patient volume for the John Dempsey Hospital and UConn Medical Group. This increase in expense for the year was offset by the increase in patient service revenue as stated above.
- Instruction, the Health Center's second largest operating expense, increased approximately \$4.1 million or 4.4%. The increase reflects a slight increase in average faculty salaries and increase in fringe benefit expense some of which is included in the in-kind fringe benefit recovery reported as income in the state appropriation line in the nonoperating revenues (expenses) section.
- Research expense also increased \$6.7 million or 13.5%. This is directly related to the increase in federal grant and contract and nongovernmental grant and contract revenues.

STATEMENTS OF CASH FLOWS

The statement of cash flows provides additional information about the Health Center's financial results by reporting the major sources and uses of cash. A summary of the statement of cash flows for the years ended June 30, 2004 and 2003 is as follows:

	(in millions)	
	2004	2003
Cash received from operations	\$ 467.9	\$ 428.3
Cash expended for operations	(511.5)	(483.0)
Net cash (used in) provided by operating activities	(43.6)	(54.7)
Net cash used in investing activities	(39.9)	(29.6)
Net cash provided by noncapital financing activities	74.2	73.2
Net cash provided by (used in) capital and related financing activities	25.3	9.8
Net (decrease) increase in cash and cash equivalents	16.0	(1.3)
Cash and cash equivalents, beginning of the year	48.5	49.8
Cash and cash equivalents, end of the year	\$ 64.5	\$ 48.5

CAPITAL AND DEBT ACTIVITIES

During fiscal year 2004 the Finance Corporation undertook the construction and financing of the Medical Arts and Research Building, (MARB). This was facilitated due to the Health Center's efforts to increase patient facility space on campus by obtaining a secured mortgage to finance the construction of the MARB. Projected completion of the MARB is expected to occur in the spring of 2005.

At June 30, 2004, the Health Center had plant and equipment, net of accumulated depreciation, of \$178.3 million. The Health Center's fiscal 2005 capital budget projects spending of approximately \$58.3 million, which includes \$4.4 million from authorized but unallocated bond funds, \$7.3 million from allocated bond funds, \$30.2 million from other Health Center sources and \$16.4 million from UConn 21st century bond issuance.

Debt activity during fiscal year 2004 was the annual payments for the bonds and loans outstanding and lease payments on a capital lease entered into by the Hospital.

More detailed information about the Health Center's capital assets and debt activities are presented in notes 5 and 8 of the financial statements.

FISCAL YEAR 2005 OUTLOOK

As discussed above, the Health Center believes its financial position is stable. From a fiscal perspective, one of the most significant economic factors for the foreseeable future is the impact of the state's current financial status. State appropriations are likely to be further reduced as the state faces budget deficits in fiscal year 2005. The state's fiscal constraints are such that the share of state support for the Health Center may continue to decline.

The realities of the state's budget environment mean that the Health Center's other significant income streams will continue to play an increasingly important role in its financial health. These sources include private support through patient services provided, research funding, and tuition and fees. The Health Center has established an ongoing planning process designed to address the impact of reduced appropriations and has budgeted accordingly.

CONTACTING THE HEALTH CENTER'S FINANCIAL MANAGEMENT

This financial report provides the reader with a general overview of the Health Center's finances and operations. If you have questions about this report or need additional financial information, please contact the Office of the Chief Financial Officer, University of Connecticut Health Center, Farmington, Connecticut 06030.

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FINANCIAL STATEMENTS

UNIVERSITY OF CONNECTICUT HEALTH CENTER
STATEMENTS OF NET ASSETS
As of June 30, 2004 and 2003

	2004	2003
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 55,612,468	\$ 42,473,866
Assets limited as to use	156,520	165,164
Patient receivables, net	31,622,215	33,735,992
Contract and other receivables	34,979,337	30,437,075
Due from State of Connecticut	3,992,182	3,176,503
Due from Department of Correction	10,987,085	10,982,430
Inventories	5,462,083	5,832,985
Third party payors	-	4,080,725
Deferred charges	-	175,000
Prepaid expenses	1,428,672	1,618,118
Total current assets	144,240,562	132,677,858
Noncurrent Assets		
Restricted cash and cash equivalents	8,930,706	6,064,382
Other assets	346,955	284,251
Assets limited as to use	16,994,483	1,967,474
Due from State of Connecticut	9,185,734	9,020,680
Capital assets, net	178,318,891	167,201,045
Total noncurrent assets	213,776,769	184,537,832
Total assets	\$ 358,017,331	\$ 317,215,690
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 25,495,727	\$ 24,631,592
Due to State of Connecticut	2,696,502	1,938,739
Accrued salaries	14,601,553	12,662,397
Compensated absences	21,655,102	20,935,973
Due to third party payors	3,378,933	-
Deferred revenue	11,338,053	13,198,300
Malpractice reserve	2,308,000	2,373,000
Long-term debt - current portion	1,640,162	550,231
Total current liabilities	83,114,032	76,290,232
Noncurrent Liabilities		
Malpractice reserve	8,032,000	6,127,000
Compensated absences	9,729,104	7,355,882
Long-term debt	26,573,185	1,676,432
Total noncurrent liabilities	44,334,289	15,159,314
Total liabilities	127,448,321	91,449,546
NET ASSETS		
Invested in capital assets, net of related debt	166,604,362	164,974,382
Restricted for		
Nonexpendable		
Scholarships	58,451	58,451
Expendable		
Research	3,323,534	3,275,966
Loans	3,079,826	3,101,413
Capital projects	8,931,347	9,303,867
Unrestricted	48,571,490	45,052,065
Total net assets	\$ 230,569,010	\$ 225,766,144

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

UNIVERSITY OF CONNECTICUT HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2004 and 2003

	2004	2003
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of \$1,793,336 and \$1,636,773 respectively)	\$ 7,659,757	\$ 6,588,157
Patient services (net of charity care of \$231,712 and \$117,773 respectively)	319,777,310	298,136,870
Federal grants and contracts	65,019,826	59,266,016
Nongovernmental grants and contracts	23,856,803	21,536,972
Contract and other operating revenues	48,442,838	50,088,959
Total operating revenues	464,756,534	435,616,974
OPERATING EXPENSES		
Educational and General		
Instruction	98,274,728	94,139,803
Research	56,597,973	49,861,751
Patient services	336,255,034	321,285,349
Academic support	14,326,226	12,657,206
Student services	565,681	720,032
Institutional support	43,974,145	38,529,599
Operations and maintenance of plant	14,889,973	14,158,592
Depreciation	19,511,082	18,991,156
Loss on disposal	340,629	215,893
Student aid	776,293	640,106
Total operating expenses	585,511,764	551,199,487
Operating (loss) income	(120,755,230)	(115,582,513)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	119,067,925	115,445,236
Gifts	688,133	30,030
Interest income (net of investment expense of \$63,996 and \$71,471 respectively for the primary institution)	2,103,722	3,537,322
Interest on capital asset - related debt	(233,320)	(157,777)
Net nonoperating revenues	121,626,460	118,854,811
Income before other revenues, expenses, gains or losses	871,230	3,272,298
Capital appropriations	3,931,636	754,544
Total other revenues	3,931,636	754,544
Increase in net assets	4,802,866	4,026,842
NET ASSETS		
Net assets-beginning of year	225,766,144	221,739,302
Net assets-end of year	\$ 230,569,010	\$ 225,766,144

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

UNIVERSITY OF CONNECTICUT HEALTH CENTER
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 329,346,089	\$ 292,614,252
Cash received from tuition and fees	7,659,757	6,588,157
Cash received from grants, contracts and other revenue	130,916,958	129,112,856
Cash paid to employees for personal services and fringe benefits	(322,763,399)	(304,433,511)
Cash paid for other than personal services	<u>(188,798,558)</u>	<u>(178,577,985)</u>
Net cash (used in) provided by operating activities	<u>(43,639,153)</u>	<u>(54,696,231)</u>
Cash flows from investing activities:		
Malpractice and bond trust funds	(15,018,365)	(859,154)
Interest received	1,909,718	3,537,322
Additions to property and equipment	<u>(26,797,777)</u>	<u>(32,271,585)</u>
Net cash used in investing activities	<u>(39,906,424)</u>	<u>(29,593,417)</u>
Cash flows from noncapital financing activities:		
State appropriations	73,514,204	73,214,407
Gifts	<u>688,133</u>	<u>30,030</u>
Net cash provided by noncapital financing activities	<u>74,202,337</u>	<u>73,244,437</u>
Cash flows from capital and related financing activities:		
Capital appropriations	3,766,582	10,496,894
Interest paid	(233,320)	(157,777)
Proceeds from borrowing	22,799,881	—
Repayment of long-term debt	<u>(984,977)</u>	<u>(538,022)</u>
Net cash provided by capital and related financing activities	<u>25,348,166</u>	<u>9,801,095</u>
Net increase (decrease) in cash and cash equivalents	16,004,926	(1,244,116)
Cash and cash equivalents at beginning of year	<u>48,538,248</u>	<u>49,782,364</u>
Cash and cash equivalents at end of year	<u>\$ 64,543,174</u>	<u>\$ 48,538,248</u>
Accompanying schedule of non-cash transactions		
Proceeds from capital leases	<u>\$ 4,171,780</u>	<u>\$ —</u>

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

UNIVERSITY OF CONNECTICUT HEALTH CENTER
STATEMENTS OF CASH FLOWS (Continued)
For the Years Ended June 30, 2004 and 2003

Reconciliation of operating income to net cash provided by operating activities:

	<u>2004</u>	<u>2003</u>
Operating income	\$ (120,755,230)	\$ (115,582,513)
Adjustments to reconcile operating income to net cash provided by (Used in) operating activities:		
Depreciation and loss on disposal	19,851,711	19,207,049
Personal services and fringe benefits in-kind from State	44,932,046	41,895,531
Changes in assets and liabilities:		
Patients receivables, net	2,113,777	(1,503,517)
Contract and other receivables	(4,542,262)	113,479
Due from DOC	(4,655)	(3,069,608)
Inventories	370,902	624,544
Third party payors	7,459,658	(949,493)
Deferred charges	175,000	—
Prepaid expenses	189,446	(920,236)
Other assets	(62,704)	1,371,432
Accounts payable and accrued liabilities	864,135	2,877,307
Due to State of Connecticut	757,763	184,766
Accrued salaries	1,939,156	2,060,731
Compensated absences	3,092,351	1,741,867
Deferred revenue	(1,860,247)	(1,892,570)
Malpractice reserve	<u>1,840,000</u>	<u>(855,000)</u>
Net cash (used in) provided by operating activities	<u>\$ (43,639,153)</u>	<u>\$ (54,696,231)</u>

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

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**NOTES TO
FINANCIAL STATEMENTS**

Notes to Financial Statements For the Years Ended June 30, 2004 and 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related Entities

The University of Connecticut Health Center (the "Health Center") is a part of a comprehensive institution of higher education, the University of Connecticut (the "University"). Although governed by a single Board of Trustees, the Health Center and the University 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. These financial statements represent transactions and balances of the Health Center for the years ended June 30, 2004 and 2003, which includes the School of Medicine, School of Dental Medicine, UConn Medical Group, University of Connecticut Health Center Finance Corporation and University Dentists (the "Primary Institution") and John Dempsey Hospital (the "Hospital"). Fiscal year 2004 is the first year the University of Connecticut Health Center Finance Corporation was included in the financial statements. Due to the immaterial balances in prior years no restatement was deemed necessary. The Health Center offers medical and dentistry degrees and operates a physician/dentist practice and a teaching and research hospital. There is also a related, but independent, corporate entity that supports the mission of the Health Center: The University of Connecticut Foundation Inc. (the "Foundation"). The Foundation raises funds to promote, encourage, and assist education and research at the University, including its Health Center.

Basis of Presentation

The Health Center's financial statements are prepared in accordance with all relevant Governmental Accounting Standards Board (GASB) pronouncements. GASB No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," states that proprietary activities may elect to apply the provisions of Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The Health Center has adopted Governmental Accounting Standards Board (GASB) Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities, an amendment to Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Proprietary Fund Accounting

The Health Center utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. All revenues and expenses are subject to accrual.

Accounts Receivable and Net Patient Service Revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Settlements are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Investments and Investment Income

The State of Connecticut has established various funds to account for the operations of the Health Center. These funds include the University Health Center Operating Fund (Fund 12018), the University Health Center Research Foundation Fund (Fund 12023), the University Health Center Hospital Fund (Fund 21002) and the John Dempsey Hospital Malpractice Trust Fund (Fund 35013). Grants and contracts for research and related retained overhead recoveries are accounted for in the Research Foundation Fund. The Malpractice Trust Fund accounts for assets set aside based on actuarial funding recommendations. The Operating Fund acts as a "General Fund" for the Health Center, accounting for all operations not accounted for elsewhere.

Unrestricted Research Foundation Fund and Malpractice Trust Fund assets in excess of immediate cash needs are invested in the State of Connecticut Short-Term Investment Fund (STIF). Most restricted Research Foundation Fund assets are not invested, though there are certain exceptions including gift accounts and funds invested at the request of sponsoring organizations. Local student activity funds controlled by the Health Center are also invested in STIF; these funds are minimal in amount.

The STIF, which was established and is operated under Sections 3-27a through 3-27i of the General Statutes, provides State agencies, funds, political subdivisions and others with a mechanism for investing at a daily-earned rate with interest from day of deposit to day of withdrawal. STIF participants have daily access to their account balances. Underlying investments of the STIF are mainly in money market instruments.

Though Operating Fund participation in STIF is not significant, the Health Center earns interest on Operating Fund cash balances through the State Treasurer's interest credit program. Under this program, the Treasurer pays the Health Center STIF equivalent interest on the average daily cash balance held in the Operating Fund each quarter. Additionally, interest is paid on monies transferred from the Health Center's civil list funds into the direct disbursement account used to process checks issued directly to vendors by the Health Center. Though the balance in this account may include assets of the Operating, Research Foundation and Hospital Funds, all interest earned is credited to the Operating Fund.

The Hospital Fund does not participate in STIF or, other than described above, the Treasurer's interest credit program. However, certain funds held in the Hospital Fund and segregated as a sinking fund to meet future debt service requirements are invested in marketable securities.

Capital Assets

Property and equipment acquisitions are recorded at cost. Betterments and major renewals are capitalized, and maintenance and repairs are expensed as incurred.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

Medical Malpractice

Health care providers and support staff of the Hospital are fully protected by state statutes from any claim for damage or injury, not wanton, reckless or malicious, caused in the discharge of their duties or within the scope of their employment ("statutory immunity"). Any claims paid for actions brought against the State as permitted by waiver of statutory immunity have been charged against the Health Center's malpractice self-insurance fund. Effective July 1, 1999, the Health Center developed a methodology by which it could allocate malpractice costs between the Hospital and UMG. For the year ended June 30, 2004, and 2003, these costs are included in the statement of revenues, expenses and changes in net assets.

Regulatory Matters

The Hospital is required to file semi-annual and annual operating information with the State of Connecticut Office of Health Care Access (“OHCA”), and is required to file annual cost reports with Medicare and Medicaid.

2. CASH DEPOSITS AND INVESTMENTS

Statement No. 3 of the Governmental Accounting Standards Board requires governmental entities to categorize deposits and investments to give an indication of the level of credit risk assumed. Category 1 includes investments that are insured or registered, or for which securities are held by the Health Center or its agent in the name of the Health Center. Category 2 includes uninsured and unregistered investments for which securities are held by the broker or dealer trust department or agent in the name of the Health Center. 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 Health Center’s name. Investments that are not evidenced by securities are not categorized.

As of June 30, 2004, the Health Center’s cash and cash equivalents balance was \$64,543,174, which included \$36,390,934 in cash balances maintained by the State of Connecticut Treasurer, \$28,061,735 of investments with the State of Connecticut Investment Pool (Short Term Investment Fund), \$89,005 in deposits with financial institutions and \$1,500 in currency (change funds).

A portion of the bank balance of the State of Connecticut was insured by the Federal Deposit Insurance Corporation or held by the State’s agent in the State’s name (Category 1). Additionally, part of the remaining balance was collateralized. Collateralized deposits are deposits protected by State 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.

As a State of Connecticut agency, the Health Center benefits from the protections from potential custodial credit risk described in the preceding paragraph. However, the extent to which the \$36,390,934 in cash balances maintained by the State Treasurer for the Health Center was protected cannot be readily determined.

The Short Term Investment Fund is a money market investment pool, which is available for investment to the State, municipal entities, and political subdivisions of the State of Connecticut. The State Treasurer is authorized to invest monies of the short term investment fund in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, saving accounts, bankers’ acceptances, repurchase agreements, asset-backed securities and student loans. The Health Center’s Short Term Investment Fund holdings of \$28,061,735 were not categorized as they consisted of deposits held in the Short Term Investment Fund; they were not evidenced by securities.

The Health Center’s deposits with financial institutions of \$89,005 were considered uninsured and uncollateralized (Category 3).

The Health Center’s investments of \$653,588 consisted of U.S. Treasury notes which were uninsured, unregistered and held by John Dempsey Hospital’s agent in John Dempsey Hospital’s name (Category 2).

Certain funds are held by outside fiscal agents and are not under the direct control of the Health Center. Accordingly, the assets of these funds are not included in the financial statements. The fair value amount of these funds at June 30, 2004 was \$2,528,255. Investment income earned on these assets is transferred to the Health Center in accordance with the applicable trust agreement. Income received for the year ended June 30, 2004 was \$28,937.

3. CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. During 2004 and 2003, the Hospital provided charity care services of \$231,712 and \$117,773, respectively. All related expenses are included in operating expenses.

4. NET PATIENT SERVICE REVENUE

The Health Center provides health care services primarily to residents of the region. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Health Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Health Center.

The Health Center has agreements with third-party payors that provide for payments at amounts different from its established rates. These third party payors include Medicare, Medicaid and certain commercial insurance carriers and Health Maintenance Organizations. Additionally, under the Correctional Managed Health care Program, the Health Center provides medical, dental and psychiatric care to the inmates incarcerated at the State's correctional facilities. This program is funded from the State's General Fund through the Department of Correction.

Patient service revenue for the Health Center is as follows:

	<u>2004</u>	<u>2003</u>
John Dempsey Hospital		
Gross patient services revenue	\$ 342,666,324	\$ 302,394,576
Less allowances	<u>158,087,683</u>	<u>136,276,551</u>
Net patient service revenue	184,578,641	166,118,025
UConn Medical Group		
Gross patient services revenue	132,556,982	126,442,838
Less allowances	<u>72,588,695</u>	<u>68,665,706</u>
Net patient service revenue	59,968,287	57,777,132
Correctional Managed Health Care	77,415,127	79,326,911
All other	<u>3,103,552</u>	<u>1,665,021</u>
Total net patient service revenue	\$ <u><u>325,065,607</u></u>	\$ <u><u>304,887,089</u></u>

5. CAPITAL ASSETS

Capital assets at June 30, 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Land	\$ 1,830,510	1,830,510
Construction in Progress	32,922,884	19,989,084
Buildings	264,454,182	262,985,082
Equipment	140,038,449	133,161,849
Capital leases	<u>4,171,780</u>	<u>-</u>
	443,417,805	417,966,525
Less accumulated depreciation	<u>265,098,914</u>	<u>250,765,480</u>
Capital assets, net	\$ <u><u>178,318,891</u></u>	<u><u>167,201,045</u></u>

The Health Center's fine art collection is capitalized on the statement of net assets. This collection is included in equipment in the Primary Institution and totaled \$645,736 at June 30, 2004 and 2003. Plant and equipment activity and related information on accumulated depreciation for the Health Center for the year ended June 30, 2004 and 2003 was as follows:

	<u>2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>2004</u>
<u>Property and equipment:</u>				
Land	\$ 1,830,510	\$ -	\$ -	\$ 1,830,510
Construction in Progress	19,989,084	17,568,878	(4,635,078)	32,922,884
Buildings	256,520,238	1,467,000	-	257,987,238
Improvements other than buildings	6,464,844	2,100	-	6,466,944
Equipment	133,161,849	12,394,877	(5,518,277)	140,038,449
Capital leases	-	4,171,780	-	4,171,780
Total property and equipment	<u>417,966,525</u>	<u>35,604,635</u>	<u>(10,153,355)</u>	<u>443,417,805</u>
<u>Less accumulated depreciation:</u>				
Buildings	144,676,905	7,504,701	-	152,181,606
Improvements other than buildings	5,819,356	84,137	-	5,903,493
Equipment	100,269,219	11,922,244	(5,177,648)	107,013,815
Total accumulated depreciation	<u>250,765,480</u>	<u>19,511,082</u>	<u>(5,177,648)</u>	<u>265,098,914</u>
<u>Net property and equipment:</u>				
Land	1,830,510	-	-	1,830,510
Construction in Progress	19,989,084	17,568,878	(4,635,078)	32,922,884
Buildings	111,843,333	(6,037,701)	-	105,805,632
Improvements other than buildings	645,488	(82,037)	-	563,451
Equipment	32,892,630	472,633	(340,629)	33,024,634
Capital leases	-	4,171,780	-	4,171,780
Total capital assets, net	<u>\$ 167,201,045</u>	<u>\$ 16,093,553</u>	<u>\$ (4,975,707)</u>	<u>\$ 178,318,891</u>

	<u>2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>2003</u>
<u>Property and equipment:</u>				
Land	\$ 1,830,510	\$ -	\$ -	\$ 1,830,510
Construction in Progress	5,711,611	17,753,249	(3,475,776)	19,989,084
Buildings	252,911,354	3,608,884	-	256,520,238
Improvements other than buildings	6,325,041	139,803	-	6,464,844
Equipment	125,496,892	14,245,425	(6,580,468)	133,161,849
Total property and equipment	<u>392,275,408</u>	<u>35,747,361</u>	<u>(10,056,244)</u>	<u>417,966,525</u>
<u>Less accumulated depreciation:</u>				
Buildings	136,324,856	8,352,049	-	144,676,905
Improvements other than buildings	5,767,674	51,682	-	5,819,356
Equipment	96,046,369	10,587,425	(6,364,575)	100,269,219
Total accumulated depreciation	<u>238,138,899</u>	<u>18,991,156</u>	<u>(6,364,575)</u>	<u>250,765,480</u>
<u>Net property and equipment:</u>				
Land	1,830,510	-	-	1,830,510
Construction in Progress	5,711,611	17,753,249	(3,475,776)	19,989,084
Buildings	116,586,498	(4,743,165)	-	111,843,333
Improvements other than buildings	557,367	88,121	-	645,488
Equipment	29,450,523	3,658,000	(215,893)	32,892,630
Total capital assets, net	<u>\$ 154,136,509</u>	<u>\$ 16,756,205</u>	<u>\$ (3,691,669)</u>	<u>\$ 167,201,045</u>

Construction in progress at June 30, 2004 and 2003, represents accumulated costs for various Health Center construction projects. The Health Center has entered into various contractual arrangements related to these projects. Upon completion, the cost of the project is transferred to the appropriate investment in plant category and depreciation will commence.

6. INVENTORIES

Consumable supplies are expensed when received with the exception of certain central inventories. Cost of the inventory is determined on a moving average basis for the Central Warehouse, and on a first-in, first-out basis for the others.

7. ENDOWMENTS

The Health Center designated the Foundation as manager of the Health Center's endowment funds. The Foundation makes spending allocation distributions to the Health Center for each participating endowment. The distribution is spent by the Health Center in accordance with the respective purposes of the endowments and with the policies and procedures of the Health Center.

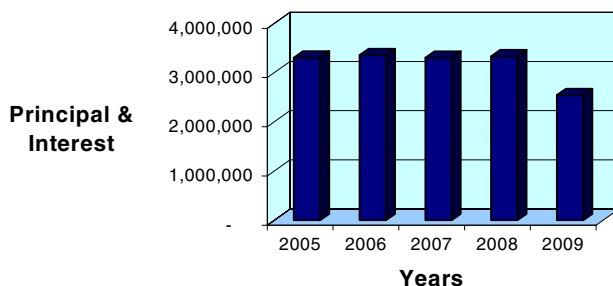
8. LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2004 and 2003 was as follows:

	June 30, 2003			June 30, 2004		Amounts due within 1 year
	Balance	Additions	Reductions	Balance		
Long-Term debt:						
Bonds Payable John Dempsey Hospital	\$ 807,430	-	217,215	590,215		186,300
Bonds Payable Primary Institution	1,419,233	-	382,645	1,036,588		326,702
Lease Agreements John Dempsey Hospital	-	4,171,780	385,117	3,786,663		790,129
Mortgage Agreements Primary Institution	-	22,799,881	-	22,799,881		337,031
Total Long-Term Debt	<u>2,226,663</u>	<u>26,971,661</u>	<u>984,977</u>	<u>28,213,347</u>		<u>1,640,162</u>
Malpractice reserve	8,500,000	6,226,955	4,386,955	10,340,000		2,308,000
Compensated absences	<u>28,291,855</u>	<u>24,213,636</u>	<u>21,121,285</u>	<u>31,384,206</u>		<u>21,655,102</u>
Total Long - Term Liabilities	<u>\$ 39,018,518</u>	<u>57,412,252</u>	<u>26,493,217</u>	<u>69,937,553</u>		<u>25,603,264</u>
	June 30, 2002			June 30, 2003		Amounts due within 1 year
	Balance	Additions	Reductions	Balance		
Long-Term debt:						
Bonds Payable John Dempsey Hospital	\$ 957,082	-	149,652	807,430		199,820
Bonds Payable Primary Institution	1,680,666	-	261,433	1,419,233		350,411
Lease Agreements Primary Institution	126,937	-	126,937	-		-
Total Long-Term Debt	<u>2,764,685</u>	<u>-</u>	<u>538,022</u>	<u>2,226,663</u>		<u>550,231</u>
Malpractice reserve	9,355,000	351,000	1,206,000	8,500,000		2,373,000
Compensated absences	<u>26,549,988</u>	<u>23,371,360</u>	<u>21,629,493</u>	<u>28,291,855</u>		<u>20,953,973</u>
Total Long - Term Liabilities	<u>\$ 38,669,673</u>	<u>23,722,360</u>	<u>23,373,515</u>	<u>39,018,518</u>		<u>23,877,204</u>

Estimated cash basis interest and principal requirements for the long-term debt for the next five years are as follows:

Long-Term Debt Requirement



Year	Long-Term Debt
2005	\$ 3,307,697
2006	3,359,520
2007	3,305,615
2008	3,334,469
2009	2,545,549
Totals	\$ 15,852,850

The Health Center is self-insured with respect to medical malpractice risks. Estimated losses from asserted and unasserted claims identified under the Hospital's incident reporting system and an estimate of incurred but not reported claims are accrued based on actuarially determined present value estimates that incorporate the Hospital's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. Accrued malpractice losses have been discounted at a rate of 4% for the years ended June 30, 2004 and 2003.

The scope of the Hospital's assessment for establishing reserves for malpractice costs encompasses physicians, dentists and all other University of Connecticut Health Center health care providers and support staff that are part of the primary institution.

The Health Center is involved in litigation claiming damages arising in the ordinary course of business. Claims alleging malpractice have been asserted against the Health Center and are currently in various stages of litigation. It is the opinion of management, however, that the amounts accrued for estimated malpractice costs at June 30, 2004 are adequate to provide for potential losses resulting from pending or threatened litigation and an actuarially determined estimate for incurred but not reported claims.

The Hospital has established a trust fund for the payment of medical malpractice claim settlements. The trust is funded based on actuarially determined amounts and is funded by the Hospital and the primary institution.

9. RESIDENCY TRAINING PROGRAM

The Health Center's School of Medicine Residency Training Program provides area hospitals with the services of interns and residents. Participating hospitals remit payments to the Health Center, in accordance with an established rate schedule, for services provided. The Health Center, in turn, funds the Capital Area Health Consortium, Inc., which coordinates the payment of payroll and the provision of related fringe benefits to the interns and residents, under a contractual arrangement. Amounts remitted or owed by participating hospitals for payments made to interns and residents, and amounts paid or due under contract to the Capital Area Health Consortium, Inc., are reflected in the accompanying financial statements as current unrestricted revenues and expenditures, respectively.

10. BOND FINANCED ALLOTMENTS

The Health Center recognizes an asset when an allotment is processed for State general obligation bonds or when bonds to be funded from Health Center resources are sold.

11. RETIREMENT PLAN

All regular full-time employees participate in one of two retirement plans. The State Employees' Retirement System, a single employer defined benefit public employee retirement system, is administered by the State and covers most full-time employees. The State of Connecticut is statutorily responsible for the pension benefits of the Health Center employees who participate in this plan. The Health Center makes contributions on behalf of the employees through a fringe benefit charge assessed by the State.

Alternatively, employees may choose to participate in the Connecticut Alternate Retirement Program (CARP). CARP is a State-administered, portable pension plan offered to eligible employees of the State's constituent units of higher education as an alternate to the State Employees' Retirement System. CARP is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Under this defined contribution plan, plan members are required to contribute 5 percent of their annual salaries; the State is required to contribute 8 percent of covered salary.

12. POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 11, the State provides post retirement health care and life insurance benefits to eligible Health Center employees, in accordance with Sections 5-257(d) and 5-259(a) of the Connecticut General Statutes. When employees retire, the State pays up to 100% of their health care insurance premium cost (including the cost of dependent coverage). This benefit is available to retirees of the State Employees' Retirement System and participants in the Connecticut Alternate Retirement Program who meet certain age and service criteria.

The State also pays 100% of the premium cost for a portion of the employee's life insurance continued after retirement. The amount of life insurance continued at no cost to the retiree is determined in a formula based on the number of years of State service that the retiree had at time of retirement. The State finances the cost of post retirement health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund.

13. COMMITMENTS

On June 30, 2004, the Health Center had individual outstanding commitments exceeding \$300,000 in amount, totaling \$24,309,529. A portion of this amount was included in the June 30, 2004 accounts payable.

The Health Center agreed to pay \$32,353,132 during the 2004-2005 fiscal year to the Capitol Area Health Consortium to cover the payment of payroll and related fringe benefits to the interns and residents participating in the School of Medicine Residency Training Program. These costs are to be funded by participating hospitals, which will remit payments to the Health Center, in accordance with an established rate schedule, for services provided.

The Health Center leases various building space under operating lease commitments, which expire at various dates through fiscal year 2016. Expenses related to these leases were approximately \$2,251,000 and \$2,460,000 for the year ended June 30, 2004 and 2003, respectively. Future minimum rental payments at June 30, 2004 under non-cancelable operating leases are approximately as follows:

2005 \$	1,468,821
2006	1,189,847
2007	718,356
2008	559,500
2009	<u>561,000</u>
Totals \$	<u><u>4,497,524</u></u>

14. RELATED PARTY TRANSACTIONS

The University of Connecticut Foundation, Inc. (the "Foundation") is a tax-exempt organization whose objective is the betterment of the University, including its Health Center. As is the case with the University's Storrs based program, the Health Center has entered into a written agreement with the Foundation whereby the Health Center agrees to reimburse the Foundation for certain administrative services, and the Foundation agreed to reimburse the Health Center for certain personal services performed and for operating expenses for the benefit of the Foundation. The following transactions occurred between the Health Center and the Foundation during the year ended June 30, 2004:

Amount paid to the Foundation	\$ <u>460,000</u>
Amount received from the Foundation for personal services and operating expenses	\$ <u>148,548</u>
Amount received from the Foundation from endowments	\$ <u>1,705,992</u>

15. CONTINGENCIES

The Health Center 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 Health Center financial statements.

SUPPLEMENTAL INFORMATION

UNIVERSITY OF CONNECTICUT HEALTH CENTER
CONSOLIDATING STATEMENT OF NET ASSETS
As of June 30, 2004

	2004			
	Primary Institution	John Dempsey Hospital	Eliminations	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 45,549,466	\$ 10,063,002	\$ -	\$ 55,612,468
Assets limited as to use	-	156,520	-	156,520
Patient receivables, net	9,082,141	22,540,074	-	31,622,215
Contract and other receivables	34,186,035	793,302	-	34,979,337
Due from State of Connecticut	3,992,182	-	-	3,992,182
Due from Primary Institution	-	401,569	(401,569)	-
Due from Department of Correction	10,987,085	-	-	10,987,085
Inventories	1,293,919	4,168,164	-	5,462,083
Deferred charges	-	-	-	-
Prepaid expenses	289,917	1,138,755	-	1,428,672
Total current assets	<u>105,380,745</u>	<u>39,261,386</u>	<u>(401,569)</u>	<u>144,240,562</u>
Noncurrent Assets				
Restricted cash and cash equivalents	1,532,564	7,398,142	-	8,930,706
Other assets	-	346,955	-	346,955
Assets limited as to use	16,498,818	1,923,703	(1,428,038)	16,994,483
Due from State of Connecticut	9,185,734	-	-	9,185,734
Capital assets, net	128,472,830	49,846,061	-	178,318,891
Total noncurrent assets	<u>155,689,946</u>	<u>59,514,861</u>	<u>(1,428,038)</u>	<u>213,776,769</u>
Total assets	<u>\$ 261,070,691</u>	<u>\$ 98,776,247</u>	<u>\$ (1,829,607)</u>	<u>\$ 358,017,331</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 18,284,865	\$ 7,210,862	\$ -	\$ 25,495,727
Due to State of Connecticut	1,442,231	1,254,271	-	2,696,502
Accrued salaries	10,917,566	3,683,987	-	14,601,553
Compensated absences	14,886,977	6,768,125	-	21,655,102
Due to John Dempsey Hospital	1,829,607	-	(1,829,607)	-
Due to third party payors	-	3,378,933	-	3,378,933
Deferred revenue	11,338,053	-	-	11,338,053
Malpractice reserve	-	2,308,000	-	2,308,000
Long-term debt - current portion	660,494	979,668	-	1,640,162
Total current liabilities	<u>59,359,793</u>	<u>25,583,846</u>	<u>(1,829,607)</u>	<u>83,114,032</u>
Noncurrent Liabilities				
Malpractice reserve	-	8,032,000	-	8,032,000
Compensated absences	6,688,352	3,040,752	-	9,729,104
Long-term debt	23,175,976	3,397,209	-	26,573,185
Total noncurrent liabilities	<u>29,864,328</u>	<u>14,469,961</u>	<u>-</u>	<u>44,334,289</u>
Total liabilities	<u>89,224,121</u>	<u>40,053,807</u>	<u>(1,829,607)</u>	<u>127,448,321</u>
NET ASSETS				
Invested in capital assets, net of related debt	121,135,178	45,469,184	-	166,604,362
Restricted for				
Nonexpendable				
Scholarships	58,451	-	-	58,451
Expendable				
Research	3,281,508	42,026	-	3,323,534
Loans	3,079,826	-	-	3,079,826
Capital projects	8,931,347	-	-	8,931,347
Unrestricted	35,360,260	13,211,230	-	48,571,490
Total net assets	<u>\$ 171,846,570</u>	<u>\$ 58,722,440</u>	<u>\$ -</u>	<u>\$ 230,569,010</u>

UNIVERSITY OF CONNECTICUT HEALTH CENTER
CONSOLIDATING STATEMENT OF NET ASSETS
As of June 30, 2003

	2003			
	Primary Institution	John Dempsey Hospital	Eliminations	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 44,954,502	\$ -	\$ (2,480,636)	\$ 42,473,866
Assets limited as to use	-	165,164	-	165,164
Patient receivables, net	11,051,483	22,684,509	-	33,735,992
Contract and other receivables	29,221,241	1,215,834	-	30,437,075
Due from State of Connecticut	3,176,503	-	-	3,176,503
Due from John Dempsey Hospital	1,435	-	(1,435)	-
Due from Department of Correction	10,982,430	-	-	10,982,430
Inventories	1,524,779	4,308,206	-	5,832,985
Third party payors	-	4,080,725	-	4,080,725
Deferred charges	175,000	-	-	175,000
Prepaid expenses	141,636	1,476,482	-	1,618,118
Total current assets	<u>101,229,009</u>	<u>33,930,920</u>	<u>(2,482,071)</u>	<u>132,677,858</u>
Noncurrent Assets				
Restricted cash and cash equivalents	522,507	5,541,875	-	6,064,382
Other assets	-	284,251	-	284,251
Assets limited as to use	-	1,967,474	-	1,967,474
Due from State of Connecticut	9,020,680	-	-	9,020,680
Capital assets, net	120,648,005	46,553,040	-	167,201,045
Total noncurrent assets	<u>130,191,192</u>	<u>54,346,640</u>	<u>-</u>	<u>184,537,832</u>
Total assets	<u>\$ 231,420,201</u>	<u>\$ 88,277,560</u>	<u>\$ (2,482,071)</u>	<u>\$ 317,215,690</u>
LIABILITIES				
Current Liabilities				
Cash overdraft	\$ -	\$ 2,480,636	\$ (2,480,636)	\$ -
Accounts payable and accrued liabilities	16,336,781	8,294,811	-	24,631,592
Due to State of Connecticut	1,061,329	877,410	-	1,938,739
Accrued salaries	9,643,371	3,019,026	-	12,662,397
Compensated absences	14,574,759	6,361,214	-	20,935,973
Due to Primary Institution	-	1,435	(1,435)	-
Deferred revenue	12,944,300	254,000	-	13,198,300
Malpractice reserve	-	2,373,000	-	2,373,000
Long-term debt - current portion	350,411	199,820	-	550,231
Total current liabilities	<u>54,910,951</u>	<u>23,861,352</u>	<u>(2,482,071)</u>	<u>76,290,232</u>
Noncurrent Liabilities				
Malpractice reserve	-	6,127,000	-	6,127,000
Compensated absences	5,120,861	2,235,021	-	7,355,882
Long-term debt	1,068,823	607,609	-	1,676,432
Total noncurrent liabilities	<u>6,189,684</u>	<u>8,969,630</u>	<u>-</u>	<u>15,159,314</u>
Total liabilities	<u>61,100,635</u>	<u>32,830,982</u>	<u>(2,482,071)</u>	<u>91,449,546</u>
NET ASSETS				
Invested in capital assets, net of related debt	119,228,771	45,745,611	-	164,974,382
Restricted for				
Nonexpendable				
Scholarships	58,451	-	-	58,451
Expendable				
Research	3,243,319	32,647	-	3,275,966
Loans	3,101,413	-	-	3,101,413
Capital projects	9,303,867	-	-	9,303,867
Unrestricted	35,383,745	9,668,320	-	45,052,065
Total net assets	<u>\$ 170,319,566</u>	<u>\$ 55,446,578</u>	<u>\$ -</u>	<u>\$ 225,766,144</u>

UNIVERSITY OF CONNECTICUT HEALTH CENTER
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET
ASSETS
For the Year Ended June 30, 2004

	2004				
	Primary Institution	John Dempsey Hospital	Total (Memo Only)	Eliminations	Consolidated
OPERATING REVENUES					
Student tuition and fees, net	\$ 7,659,757	\$ -	\$ 7,659,757	\$ -	\$ 7,659,757
Patient services, net	140,486,966	184,578,641	325,065,607	(5,288,297)	319,777,310
Federal grants and contracts	65,019,826	-	65,019,826	-	65,019,826
Nongovernmental grants and contracts	23,856,803	-	23,856,803	-	23,856,803
Contract and other operating revenues	55,495,415	2,331,752	57,827,167	(9,384,329)	48,442,838
Total operating revenues	<u>292,518,767</u>	<u>186,910,393</u>	<u>479,429,160</u>	<u>(14,672,626)</u>	<u>464,756,534</u>
OPERATING EXPENSES					
Educational and General					
Instruction	106,922,690	-	106,922,690	(8,647,962)	98,274,728
Research	56,597,973	-	56,597,973	-	56,597,973
Patient services	164,548,406	177,729,642	342,278,048	(6,023,014)	336,255,034
Academic support	14,326,226	-	14,326,226	-	14,326,226
Student services	565,681	-	565,681	-	565,681
Institutional support	43,975,795	-	43,975,795	(1,650)	43,974,145
Operations and maintenance of plant	14,889,973	-	14,889,973	-	14,889,973
Depreciation	13,955,874	5,555,208	19,511,082	-	19,511,082
Loss on disposal	86,169	254,460	340,629	-	340,629
Student aid	776,293	-	776,293	-	776,293
Total operating expenses	<u>416,645,080</u>	<u>183,539,310</u>	<u>600,184,390</u>	<u>(14,672,626)</u>	<u>585,511,764</u>
Operating (loss) income	<u>(124,126,313)</u>	<u>3,371,083</u>	<u>(120,755,230)</u>	<u>-</u>	<u>(120,755,230)</u>
NONOPERATING REVENUES (EXPENSES)					
State appropriations	119,067,925	-	119,067,925	-	119,067,925
Gifts	684,769	3,364	688,133	-	688,133
Interest income, net	2,038,871	64,851	2,103,722	-	2,103,722
Interest on capital asset - related debt	(69,884)	(163,436)	(233,320)	-	(233,320)
Net nonoperating revenues	<u>121,721,681</u>	<u>(95,221)</u>	<u>121,626,460</u>	<u>-</u>	<u>121,626,460</u>
Income before other revenues, expenses, gains or losses	<u>(2,404,632)</u>	<u>3,275,862</u>	<u>871,230</u>	<u>-</u>	<u>871,230</u>
Capital appropriations	<u>3,931,636</u>	<u>-</u>	<u>3,931,636</u>	<u>-</u>	<u>3,931,636</u>
Total other revenues	<u>3,931,636</u>	<u>-</u>	<u>3,931,636</u>	<u>-</u>	<u>3,931,636</u>
Increase in net assets	<u>1,527,004</u>	<u>3,275,862</u>	<u>4,802,866</u>	<u>-</u>	<u>4,802,866</u>
NET ASSETS					
Net assets-beginning of year	<u>170,319,566</u>	<u>55,446,578</u>	<u>225,766,144</u>	<u>-</u>	<u>225,766,144</u>
Net assets-end of year	<u>\$ 171,846,570</u>	<u>\$ 58,722,440</u>	<u>\$ 230,569,010</u>	<u>\$ -</u>	<u>\$ 230,569,010</u>

UNIVERSITY OF CONNECTICUT HEALTH CENTER
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET
ASSETS
For the Year Ended June 30, 2003

	2003				
	Primary Institution	John Dempsey Hospital	Total (Memo Only)	Eliminations	Consolidated
OPERATING REVENUES					
Student tuition and fees, net	\$ 6,588,157	\$ -	\$ 6,588,157	\$ -	\$ 6,588,157
Patient services, net	138,769,064	166,118,025	304,887,089	(6,750,219)	298,136,870
Federal grants and contracts	59,266,016	-	59,266,016	-	59,266,016
Nongovernmental grants and contracts	21,536,972	-	21,536,972	-	21,536,972
Contract and other operating revenues	54,555,955	3,965,846	58,521,801	(8,432,842)	50,088,959
Total operating revenues	<u>280,716,164</u>	<u>170,083,871</u>	<u>450,800,035</u>	<u>(15,183,061)</u>	<u>435,616,974</u>
OPERATING EXPENSES					
Educational and General					
Instruction	102,275,385	-	102,275,385	(8,135,582)	94,139,803
Research	49,861,751	-	49,861,751	-	49,861,751
Patient services	167,320,994	160,788,312	328,109,306	(6,823,957)	321,285,349
Academic support	12,823,022	-	12,823,022	(165,816)	12,657,206
Student services	720,032	-	720,032	-	720,032
Institutional support	38,587,305	-	38,587,305	(57,706)	38,529,599
Operations and maintenance of plant	14,158,592	-	14,158,592	-	14,158,592
Depreciation	13,226,076	5,765,080	18,991,156	-	18,991,156
Loss on disposal	9,099	206,794	215,893	-	215,893
Student aid	640,106	-	640,106	-	640,106
Total operating expenses	<u>399,622,362</u>	<u>166,760,186</u>	<u>566,382,548</u>	<u>(15,183,061)</u>	<u>551,199,487</u>
Operating (loss) income	<u>(118,906,198)</u>	<u>3,323,685</u>	<u>(115,582,513)</u>	<u>-</u>	<u>(115,582,513)</u>
NONOPERATING REVENUES (EXPENSES)					
State appropriations	115,445,236	-	115,445,236	-	115,445,236
Gifts	30,030	-	30,030	-	30,030
Interest income, net	3,352,880	184,442	3,537,322	-	3,537,322
Interest on capital asset - related debt	(81,970)	(75,807)	(157,777)	-	(157,777)
Net nonoperating revenues	<u>118,746,176</u>	<u>108,635</u>	<u>118,854,811</u>	<u>-</u>	<u>118,854,811</u>
Income before other revenues, expenses, gains or losses	<u>(160,022)</u>	<u>3,432,320</u>	<u>3,272,298</u>	<u>-</u>	<u>3,272,298</u>
Capital appropriations	754,544	-	754,544	-	754,544
Total other revenues	<u>754,544</u>	<u>-</u>	<u>754,544</u>	<u>-</u>	<u>754,544</u>
Increase in net assets	<u>594,522</u>	<u>3,432,320</u>	<u>4,026,842</u>	<u>-</u>	<u>4,026,842</u>
NET ASSETS					
Net assets-beginning of year	169,725,044	52,014,258	221,739,302	-	221,739,302
Net assets-end of year	<u>\$ 170,319,566</u>	<u>\$ 55,446,578</u>	<u>\$ 225,766,144</u>	<u>\$ -</u>	<u>\$ 225,766,144</u>

**DIRECTORS AND FINANCIAL OFFICERS
June 30, 2004**

BOARD OF DIRECTORS

Members at Large

Gerald N. Burrow	<i>Hamden</i>
Bruce Chudwick	<i>Farmington</i>
Aldrage B. Cooper	<i>Skillman, NJ</i>
A. Jon Goldberg	<i>W. Hartford</i>
Nancy J. Hutson	<i>Stonington</i>
Paul H. Johnson	<i>Guilford</i>
Gerard J. Lawrence, MD	<i>Lyme</i>
David P. Marks	<i>W. Hartford</i>
* John W. Rowe, MD	<i>New York, NY</i>
Robert T. Samuels	<i>W. Hartford</i>

Appointed by the Governor

Thomas J. Devers, MD	<i>New Britain</i>
David B. Friend, MD	<i>Weston, MA</i>
Jay L. Haberland	<i>Simsbury</i>
* Michael R. Meacham	<i>Coventry</i>

Members Ex Officio

Philip E. Austin	<i>Storrs</i>
The Honorable Marc S. Ryan	<i>Higganum</i>

Appointed by Chairperson, Board of Trustees

The Honorable James F. Abromaitis	<i>Unionville</i>
Lenworth M. Jacobs, MD	<i>W. Hartford</i>
Claire R. Leonard, Chairperson	<i>Harwinton</i>

* Term ended or resigned during the fiscal year.

FINANCIAL OFFICERS

Lorraine M. Aronson, Vice President and Chief Financial Officer
Daniel L. Upton, Chief Financial Officer
James H. Thornton, Controller
Jeffrey P. Geoghegan, CPA, Assistant Vice President, Finance

**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

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

¹ Pursuant to the Eleventh Supplemental Indenture, the 2005 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 2005 Series A Bonds shall be issued subsequently pursuant to a Supplemental Indenture.

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, UConn Phase II Projects and 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

² Pursuant to the Eleventh Supplemental Indenture, the University covenants that it will not take any action or fail to take any action that would cause the 2005 Series A Bonds to be "arbitrage bonds" within the meaning of the Code.

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

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

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

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

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

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

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

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

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

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

Events of Default. [Section 1201].

An “event of default” shall exist if:

- (1) the University shall default in the payment of the principal of or Redemption Price, if any, or interest on any Bond after the same shall become due, whether at maturity or upon call for redemption or otherwise; or
- (2) the State shall default in observance of its pledge to the Bondholders set forth in the Act and Section 914 of the Indenture or, with respect to Bonds secured by the State Debt Service Commitment, the Treasurer shall fail to pay the amount of the State Debt Service Commitment as provided as part of the contract of the State with the Bondholders of such Bonds and in accordance with Section 604 thereof; or
- (3) the University shall (i) apply for or consent to the appointment of or the taking of possession by a receiver, liquidator, custodian or trustee of itself or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as such debts become due, (iii) make a general assignment for the benefit of its creditors, (iv) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), (v) file a petition seeking to take advantage of any other law

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

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

Remedies. [Section 1202].

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

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

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

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

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

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

any right to appoint a receiver pursuant to section 12 of the Act or any acceleration of payments of Principal Installments of or interest on such Bonds and with respect to Other Indebtedness issued as Bonds hereunder the right or remedy to appoint a receiver pursuant to section 12 of the Act or to so accelerate shall be available only if included in the Supplemental Indenture authorizing such Bonds.

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

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

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

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

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

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FORM OF OPINIONS OF BOND COUNSEL AND CO-BOND COUNSEL

Upon the delivery of the 2005 Series A Bonds, Pullman & Comley, LLC, Bond Counsel, and Law Offices of Joseph C. Reid, P.A., Co-Bond Counsel, propose to issue their final approving opinions in substantially the following form:

[Date of Closing]

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

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

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$98,110,000 General Obligation Bonds, 2005 Series A (the “2005 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 2005 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”), as amended and supplemented by certain supplemental indentures thereto, including the Eleventh Supplemental Indenture (the “Eleventh Supplemental Indenture”). Together with the Master Indenture, the supplemental indentures thereto, including the Eleventh 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 U.S. Bank National Association) (the “Trustee”).

The 2005 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 2005 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 2005 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 2005 Series A Bonds in order that interest on the 2005 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 and the State Treasurer with respect to the 2005 Series A Bonds, which, in our opinion contain provisions under which such requirements can be met. The University has covenanted with respect to the 2005 Series A Bonds in the Indentures to comply with the requirements of the Code. In rendering this opinion, we have relied upon and assumed the accuracy of and continuing compliance by the University and the State Treasurer with their representations and covenants relating to certain requirements of the Code 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 2005 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 2005 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 2005 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 2005 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 2005 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 2005 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 2005 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 2005 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 law, interest on the 2005 Series A Bonds, (a) is not included in gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, with respect to certain corporations (as defined for federal income tax purposes) subject to the federal alternative minimum tax, such interest is taken into account in determining adjusted current earnings for purposes of computing such tax.

8. Under existing statutes, interest on the 2005 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 2005 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.

We express no opinion regarding other federal or state tax consequences of the ownership of or receipt or accrual of interest on the 2005 Series A Bonds.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the 2005 Series A Bonds may be limited by bankruptcy, insolvency, and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

Very truly yours,

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**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 16th day of March, 2005 by the State of Connecticut (the “State”) acting by its undersigned officer, duly authorized, in connection with the issuance of \$98,110,000 University of Connecticut General Obligation Bonds, 2005 Series A, dated March 16, 2005 (the “Bonds”) and U.S. Bank National Association, as Trustee for the Bonds (the “Trustee”). The Bonds are being issued pursuant to a General Obligation Master Indenture of Trust entered into by The University of Connecticut (the “Issuer”) and the Trustee dated as of November 1, 1995, as supplemented and amended from time to time (the “Indenture”) for the benefit of the beneficial owners from time to time of the Bonds.

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

“Final Official Statement” means Parts II and III of the official statement of the Issuer dated March 10, 2005 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, 2004) as follows:

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

(ii) To the extent not included in the financial statements described in (i) above, the financial information and operating data within the meaning of the Rule described below (with references to the Final Official Statement); provided, however, that references to the Final Official Statement for the 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. The State has experienced delays in preparing its financial statements for the 2003-2004 fiscal year due to the implementation of a new financial management software system. Consequently, the State anticipates that the audits of its financial statements for the 2003-2004 fiscal year will be provided promptly after the appropriate audits have been completed.

(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.

(e) Any filing under this Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

STATE OF CONNECTICUT

By: _____
Denise L. Nappier
Treasurer

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

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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 Eleventh Supplemental Indenture, except as otherwise defined:

“2005 Series A Bonds” means the Bonds authorized by, and issued in one or more series, pursuant to Article II of the Eleventh 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 2005 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 Revenue Bonds or State Bonds or patient revenues or any other revenues derived from the clinical operations of the University 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, Provost, the Vice President and Chief Financial Officer, 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 _____ and _____ (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 _____ and _____ 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.

“Eleventh Supplemental Indenture” shall mean the Eleventh Supplemental Indenture dated as of March 16, 2005, as amended, authorizing The University of Connecticut General Obligation 2005 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 mean 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 2005 Series A Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Special Eligible Gift” means a gift to the University of cash or assets which may be reduced to cash by the University which the donor has specifically designated as a donation for use by the University in furtherance of UConn 2000 or which explicitly or implicitly by the terms thereof the University may

use for UConn 2000 and which the University determines to so use therefor pursuant to subsection (a) of Section 9 of the Act.

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

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

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

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

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

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

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

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

“Swap Provider” means a financial institution whose long term debt obligations, or whose obligations under a Swap are fully covered by a Swap Facility whose long term debt obligations are (ki) rated at lease as high by a least two nationally recognized rating agencies as the great of (a) the University’s Bonds additionally secured by the State Debt Service Commitment and (b) the State’s general obligation bonds or (ii) secured by a pledge of Investment Obligations in amounts sufficient to

achieve the ratings described in (i) the Master Indenture or (ii) meeting the requirements of Section 908.2 of the Master Indenture.

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

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

“Termination Payment” means with respect to a Swap an amount required to be paid by the University to the Swap Provider or related Swap Facility as a result of the termination of the Swap or required to be paid by the University into a 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 Fleet National Bank of Connecticut, 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 Indenture.

“UConn 2000 Project” means any UConn 2000 Phase I Project, and UConn 2000 Phase II Project and UConn 2000 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 2005 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
SECURITY
ASSURANCE®**

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

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

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

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or teletyped notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

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

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

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____

Authorized Officer

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

(212) 826-0100

Form 500NY (5/90)

PART II
INFORMATION SUPPLEMENT
OF THE STATE OF CONNECTICUT

March 10, 2005

The Annual Information Statement of the State of Connecticut (the "State"), dated February 1, 2005, modified February 23, 2005, appears in this Official Statement as **Part III** and contains information through February 1, 2005. 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 February 1, 2005 Annual Information Statement, modified February 23, 2005, through March 10, 2005. The information in this **Part II** and **Part III** is subject to change without notice, and investors should not assume that there has been no change in the affairs of the State since the date of this **Part II**.

INVESTIGATIONS

There is an ongoing federal investigation of the Rowland administration regarding alleged improprieties with contract awards. In connection with that investigation, federal authorities are also reviewing gifts given to the former Governor. On December 23, 2004, former Governor John G. Rowland pleaded guilty to one federal charge of conspiracy to commit honest services mail fraud and tax fraud. Sentencing is scheduled for March, 2005.

STATE GENERAL FUND

Page III-23. The following information is added after the section on *Fiscal Year 2004-2005 Operations*.

Pursuant to section 4-66 of the Connecticut General Statutes, the Office of Policy and Management provides estimates to the Comptroller by the twentieth day of each month of revenues and expenditures for the current fiscal year 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 February 20, 2005, General Fund revenues for the 2004-05 fiscal year were estimated at \$13,657.2 million, General Fund expenditures and miscellaneous adjustments were estimated at \$13,323.8 million and the General Fund balance for the 2004-05 fiscal year was estimated to have a surplus of \$333.4 million. In the monthly report of the Comptroller dated March 1, 2005, as of the period ending January 31, 2005, the Comptroller estimated that General Fund revenues for the 2004-05 fiscal year including the surplus of \$150.3 million carried over from the 2003-04 fiscal year, were \$13,657.2 million, General Fund expenditures and miscellaneous adjustments were \$13,323.1 million and the General Fund balance for the 2004-05 fiscal year was estimated to have a surplus of \$334.1 million. These estimates have not been outlined in **Appendix III-E** to this **Part II**.

On February 9, 2005, the Governor introduced her proposed budget for the 2005-06 and 2006-07 fiscal years (discussed more fully below). The Governor included as part of that budget proposal several recommendations which impact fiscal year 2004-05. The Governor's budget proposal includes an additional \$20 million in revenue due to stronger than anticipated collections under the income tax. This increased the projected surplus used by the Governor to \$335.6 million. The Governor's budget proposal calls for the use of this projected surplus in the following manner: (i) \$137.7 million would be utilized to pay the debt service costs in fiscal 2005-06 and 2006-07 on the outstanding Economic Recovery Notes, (ii) \$79.1 million would be utilized to fund expenditures over the upcoming biennium that are primarily one-time in nature, (iii) \$57.1 million in funds that were projected to lapse at the end of this fiscal year will be carried forward to fund

expenditures in fiscal year 2005-06, (iv) \$20 million would be utilized to fund the Governor's stem cell initiative, and (v) the remaining \$41.7 million would be deposited into the Budget Reserve Fund.

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 assurance 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 2004-05 operations of the General Fund.

Governor's Recommended Budget for Fiscal Years 2005-2006 and 2006-2007.

The Governor presented the State budget plans for fiscal years 2005-06 and 2006-07 to the General Assembly on February 9, 2005.

The Governor's General Fund budget proposal for fiscal year 2005-06 assumes revenues of \$14,124.7 million and appropriations of \$14,124.3 million, resulting in a projected surplus of \$0.4 million. For fiscal year 2006-07, the Governor's General Fund budget proposal assumes revenues of \$14,681.0 million and appropriations of \$14,680.6 million, resulting in a projected surplus of \$0.4 million.

The Governor's budget proposal closed a General Fund current services gap of \$1.1 billion in fiscal year 2005-06 and a current services gap of \$1.4 billion in fiscal 2006-07. In addition, on a current services basis, the fiscal year 2005-06 budget would have been over the expenditure cap by \$732.0 million and by \$858.5 million in fiscal year 2006-07.

The Governor's budget proposal assumes \$553.4 million in revenue increases in fiscal year 2005-06 and \$701.9 million in revenue increases in fiscal year 2006-07. The following more significant revenue changes include: (i) delaying the proposed increase in the property tax credit under the income tax from \$350 to \$500, saving \$105 million in each year of the biennium, (ii) increasing the state's cigarette tax from \$1.51 per pack to \$2.25 per pack, raising \$104.0 million and \$87.6 million, respectively, in each year of the biennium, (iii) imposing a corporation tax surcharge of 15% in income year 2005 and 10% in income year 2006, raising \$67.1 million and \$10.9 million, respectively, in each year of the biennium, (iv) reducing the revenue intercept for the Mashantucket Pequot grant to towns from the current services amount of \$135 million in each year of the biennium to \$86.3 million, saving \$48.7 million in each year, (v) instituting a 6% nursing home provider tax as part of an overall plan to garner additional federal funds for the provider industry. This change is expected to generate \$139.2 million in revenue from the tax in each year of the biennium and \$118.6 million and \$119.1 million, respectively, in additional federal funds in each year of the biennium.

The Governor's budget proposal assumes \$563.7 million in expenditure reductions from current services in fiscal year 2005-06 and \$746.4 million in expenditure reductions from current services in fiscal 2006-07. Even with these significant reductions from current services, the Governor's budget proposal does contain an expenditure increase of 3.9% in fiscal year 2005-06 versus estimated expenditures in fiscal year 2004-05. Expenditures in the second year of the biennium also rise by 3.9%. The following significant expenditure changes include: (i) nursing home rate increases in the Department of Social Services totaling \$187.6 million in the first year of the biennium, (ii) medicaid excluding nursing home rate increases, up \$59.1 million in the first year of the biennium, (iii) state employee retirement contributions, up \$92.8 million and \$30 million, respectively, in each year of the biennium, (iv) teachers' retirement contributions, up \$75.8 million and \$10.4 million, respectively, in each year of the biennium, (v) Department of Mental Retardation, up \$68.5 million and \$25.4 million, respectively, in each year of the biennium, (vi) Department of Children and Families, up \$58.4 million and \$27 million, respectively, in each year of the biennium, and (vii) state employee health benefits, up \$37 million and \$68.1 million, respectively, in each year of the biennium. The Governor's budget proposal includes funding for pay increases for employees covered by settled collective bargaining

contracts and for employees not covered by collective bargaining. It does not include funds for raises for employees whose collective bargaining contracts are not settled.

Article XXVIII of the Amendments to the Constitution of the State of Connecticut and Section 2-33a of the Connecticut General Statutes codify the language on the State's expenditure cap. As mentioned above, the Governor's budget proposal includes the institution of a new provider tax on nursing homes and the expenditure of those funds within various sectors of the provider industry. The expenditure of these funds would place the proposed budget above the expenditure cap in fiscal year 2005-06. However, the Governor has indicated that within the context of a responsible adopted budget and in accord with the provisions of Article XXVIII of the Amendments to the Constitution, she would issue a declaration to exceed the State's expenditure cap in order to garner the additional federal funds associated with the program. This declaration would have to be ratified by a three-fifths vote of each house of the General Assembly. If the declaration is so ratified, the remaining portion of the Governor's biennial budget proposal would be \$45.3 million below the expenditure cap for fiscal year 2005-06 and \$63.6 million below the expenditure cap for fiscal year 2006-07.

The Governor's proposed budget also includes a net increase in general obligation bond authorizations of \$997.6 million to take effect in fiscal year 2005-06 and \$1,123.6 million to take effect in fiscal year 2006-07. The Governor's recommendations also include \$100 million in additional clean water revenue bond authorizations to take effect in fiscal year 2006-07 and special transportation obligation bond authorizations of \$238.9 million to take effect in fiscal year 2005-06 and \$274.4 million in fiscal year 2006-07. For the University of Connecticut, general obligation bond authorizations of \$79 million will take effect in fiscal year 2005-06 and \$89 million will take effect in fiscal year 2006-07.

Deliberations on the Governor's budget recommendations are expected to continue throughout the legislative session with an expected adjournment date of June 8, 2005.

See **Appendix III-E** of this **Part II** for more information regarding the Governor's Proposed Budget for fiscal years 2005-06 and 2006-07.

APPENDIX III-E

Appendix III-E to this **Part II** reflects the Governor's Proposed Biennial Budget for fiscal years 2005-06 and 2006-07. It also reflects the Midterm Budget Adjustments for fiscal year 2004-05 and revenues and expenditures for the 2003-04 fiscal year and revenue and expenditure estimates for the 2004-05 fiscal year as of the period ending December 31, 2004.

APPENDIX III-E

GENERAL FUND REVENUES AND EXPENDITURES
 ESTIMATED FINAL BUDGET FOR FISCAL YEAR 2003-2004
 REVISED ADOPTED BUDGET AND ESTIMATED BUDGET FOR FISCAL 2004-05
 PROPOSED BIENNIAL BUDGET FOR FISCAL YEARS 2005-2006 AND 2006-2007

(In Millions)

	Estimated Final Budget <u>2003-04^(h)</u>	Revised Adopted Budget <u>2004-05⁽ⁱ⁾</u>	Estimated Budget <u>2004-05⁽ⁿ⁾</u>	Governor's Proposed Budget <u>2005-2006^(r)</u>	Governor's Proposed Budget <u>2006-2007^(t)</u>
Revenues					
<u>Taxes</u>					
Personal Income Tax	\$ 4,934.4	\$ 5,131.0	\$ 5,370.0	\$ 5,769.0 ^(s)	\$ 6,034.0 ^(s)
Sales & Use	3,133.9 ⁽ⁱ⁾	3,320.3 ⁽ⁱ⁾	3,278.8	3,455.1	3,593.2
Corporation ^(a)	518.0	501.7	570.3	612.9 ^(t)	602.2 ^(t)
Public Service	193.6	189.4	206.0	197.4	200.1
Inheritance & Estate ^(b)	147.6	166.1	165.0	84.6	65.0
Insurance Companies	233.4	234.8	239.0	244.9	251.0
Cigarettes ^(c)	279.6	266.0	267.6	358.5 ^(u)	323.1 ^(u)
Real Estate Conveyance	176.7	145.8	176.5	164.0	152.4
Oil Companies	106.9	89.6	137.4	106.0	109.0
Alcoholic Beverages	44.0	43.5	44.1	51.9	51.6
Admissions and Dues	31.7	33.1	32.3	32.9	33.6
Miscellaneous	34.8	33.8	36.6	195.7 ^(v)	207.1 ^(v)
Total Taxes	<u>\$ 9,843.7</u>	<u>\$ 10,155.1</u>	<u>\$ 10,523.6</u>	<u>\$ 11,272.9</u>	<u>\$ 11,622.3</u>
Less Refunds of Taxes	(650.8)	(700.0)	(720.0)	(855.0)	(884.4)
Less R&D Credit Exchange	(10.4)	(14.0)	(14.0)	(17.0)	- ^(bb)
Net Taxes	<u>\$ 9,182.5</u>	<u>\$ 9,441.1</u>	<u>\$ 9,789.6</u>	<u>\$ 10,400.9</u>	<u>\$ 10,737.9</u>
<u>Other Revenues</u>					
Transfers- Special Revenues	286.7	283.1	266.6	272.0	277.4
Indian Gaming Payments	402.7	430.0	420.0	436.8	454.3
Licenses, Permits, Fees	154.6	138.1	140.5	154.8	142.6
Sales of Commodities & Services	41.0	36.0	37.0	38.3	39.7
Rents, Fines & Escheats	117.7	144.5 ^(m)	180.0 ^(o)	107.1	110.8
Investment Income	1.8	15.3	12.0	25.0	27.0
Miscellaneous	111.3	105.0	111.8	113.0	115.8
Less Refunds of Payments	(0.6)	(0.5)	(0.6)	(0.6)	(0.6)
Total Other Revenue	<u>\$ 1,115.2</u>	<u>\$ 1,151.5</u>	<u>\$ 1,167.3</u>	<u>\$ 1,146.4</u>	<u>\$ 1,167.0</u>
<u>Other Sources</u>					
Federal Grants	2,564.1 ^(j)	2,469.6	2,497.2	2,586.7 ^(w)	2,641.4 ^(w)
Transfers to the Resources of the G.F. ^(d)	232.3	94.5	54.5 ^(p)	14.0	77.0
Transfers from Tobacco Settlement Funds	114.6	113.0	108.3	104.0	103.0
Transfers from FY 2004 to FY 2005	--	125.3	125.3		
Transfers from FY 2006 to FY 2007				(41.0) ^(x)	41.0 ^(x)
Transfers to Other Funds ^(e)	(85.0)	(85.0)	(85.0)	(86.3)	(86.3)
Total Other Sources	<u>\$ 2,826.0</u>	<u>\$ 2,717.4</u>	<u>\$ 2,700.3</u>	<u>\$ 2,577.4</u>	<u>\$ 2,776.1</u>
Total Unrestricted Revenues ^(f)	\$ 13,123.7	\$ 13,310.0	\$ 13,657.2	\$ 14,124.7	\$ 14,681.0

	Estimated Final Budget 2003-04 ^(h)	Revised Adopted Budget 2004-05 ⁽ⁱ⁾	Estimated Budget 2004-05 ⁽ⁿ⁾	Governor's Proposed Budget 2005-2006 ^(t)	Governor's Proposed Budget 2006-2007 ^(r)
Appropriations/Expenditures					
Legislative	\$ 60.9	\$ 66.0	\$ 66.0	\$ 69.6	\$ 73.4
General Government	389.7	440.0	451.5	431.4	444.8
Regulation & Protection	200.4	209.4	215.9	226.6	227.8
Conservation & Development	83.1 ⁽ⁱ⁾	91.4 ⁽ⁱ⁾	91.4	82.4 ^(y)	85.6 ^(y)
Health & Hospitals	1,210.5	1,267.3	1,283.2	1,378.0	1,408.6
Human Services	3,833.9	3,916.6	3,921.0	4,196.2 ^(z)	4,339.4 ^(z)
Education, Libraries & Museums	2,814.8	2,901.5	2,903.4	3,105.0	3,162.1
Corrections	1,172.6	1,197.3	1,234.4	1,321.4	1,370.9
Judicial	370.3	399.5	400.4	429.7	440.1
Non- Functional					
Debt Service	1,127.5	1,311.2	1,311.2	1,281.7 ^(aa)	1,394.5 ^(aa)
Miscellaneous	1,409.2	1,536.0	1,535.9	1,706.6	1,837.7
Subtotal	\$ 12,672.9	\$ 13,336.2	\$ 13,414.3	\$ 14,228.6	\$ 14,784.9
Unallocated Lapse	-	(109.9)	(104.8)	(104.3)	(104.4)
Net Appropriations/Expenditures	\$ 12,672.9	\$ 13,226.3	\$ 13,309.5	\$ 14,124.3	\$ 14,680.6
Surplus (or Deficit) from Operations	450.8	83.7	347.7	0.4	0.4
Miscellaneous Adjustments	1.7	-	(12.3)	-	-
Reserve for Fiscal Year 2004-05	(150.3)				
Balance^(g)	\$ 302.2 ^(k)	\$ 83.7	\$ 335.4 ^(q)	\$ 0.4	\$ 0.4

NOTE: Columns may not add due to rounding.

- (a) Per Public Act No. 03-1 and No. 03-6 includes a 25% corporate tax surcharge and an increase in the preference tax. These changes are expected to yield \$79.5 million in fiscal 2003-04 and \$63.5 million in fiscal 2004-05.
- (b) Reflects the combination of the phase-out in the Connecticut Succession Tax pursuant to Public Act No. 95-256, Public Act No. 01-1 of the November Special Session, Public Act No. 03-1 of the June Special Session and changes to the federal estate pick-up tax pursuant to federal law P.L. 107-16. The imposition of a temporary estate tax is estimated to raise \$55 million in fiscal year 2004-05 if the State fails to receive extraordinary federal assistance similar to that contained in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.
- (c) Per Public Act No. 03-2, the increase in Cigarette Tax from \$1.11 per pack to \$1.51 per pack effective March 15, 2003 is estimated to yield \$70.9 million in fiscal year 2003-04 and \$70.9 million in fiscal year 2004-05 in cigarette and sales taxes.
- (d) Per the adopted budget, funds being transferred in fiscal year 2003-04 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 2004-05, transfers include \$40 million from securitization of unclaimed property, \$25.0 million from a securitization of a portion of the Clean Energy Fund, \$17.5 million from quasi-public agencies, and approximately \$12 million from miscellaneous accounts.
- (e) Transfer to Mashantucket Pequot and Mohegan Fund for grants to towns.
- (f) Additional revenues may be received with respect to Restricted Accounts and Federal & Other Grants, which are not included in this Appendix. Expenditures of these grants are also not included; the amount of such expenditures is generally the same as the amount of grants received.
- (g) 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.
- (h) Per the Comptroller's annual report dated February 23, 2005 for the period ending June 30, 2004, with presentation modifications as to certain line items as determined by the Office of Policy and Management.

- (i) Public Act No. 04-216 incorporates the Commission on Arts, Tourism, Culture, History, and Film into the general fund beginning in fiscal year 2003-04.
- (j) Per the Federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (PL 108-27), the State will receive \$115.8 million of flexible grants and an estimated \$134.3 million due to a temporary increase in the federal medical assistance percentage (FMAP) for medical expenses in fiscal year 2003-04.
- (k) Based on fiscal transactions posted through June of 2004, the Office of Policy and Management is projecting a General Fund surplus of \$302.1 million. Once the surplus is certified by the Comptroller, this surplus will be deposited into the Budget Reserve Fund and added to the balance in the Budget Reserve Fund.
- (l) Public Act No. 04-2 of the May Special Session and Public Act No. 04-216 constitute the revised biennial budget for fiscal year 2004-05. The act includes \$112.4 million for appropriations carried forward to fund fiscal year 2004-05 expenditures. The act also transferred \$125.3 million to fiscal year 2004-05 revenue and provided \$259.1 million additional appropriations for fiscal year 2004-05.
- (m) Per Public Act No. 04-216, the one time sale of unclaimed property will raise revenue by \$50 million.
- (n) Per the Comptroller's monthly report dated February 1, 2005 for the period ending December 31, 2004, with presentation modifications as to certain line items as determined by the Office of Policy and Management as subsequently revised upward by \$20 million under the personal income tax per the Governor's Biennial Budget proposal submitted on February 9, 2005.
- (o) Per Public Act 04-216, the Treasurer's Office transferred to the State's General Fund a sum in excess of \$88 million, which exceeds the projected revenue by just over \$38 million.
- (p) Eliminates the securitization of unclaimed property revenue of \$40 million.
- (q) Per the Governor's proposed Biennial Budget, the projected surplus by the Office of Policy and Management of \$335.6 million will be used as follows: i) \$137.7 million would be utilized to pay the debt service costs in fiscal 2005-06 and 2006-07 on the outstanding Economic Recovery Notes, ii) \$79.1 million would be utilized to fund expenditures over the upcoming biennium that are primarily one-time in nature, iii) \$57.1 million in funds that were projected to lapse at the end of the fiscal year will be carried forward to fund expenditures in fiscal year 2005-06, iv) \$20 million would be utilized to fund the Governor's Stem Cell initiative, and v) the remaining \$41.7 million would be deposited into the Budget Reserve Fund.
- (r) Per the Governor's Proposed Biennial Budget dated February 9, 2005 for the period ending June 30, 2006 and June 30, 2007.
- (s) Per the Governor's proposed Biennial Budget, delaying the restoration of the \$500 property tax credit and the increase in the singles exemption for 2 years, and exempting 50% of military pensions and tax nonresident gambling winnings are expected to yield \$115.0 million in fiscal year 2005-06 and \$128.0 million in fiscal year 2006-07.
- (t) Per the Governor's proposed Biennial Budget, imposing a 15% surcharge on corporate entities for income year 2005 and a 10% surcharge for income year 2006, and reducing the net operating loss carry forward period from 20 years to 5 years are expected to yield \$74.5 million in fiscal year 2005-06 and \$28.8 million in fiscal year 2006-07.
- (u) Per the Governor's proposed Biennial Budget, increasing the tax from \$1.51 per pack to \$2.25 per pack, raising the excise tax on the wholesale price of non-cigarette tobacco products from 20% to 90%, and increasing the tax on tobacco products sold by the ounce from 40¢ to \$1.80 per ounce are expected to yield \$112.9 million in fiscal year 2005-06 and \$97.1 million in fiscal year 2006-07.
- (v) Per the Governor's proposed Biennial Budget, imposing a gross receipts tax on nursing homes and deferring phase-down of the Gift Tax by 2 years are expected to yield \$139.2 million in fiscal year 2005-06 and \$145.2 million in fiscal year 2006-07.
- (w) Per the Governor's proposed Biennial Budget, instituting a 6% nursing home provider tax is expected to garner additional federal funds of \$118.6 million and \$119.1 million, respectively, in each year of the biennium.
- (x) Per the Governor's proposed Biennial Budget, a transfer of excess revenues of \$41.0 million in fiscal year 2005-06 to fiscal year 2006-07.
- (y) Per the Governor's proposed Biennial Budget, the elimination and reduction of subsidies to certain arts and tourism organizations amounted to \$4.0 million. Additionally, two programs reimbursing towns for taxes abated to low-income housing projects were also eliminated, saving \$5.0 million.
- (z) Per the Governor's proposed Biennial Budget, major changes include a rate increase for nursing homes and other providers that would cost \$260.4 million in fiscal year 2005-06 and continue for fiscal year 2006-07. Funding

for services for abused and neglected children would increase by \$58.4 million in fiscal year 2005-06 and an additional \$27 million in fiscal year 2006-07.

- (aa) Per the Governor's proposed Biennial Budget, the cost of the Economic Recovery Notes during the biennium will be paid from the fiscal year 2004-05 surplus. The amount pre-funded for fiscal year 2005-06 is \$70.1 million and the amount in fiscal year 2006-07 is \$67.6 million.
- (bb) Per the Governor's proposed Biennial Budget, eliminating the R&D credit exchange is expected to increase revenues by \$20.0 million in fiscal year 2006-07.

NOTE: The information in Appendix III-E of this Part II contains only projections and no assurances can be given that subsequent projections will not result in changes in the items of revenue and expenditure and in the final result of the operations of the General Fund. Changes may also occur as the result of legislative action adjusting the budget or taking other actions which impact revenues or expenditures.

PART III
ANNUAL INFORMATION STATEMENT
STATE OF CONNECTICUT

FEBRUARY 1, 2005
MODIFIED FEBRUARY 23, 2005

This Annual Information Statement of the State of Connecticut (the "State") contains information through February 1, 2005, *modified February 23, 2005* to include June 30, 2004 unaudited financial statements of the State prepared in accordance with generally accepted accounting principles ("GAAP") and a modified cash basis as **Appendices III-C and III-D**, respectively, to delete June 30, 2003 audited financial statements of the State which previously appeared as **Appendices III-C**, to correct references thereto and to reflect information contained therein, including revisions to **Table 3, Table 5 and Table 6**, and to make minor corrections. For information about the State after February 1, 2005, 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 GAAP based financial statements and 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 GAAP.

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	M. Jodi Rell
Lieutenant Governor	Kevin B. Sullivan
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	Robert L. Genuario
* Commissioner of Public Works	James T. Fleming
Commissioner of Transportation	Stephen E. Korta

Legislative Branch Officers

President Pro Tempore of the Senate	Sen. Donald E. Williams, Jr.
Speaker of the House of Representatives	Rep. James A. Amann
* Co-chairpersons of the Joint Standing Committee on Finance, Revenue and Bonding	Sen. Eileen Daily Rep. Cameron C. Staples
* Ranking Minority Members of the Joint Standing Committee on Finance, Revenue and Bonding	Sen. William H. Nickerson Rep. Richard O. Belden
* Auditors of Public Accounts	Kevin P. Johnston Robert G. Jaekle

* Denotes member of the State Bond Commission

PART III
February 1, 2005
Modified February 23, 2005
ANNUAL INFORMATION STATEMENT OF THE
STATE OF CONNECTICUT

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INTRODUCTION

This Modified 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 Modified 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 Modified 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 Modified 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 about the General Fund. Additional information regarding General Fund activity is included in **Appendices III-C, III-D** and **III-E** to this Modified Annual Information Statement.

State Debt describes the procedures for the authorization of the State to incur debt and the various ways in which the State may borrow funds 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 these other funds, debt and liabilities of the State is included in **Appendix III-C** to this Modified 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 Modified 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 Modified 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 Modified 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. State expenditures for the Department of Transportation are primarily paid from the Transportation Fund, not the General Fund. 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 Modified 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 Modified 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 to the General Assembly 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 document 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 ("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 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 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 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 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, 2004, there was a zero balance (unaudited) in the budget reserve fund. However, fiscal year 2003-04 did end with a surplus that may approach \$300 million according to OPM projections. When the Comptroller certifies the final 2003-04 year-end result, that surplus will be credited to the Budget Reserve Fund, unless otherwise directed by law. 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 State's 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 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 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 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 motor fuels tax revenue and motor carrier road tax revenue on all fuel sold or used prior to the end of such fiscal year and 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 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 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, 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 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 for the prior fiscal year.

In July 2003, the State implemented the first phase of a new, fully integrated, Internet based, financial management and human resources system called Core-CT. The financial software modules (accounts payable, accounts receivable, commitment control, general ledger and reporting) came online first in July 2003, followed by the human resources and payroll applications (payroll, time and labor) in October 2003. Additional financial enhancements relating to asset management and inventory control, contracts and billing and project management are expected to go online during fiscal years 2004-05 and 2005-06.

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

Core-CT was implemented coincident with an unanticipated and significant downsizing of the State's workforce. In order to create budget stability, layoffs were implemented in 2002 followed by an early retirement incentive program in 2003. The layoffs and early retirements significantly reduced staffing levels in State agency business and financial offices. This left the State with the task of implementing the most ambitious upgrade to its financial systems in history with a smaller and less experienced workforce. In addition, as with the implementation of any large-scale information technology system, Core-CT experienced some initial difficulties. Software anomalies were detected, certain application processing was slow, and some users did not fully understand the new coding conventions and accounting entries required for system processing. These problems were aggravated by technical complications relating to an interface to Core-CT from a new revenue management system implemented in January 2004 at the Department of Revenue Services. While this system is not part of Core-CT, it must interface effectively with Core-CT applications.

Many of the initial Core-CT implementation problems outlined above have been resolved. A State team consisting of employees from the Office of the State Comptroller, the Office of Policy and Management, the Office of Information and Technology and the Department of Administrative Services has been working on an ongoing basis with State agencies, consultants and PeopleSoft representatives to resolve other outstanding system performance issues. The volume and seriousness of these issues has been diminishing over time.

However, because of these initial implementation problems, the preparation of financial statements and reports for fiscal year 2003-04 year-end were delayed. The Comptroller's Office issued unaudited legal basis financial statements for major funds on February 23, 2005 and the remaining minor funds are expected to be completed by April 2005. The unaudited statements prepared on the basis of generally accepted accounting principles (GAAP) are included in **Appendix III-C** to this Modified Annual Information Statement. Delay in completing the financial statements has also resulted in delay in completing the audit of the financial statements which is not expected before late April 2005.

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 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. 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. To date, the Medium Term Investment Fund has not been implemented.

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. The pension, retirement and trust funds acquire units, in varying proportions depending on the investment policies of the funds, in one or more of the seven investment 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 cash flow basis as the Treasurer may determine, including swap agreements and other arrangements to manage interest rate risk. The counter party to any arrangement must have a rating on its unsecured long-term obligations which is the same as 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 unaudited financial statements for all civil list funds of the State for the fiscal year ending June 30, 2004 are included as **Appendix III-C** to this Modified Annual Information Statement. The State gives no assurance that it will continue to prepare GAAP based financial statements in the future. Budgetary-basis financial statements for the General Fund audited for the fiscal years ending June 30, 2000 through June 30, 2003 and the unaudited financial statements for the fiscal year ending June 30, 2004 are included in **Appendix III-D** to this Modified Annual Information Statement. The revised adopted budgets for the fiscal years ending June 30, 2004 and June 30, 2005, the estimated final budgetary-basis results for the fiscal year ending June 30, 2004 (unaudited) and the estimated (as of December 31, 2004) budget for the fiscal year ending June 30, 2005 are included as **Appendix III-E** to this Modified Annual Information Statement. Unless otherwise stated, amounts set forth in the discussion which follows under this caption **STATE GENERAL FUND** refer to such amounts as calculated on the budgetary-basis of accounting.

General Fund Revenues

Forecasted, Adopted and Historical Revenues

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

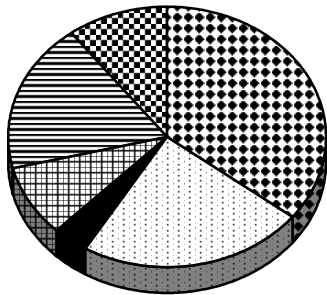
Because of the vast number of variables that can impact the revenue forecast, the State considers forecasting to be a process and not a product. While the economic data from available sources is analyzed and used to anticipate overall direction and trends, the revenue forecast is generated through a 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. The State believes that the process followed in developing Connecticut's revenue forecast is consistent with approaches taken in many other states.

Fiscal 2003-2004 and 2004-2005 Adopted Revenues. General Fund revenues as forecasted at the adoption of the mid-term budget adjustments for the fiscal years ending June 30, 2004 and June 30, 2005 ("Adopted Revenues") are reflected in **Appendix III-E** to this Modified Annual Information Statement. The State, as of the forecast date, expected to derive approximately seventy percent of its General Fund revenues from taxes during the 2003-04 fiscal year and the 2004-05 fiscal year. The revised adopted budgets for the fiscal years ending June 30, 2004 and June 30, 2005, the estimated final budgetary-basis results for the fiscal year ending June 30, 2004 (unaudited) and the estimated budgetary basis results (as of December 31, 2004) for the fiscal year ending June 30, 2005 are included as **Appendix III-E** to this Modified Annual Information Statement.

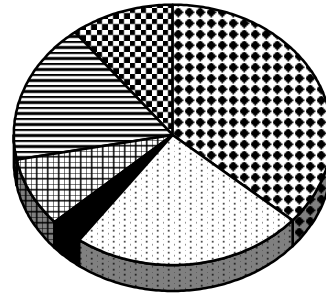
General Fund revenues are derived primarily from the collection of State taxes, including the personal income tax, the sales and use tax and the corporation business tax. Miscellaneous fees, receipts, transfers and unrestricted Federal grants account for most of the other General Fund revenue. A summary of anticipated General Fund revenue sources based on the adopted budget, as revised, for the fiscal year ending June 30, 2004 and for the fiscal year ending June 30, 2005, are set forth below:







Adopted General Fund Revenues (In Millions)







Adopted Revenues 2003-2004
\$12,668.7 ^(a)



Adopted Revenues 2004-2005
\$13,310.0 ^(a)



	Personal Income Tax	\$ 4,852.0	35.6%
	Sales and Use Tax	3,142.0	23.1%
	Corporate Business Tax	497.7	3.7%
	Other Taxes ^(b)	1,178.9	8.7%
	Unrestricted Federal Grants	2,538.7	18.6%
	Other Non-Tax Revenues ^(c)	1,409.7	10.4%

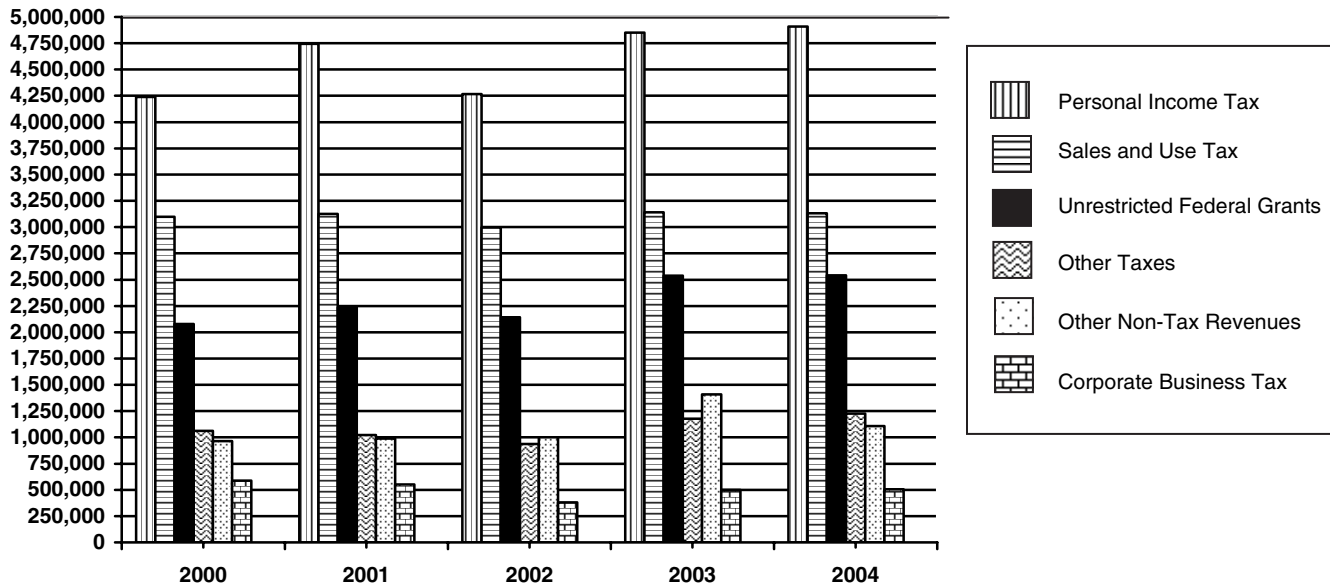
	Personal Income Tax	\$ 5,131.0	36.4%
	Sales and Use Tax	3,320.3	23.5%
	Corporate Business Tax	501.7	3.6%
	Other Taxes ^(b)	1,202.1	8.5%
	Unrestricted Federal Grants	2,469.6	17.5%
	Other Non-Tax Revenues ^(c)	1,484.3	10.5%

- (a) The pie charts reflect the total of the listed tax and revenue amounts of \$13,619.0 million for 2003-04 and \$14,109 million for 2004-05 and do not reflect tax refunds and transfers to other funds of \$950.3 million for 2003-04 and \$799 million for 2004-05. 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. 04-216 as modified by the Finance Revenue and Bonding Committee per Section 2-35 of the Connecticut General Statutes by the Committee on June 28, 2004.

Historical General Fund Revenues. Actual General Fund revenues for the fiscal years ending June 30, 2000 through 2003 and unaudited General Fund revenues for fiscal year 2003-04 are set forth in **Appendix III-D** to this Modified Annual Information Statement. A summary of the composition of General Fund gross revenues for the last five fiscal years is illustrated below:

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



	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Taxes:					
Personal Income Tax	\$ 4,238,228	\$ 4,744,233	\$ 4,265,912	\$ 4,263,070	\$ 4,943,430
Sales Tax.....	3,096,780	3,125,078	2,997,766	3,025,743	3,133,888
Corporate Business Tax	587,756	550,509	380,985	507,975	518,009
Other Taxes ^(b)	<u>1,063,543</u>	<u>1,022,755</u>	<u>937,782</u>	<u>1,252,376</u>	<u>1,248,406</u>
Subtotal.....	8,986,307	9,442,575	8,582,445	9,049,164	9,843,733
R & D Credit Exchange.....	-	-	-	(11,148)	(10,378)
Refunds of Taxes	<u>(713,359)</u>	<u>(735,482)</u>	<u>(851,491)</u>	<u>(808,209)</u>	<u>(650,800)</u>
Total Net Taxes	\$ 8,272,948	\$ 8,707,093	\$ 7,730,954	\$ 8,229,807	\$ 9,182,555
Other Revenue:					
Federal Grants					
(Unrestricted).....	2,078,914	2,237,045	2,142,269	2,318,421	2,564,105
Other Non-Tax Revenues					
(Unrestricted) ^(c)	963,784	987,932	999,888	1,078,620	1,115,194
Transfers to Other Funds	(180,000)	(85,400)	(147,686)	(93,009)	(85,000)
Transfers from Other Funds.....	<u>78,000</u>	<u>138,800</u>	<u>120,000</u>	<u>489,486</u>	<u>346,883</u>
Total Other Revenues	\$ 2,940,698	\$ 3,278,377	\$ 3,114,471	\$ 3,793,518	\$ 3,941,183
Total Revenues	\$ 11,213,646	\$ 11,985,470	\$ 10,845,425	\$ 12,023,325	\$ 13,123,738

- (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 less refunds of payments.

SOURCE: 2000, 2001, 2002 and 2003 Annual Reports of the State Comptroller; 2004 unaudited annual report 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 2010 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. 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, but is scheduled to revert to \$500 on January 1, 2005 in accordance with Public Act No. 04-216 which is effective for tax years beginning January 1, 2005. Taxpayers also are subject to a Connecticut minimum tax based on their liability, if any, for payment of the federal alternative minimum tax.

Sales and Use Taxes. The Sales Tax is imposed, subject to certain limitations, on the gross receipts from certain transactions within the State of persons engaged in business in the State, including (a) sales at retail of tangible personal property, (b) the rendering of certain services, (c) the leasing or rental of tangible personal property, (d) the production, fabrication, processing, printing, or imprinting of tangible personal property to special order or with materials furnished by the consumer, (e) the furnishing, preparation or serving of food, meals, or drinks, and (f) the transfer of occupancy of hotel or lodging house rooms for a period not exceeding thirty consecutive calendar days. The Use Tax is imposed, with certain exceptions, on the consideration paid for certain services or purchases or rentals of tangible personal property used within the State pursuant to a transaction not subject to the Sales Tax. The tax rate for the Sales and Use Taxes is 6%. A separate rate of 12% is charged on the occupancy of hotel rooms. 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. Depending upon the particular program being funded, federal grants in aid are normally conditioned to some degree, on resources provided by the State. More than 99% of unrestricted federal grant revenue is expenditure driven. The largest federal grants in fiscal year 2003-04 were made for the purposes of providing medical assistance payments to the low income and 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

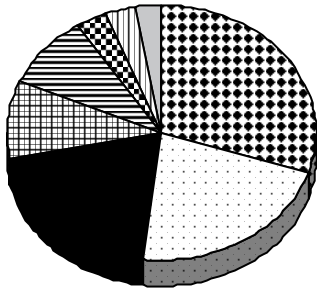
Appropriated and Historical Expenditures

Fiscal 2003-2004 and 2004-2005 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.

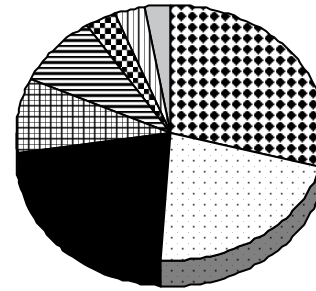
The revised adopted budgets for the fiscal years ending June 30, 2004 and June 30, 2005, the estimated final budgetary-basis results (unaudited) for the fiscal year ending June 30, 2004 and the estimated (as of December 31, 2004) budgetary – basis results for the fiscal year ending June 30, 2005 are included as **Appendix III-E** to this Modified Annual Information Statement. A summary of appropriated General Fund expenditures for the fiscal years ending June 30, 2004 and June 30, 2005 is set forth below.

















Appropriated General Fund Expenditures (In Millions)

Appropriated Expenditures 2003-2004
\$12,654.7 ^(a)



Appropriated Expenditures 2004-2005
\$13,226.3 ^(a)



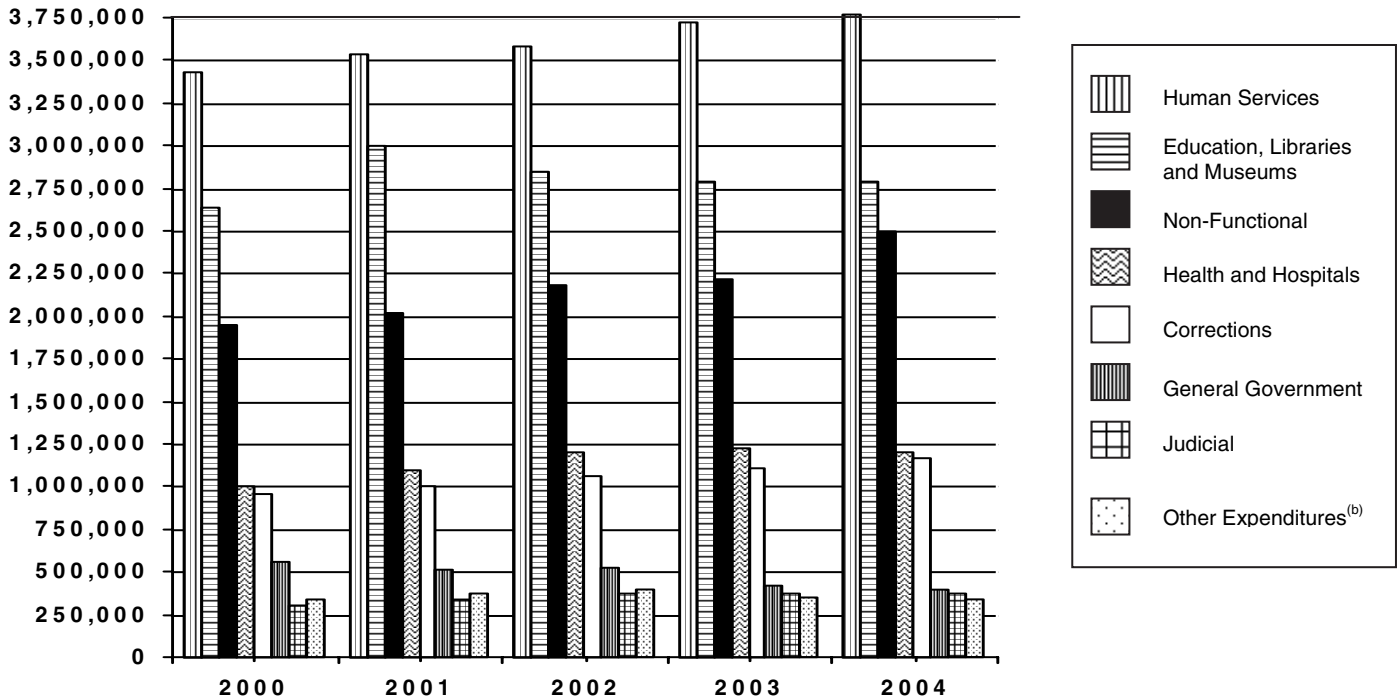
	Human Services	\$3,860.8	29.9%		Human Services	\$3,916.6	29.4%
	Education, Libraries and Museums	2,851.9	22.1%		Education, Libraries and Museums	2,901.5	21.8%
	Non-Functional	2,561.7	19.8%		Non-Functional	2,847.1	21.3%
	Health and Hospitals	1,268.3	9.8%		Health and Hospitals	1,267.3	9.5%
	Corrections	1,198.5	9.3%		Corrections	1,197.3	9.0%
	General Government	419.4	3.2%		General Government	440.0	3.3%
	Judicial	390.3	3.0%		Judicial	399.5	3.0%
	Other Expenditures ^(b)	368.3	2.9%		Other Expenditures ^(b)	366.8	2.7%

(a) The pie charts reflect the total listed expenditures of \$12,919.2 million for 2003-2004 and \$13,336.1 million for 2004-2005, and do not reflect adjustments for unallocated lapses of \$264.5 million for 2003-2004 and \$109.8 million 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 30 Special Session.
Public Act No. 04-216 as adjusted by Public Act 04-253, Public Act 04-258, and Public Act 04-2 of the May Special Session.

Historical General Fund Expenditures. Actual General Fund expenditures for the fiscal years 2000 through 2003 and unaudited General Fund expenditures for Fiscal Year 2004 are set forth in **Appendix III-D** to this Modified Annual Information Statement. A summary of the composition of General Fund expenditures for last five fiscal years is illustrated below:



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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Human Services	\$ 3,430,561	\$ 3,537,462	\$ 3,589,653	\$ 3,724,789	\$ 3,776,415
Education, Libraries and Museums	2,637,518	3,007,391	2,847,540	2,789,051	2,789,367
Non-Functional	1,954,711	2,019,041	2,182,512	2,224,838	2,502,332
Health and Hospitals	1,005,233	1,092,361	1,198,335	1,222,978	1,206,855
Corrections	957,555	999,052	1,068,183	1,111,416	1,165,656
General Government	566,310	511,430	527,287	420,241	394,193
Judicial	309,319	338,568	376,813	368,143	368,326
Other Expenditures(b).....	<u>339,697</u>	<u>377,395</u>	<u>396,703</u>	<u>348,877</u>	<u>343,679</u>
Totals	\$ 11,200,904	\$ 11,882,700	\$ 12,187,026	\$ 12,210,333	\$ 12,546,822

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

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

SOURCE: 2000, 2001, 2002 and 2003 Annual Reports of the State Comptroller; 2004 unaudited annual report 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 2004-05 fiscal year, approximately 72% of the State expenditures for Education, Libraries and Museums is allocated to the Department of Education, the largest share of which consists of payments to local governments. The remaining 28% consists of expenditures for higher education (including the University of Connecticut, the Connecticut State University System and the 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 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 for 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 38% of all appropriations for Conservation and Development based upon the adopted budget for the 2004-2005 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 revised adopted budget for the 2004-05 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 revised adopted budget for the 2004-05 fiscal year.

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

TABLE 1¹
Fixed Charges - General Fund
Summarized by Function of Government and Expenditure Category
Including Major Expenditure Items
(In Thousands of Dollars)

	<u>Fiscal Year 2002-03²</u> <u>(Actual)</u>		<u>Fiscal Year 2003-04</u> <u>(Unaudited)</u>		<u>Fiscal Year 2004-05</u> <u>(Appropriated)</u>	
	<u>Total</u> <u>Payments</u>	<u>Payments</u> <u>to Local</u> <u>Governments</u>	<u>Total</u> <u>Payments</u>	<u>Payments</u> <u>to Local</u> <u>Governments</u>	<u>Total</u> <u>Payments</u>	<u>Payments</u> <u>to Local</u> <u>Governments</u>
LEGISLATIVE						
Total – Legislative.....	261	0	265	0	283	0
GENERAL GOVERNMENT						
Property Tax Relief Elderly Circuit Breaker.....	20,506	20,506	20,506	20,506	20,506	20,506
P.I.L.O.T. - New Manufacturing Machinery and Equipment	55,828	55,828	50,730	50,730	50,730	50,730
Undesignated	40,187	25,274	33,349	18,963	27,764	12,982
Total – General Government.....	116,521	101,608	104,585	90,199	99,000	84,218

	<u>Fiscal Year 2002-032</u> (Actual)		<u>Fiscal Year 2003-04</u> (Unaudited)		<u>Fiscal Year 2004-05</u> (Appropriated)	
	<u>Total</u> <u>Payments</u>	<u>Payments</u> <u>to Local</u> <u>Governments</u>	<u>Total</u> <u>Payments</u>	<u>Payments</u> <u>to Local</u> <u>Governments</u>	<u>Total</u> <u>Payments</u>	<u>Payments</u> <u>to Local</u> <u>Governments</u>
REGULATION AND PROTECTION						
Total - Regulation and Protection	273	0	37	0	37	0
CONSERVATION AND DEVELOPMENT						
Total - Conservation and Development	11,914	4,821	24,759	17,550	28,027	19,022
HEALTH AND HOSPITALS						
Employment Opportunities and Day Services (Dept. of Mental Retardation)	114,033	0	115,364	0	118,312	0
Community Residential Services (Dept. of Mental Retardation)	242,483	0	248,679	0	258,249	0
Grants for Substance Abuse Services.	19,821	0	20,491	0	20,491	0
Grants for Mental Health Services	74,115	0	73,598	0	72,805	0
Undesignated	45,408	9,942	42,573	8,236	43,364	10,050
Total - Health and Hospitals	495,860	9,942	500,705	8,236	513,221	10,050
Transportation						
Total – Transportation	0	0	0	0	0	0
HUMAN SERVICES						
Medicaid	2,703,204	0	2,785,097	0	2,926,074	0
Old Age Assistance	29,959	0	29,175	0	29,885	0
Aid to the Disabled	55,291	0	54,267	0	53,480	0
Temporary Assistance to Families – TANF	113,628	0	127,564	0	135,302	0
Connecticut Pharmaceutical Assistance Contract to the Elderly .	69,194	0	75,272	0	66,048	0
Medicaid - Disproportionate Share - Mental Health	105,935	0	105,935	0	105,935	0
Connecticut Home Care Program	29,060	0	33,187	0	36,660	0
Child Care Services - TANF/CCDBG	99,090	0	60,851	0	60,123	0
Housing/Homeless Services	22,520	0	21,799	0	21,891	0
Disproportionate Share - Medical Emergency Assistance	71,725	0	64,005	0	63,725	0
DSH - Urban Hospitals in Distressed Municipalities	26,550	0	31,550	0	31,550	0
State Administered General Assistance	122,427	0	133,809	0	123,379	0
Undesignated	57,391	5,147	47,724	6,151	49,458	5,110
Total - Human Services	3,505,974	5,147	3,570,235	6,151	3,703,510	5,110
EDUCATION, LIBRARIES AND MUSEUMS						
Charter Schools					21,732	0
Transportation of School Children	43,140	43,140	43,140	43,140	43,140	43,140
Education Equalization Grants	1,514,903	1,514,903	1,522,564	1,522,564	1,562,870	1,562,870
Priority School Districts	78,384	78,384	82,156	82,156	99,804	99,804

	<u>Fiscal Year 2002-032 (Actual)</u>		<u>Fiscal Year 2003-04 (Unaudited)</u>		<u>Fiscal Year 2004-05 (Appropriated)</u>	
	<u>Total Payments</u>	<u>Payments to Local Governments</u>	<u>Total Payments</u>	<u>Payments to Local Governments</u>	<u>Total Payments</u>	<u>Payments to Local Governments</u>
Excess Cost - Student Based	62,700	62,700	61,520	61,520	67,104	67,104
Magnet Schools.....	43,719	43,719	54,353	54,353	66,639	66,639
Teachers' Retirement Contributions ...	179,824	0	185,348	0	185,348	0
Undesignated	156,883	59,981	147,054	57,789	132,644	61,346
Total – Education	2,079,553	1,802,827	2,096,135	1,821,522	2,179,281	1,900,903
CORRECTIONS						
Community Support Services (Dept. of Correction) ³	17,235	0	19,764	0	22,359	0
Board and Care for Children – Adoption.....	44,389	0	49,718	0	51,456	0
Board and Care for Children – Foster Board and Care for Children – Residential.....	75,190	0	81,791	0	87,986	0
Undesignated	127,306	0	146,844	0	149,320	0
Undesignated	73,224	0	71,549	0	73,159	0
Total – Corrections	337,344	0	369,666	0	384,280	0
NON FUNCTIONAL						
Debt Service (Including UConn 2000 and CHEFA Day Care Security)	988,515	0	1,127,452	0	1,311,154	0
Reimbursement to Towns for Loss of Taxes on State Property.....	64,959	64,959	64,959	64,959	69,959	69,959
Reimbursement to Towns for Loss of Taxes on Private Tax-exempt Property.....	100,932	100,932	100,932	100,932	105,932	105,932
Undesignated	694	0	674	0	925	0
Total - Non Functional	<u>1,155,100</u>	<u>165,891</u>	<u>1,294,017</u>	<u>165,891</u>	<u>1,487,970</u>	<u>175,891</u>
Total - Fixed Charges	7,702,800	2,090,236	7,960,404	2,109,549	8,395,609	2,195,194

¹ Table 1 includes estimates of fixed charges in connection with the Fiscal Year 2003-04 (unaudited) results and Fiscal Year 2004-05 (appropriated) results due to difficulties in obtaining certain reports from the State's Core-CT System.

² Includes funds carried forward from the previous fiscal year. Source: Comptroller's Annual Report, Schedule B-3, Expenditure column.

³ In fiscal year 2002-03, 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 2003-2004 Operations:

The State ended the 2003-04 fiscal year with a surplus. In the unaudited annual financial report provided by the Comptroller on February 23, 2005 as June of 30, 2004, General Fund revenues were \$13,123.7 million, General Fund expenditures and net miscellaneous adjustments were \$12,821.5 million and the General Fund surplus for the 2003-04 fiscal year was \$302.2 million. **Appendix III-D** and **Appendix III-E** show the results for the 2003-04 fiscal year per the Comptroller's annual report.

The above projections are provided by the Comptroller and are unaudited. No assurances can be given that such projections will not be modified pursuant to the audit by the State Auditors of Public Accounts.

Midterm Budget Adjustments for 2003-2004 and 2004-2005

A number of Midterm Budget Adjustments were made to both fiscal year 2003-04 and fiscal year 2004-05. The legislature passed, and the Governor signed on May 6, 2004, Public Act No. 04-216. At the time the midterm budget adjustments were adopted, the legislature was projecting a fiscal year 2003-04 gross surplus of \$328.2 million. Of this amount, Public Act No. 04-216 increased appropriations by \$234.9 million in fiscal year 2003-04, of which \$90.5 million was for fiscal year 2003-04 deficiencies and \$112.4 million was for appropriations carried forward to fund fiscal year 2004-05 expenditures. Additionally, \$125.3 million was transferred to fiscal year 2004-05 revenue. This act also increased the original fiscal year 2004-05 General Fund appropriation for state agencies and accounts by \$259.1 million to \$13,226.3 million. The revised fiscal year 2004-05 budget was \$129.5 million under the spending cap. On June 28, 2004, pursuant to Section 2-35 of the Connecticut General Statutes, the Finance, Revenue and Bonding Committee adopted revised fiscal year 2004-05 revenue estimates for the General Fund. The revised revenue estimates were \$83.6 million higher than what was adopted in Public Act No. 04-216.

In addition to the transfer of \$125.3 million in revenue from fiscal year 2003-04 to fiscal year 2004-05 mentioned above, other significant revenue adjustments for fiscal year 2004-05 included a one-time acceleration of the liquidation of escheated property for an additional \$50.0 million and securitization of future unclaimed property revenue for another additional \$40.0 million. These actions, along with the State's improving budget situation, eliminated the need for a previously planned securitization of future tobacco settlement revenue which was expected to raise \$300.0 million. The act also increased the maximum property tax credit against the State personal income tax from \$350 to \$500 starting with tax years beginning on or after January 1, 2005. This change had no impact on the fiscal year 2004-05 biennial budget but was anticipated to result in a General Fund revenue loss of \$105 million in fiscal year 2005-06 and subsequent years.

On the expenditure side, this act provided \$259.1 million in additional fiscal year 2004-05 General Fund appropriations. Significant changes included an increase of \$40.0 million in aid to municipalities for education and an additional \$43.5 million for increased health services costs for retired employees. Other notable changes included: an elimination of \$55.0 million in required lapses; a reduction in savings expected from the early retirement incentive program of \$29.7 million; Medicaid provider rate increases of \$12.9 million; restoration of HUSKY benefits of \$17.7 million; and expansion of funding for priority school districts of \$18.7 million.

The Midterm Budget Adjustments for fiscal year 2003-04 and for fiscal year 2004-05 are outlined in **Appendix III-E** to this Modified Annual Information Statement.

Fiscal Year 2004-2005 Operations:

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 revenues estimated to be collected to the expenditures already made and expenditures estimated to be made during the balance of the fiscal year. The monthly report of the Comptroller dated February 1, 2005 for the period ending December 31, 2004, estimates an operating surplus of \$315.4 million for the 2004-05 fiscal year. General Fund revenues for the 2004-05 fiscal year were estimated at \$13,637.2 million, General Fund expenditures and miscellaneous adjustments were estimated at \$13,321.8 million resulting in the estimated surplus of \$315.4 million.

Since the beginning of the 2004-05 fiscal year, revenue projections have been increased by \$327.2 million. The areas with the largest changes include the: (i) personal income tax, up \$219.0 million, (ii) sales tax, down \$41.5 million, (iii) corporation tax, up \$68.6 million, (iv) real estate conveyance tax, up \$30.7 million, and (v) oil companies tax, up \$47.8 million.

Additional expenditure requirements of \$78.1 million are also anticipated for the 2004-05 fiscal year. The areas with the largest deficiencies include the: (i) Department of Correction, \$23.3 million, (ii) Department of Children and Families, \$13.8 million, (iii) Office of Policy and Management – Energy Contingency, \$10 million, and (iv) Department of Mental Retardation, \$7.4 million.

The estimated operating results for fiscal year 2004-05 are outlined in **Appendix III-E** to this Modified Annual Information Statement.

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. 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 2004-05 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 2000 through 2004 are set forth in **Appendix III-D** to this Modified Annual Information Statement.

TABLE 2
General Fund
Summary of Operating Results – Budgetary (Modified Cash) Basis
(In Millions)
Fiscal Years Ending June 30

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Total General Fund Revenues ^(a)	\$11,213.6	\$11,985.5	\$10,845.4	\$ 12,023.3	\$ 13,123.7
Net Appropriations/Expenditures ^(b)	10,913.2	11,954.8 ^(c)	11,662.5	12,119.9	12,821.5
Operating Surplus/(Deficit)	<u>\$ 300.4^(d)</u>	<u>\$ 30.7^(e)</u>	<u>\$ (817.1)^(f)</u>	<u>\$ (96.6)^(g)</u>	<u>\$ 302.2^(h)</u>

- (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) \$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.
- (e) \$30.7 million of the operating surplus was reserved for transfer to the Budget Reserve Fund.
- (f) \$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.
- (g) The deficit balance was financed through the issuance of economic recovery notes. In addition to the deficit balance, there was an estimated \$25 million in lagged hospital service claims which was also financed by economic recovery notes.
- (h) The entire surplus balance of \$302.2 million is reserved for transfer to the Budget Reserve Fund.

SOURCE: Comptroller’s Office

Table 3 shows the reconciliation of the actual operations surplus (deficit) under the budgetary (modified cash) basis to the GAAP basis of accounting. Adopted unaudited GAAP based financial statements for fiscal year 2004 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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Modified Cash Basis Operating Surplus/(Deficit)	\$ 300.4	\$ 30.7	\$ (817.1)	\$(96.6)	\$302.2
<u>Adjustments:</u>					
Increases (decreases) in revenue accruals:					
Governmental Receivables.....	59.8	80.0	37.0	(3.9)	27.8
Other Receivables	15.5	(15.1)	9.0	(75.0)	90.1
(Increases) decreases in expenditure accruals:					
Accounts Payable and Other Liabilities	(161.5)	(115.8)	69.4	59.6	(166.6)
Salaries and Fringe Benefits Payable	120.8	(14.1)	(15.6)	8.7	(97.2)
Increase (decrease) in Continuing					
Appropriations	(289.8)	334.0	(543.8)	(82.0)	126.2
Reclassification of equity adjustments	(118.1)	(266.5)	—	—	(154.1)
Proceeds of Recovery Notes.....	—	—	—	<u>222.4</u>	<u>97.7</u>
GAAP Based Operating Surplus/(Deficit).....	<u>\$ (72.9)</u>	<u>\$ 33.2</u>	<u>\$(1,261.1)</u>	<u>\$33.2</u>	<u>\$226.1</u>

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Operating Surplus/Deficit.....	\$300.4	\$ 30.7	\$ (817.1)	\$ (96.6)	\$ 302.2
Fund Transfers and Reserves					
Transfers to Budget Reserve Fund.....	34.9	30.7	--	--	302.2
Transfers from Budget Reserve Fund.....	--	--	594.7	--	--
Economic Recovery Note Debt Retirement.....	--	--	--	--	--
Reserve for Debt Service Appropriation.....	--	--	--	--	--
Reserve for Debt Avoidance	<u>265.5</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total Transfers/Reserves	300.4	30.7	594.7	0	0
Unreserved Fund Balance					
Surplus/(deficit)	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ (222.4)</u>	<u>\$ (96.6)</u>	<u>\$ 0.0</u>

SOURCE: Comptroller's Office

Table 5 shows the reconciliation of the actual cumulative unreserved General Fund balance (deficit) under the budgetary (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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Unreserved Fund Balance (Deficit)					
Modified Cash Basis	\$ 0.0	\$ 0.0	\$(222.4)	\$(96.6)	\$0.0
GAAP Based Adjustments					
Continuing Appropriations Available for GAAP Liabilities	35.0	25.4	—	—	—
Additional Assets					
Taxes Receivable					
Income Tax Accrual Reduction	(151.3)	(194.1)	(221.8)	(268.2)	(233.5)
Eliminate Corporation Accrual	(19.5)	(23.3)	(16.9)	(19.0)	(12.9)
Additional Taxes Receivable	<u>4.0</u>	<u>7.0</u>	<u>9.3</u>	<u>15.2</u>	<u>6.4</u>
Net Increase (Decrease) Taxes	(166.8)	(210.4)	(229.4)	(272.0)	(240.0)
Net Accounts Receivable	76.2	83.8	57.3	87.3	155.0
Federal and Other Grants Receivable ^(a)	435.7	525.8	582.0	478.2	589.7
Due From Other Funds	<u>4.8</u>	<u>7.2</u>	<u>13.1</u>	<u>13.0</u>	<u>23.4</u>
Total Additional Assets	\$ 349.9	\$ 406.4	\$423.0	\$306.5	\$528.1
Additional Liabilities					
Salaries and Fringe Payable	(158.0)	(173.4)	(189.3)	(180.6)	(233.8)
Accounts Payable—Department of Social Services	(676.7)	(773.3)	(704.8)	(631.3)	(723.0)
Accounts Payable—Trade & Other	(175.6)	(191.2)	(180.7)	(162.4)	(335.1)
Payable to Local Governments	-	-	-	-	-
Payable to Federal Government	(48.8)	(72.6)	(62.0)	(49.5)	(120.9)
Due to Other Funds	<u>(.8)</u>	<u>(3.1)</u>	<u>(7.8)</u>	<u>(28.4)</u>	<u>(15.9)</u>
Total Additional Liabilities	\$(1,059.9)	\$(1,213.6)	\$(1,144.6)	\$(1,052.2)	\$(1,428.7)
Unreserved Fund Balance (Deficit)					
GAAP Basis	<u>\$ (675.0)</u>	<u>\$ (781.8)</u>	<u>\$ (944.0)</u>	<u>\$ (842.3)</u>	<u>\$ (900.6)</u>

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

SOURCE: Comptroller's Office

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

TABLE 6
General Fund Fund Balances-GAAP Basis
(In Millions)
Fiscal Years Ending June 30

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Reserved:					
Petty Cash.....	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0
Budget Reserve.....	564.0	594.7	-	-	302.2
Loans & Advances to Other Funds.....	5.0	6.6	5.9	6.7	16.8
Restricted Purposes	265.5	249.3	283.2	249.3	150.3
Inventories	37.7	36.2	41.9	42.1	37.4
Continuing Appropriations	343.5	687.0	167.8	86.6	212.8
Debt Service	<u>13.2</u>	<u>20.7</u>	<u>9.3</u>	<u>55.1</u>	<u>--</u>
Total	1,229.9	1,595.5	509.1	440.8	720.5
Unreserved:	<u>(675.0)</u>	<u>(781.8)</u>	<u>(944.0)</u>	<u>(842.3)</u>	<u>(900.6)</u>
Total Fund Balance	<u>\$ 554.9</u>	<u>\$ 813.7</u>	<u>\$ (434.9)</u>	<u>\$ (401.5)</u>	<u>\$ (180.1)</u>

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 OPM 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 years ending June 30, 2002 and June 30 2003, 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, 2004 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 January 1, 2005, is described in the following table.

TABLE 7

**Statutory Debt Limit
as of January 1, 2005 ^(a)**

Total General Fund Tax Receipts Multiplier	\$9,441,100,000.00	
Debt Limit	<u>1.60</u>	\$15,105,760,000.00
Outstanding Debt ^(b)	\$8,798,358,986.06	
Guaranteed Debt ^(c)	\$718,555,146.50	
Authorized Debt ^(d)	<u>\$3,008,911,526.00</u>	
Total Subject to Debt Limit		\$12,525,825,658.56
Less Debt Retirement Funds ^(e)	\$39,651,710.00	
Aggregate Net Debt		\$12,486,173,948.56
Debt Incurring Margin		\$2,619,586,051.44

-
- (a) Economic Recovery Notes are exempt from the statutory debt limit and are not included in the debt limit calculations.
- (b) See **Table 8**. Includes accreted value of capital appreciation bonds. Excludes UConn 2000 Bonds, tax increment financings, short term revenue anticipation notes, and lease financings other than the Middletown Courthouse 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 2004-05 fiscal year.
- (e) Includes debt service funds for self-liquidating debt issued to finance facilities at the University of Connecticut and Connecticut State University.

SOURCE: State Treasurer’s Office

State Bond Commission. The general obligation bond procedure act establishes 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 (“OPM”), 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 OPM 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 totaled \$1,250 million, of which \$382 million was scheduled to be undertaken in fiscal years 1996-1999 (Phase I) and \$868 million in fiscal years 2000-2005 (Phase II). The act authorized 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 was \$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 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 borrow 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.

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.

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 January 1, 2005) 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 January 1, 2005
(In Thousands)**

General Obligation Bonds	\$8,986,514
UConn 2000 Bonds	723,966
Lease Financings	40,905
Tax Increment Financings	<u>29,850</u>
Long Term General Obligation Debt Total	9,781,235
Short Term General Obligation Debt Total	<u>-</u>
Gross Direct General Obligation Debt	9,781,235
Deduct:	
University Auxiliary Services ^(b)	<u>39,652</u>
Net Direct General Obligation Debt	<u>\$9,741,583</u>

-
- (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)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Gross Direct Debt ^(a)	\$7,432,891	\$7,920,531	\$8,619,092	\$9,289,485	\$9,913,819
Net Direct Debt ^(a)	\$7,315,945	\$7,795,785	\$8,492,234	\$9,239,987	\$9,868,591
Ratio of Debt to Personal Income ^(b)					
Gross Direct Debt	5.25%	5.38%	5.83%	6.16%	6.57%
Net Direct Debt	5.17%	5.29%	5.74%	6.12%	6.54%
Ratio of Debt to Estimated Full Value ^(c)					
Gross Direct Debt	2.51%	2.48%	2.39%	2.37%	2.23%
Net Direct Debt	2.47%	2.44%	2.36%	2.36%	2.22%
Per Capita Debt ^(d)					
Gross Direct Debt	\$2,178	\$2,307	\$2,492	\$2,664	\$2,829
Net Direct Debt	\$2,144	\$2,270	\$2,455	\$2,650	\$2,816

- (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: 2000 — \$141,570 million; 2001—\$147,323 million; 2002—\$147,856 million; 2003 — \$150,801; and 2004 ratio uses 2003 data.
- (c) Full value estimated by OPM. Uses final equalized net grand lists: 1998 — \$296 billion; 1999 – \$320 billion; 2000—\$360 billion; 2001—\$392 billion; and 2002 — \$444 billion. Property is assessed as of October 1 in each year for the tax levy effective the following July 1. The 2000 ratio uses 1998 data; 2001 ratio uses 1999 data; 2002 ratio uses 2000 data; 2003 ratio uses 2001 data; and 2004 ratio uses 2002 data.
- (d) See **Appendix III-B, Table B-1**. State population: 2000—3,412,000; 2001—3,433,000; 2002—3,459,000; 2003—3,487,000; and 2004—3,504,000.

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 January 1, 2005. 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 January 1, 2005**

<u>Fiscal Year</u>	<u>Principal Payments</u> ^(b)	<u>Interest Payments</u> ^{(b)-(c)}	<u>Total Debt Service</u>
2004-05	\$385,414,891	\$234,639,795	\$620,054,686
2005-06	796,175,405	484,199,098	1,280,374,503
2006-07	786,112,353	457,873,912	1,243,986,265
2007-08	795,846,834	430,370,203	1,226,217,037
2008-09	707,108,493	437,848,570	1,144,957,063
2009-10	691,218,599	398,276,048	1,089,494,648
2010-11	655,214,105	307,110,854	962,324,959
2011-12	596,430,834	255,251,605	851,682,439
2012-13	537,492,960	207,403,866	744,896,826
2013-14	489,395,000	166,977,926	656,372,927
2014-15	472,586,365	133,906,432	606,492,797
2015-16	398,590,061	111,284,923	509,874,984
2016-17	373,044,988	91,668,401	464,713,389
2017-2031	<u>1,607,094,072</u>	<u>247,403,716</u>	<u>1,854,497,788</u>
Totals	\$9,291,724,960	\$3,964,215,350	\$13,255,940,310

(a) Includes long-term general obligation debt as outlined in **Table 8**. The future principal payments (\$9,291,724,960), plus accreted interest (\$489,509,572) on State and UConn 2000 capital appreciation bonds, total the amount of such long-term debt (\$9,781,234,532) as shown in **Table 8**. See footnotes (b) to (c) for further explanation.

(b) Principal payments include aggregate stated initial values of capital appreciation bonds. Interest payments include the difference between the aggregate stated initial values and the aggregate maturity amounts of capital appreciation bonds, including capital appreciation bond issues pursuant to the College Savings Bond Program and UConn 2000 bonds. Capital appreciation bonds mature in fiscal years 2005-2014.

(c) Some of the State's direct debt pays interest at variable rates. The interest on such debt is calculated based on the following assumed average rates:

<u>Year Issued</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>	<u>Maturities</u>	<u>Interest Rate</u>
1997	\$100,000,000	\$99,235,000	2005-2014	3.75%
2001	100,000,000	100,000,000	2018-2021	3.75
2002	100,000,000	100,000,000	2005-2012	4.25
2002	70,140,000	70,140,000	2006-2007	3.50
2003	77,700,000	70,200,000	2005-2013	4.25
2004	97,700,000	97,700,000	2005-2009	3.50

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)**

<u>Fiscal Year</u>	<u>Gross Debt</u>	<u>Net Debt</u>	<u>Fiscal Year</u>	<u>Gross Debt</u>	<u>Net Debt</u>
1995	\$6,186,518 ^(a)	\$6,051,141 ^(a)	2000	\$7,432,891	\$7,315,945
1996	6,573,810 ^(b)	6,428,391 ^(b)	2001	7,920,531	7,795,785
1997	6,826,826 ^(c)	6,678,398 ^(c)	2002	8,619,092	8,492,234
1998	6,981,212 ^(d)	6,865,905 ^(d)	2003	9,289,485 ^(e)	9,239,987 ^(e)
1999	7,176,905	7,067,276	2004	9,913,819 ^(f)	9,868,591 ^(f)

- (a) Includes \$315,710,000 Economic Recovery Notes.
- (b) Includes \$236,055,000 Economic Recovery Notes.
- (c) Includes \$157,055,000 Economic Recovery Notes.
- (d) Includes \$78,055,000 Economic Recovery Notes.
- (e) Includes \$219,235,000 Economic Recovery Notes.
- (f) Includes \$273,215,000 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 January 1, 2005, 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, 2005.

TABLE 12
Authorized but Unissued Direct General Obligation Debt
as of January 1, 2005^(a)
(In Thousands)

	State Direct Debt	UCONN 2000 ^(b)	Tax Increment ^(c)	Total
Bond Acts in Effect	\$17,722,385	\$1,012,482	\$42,800	\$18,777,667
Amount Authorized	16,098,341	1,012,482	42,800	17,153,623
Amount Issued	14,819,419	912,482	39,330	15,771,231
Authorized but Unissued	1,278,922	100,000	3,470	1,382,392
Available for Authorization	1,624,044			1,624,044

- (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 as of January 1, 2005, 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.

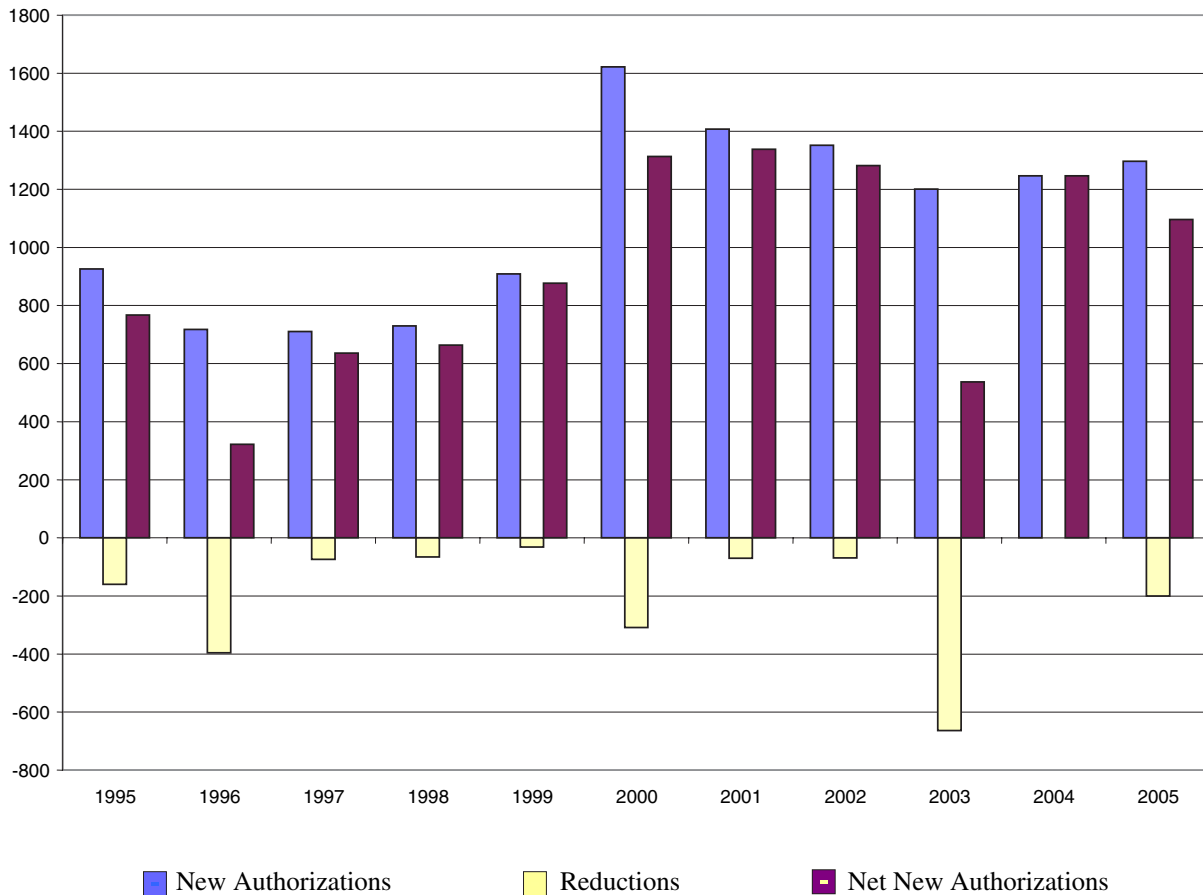
TABLE 13
Statutory General Obligation Bond Authorizations and Reductions^(a)
(In Millions)

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
New Authorizations	\$926.3	\$717.8	\$710.1	\$729.8	\$908.8	\$1,621.6	\$1,407.9	\$1,351.6	\$1,201.0	\$1,246.1	\$1,296.5
Reductions	(159.6)	(396.0)	(74.3)	(66.0)	(31.7)	(308.4)	(70.1)	(69.9)	(663.6)	0.0	(200.3)
Net New Authorizations	\$766.7	\$321.8	\$635.8	\$663.8	\$877.1	\$1,313.2	\$1,337.8	\$1,281.7	\$537.4	\$1,246.1	\$1,096.2

(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	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Policy & Management	\$ 179,921	\$ 228,600	\$ 210,600	\$ 165,000	\$131,800
Revenue Services.....	0	0	0	20,100	20,100
Comptroller.....	0	50,000	0	34,000	8,800
Administrative Services	0	53,000	0	0	0
Information Technology	0	4,500		5,000	10,000
Public Works	20,000	52,900	15,000	35,400	15,232
Public Safety (POST)	2,300	10,000	0	0	19,000
Motor Vehicles	0	0	0	1,000	10,250
Military	1,300	0	0	0	0
Agriculture.....	1,000	3,000	3,000	0	500
Environmental Protection	141,150	191,000	106,250	69,000	2,500
Economic and Community Development:					5,500
Housing.....	10,500	10,000	10,000	0	20,500
Economic Development.....	138,500	110,900	51,000	17,000	0
Other	0	0	0	0	13,500
Ct Innovations Inc.....	10,000	10,000	10,000	5,000	0
Public Health	0	12,500	1,000	0	55,000
Mental Retardation	4,000	2,500	1,500	0	2,000
Mental Health and Addiction Services.....	21,750	6,000	6,000	0	5,000
Social Services.....	6,000	3,500	0	0	6,000
Education	482,100	191,800	488,100	495,000	660,397
State Library	2,500	2,500	2,500	0	3,500
Culture & Tourism.....	1,300	1,300	1,300	0	4,600
Regional Community- Technical Colleges	74,855	69,070	66,162	120,180	90,430
State University	88,352	88,550	95,658	126,485	80,708
Legislative Management.....	0	0	0	0	0
Children & Families	14,500	15,000	3,000	0	4,000
Judicial.....	20,500	56,500	27,500	32,888	17,200
CPTV	2,000	2,500	2,500	1,000	2,000
Corrections.....	35,000	50,000	0	10,000	0
UConn.....	20,000	0	0	0	8,000
UConn Health	3,400	0	0	2,000	0
UConn 2000 ^(a)	100,000	100,000	100,000	100,000	100,000
Hartford Econ Dev Projects....	<u>27,000</u>	<u>26,000</u>	<u>0</u>	<u>7,000</u>	<u>0</u>
Totals	\$1,407,928	\$1,351,620	\$1,201,070	\$1,246,053	\$1,296,517

(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 \$1,250 million authorizations for UConn 2000 which take effect from fiscal years 2005-06 through 2014-15.

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 1985-2005, \$15.6 billion of the total infrastructure program was approved. The remaining \$2.0 billion is required for fiscal years 2006-2008. The \$2.0 billion is comprised of \$490.5 million from the anticipated issuance of new special tax obligation bonds, \$37.2 million in anticipated revenues, and \$1.5 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 actual amount may exceed \$5.7 billion to finance reserves and cost of issuance amounts. 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 January 1, 2005. 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 January 1, 2005
(In Millions)^(a)

	<u>New Money</u>	<u>Total</u>
Amount Authorized	\$5,792.5	
Amount Issued	5,396.6	8,224.9
Amount Outstanding	1,413.3	3,110.4

(a) The amounts under the New Money column include only new money borrowings, and not refundings. The amounts under the Total column include both new money borrowings and refundings.

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, 2004, the Special Transportation Fund paid \$13.8 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 2004-05 is \$4.5 million.

Over the past decade, the Fund's revenues and expenses have undergone a variety of legislative changes. Several legislative actions in 2003 affected 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 ("OPM"). The TSB's strategic goals are: 1) improve personal mobility within and through Connecticut; 2) improve the movement of 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. This authorization is subject to certain determinations that have not been made at this time and thus it is not included in **Table 15**. 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. As of January 1, 2005, there were \$236.5 million of Bradley International Airport Revenue Bonds outstanding.

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.

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 and as of January 1, 2005 \$51.9 million of such bonds are outstanding.

Clean Water Fund

The General Assembly has 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 and other funds of a municipal sewer system are pledged. As of January 1, 2005, \$833.5 million revenue bonds had been issued and \$246.1 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 Second Injury 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 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.

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.

The Second Injury Fund has been conducting audits of a number of insurance companies and self insured employers to insure compliance with the assessment provisions in the applicable statutes and regulations. In the course of these audits, the Second Injury Fund determined that it may have over-collected on certain assessment penalties. The Fund currently maintains sufficient reserves to make restitution on such over-collections.

In 1995 and 1996, the State enacted legislation to 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.

The State issued \$100 million Second Injury Fund Revenue Bonds in 1996, which were defeased in 2004, and an additional \$124.1 million in 2000, which have a final maturity of 2011. As of January 1, 2005, \$46.4 million remain outstanding. 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 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 the general statutes. The State issued \$205.3 million Special Obligation Rate Reduction Bonds (2004 Series A) on June 23, 2004. The Rate Reduction Bonds are 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 are property of the State and are pledged towards payment of debt service on the Rate Reduction Bonds and related costs. The Rate Reduction Bonds are secured by a first priority lien on the RRB Revenues. The net proceeds of the bonds were deposited in the General Fund.

Abandoned Property Fund

The General Assembly in 2004 authorized the issuance of approximately \$60.0 million special obligation bonds payable solely from revenues under the special abandoned property fund established under Public Act No. 04-216. Under the act, the opportunity for securitization is limited to fiscal year 2004-2005. It is not anticipated that any such bonds will be issued. Revenues come from receipts from the disposition of abandoned property.

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 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 January 1, 2005 the assets in the Insurance Fund totaled \$7.6 million and an additional \$20.45 million of State bonds have been authorized to fund the Insurance Fund but remain unissued. As of January 1, 2005, loans insured by the Insurance Fund totaled \$7.5 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 January 1, 2005, \$13.73 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 institutions through the issuance of bonds and other obligations. Payments from institutions provide funds to service the debt on loans made pursuant to the issuance of bonds and other obligations 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,” or for housing, student centers, food service facilities and other auxiliary service facilities at public institutions of higher learning, including the Connecticut State University system. In addition, Public Act No. 04-01 of the May Special Session authorized CHEFA to issue up to \$100.0 million special obligation bonds secured by a special capital reserve fund to finance equipment acquisitions by hospitals.

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. In 2005, CHEFA had to apply the working capital fund reserve account and Medicaid intercept to one financing where \$15.38 million bonds are outstanding because of a nursing home's failure to make monthly debt service payments.

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 bonds that at least in part, refund, refinance, or otherwise restructure bonds under certain circumstances where the aggregate liability of the State with respect to such bonds will be less than the aggregate liability of the State with respect to the bonds being refunded, refinanced or restructured and that doing so is in the best interest of the State.

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 OPM, 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, the Secretary of OPM 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 OPM, 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 additionally secured by revenues from the sale of energy generated by the facility and waste from non-municipal sources.

CRRA has approximately \$153.0 million bonds outstanding as of January 1, 2005 which are secured by a special capital reserve fund. The bonds pertain 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 electricity. Enron Power Marketing, Inc. ("Enron") is the entity which was obligated to pay the Authority a monthly capacity charge 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.

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 civil court with the Attorney General, and has entered into two consecutive two-year electricity sales agreements with Select Energy, a subsidiary of Northeast Utilities. The agreements with Select Energy provide 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 reductions 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 for the Mid-Connecticut bonds is limited to approximately \$25.3 million.

During August 2003, the General Assembly passed Public Act No. 03-5 which authorized 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 January 1, 2005, CRRA has borrowed a total of \$21.5 million from the State pursuant to the loan and \$19.4 million remain outstanding. 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.

In August 2004, CRRA sold its Enron bankruptcy claims to Deutsche Bank Securities through a competitive bid auction. Deutsche Bank Securities agreed to pay CRRA approximately \$111.2 million, once the bankruptcy claim was deemed final. On January 20, 2005, the bankruptcy court approved the Enron settlement agreement, and after a ten-day appeal period, the Enron bankruptcy order was deemed final and accordingly \$111.6 million in funds (including accrued interest) were released to CRRA on February 1, 2005.

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, the minority leader of the House of Representatives. In addition, there are eight ad hoc members, two representing each of the four facilities. Such ad hoc members may only vote on matters pertaining to their respective facility. As of January 1, 2005, only three ad hoc seats were filled.

Capital City Economic Development Authority ("CCEDA"). CCEDA was created in 1998 and was granted the power to issue revenue bonds for a convention center in Hartford. The bonds are to be backed by State contractual assistance equal to annual debt service. Public Act No. 04-01 of the May Special Session authorized CCEDA to use a special capital reserve fund in connection with any such revenue bonds but there are currently no plans for such an issue.

In December 2003, the State Bond Commission approved up to \$100 million of revenue and other borrowings and in December 2004 approved an increase in the authorized amount to \$122.5 million. \$72.5 million of CCEDA revenue bonds were issued in July 2004 backed by the State's contract assistance agreement equal to annual debt service on the revenue bonds. An additional \$12.5 million of borrowing, not backed by the contract assistance agreement, has been incurred in the form of a credit agreement. The remaining \$37.5 million of authorized indebtedness is expected to take the form of revenue bonds backed by the contract assistance agreement and issued as funds are required. Although debt service on the revenue bonds is payable from debt service appropriations in the General Fund, it is anticipated that revenues from capitalized interest and parking fees will cover such debt service. General Fund monies will be applied only if there is a shortfall in such revenues. Under the agreement between CCEDA and the State, CCEDA is required to maintain pledged revenues equal to 1.2 times debt service, after operating expenses. The State's obligation under the assistance agreement is not included in any of the debt calculations in **Tables 7, 8, 10 or 16.**

UConn 2000 Special Obligation Financing. The University of Connecticut may issue special obligation bonds which may be secured by a special capital reserve fund which the State undertakes to restore to its minimum level. 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.

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 legislation imposed certain financial controls on the City and created a Waterbury Financial Planning and Assistance Board. The legislation 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 legislation 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 legislation 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, 2045.

State Treasurer's Role

By statute, CDA, CHEFA, CHFA, CHESLA, CRRA and CCEDA 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	Minimum Capital Reserve Requirement
	<u>As of 1/1/05</u>	<u>As of 1/1/05</u>	<u>As of 1/1/05</u>
INDEBTEDNESS SECURED BY SPECIAL CAPITAL RESERVE FUNDS			
Connecticut Development Authority			
Umbrella Bond Program	\$300.0	\$3.2	\$2.0
General Obligation Bond Program	30.6	13.7	2.4
Connecticut Health and Educational Facilities Authority			
Nursing Home Program	(a)	84.0	8.9
Connecticut State University System.....	(a)	277.2	21.0
Hospital Equipment Program.....	100.0	0.0	0.0
Connecticut Higher Education Supplemental Loan Authority (b)			
	170.0	105.2	8.5
Connecticut Housing Finance Authority			
Housing Mortgage Finance Program	(a)	2,720	233.2
Special Needs Housing Mortgage Finance Program	(a)	45.0	2.9
Connecticut Resources Recovery Authority (c).....	725.0	220.0	33.6
University of Connecticut Student Fee			
Revenue Bonds	(a)	29.1	2.1
City of Waterbury Special Capital Reserve Fund Bonds	100.0	92.6	10.1
INDEBTEDNESS GUARANTEED BY STATE			
Southeastern Connecticut Water Authority	15.0	0.0	N.A.

(a) No statutory limit.

(b) On or about March 15, 2005, the Connecticut Supplemental Loan Authority expects to issue its SCRF Secured Series A and Series B Bonds in the aggregate amount of \$38,355,000. In connection with the issuance of these bonds, \$8,670,000 currently outstanding bonds will be redeemed and there will be a net increase in the Minimum Capital Reserve Requirements of \$550,000.

(c) Of the \$220.0 million of outstanding SCRF or guaranteed debt as of January 1, 2005 of the Connecticut Resources Recovery Authority, approximately \$153.0 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 or to support part of the debt service payments on municipal debt issued to fund the State's share of such school building projects. For certain school projects approved by the General Assembly, 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.

For school construction projects approved during the 1997 legislative session and thereafter, the State pays the costs of its share of construction projects on a progress payment basis during the construction period. Each year the legislature authorizes grant commitments which vary in amounts from year to year. The amount of grant commitments authorized for the local school construction program is expected to increase in the coming years. As of June 30, 2004 the Commissioner of Education estimates that current grant obligations under this program are approximately \$2,900 million which includes approximately \$4,500 million in grants approved to date less payments already made of \$1,600 million.

Prior to 1997, the grant program was conducted differently. For certain school projects 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, 2004, the State is obligated to various cities, towns and regional districts for approximately \$730 million in aggregate principal installment payments and \$190 million in aggregate interest subsidies, for a total of \$920 million. Funding for these payments may come from future State direct general obligation bond sales. No new grant commitment can be authorized under this program.

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

Child Care Facilities Debt Service Commitments

Legislation enacted in 1997 authorized CHEFA 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 CHEFA'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 of Social Services or the State Treasurer to pay is subject to annual appropriation. CHEFA first issued special obligation bonds under this program in 1998. CHEFA has approximately \$38.8 million bonds outstanding under this program with annual debt service of approximately \$3.0 million, of which the Department of Social Services is committed to pay approximately \$2.4 million. The remaining portion of debt service is paid from Department of Education and Department of Social Services intercepts of revenues from providers.

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. CHEFA 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 (the "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 "CLC 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 CLC Act, the termination of the Corporation would not affect any outstanding contractual obligation of the Corporation and the State would succeed to the obligations of the Corporation under any such contract. As of June 30, 2004 the current and long term liabilities of the Corporation total \$436 million.

PENSION AND RETIREMENT SYSTEMS

State Employees' Retirement Fund

The State Employees' Retirement Fund is the largest system maintained by the State with approximately 47,926 active members, 1,744 inactive (vested) members and 36,749 retired members as of June 30, 2004. Generally employees hired before July 1, 1984 participate in the Tier I plan, which includes employee contributions. As of July 1, 2004 approximately 18% 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, 2004 approximately 52% of the total workforce was covered under the Tier II plan. Employees hired after July 1, 1997 participate in the Tier IIA plan, which requires contributions from its employee members. As of July 1, 2004 approximately 30% of the total work force was covered under the Tier IIA Plan.

With the exception of the fiscal year ending June 30, 2004, 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 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.

Actuarial valuations are performed as of June 30th of each even-numbered year. The most recent actuarial valuation, dated November 16, 2004, indicated that as of June 30, 2004 the State Employees' Retirement Fund had assets with an actuarial value of \$8,238,250,287. The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 9.10% on investment assets in the State Employees' Retirement Fund over the past ten years (fiscal year 1994-95 through fiscal year 2003-04) and an annualized net return of 3.63% over the past five years (fiscal year 1999-2000 through fiscal year 2003-04). As of June 30, 2004 the market value of the fund's investment assets was \$7,677,233,815, which amount was less than the actuarial value by \$561,016,472.

Set forth below are State contributions to the Retirement Fund, Federal grant programs, employee contributions, investment income, net realized gains and losses, and benefits paid for each of the past five fiscal years, and the actuarial accrued liabilities, the actuarial values of Retirement Fund assets and the resulting unfunded accrued liabilities for the actuarial valuations as of June 30, 2000, June 30, 2002 and June 30, 2004.

TABLE 17
State Employees' Retirement Fund

	Year Ending June 30				
	2000	2001	2002	2003	2004
General Fund					
Contributions.....	\$212,947,331	\$257,806,736	\$284,527,059	\$285,694,490	\$321,866,112
Transportation Fund					
Contributions.....	27,636,000	31,321,880	36,676,000	40,214,000	44,864,000
Federal and other					
Reimbursements.....	102,176,999	86,494,566	94,289,540	95,543,241	103,602,832
Employee Contributions....	<u>43,782,742</u>	<u>46,088,785</u>	<u>49,577,375</u>	<u>50,953,367</u>	<u>47,632,219</u>
Total Contributions	\$386,543,072	\$421,711,967	\$465,069,974	\$472,405,098	\$517,965,163
Investment Income ^(a)	\$286,587,354	\$276,494,999	\$271,253,981	\$319,223,363	\$312,386,363
Net Realized Gains (Losses)	\$299,651,658	(\$2,140,298)	\$1,341,884	\$9,032,166	\$49,503,590
Benefits Paid	\$596,333,139	\$619,174,473	\$651,201,069	\$702,878,746	\$868,165,140
Actuarial Accrued Liabilities	\$11,512,154,892	N/A	\$12,806,115,474	N/A	\$15,128,502,117
Actuarial Values Of Assets	<u>7,196,039,538</u>	N/A	<u>7,893,683,977</u>	N/A	<u>8,238,250,287</u>
Unfunded Accrued Liabilities	\$4,316,115,354	N/A	\$4,912,431,497	N/A	\$6,890,251,830

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

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, 2004, there were approximately 54,490 active and former employees with accrued and accruing benefits and approximately 24,297 retired members.

With the exception of the fiscal year ending June 30, 2004, 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.

Actuarial valuations are performed as of June 30th of each even-numbered year. The most recent actuarial valuation, dated November 29, 2004, indicated that as of June 30, 2004 the Teachers' Retirement Fund had assets, inclusive of the excess earnings account, with an actuarial value of \$11,306,878,529. The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 9.21% on investment assets in the Teachers' Retirement Fund over the past ten years (fiscal year 1994-95 through fiscal year 2003-04) and an annualized net return of 3.69% over the past five years (fiscal year 1999-2000 through fiscal year 2003-04). As of June 30, 2004 the market value of the fund's investment assets was \$10,853,461,575 which amount was less than the actuarial value by \$453,416,954.

Set forth below are State contributions to the Teachers' Retirement Fund, employee contributions, investment income, net realized gains and losses, and benefits paid for each of the past five fiscal years, and the actuarial accrued liabilities, the actuarial values of Retirement Fund assets and the resulting unfunded accrued liabilities for the actuarial valuations as of June 30, 2000, June 30, 2002 and June 30, 2004.

TABLE 18
Teachers' Retirement Fund

	Year Ending June 30				
	2000	2001	2002	2003	2004
General Fund					
Contributions.....	\$204,445,443	\$214,665,698	\$204,511,460	\$179,823,603	\$185,348,144
Employee					
Contributions ^(a)	<u>168,207,183</u>	<u>173,884,438</u>	<u>187,095,618</u>	<u>204,659,700</u>	<u>237,705,201</u>
Total Contributions	\$372,652,626	\$388,550,136	\$391,607,078	\$384,483,303	\$423,053,345
Investment Income ^(b)	\$410,683,507	\$399,305,587	\$388,785,006	\$453,002,988	\$440,180,533
Net Realized Gains (Losses)	\$461,947,176	(\$3,335,159)	\$1,584,432	\$11,694,321	\$66,792,223
Benefits Paid	\$630,885,706	\$690,674,530	\$754,655,476	\$811,028,527	\$874,593,010
Actuarial Accrued Liabilities	\$13,361,062,324	N/A	\$15,253,882,989	N/A	\$16,530,678,148
Actuarial Values Of Assets ^(c)	<u>11,169,434,208</u>	N/A	<u>11,961,346,260</u>	N/A	<u>11,306,878,529</u>
Unfunded Accrued Liabilities	\$2,191,628,116	N/A	\$3,292,536,729	N/A	\$5,223,799,619

- (a) Includes municipal contributions under early retirement incentive programs (\$1,495,353 during the 2003-04 fiscal year); does not include employee contributions to the Teacher's Retirement Health Insurance Fund (\$24,242,639 during the 2003-04 fiscal year).
- (b) Investment Income (exclusive of net realized gains and losses).
- (c) Includes excess earnings account.

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, 2004, there were approximately 225 active members of these plans and approximately 243 retired members.

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

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

Social Security and Other Post-Employment Benefits

State employees, except for police and members of a retirement system other than the State Employees' Retirement Fund, whose employment commenced after February 21, 1958, are entitled to Social Security coverage. Certain employees hired prior to that date have also elected to be covered. Pursuant to a collective bargaining agreement, State Troopers hired on or after May 8, 1984 are entitled to Social Security coverage. As of June 30, 2004, approximately 58,728 State employees were entitled to Social Security coverage. The amount expended by the State for Social Security coverage for fiscal year 2003-04 was \$182.5

million. Of this amount, \$170.3 million was paid from the General Fund and \$12.2 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. 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 2004-05, \$378.0 million was appropriated.

Set forth below are the number of employees retired from State employment eligible to receive post-retirement health care and life insurance benefits, the number of retirees, respectively, actually receiving health care benefits and life insurance benefits, and the amount expended by the State for such coverage for each of the past five fiscal years.

TABLE 19
State Employee Retirees Health Care And Life Insurance Benefits

	Year Ending June 30				
	2000	2001	2002	2003	2004
Retirees Eligible to Receive Benefits	32,101	32,225	32,602	37,233	38,078
Retirees Receiving Health Care Benefits.....	30,827	30,941	31,276	35,280	35,581
Retirees Receiving Life Insurance Benefits	23,156	22,968	22,997	23,734	25,871
General Fund Expenditures on Retiree Health Care and Life Insurance Benefits (millions).....	\$173.9	\$174.0	\$204.8	\$242.2	\$316.0

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. The amount of \$14,112,609 has been appropriated for such purpose for fiscal year 2004-05. 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 General Fund appropriation for fiscal year 2004-05, \$5,775,000 is attributable to this legislation. Since July 1, 1994, retiree health benefits have been self-insured.

Set forth below are State contributions 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 and the portions of such contribution attributable to the health insurance cost subsidy for retired teachers who are not members of the Board's health benefit plan for each of the past five fiscal years.

TABLE 20
Teachers' Retirement Health Insurance Fund

	Year Ending June 30				
	2000	2001	2002	2003	2004
General Fund Contributions.....	\$8,007,343	\$9,440,747	\$10,485,936	\$11,367,016	\$12,206,066
Portions Attributable To Non-Board Health Insurance Cost Subsidy	\$4,323,636	\$4,454,670	\$4,751,670	\$5,051,970	\$5,333,743

Additional Information

The June 30, 2004 unaudited financial statements which are included as **Appendix III-C** hereto, and in particular notes 11 through 14 and note 16 and the required PERS Supplementary Information of the accompanying Basic Financial Statements, provide additional information about the foregoing retirement systems and their funding. In addition, paragraph B of note 23 of such financial statements identifies a contingent liability of the State to pay pension liabilities of certain persons who are not employees of the State.

LITIGATION

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

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

The plaintiffs filed a motion on December 28, 2000 seeking to have the Superior Court, once again, monitor the State's compliance with the State Supreme Court's 1996 decision. A hearing about whether the State is still complying with the Supreme Court's ruling and what order, if any, the Court should issue was held in April, 2002. Before the filing of briefs, the parties reached a settlement. The agreement was submitted to the General Assembly on January 26, 2003, and was deemed approved pursuant to Section 3-125a of the Connecticut General Statutes on February 25, 2003, when it was not rejected by 3/5 vote of both houses of the legislature. The Court approved the settlement on March 12, 2003.

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

On August 3, 2004, the plaintiffs filed a motion seeking an order that the defendants are in material breach of the settlement approved by the Court. Specifically, the Court is presently addressing a dispute between the parties regarding Section III.A.1 of the settlement agreement, which provides: "The State will provide sufficient resources to plan, develop, open and operate two new host magnet schools of approximately 600 students each, for approximately 1200 students total per year, each year of the four year period of the Stipulation (or eight new magnet schools)." The plaintiffs claim that the State is not in compliance with this provision because the schools do not each currently have 600 enrolled students. Both the plaintiffs and the State have briefed the issue. It is anticipated that the Court will set a schedule for further proceedings after deciding this issue.

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.

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. A tentative settlement has been presented to the legislature in accordance with Section 3-125(a) of the Connecticut General Statutes.

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 Connecticut Supreme Court.

State 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.

In ***State of Connecticut v. Philip Morris, Inc., et al.***, the action that resulted in the 1998 Master Settlement Agreement (MSA) entered into by Connecticut and nearly all other states and territories to resolve litigation claims against the major domestic tobacco manufacturers, three manufacturers that subsequently agreed to participate in the MSA, Commonwealth Brands, Inc., King Maker Marketing, Inc., and Sherman 1400 Broadway N.Y.C. Inc., have filed a petition to compel arbitration against the State with regard to certain alleged obligations of the State under the MSA. These parties contend that the State has not diligently enforced its obligations under the MSA to enforce statutory requirements against non-participating manufacturers and that the issue is subject to arbitration under the MSA. If such claims are determined to be subject to arbitration, and an arbitration panel were to conclude that the State had not diligently enforced its obligations under the MSA against non-participating manufacturers, then the payments that the State receives under the MSA could be reduced or eliminated for any year that the State was found not to have diligently enforced its obligations.

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

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 one of the remaining suits is the alleged Golden Hill Paugussett Tribe and the lands involved are generally located in Bridgeport, Trumbull and Orange. In June of 2004, the Federal Bureau of Indian Affairs denied recognition to the alleged Golden Hill Paugussett Tribe of Indians. The alleged Tribe has filed an appeal with the United States Secretary of the Interior, and that appeal is pending. An additional suit has been filed by the alleged Schaghticoke Indian Tribe claiming privately and town held lands in the Town of Kent. The State is not a defendant to that action. In February 2004, the Federal Bureau of Indian Affairs issued a final determination granting federal recognition to the Schaghticoke Tribal Nation. The State has appealed that decision to the Interior Board of Appeals, and that appeal is pending. The land claims have been stayed pending the resolution of the federal recognition matter. It is possible that other land claims could be brought by other Indian groups, who have petitioned the Federal Government for Federal recognition. The State has also challenged the decision of the Federal Department of the Interior which allows the Mashantucket Pequot Tribe to add land holdings of the Tribe outside of its reservation to the land held in trust for its benefit by the Department. The added land was not part of the Tribe's original reservation designated under the Federal Settlement Act with the Tribe. The additional land was purchased by the Tribe. The United States Court of Appeals for the Second Circuit rejected the State's claim that the Federal Settlement Act does not allow the Federal Department of the Interior to take this additional land and add it to the Tribe's reservation land. The Mashantucket Pequot Tribe has withdrawn its application to take the additional lands outside its reservation into trust, although the Tribe could renew its application. The case pending before the United States District Court was dismissed as moot in April 2002. In June 2002, the Federal Bureau of Indian Affairs issued a final determination granting federal recognition to the Historic Eastern Pequot tribe. The State has appealed that decision to the Interior Board of Appeals. If federal recognition is upheld, the tribe could institute land claims against the State or others. In any of the land claim matters, irrespective of whether federal recognition is granted, denied or upheld, a particular tribe could institute or renew land claims against the State or others, or press the claims it has already asserted.

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GOVERNMENTAL ORGANIZATION AND SERVICES

Introduction

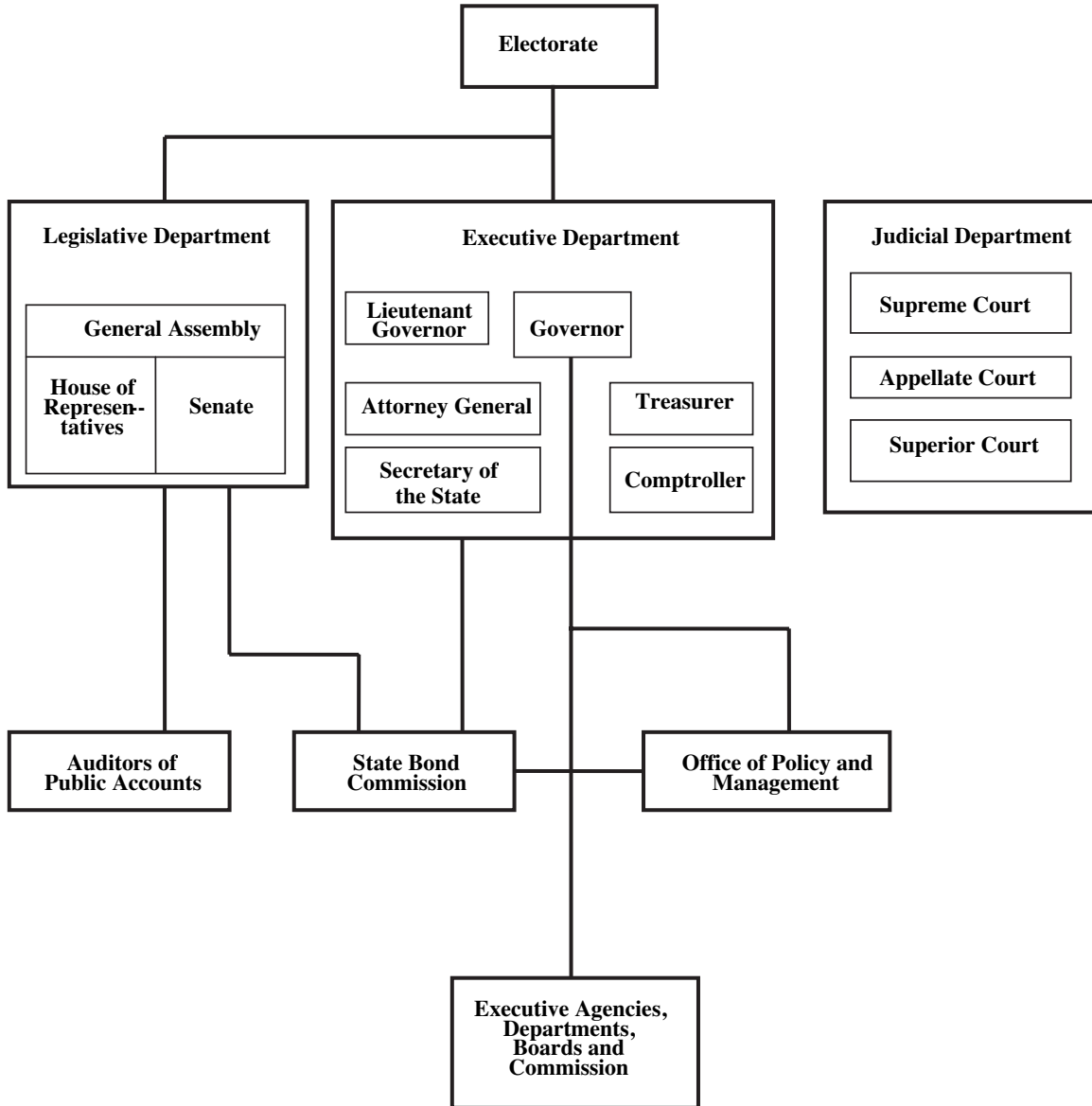
The components and structure of State governmental organization are laid out in the State's Constitution and the General Statutes of Connecticut. A number of State-wide and regional authorities and similar bodies are also created or provided for in the General Statutes or by Special Act of the General 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 2004, and the new members took office in January 2005.

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 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 2002 for terms beginning in January 2003. Elections for all of these offices are held every four years. The Governor and Lieutenant Governor are elected as a unit. On June 21, 2004, Governor John G. Rowland announced that he would resign as Governor of the State, effective on July 1, 2004. Under Article Fourth, Section 18 of the State Constitution, when Governor Rowland's resignation took effect the Lieutenant-Governor, M. Jodi Rell, became Governor of the State to serve as Governor until a governor is chosen at the next regular election for governor and is duly qualified. The new Governor is a member of the same party as the previous Governor and was elected on the same slate at the last regular election. Under Article Fourth, Section 19 of the State Constitution, the President Pro Tempore of the Senate, Kevin B. Sullivan, succeeded to the Office of the Lieutenant-Governor.

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 179 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 ten 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

<u>Function Headings^(b)</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004^(c)</u>
Legislative.....	434	447	509	502	
General Government.....	3,910	3,910	3,909	3,261	
Regulation and Protection.....	4,550	4,592	4,620	3,950	
Conservation and Development.....	1,463	1,457	1,496	1,261	
Health and Hospitals.....	8,747	8,635	8,710	7,330	
Transportation.....	3,643	3,626	3,631	2,918	
Human Services.....	2,375	2,332	2,315	1,847	
Education.....	14,357	14,921	15,331	14,384	
Corrections.....	10,027	9,956	10,168	9,485	
Judicial.....	<u>3,224</u>	<u>3,342</u>	<u>3,369</u>	<u>3,769</u>	
Total	52,730	53,218	54,058	48,707	51,449

(a) Table shows approximate filled full-time positions as of June 30 in each of the listed years.

(b) A breakdown of the agencies, boards, commissions and similar bodies included in each of the listed government function headings is shown in **Table A-5**.

(c) Total for 2004 represents approximate filled full-time positions. Breakdowns could not be determined at this time because of difficulties in obtaining the appropriate reports from the State's Core-CT System.

SOURCE: Office of Policy and Management

TABLE A-3
State Employees as of June 30, 2003^{(a)(b)}

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			5218	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.

^(b) Breakdown for 2004 could not be determined at this time because of difficulties in obtaining the appropriate reports from the State's Core-CT System. There are approximately 51,449 filled full-time positions as of June 30, 2004.

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

<u>Bargaining Unit/Status Group</u>	<u>Percentage of State Employees Represented^(a)</u>	<u>Contract Status, if any</u>
<u>Covered by Collective Bargaining</u>		
Correction Officers	9.86%	Contract in place through 6/30/2008
Administrative Clerical	8.75%	Contract in place through 6/30/2006
Maintenance and Service	7.90%	Contract in place through 6/30/2005
Health Care Non-Professionals	7.83%	Contract in place through 6/30/2005 (b)
Social and Human Services	7.38%	Contract in place through 6/30/2006
Administrative and Residual	5.67%	Contract in place through 6/30/2003 (b)
Health Care Professionals	5.61%	Contract in place through 6/30/2005 (b)
Engineering, Scientific and Technical	4.64%	Contract in place through 6/30/2005 (b)
University Health Professionals (University of Connecticut Health Center)	3.24%	Contract in place through 6/30/2006
Judicial Employees	2.67%	Contract in place through 6/30/2006
Connecticut State University Faculty	2.57%	Contract in place through 6/30/2007
University of Connecticut Faculty	2.54%	Contract in place through 6/30/2007
University of Connecticut Professional Employee Association	2.50%	Contract in place through 6/30/2007
Vocational Technical School Teachers	2.34%	Contract in place through 6/30/2007
Congress of Connecticut Community Colleges	2.30%	Contract in place through 6/30/2007
State Police	2.23%	Contract in place through 6/30/2004 (b)
Judicial Professionals	2.07%	Contract in place through 6/30/2006
Education Professionals (Institutions)	1.65%	Contract in place through 6/30/2005
Protective Services	1.65%	Contract in place through 6/30/2008
Other Bargaining Units (13 units)	<u>5.36%</u>	Varies by Unit
Total Covered by Collective Bargaining	88.75%	
<u>Not Covered by Collective Bargaining</u>		
Auditors of Public Accounts	0.19%	Not Applicable
Other Employees	<u>11.06%</u>	Not Applicable
Total Not Covered by Collective Bargaining	11.25%	
Total Full-Time Work Force	100.00%	

(a) Percentage expressed reflects approximately 51,449 filled full-time positions as of June 30, 2004.

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

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 III-A-5
Function of Government Headings^{(a)(b)}

Legislative

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

General Government

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

Regulation and Protection

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

Conservation and Development

Department of Agriculture
Department of Environmental
Protection
Council on Environmental Quality
Commission on Culture and Tourism
Department of Economic and
Community Development
Agricultural Experiment Station

Health and Hospitals

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

Transportation

Department of Transportation

Human Services

Department of Social Services
Soldiers’, Sailors’, and Marines’ Fund

Education, Libraries and Museums

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

Corrections

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

Judicial

Judicial Department
Public Defender Services Commission

- (a) In addition to the ten listed government function headings, the State also employs a “non-functional” heading under which are grouped various miscellaneous accounts including debt service and State employee fringe benefit accounts.
(b) Listing of agencies, boards, commissions and similar bodies is as of July 1, 2004.

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-2004 population in Connecticut was estimated at 3,503,604 up 0.5% from a year ago, compared to increases of 0.3% and 1.0% for New England and the United States, respectively.

TABLE B-1

**Population
(In Thousands)**

<u>Calendar Year</u>	<u>Connecticut</u>		<u>New England</u>		<u>United States</u>	
	<u>Total</u>	<u>% Change</u>	<u>Total</u>	<u>% Change</u>	<u>Total</u>	<u>% Change</u>
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
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	13,953	0.8	282,192	1.1
2001....	3,433	0.6	14,046	0.7	285,102	1.0
2002....	3,459	0.8	14,130	0.6	287,941	1.0
2003....	3,487	0.8	14,201	0.5	290,789	1.0
2004....	3,504	0.5	14,239	0.3	293,655	1.0

Note: 1940-2000, April 1 Census. Figures are for census comparison purposes.
1995-2004, Mid-year estimates.

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

The State is highly urbanized with a 2004 population density of 723 persons per square mile, as compared with 83 for the United States as a whole and 227 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 extended the "standard offer" service, which was set to expire 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 has allowed 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 SBC Communications, Inc., which acquired The Southern New England Telephone Company (SNET) in 1997, 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 1994 to 2003 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

<u>Calendar Year</u>	<u>Connecticut</u>		<u>Connecticut Per Capita as % of</u>	
	<u>Total</u> (Millions of Dollars)	<u>Per Capita</u> (Dollars)	<u>New England</u>	<u>United States</u>
1994.....	98,467	29,695	115.6	133.7
1995.....	103,199	31,047	115.7	134.5
1996.....	108,189	32,421	115.0	134.1
1997.....	115,134	34,379	115.8	135.7
1998.....	123,918	36,826	116.3	137.0
1999.....	129,807	38,336	115.7	137.2
2000.....	141,570	41,492	114.9	139.0
2001.....	147,323	42,914	114.9	140.3
2002.....	147,856	42,745	114.2	138.8
2003.....	150,801	43,292	113.7	137.6

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

<u>Calendar Year</u>	<u>Conn.</u> (Current)	<u>New England</u> (Current)	<u>U.S.</u> (Current)	<u>Conn.</u> (Constant)	<u>New England</u> (Constant)	<u>U.S.</u> (Constant)
1994	2.7%	4.3%	5.0%	0.6%	2.1%	2.8%
1995	4.8%	5.1%	5.3%	2.7%	2.9%	3.2%
1996	4.8%	5.7%	6.0%	2.9%	3.7%	4.0%
1997	6.4%	6.0%	6.1%	4.7%	4.2%	4.3%
1998	7.6%	7.4%	7.4%	6.4%	6.2%	6.2%
1999	4.8%	5.4%	5.1%	3.3%	3.9%	3.6%
2000	9.1%	9.9%	8.0%	6.7%	7.6%	5.7%
2001	4.1%	3.6%	3.5%	1.6%	1.2%	1.1%
2002	0.4%	1.2%	1.7%	(1.3%)	(0.4%)	0.1%
2003	2.0%	2.7%	3.2%	0.2%	0.8%	1.3%

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 2003.

TABLE B-4

**Sources of Personal Income By Place of Residence
Calendar 2003
(In Millions)**

	<u>Conn.</u>	<u>Percent of Total</u>	<u>U.S.</u>	<u>Percent of Total</u>
Wages in Non-manufacturing	\$ 73,545	48.77%	\$4,434,814	48.41%
Property Income (Div., Rents & Int.)	24,543	16.28%	1,476,508	16.12%
Wages in Manufacturing	12,219	8.10%	668,753	7.30%
Transfer Payments less Social Insurance Paid.....	4,998	3.31%	562,133	6.14%
Other Labor Income	18,933	12.55%	1,185,458	12.94%
Proprietor's Income.....	<u>16,563</u>	<u>10.98%</u>	<u>834,100</u>	<u>9.10%</u>
Personal Income—Total.....	\$150,801	100.0%	\$9,161,766	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 current market value of all final goods and services produced by labor and property located within the State.

In 2002, the State produced \$165.7 billion worth of goods and services and \$158.9 billion worth of goods and services in 2000 chained dollars.

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

TABLE B-5
Gross State Product
(In Millions of Dollars*)

Year	Connecticut		New England^(a)		United States^(b)	
	\$	% Growth	\$	% Growth	\$	% Growth
1998	143,232		495,753		8,679,658	
1999	148,251	3.5	523,099	5.5	9,201,138	6.0
2000	157,988	6.6	564,534	7.9	9,749,105	6.0
2001	162,411	2.8	579,858	2.7	10,031,393	2.9
2002	165,744	2.1	595,910	2.8	10,407,141	3.7

(a) Sum of the New England States' Gross State Products.

(b) Denotes the Gross Domestic Product, which is the total market value of all final goods and services produced in the U.S.

* The system for these calculations was converted from SIC Codes to the NAICS system for years 1998 and later and therefore prior year figures are not included.

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

The following table shows the Gross State Product in 2000 chained dollars.

TABLE B-6
Gross State Product
(In Millions of 2000 Chained Dollars*)

Year	Connecticut		New England		United States	
	\$	% Growth	\$	% Growth	\$	% Growth
1998	148,276		508,805		9,004,664	
1999	151,013	1.8	530,553	4.3	9,404,246	4.4
2000	157,988	4.6	564,534	6.4	9,749,105	3.7
2001	158,810	0.5	569,384	0.9	9,809,501	0.6
2002	158,902	0.1	574,116	0.8	10,014,936	2.1

* 2000 chained dollar series are calculated as the product of the chain-type quantity index and the 2000 current-dollar value of the corresponding series, divided by 100. The system for these calculations was converted from SIC Codes to the NAICS system for years 1998 and later and therefore prior year figures are not included.

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 economy. The table shows that, in 2002, Connecticut's production concentrated in two areas: finance, insurance and real estate (FIRE) and manufacturing. Production in these two industries accounted for 42.1% of total production in Connecticut compared to 33.4% for the nation and was little changed from 42.6% in 1998. This demonstrates that Connecticut's economy is more heavily concentrated in a few industries than the nation as a whole and this concentration has changed little in recent years.

The output contribution of manufacturing, however, has been declining over time as the contributions of FIRE and services have been rapidly increasing. The share of production from the manufacturing sector decreased, caused by increased competition with foreign countries and other states as well as generally declining and only recently rising defense expenditures during this period. The broadly defined services in the private sector, which includes industries in information, professional and technical services, health care and education, FIRE and other services, have increased to 62.8% of the total GSP in 2002 from 61.0% in 1998. During this period, the shift toward services in Connecticut has been occurring at a slightly slower rate than the rate for the nation as a whole. The share of service production increased 2.1 percentage points (3.6%) in Connecticut versus 2.5 percentage points (5.2%) for the nation. The increasing share of service production may help smooth the business cycle, reducing the span and depth of recessions and prolonging the length of expansions. Normally, activities in service sectors relative to manufacturing are less susceptible to pent-up demand, less subject to inventory-induced swings, less intensive in capital requirements, and somewhat less vulnerable to foreign competition. Therefore, this shift to the service sectors may serve to smooth output fluctuations.

TABLE B-7
Gross State Product by Industry in Connecticut
(In Millions of Dollars*)

<u>Sector</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Manufacturing	\$21,401	\$20,360	\$20,832	\$21,313	\$20,807
Construction ^(a)	4,469	4,760	5,115	5,389	5,355
Agriculture ^(b)	319	328	365	358	327
Utilities ^(c)	10,352	11,110	11,261	11,348	11,219
Wholesale Trade	8,507	8,686	8,669	8,936	9,079
Retail Trade	8,740	9,293	10,229	9,979	11,004
Finance ^(d)	39,656	41,567	46,451	47,532	48,925
Services ^(e)	37,372	39,348	41,377	43,145	43,937
Government	<u>12,416</u>	<u>12,799</u>	<u>13,689</u>	<u>14,411</u>	<u>15,091</u>
Total GSP	\$143,232	\$148,251	\$157,988	\$162,411	\$165,744

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.

* The system for these calculations was converted from SIC Codes to the NAICS system for years 1998 and later and therefore prior year figures are not included.

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 1994 and 2003. In Connecticut, approximately 55% of total personal income is derived from wages and salaries earned by workers classified in the non-agricultural employment sector. Therefore the non-agricultural employment figure is a valuable indicator of economic activity. Connecticut's nonagricultural employment reached its decade-long high in the first quarter of 1989 with 1,676,740 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 first quarter of 2000, nonagricultural employment surpassed the previous peak with a total employment of 1,686,330. Total nonagricultural employment declined in 2001 as the economy softened beginning with the fourth quarter of 2000.

TABLE B-8
Non-agricultural Employment^(a)
(In Thousands)

<u>Calendar Year</u>	<u>Connecticut</u>		<u>New England</u>		<u>United States</u>	
	<u>Employment</u>	<u>Percent Growth</u>	<u>Employment</u>	<u>Percent Growth</u>	<u>Employment</u>	<u>Percent Growth</u>
1994	1,543.7	0.82	6,200.0	1.97	114,282	3.11
1995	1,561.6	1.16	6,326.6	2.04	117,306	2.65
1996	1,583.6	1.41	6,431.8	1.66	119,699	2.04
1997	1,612.5	1.82	6,575.2	2.23	122,767	2.56
1998	1,643.5	1.92	6,723.5	2.26	125,934	2.58
1999	1,669.2	1.56	6,855.1	1.96	128,992	2.43
2000	1,693.2	1.44	7,017.1	2.36	131,791	2.17
2001	1,681.2	(0.71)	7,026.4	0.13	131,837	0.03
2002	1,665.0	(0.96)	6,918.1	(1.54)	130,343	(1.13)
2003	1,643.5	(1.29)	6,835.4	(1.20)	129,937	(0.31)

(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 2003. 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, 2003
(In Thousands)

	<u>Connecticut</u>		<u>United States</u>	
	<u>Total</u>	<u>%</u>	<u>Total</u>	<u>%</u>
Services ^(a)	647.5	39.40	50,091	38.55
Trade ^(b)	305.3	18.58	25,283	19.46
Manufacturing	199.5	12.14	14,524	11.18
Government	246.3	14.99	21,574	16.60
Finance ^(c)	143.3	8.72	7,974	6.14
Utilities ^(d)	39.5	2.40	3,198	2.46
Construction ^(e)	<u>62.1</u>	<u>3.79</u>	<u>7,293</u>	<u>5.61</u>
	1,643.5	100.00	129,937	100.00

- (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 2003, approximately 88% 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)**

<u>Year</u>	<u>Manufacturing</u>	<u>Trade</u> ^(a)	<u>Services</u> ^(b)	<u>Government</u>	<u>Finance</u> ^(c)	<u>Information</u> ^(d)	<u>Construction</u> ^(e)	<u>Total Non-agricultural Employment</u> ^(f)
1994	253.43	290.71	556.39	217.17	135.63	40.38	49.97	1,543.68
1995	248.51	294.84	572.37	220.84	132.38	41.49	51.16	1,561.59
1996	245.33	299.12	591.32	222.80	128.58	43.28	53.20	1,583.63
1997	245.38	302.53	607.73	225.72	130.12	44.49	56.54	1,612.51
1998	247.87	308.59	618.60	227.83	136.98	44.28	59.32	1,643.47
1999	240.24	312.18	634.48	235.14	140.83	44.67	61.64	1,669.18
2000	235.71	317.50	643.31	241.88	143.05	46.42	65.37	1,693.24
2001	226.71	312.18	644.11	244.47	142.95	44.68	66.09	1,681.19
2002	211.18	309.25	647.39	249.30	142.63	41.02	64.18	1,664.95
2003	199.53	305.30	647.45	246.24	143.33	39.52	62.13	1,643.50

(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 seventeenth in the nation for its dependency on manufacturing in fiscal 2003. 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 and the nation. 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 2003, approximately 12% of the State's workforce, versus 11% 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 Year	Connecticut		New England		United States	
	Number	% Growth	Number	% Growth	Number	% Growth
1994	253.4	(3.10)	972.6	(1.14)	17,024	1.47
1995	248.5	(1.93)	967.8	(0.49)	17,244	1.29
1996	245.3	(1.29)	961.4	(0.66)	17,236	(0.05)
1997	245.4	0.04	965.1	0.38	17,418	1.06
1998	247.9	1.02	970.1	0.52	17,560	0.82
1999	240.2	(3.11)	944.8	(2.61)	17,323	(1.35)
2000	235.7	(1.87)	943.2	(0.17)	17,266	(0.33)
2001	226.7	(3.82)	900.7	(4.51)	16,441	(4.78)
2002	211.2	(6.84)	815.8	(9.43)	15,257	(7.20)
2003	199.5	(5.54)	766.1	(6.09)	14,524	(4.80)

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, computer and electronics, and machinery for the total number employed in 2003.

TABLE B-12
Manufacturing Employment
By Industry
(In Thousands)

<u>Calendar Year</u>	<u>Transportation Equipment</u>	<u>Fabricated Metals</u>	<u>Computer & Electronics</u>	<u>Machinery</u>	<u>Other^(a)</u>	<u>Total Manufacturing Employment</u>
1994	59.94	49.19	36.45	24.98	82.87	253.43
1995	55.50	50.20	35.95	24.84	82.02	248.51
1996	53.66	50.71	35.82	24.71	80.43	245.33
1997	51.49	50.70	37.20	25.46	80.53	245.38
1998	52.27	51.86	37.61	25.42	80.71	247.87
1999	49.86	50.27	35.34	23.98	80.79	240.24
2000	46.92	49.75	35.41	23.72	79.91	235.71
2001	46.86	46.99	33.68	22.41	76.77	226.71
2002	45.33	43.21	29.25	20.27	73.12	211.18
2003	43.33	41.10	26.54	18.54	70.02	199.53

(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 1994 at 253,430 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, outsourcing to offshore locations, 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 199,530 in 2003, after a rebound to 247,870 in 1998. The total number of manufacturing jobs dropped 53,900, or 21.3% for the ten year period since 1994.

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 \$8.1 billion in 2003, accounting for 4.8% of Gross State Product. From 1999 to 2003, the State's export of goods grew at an average annual rate of 3.2%. The following table shows the growth in exports of manufacturing products.

TABLE B-13
Exports Originating in Connecticut
(In Millions)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>% of 2003 Total</u>	<u>Average % Growth 1999-2003</u>
A. Manufacturing Products							
Transportation Equipment	\$2,599.0	\$3,168.5	\$3,988.3	\$4,098.7	\$3,298.1	40.5%	7.8%
Computer & Electronics	877.6	904.5	804.4	760.0	789.5	9.7	(2.4)
Machinery, Except Electronics	755.7	1,005.2	898.0	669.8	784.4	9.6	3.5
Fabricated Metal Production	328.5	369.8	391.5	427.4	440.5	5.4	7.7
Chemicals	547.7	612.8	567.3	499.9	749.0	9.2	10.6
Misc. Manufacturing	581.5	395.1	430.4	393.6	486.4	6.0	(2.0)
Electrical Equipment	242.9	292.9	259.8	316.3	336.1	4.1	9.3
Plastics & Rubber	153.1	144.5	152.0	141.2	137.6	1.7	(2.5)
Paper	139.6	150.8	139.5	174.9	188.6	2.3	8.4
Primary Metal Mfg.	191.1	247.0	210.1	167.6	203.1	2.5	3.8
Others	814.5	755.7	769.1	664.0	723.1	8.9	(2.6)
Total	\$7,231.2	\$8,046.8	\$8,610.4	\$8,313.4	\$8,136.4	100.0%	3.2%
% Growth	(0.9%)	11.3%	7.0%	(3.4%)	(2.1%)		
B. Gross State Product^(a)	\$148,251	\$157,988	\$162,411	\$165,744	\$168,751		
Mfg Exports as a % of GSP	4.9%	5.1%	5.3%	5.0%	4.8%		

(a) In millions.

(b) Gross State Product for 2003 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 2003, Connecticut received \$8.1 billion of prime contract awards. These total awards accounted for 4.2% of national total awards and ranked 5th in total defense dollars awarded and 2nd in per capita dollars awarded among the 50 states. In fiscal year 2003, Connecticut had \$2,315 in per capita defense awards, compared to the national average of \$658. 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 increased to 3.6% of Gross State Product in fiscal year 2003, up from 2.5% of Gross State Product in fiscal year 1994. Recent increases were 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

<u>Federal Fiscal Year</u>	<u>Connecticut Total Contract Award (Thousands)</u>	<u>Connecticut Rank Among States Total Awards</u>	<u>% Change from Prior Year</u>	
			<u>Connecticut</u>	<u>U.S.</u>
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
2002-03	\$8,064,809	5th	43.0	20.5

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 88% by 2003. This trend has decreased the State's dependence on manufacturing. Over the course of the last ten years, there were approximately 153,800 jobs created in this sector, an increase of 11.9%. Moreover, this sector has more than compensated for the loss in manufacturing jobs, fueling the recovery in nonagricultural employment since 1994.

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 Year	Connecticut		New England		United States	
	Number	% Growth	Number	% Growth	Number	% Growth
1994	1,290.2	1.62	5,227.4	2.57	97,258	3.40
1995	1,313.1	1.77	5,358.8	2.51	100,062	2.88
1996	1,338.3	1.92	5,470.4	2.08	102,462	2.40
1997	1,367.1	2.15	5,610.2	2.56	105,349	2.82
1998	1,395.6	2.08	5,753.3	2.55	108,363	2.86
1999	1,428.9	2.39	5,910.3	2.73	111,668	3.05
2000	1,457.5	2.00	6,073.9	2.77	114,526	2.56
2001	1,454.5	(0.21)	6,125.7	0.85	115,396	0.76
2002	1,453.8	(0.05)	6,102.2	(0.38)	115,086	(0.27)
2003	1,444.0	(0.67)	6,069.3	(0.54)	115,413	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 1994, 2001, 2002 and 2003 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 1994 and 2003, service industry employment expanded by 91,060 workers, adding more than one out of every two jobs statewide, which registered an increase of 153,730 jobs. State and local governments expanded by 32,310 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 and local government employees. There are approximately 22,500 employees working at the State's two tribal casinos.

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

<u>Industry</u>	<u>Calendar 1994</u>	<u>Calendar 2001</u>	<u>Calendar 2002</u>	<u>Calendar 2003</u>	<u>Percent Change 2002-03</u>	<u>Percent Change 1994-03</u>
Construction ^(a)	49.97	66.09	64.18	62.13	(3.19)	24.33
Information	40.38	44.68	41.02	39.52	(3.66)	(2.13)
Transportation, Warehousing & Utilities	49.30	50.26	48.95	48.56	(0.80)	(1.50)
Wholesale Trade	62.53	67.39	66.03	65.47	(0.85)	4.70
Retail Trade	178.88	194.53	194.27	191.27	(1.54)	6.93
Finance, Insurance & Real Estate Services ^(b)	135.63	142.95	142.63	143.33	0.49	5.68
Federal Government	556.39	644.11	647.39	647.45	0.01	16.37
State and Local Government	24.16	21.61	21.23	20.93	(1.41)	(13.37)
	<u>193.00</u>	<u>222.86</u>	<u>228.07</u>	<u>225.31</u>	<u>(1.21)</u>	<u>16.74</u>
Total Non-manufacturing Employment ^(c)	1,290.24	1,454.48	1,453.77	1,443.97	(0.67)	11.91

(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 2003 totaled \$45.2 billion, an increase of 2.8% from fiscal 2002. 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)

	<u>Fiscal</u> <u>Year</u> <u>1999</u>	<u>Fiscal</u> <u>Year</u> <u>2000</u>	<u>Fiscal</u> <u>Year</u> <u>2001</u>	<u>Fiscal</u> <u>Year</u> <u>2002</u>	<u>Fiscal</u> <u>Year</u> <u>2003</u>	<u>% Of</u> <u>Fiscal Year</u> <u>2003 Total</u>	<u>Average %</u> <u>Growth</u> <u>Fiscal Year</u> <u>1999-2003</u>
SIC52 Hardware Stores	\$2,320	\$2,418	\$2,376	\$2,751	\$2,736	6.1%	4.4%
SIC53 General Merchandise	3,742	3,744	3,024	4,002	4,191	9.3	4.5
SIC54 Food Products	6,922	7,139	7,521	8,127	8,142	18.0	4.2
SIC55 Automotive Products	7,963	8,712	8,531	8,605	8,688	19.2	2.3
SIC56 Apparel & Accessory	2,047	2,195	2,237	2,274	2,105	4.7	0.8
SIC57 Furniture & Appliances	4,011	4,299	3,971	3,629	3,518	7.8	(3.0)
SIC58 Eating & Drinking	2,966	3,148	3,327	3,374	3,461	7.7	3.9
SIC59 Misc. Shopping Stores	<u>9,865</u>	<u>10,975</u>	<u>11,247</u>	<u>11,161</u>	<u>12,329</u>	<u>27.3</u>	5.9
Total^(a)	\$39,836	\$42,630	\$42,234	\$43,924	\$45,169	100.0%	3.2%
% Change from Previous Year	5.1	7.0	(0.9)	4.0	2.8		
Durables (SIC 52,55,57)	\$14,294	\$15,429	\$14,878	\$14,986	\$14,941	33.1%	1.2
% Change from Previous Year	5.9	7.9	(3.6)	(0.7)	(0.3)		
Non Durables (all other SICs)	\$25,542	\$27,201	\$27,356	\$28,939	\$30,228	66.9%	4.3
% Change from Previous Year	4.7	6.5	0.6	5.8	4.5		

(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 5.7% in 1996, which was higher than the New England average of 4.8% and the national average of 5.4%. 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 4.7% for the first six months of 2004 is below the New England and national average of 4.9% and 5.6%, respectively, for the same period.

The following table compares the unemployment rate averages of Connecticut, New England and the United States between 1994 and the first half of 2004.

TABLE B-18
Unemployment Rate

<u>Year</u>	<u>Unemployment Rate</u>		
	<u>Connecticut</u>	<u>New England</u>	<u>United States</u>
1994	5.6	5.9	6.1
1995	5.5	5.4	5.6
1996	5.7	4.8	5.4
1997	5.1	4.4	4.9
1998	3.4	3.5	4.5
1999	3.2	3.3	4.2
2000	2.2	2.8	4.0
2001	3.3	3.7	4.8
2002	4.3	4.8	5.8
2003	5.5	5.4	6.0
2004 ^(a)	4.7	4.9	5.6

(a) Reflects average for the first six months.

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

APPENDIX III-C

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NANCY WYMAN
COMPTROLLER

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OFFICE OF THE STATE COMPTROLLER
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MARK E. OJAKIAN
DEPUTY COMPTROLLER

February 23, 2005

The Honorable Denise Nappier
State Treasurer
55 Elm Street
Hartford, CT 06106

Dear Ms. Nappier:

I have reviewed the accompanying general purpose financial statements of Connecticut for the fiscal year ending June 30, 2004. The statements are prepared by my office in conformance with generally accepted accounting principles.

Sincerely,

A handwritten signature in black ink that reads "Nancy Wyman". The signature is fluid and cursive, with a large initial "N" and "W".

Nancy Wyman
State Comptroller

MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)

The following discussion and analysis is supplementary information required by the Governmental Accounting Standards Board (GASB), and is intended to provide an easily readable explanation of the information provided in the attached basic financial statements. It is by necessity highly summarized, and in order to gain a thorough understanding of the state's financial position, the financial statements and footnotes should be viewed in their entirety.

FINANCIAL HIGHLIGHTS

Government-wide:

Assets of the state's governmental activities were \$5.5 billion less than liabilities, a deterioration in financial position of \$0.2 billion related to current year operations. Assets of the state's business type activities exceeded liabilities by \$3.7 billion, which are by and large unchanged from that of the prior year. In terms of the total, net assets declined from negative \$1.6 billion to a negative \$1.8 billion, a decrease in total net assets of \$0.2 billion.

As noted above, the governmental portion of state liabilities exceeded state governmental assets by \$5.5 billion as of June 30, 2004. Of this amount, the unrestricted net asset portion was a negative \$10.2 billion. One reason for the negative balance is the state's reliance on issuing bonds to fund certain operating grants. General Obligation bonds outstanding as of June 30, 2004 that related to municipal school construction, and other operating grants and loans totaled \$3.1 billion. Additionally, long-term obligations such as net pension, compensated absences and worker's compensation obligations of \$4.2 billion, with no offsetting assets, further contributed to the state's negative net assets.

Fund Level:

Total Governmental fund assets exceeded liabilities resulting in a fund balance of \$1.9 billion, all of which was reserved leaving a net unreserved fund balance of just under zero. The portion of unreserved undesignated fund balance that pertains to the General Fund was a negative \$0.9 billion at June 30, 2004.

Total Enterprise Fund assets exceeded liabilities resulting in net assets of \$3.7 billion, substantially all of which was restricted or invested in capital assets.

Debt Issued and Outstanding:

Long-term bonded debt of governmental activities totaled \$12.9 billion (see Note 16). In addition, \$0.3 billion in Economic Recovery Notes was outstanding on June 30, 2004. Other long-term liabilities totaled \$4.2 billion.

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION

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

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

Governments have traditionally focused their reporting on groupings of funds rather than on the government taken as a whole. The GASB 34 financial reporting model, upon which this report is based, retains this traditional focus on funds and adds an additional focus on the overall government's financial position and operations.

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

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

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

Both statements report three activities:

- *Governmental Activities* - Most of the state's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The legislature, the judiciary, and the general operations of the executive departments fall within the governmental activities.
- *Business-type Activities* – These activities are primarily funded by charges to external parties for the cost of goods and services provided. These activities are generally reported in Enterprise Funds in the fund level statements. The operations of Bradley International Airport, the Connecticut Lottery Corporation and Employment Security, are examples of business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the state is financially accountable. More information on discretely presented component units can be found in Note 1 of the Notes to Financial Statement section.

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

FUND LEVEL STATEMENTS

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

As a practical matter, governments have traditionally been combining similar individual funds into groupings or "fund types" (i.e., general fund, special revenue funds, debt service funds, capital projects funds, enterprise funds, internal service funds and trust & agency funds). In the past, it was these fund types, rather than individual funds, that have been the focus of the combined financial statements presented in financial reports. Under the GASB 34 financial reporting model, as presented here, governments focus on major individual funds rather than on fund types (with aggregated information presented for the total of all non-major funds).

Major Governmental Fund Financial Statements:

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

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

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

Debt Service Fund. The Debt Service Fund is a governmental fund, which accounts for the accumulation of resources for, and the payment of, Special Tax obligation principal and interest.

Changes in budgetary reporting. Traditionally, governments have included a budget-to-actual comparison as one of their basic financial statements. The final amended budget has provided the budgetary amounts used for this presentation. The GASB 34 financial reporting model brought three important changes to traditional practice.

- Budgetary comparisons present the original budget in addition to the final amended budget.
- In the past budgetary comparisons were presented by fund type (e.g., total budgeted special revenue funds). The GASB 34 financial reporting model requires a budgetary comparison for the General Fund and individual major special-revenue funds.
- Governments are permitted to present the budgetary comparison as a basic financial statement if they wish to do so, thereby retaining it within the scope of the independent audit. The state of Connecticut has elected to do so even though it is only required to present non-audited budgetary comparison statements as “required supplementary information”.

Major Proprietary Fund Financial Statements:

Proprietary funds (enterprise and internal service) are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting where all assets and liabilities are reported on the balance sheet. Revenues are recorded when earned and expenses are recorded when incurred. In accordance with the requirements of the GASB 34 reporting model utilized in preparation of this report:

- Proprietary fund reporting distinguish current assets and liabilities from non-current assets and liabilities.
- Traditionally, the equity of proprietary funds was divided between "contributed capital" and "retained earnings." Under the GASB 34 reporting model, such a distinction is no longer made. Three classifications are used under the GASB 34 reporting model to classify equity for proprietary funds and for the government-wide financial statements. These three classifications are 1) "invested in capital assets net of related debt," 2) "restricted" (distinguishing between major categories of restrictions) and 3) "unrestricted."

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

Fiduciary Fund Financial Statements:

The fiduciary fund category includes pension (and other employee benefit) trust funds, investment-trust fund, private-purpose-trust fund and agency funds. These fund types should be used to report resources held and administered by the state when it is acting in a fiduciary

capacity for individuals, private organizations or other governments. Some of the important changes to traditional reporting include the following:

Limitation on the use of fiduciary funds. The use of fiduciary funds has been limited to accounting for resources that are not available to support a government's operations and programs. This limitation resulted in the non-fiduciary reclassification of numerous expendable and non-expendable trust funds reported in the *Comprehensive Annual Financial Report* prior to Fiscal Year 2002.

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

Component Unit Combining Statements:

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

Connecticut Housing Finance Authority. Classified as the State's major component unit, the CHFA is a public instrumentality and political subdivision created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development and construction of housing for low and moderate income families.

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

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

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

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

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

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

FINANCIAL SECTION CONTENTS OTHER THAN FINANCIAL STATEMENTS

Notes To The Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements.

Required supplementary information. The RSI provides additional information regarding the States progress on funding its obligation to provide pension benefits to its employees.

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

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

NET ASSETS

The following table was derived from the government-wide Statement of Net Assets. The state's combined net assets declined \$0.2 billion over the course of Fiscal Year 2004 operations. The net assets of governmental activities decreased by the same \$0.2 billion, while net assets from business-type activities remained by and large unchanged from the prior year.

**State Of Connecticut's Net Assets
(in Millions)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
ASSETS:						
Current and Other Assets	\$ 3,915.3	\$ 3,142.0	\$ 3,575.4	\$ 3,515.9	\$ 7,490.7	\$ 6,657.9
Capital Assets	9,545.7	9,531.9	2,857.0	2,621.5	12,402.7	12,153.4
Total Assets	13,461.0	12,673.9	6,432.4	6,137.4	19,893.4	18,811.3
LIABILITIES:						
Current Liabilities	2,924.4	2,345.6	606.9	549.8	3,531.3	2,895.4
Long-term Liabilities	16,043.0	15,638.3	2,165.6	1,964.3	18,208.6	17,602.6
Total Liabilities	18,967.4	17,983.9	2,772.5	2,514.1	21,739.9	20,498.0
NET ASSETS:						
Invested in Capital Assets, Net of Related Debt	3,166.7	2,622.4	2,209.5	2,093.9	5,376.2	4,716.3
Restricted	1,567.7	1,245.3	1,409.9	1,402.1	2,977.6	2,647.4
Unrestricted	(10,240.8)	(9,177.7)	40.5	127.3	(10,200.3)	(9,050.4)
Total Net Assets	\$ (5,506.4)	\$ (5,310.0)	\$ 3,659.9	\$ 3,623.3	\$ (1,846.5)	\$ (1,686.7)

Connecticut

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 2004.

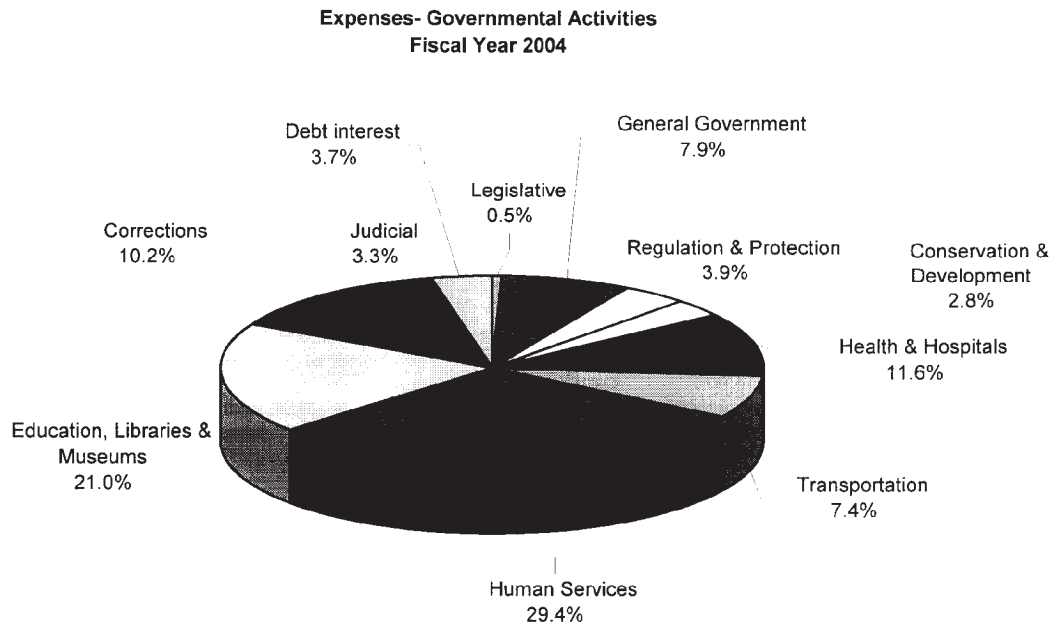
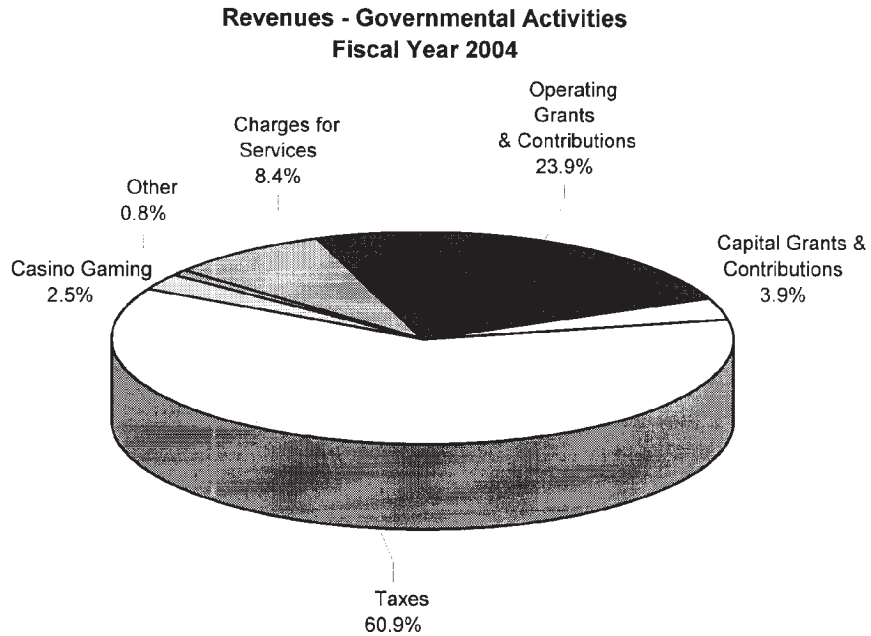
**State of Connecticut's Changes in Net Assets
(Expressed in Millions)**

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
REVENUES						
Program Revenues						
Charges for Services	1,344.4	1,072.9	\$ 2,936.0	\$ 2,594.8	\$ 4,280.4	\$ 3,667.7
Operating Grants and Contributions	3,859.3	3,489.2	227.7	456.2	4,087.0	3,945.5
Capital Grants and Contributions	537.8	562.6	9.3	10.2	547.1	572.8
General Revenues						
Taxes	9,758.8	8,644.7	-	-	9,758.8	8,644.7
Casino Gaming Payments	402.7	387.3	-	-	402.7	387.3
Other	133.9	435.8	90.5	111.3	224.4	547.1
Total Revenues	16,036.9	14,592.5	3,263.5	3,172.5	19,300.4	17,765.1
EXPENSES						
Legislative	72.6	80.2	-	-	72.6	80.2
General Government	1,242.1	1,145.6	-	-	1,242.1	1,145.6
Regulation and Protection	593.1	574.7	-	-	593.1	574.7
Conservation and Development	468.9	410.2	-	-	468.9	410.2
Health and Hospitals	1,767.5	1,711.1	-	-	1,767.5	1,711.1
Transportation	1,162.3	941.3	-	-	1,162.3	941.3
Human Services	4,600.1	4,138.9	-	-	4,600.1	4,138.9
Education, Libraries and Museums	3,035.7	3,090.6	-	-	3,035.7	3,090.6
Corrections	1,587.6	1,450.4	-	-	1,587.6	1,450.4
Judicial	522.9	555.8	-	-	522.9	555.8
Interest and Fiscal Charges	576.8	595.9	-	-	576.8	595.9
University of Connecticut	-	-	1,254.4	1,187.7	1,254.4	1,187.7
State Universities	-	-	469.7	463.3	469.7	463.3
Bradley International Airport	-	-	59.3	54.3	59.3	54.3
CT Lottery Corporation	-	-	656.7	643.2	656.7	643.2
Employment Security	-	-	811.5	963.2	811.5	963.2
Clean Water	-	-	24.8	29.4	24.8	29.4
Other	-	-	361.4	364.6	361.4	364.6
Total Expenses	15,629.6	14,694.7	3,637.8	3,705.8	19,267.4	18,400.5
Excess (Deficiency) Before Transfers, Special and Extraordinary Items	407.3	(102.2)	(374.3)	(533.3)	33.0	(635.5)
Transfers	(417.1)	(640.2)	417.1	640.3	-	0.1
Special and Extraordinary Items	(186.6)	-	(6.2)	(6.5)	(192.8)	(6.5)
Increase (Decrease) in Net Assets	(196.4)	(742.4)	36.6	100.5	(159.8)	(641.9)
Net Assets (Deficit) - Beginning (Restated)	(5,310.0)	(4,567.6)	3,623.3	3,522.8	(1,686.7)	(1,044.8)
Net Assets (Deficit) - Ending	(5,506.4)	(5,310.0)	\$ 3,659.9	\$ 3,623.3	(1,846.5)	\$ (1,686.7)

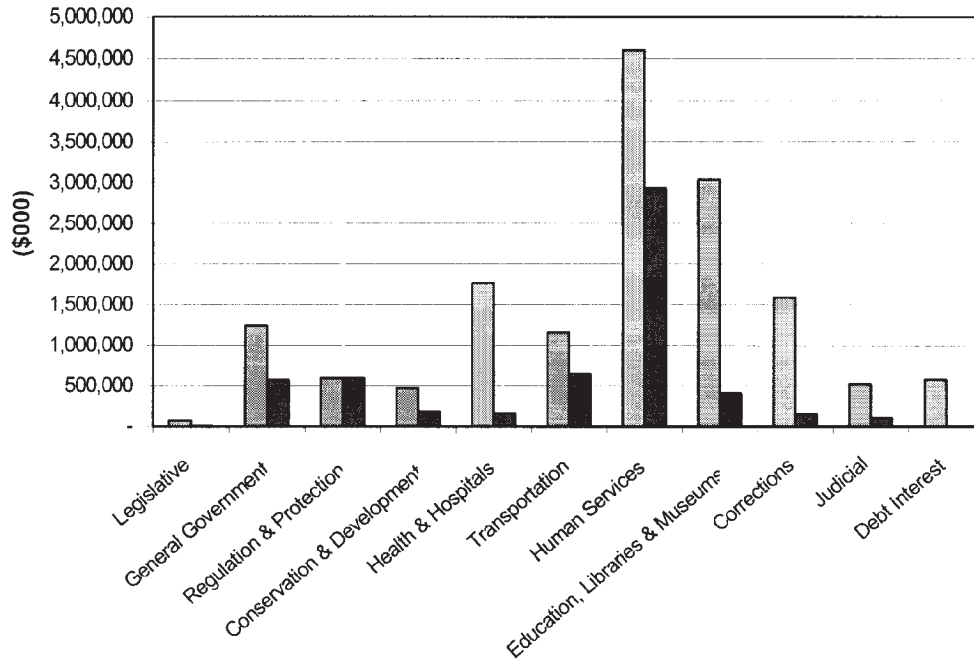
Special Items are significant transactions or other activity within management's control that are either unusual in nature or infrequent in occurrence. Extraordinary items are activities that are both unusual in nature and infrequent

GOVERNMENTAL ACTIVITIES

The following charts depict the distribution of revenues and expenses for Fiscal Year 2004.



Expenses and Program Revenues - Governmental Activities
Fiscal Year 2004



Within governmental activities, Fiscal Year 2004 program expenses were \$9.9 billion higher than program revenues. However, this excess of expenses over related program revenue was offset by general revenue in the amount of \$9.7 billion, resulting in a decrease in net assets of \$0.2 billion for the year. Had a transfer of loans to component units of \$0.2 billion (a Special Item) not occurred, there would have been almost no change in net assets for the year.

During the fiscal year 2004, budget projections indicated that budgeted revenues would exceed the budgeted level of expenditures (on a modified cash basis of accounting) producing an operating surplus in the General Fund. As a result, legislation was enacted (Public Act 04-216) to restore funding for various program activities that had been cut as part of the state's Fiscal Year 2003 deficit mitigation efforts. The restored funding totaled \$112.4 million in Fiscal Year 2004. In addition, \$125.3 million of the Fiscal Year 2004 General Fund operating surplus was reserved to support Fiscal Year 2005 anticipated spending requirements.

Business-type activities achieved a near breakeven point on operations for fiscal year 2004. Expenses of the Higher Education institutions, which include the University of Connecticut, the State University System and Connecticut Community Colleges, accounted for 61.7 percent of business-type expenses and 44.2 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 2004 with a balance of \$1.9 billion in its governmental funds. The unreserved balances totaling a deficit of \$44.7 million is net of a \$0.9 billion short fall in the general fund unreserved balance. Governmental fund expenditures exceeded fund revenues by \$0.5 billion before other financing activities and special items totaling \$0.9 billion. As a result fund balance for all governmental funds increased by \$0.4 billion in fiscal year 2004.

General Fund

The General Fund is the chief operating fund of the state. At the end of Fiscal Year 2004, the General Fund had a negative fund balance of \$0.2 billion of which a negative \$0.9 billion was unreserved. The excess of general fund revenues over expenditures totaled \$0.7 billion. Net other financing uses totaling \$0.5 billion included a transfer of \$0.3 billion to establish a new special revenue fund, the Restricted Grants & Accounts fund. This resulted in an increase in fund balance of \$0.2 billion for the fiscal year. Tax increases and other revenue enhancements enacted by the legislature and signed by the governor during Fiscal Year 2003 (Public Acts 03-2 and 03-1 of the June Special Session) generated over \$800 million in additional Fiscal Year 2004 revenue, and spending reductions implemented in fiscal year 2003 and continued and annualized into fiscal year 2004 were projected to save over \$300 million (the estimates are on a budgetary basis or modified cash basis of accounting). These actions helped avert a large General Fund operating deficit in Fiscal Year 2004 and to ultimately generate a General Fund surplus .

Transportation Fund

The Transportation Fund ended Fiscal Year 2004 with a fund balance of \$0.2 billion of which \$0.1 billion was unreserved. Fund balance was reduced by \$2.0 million through Fiscal Year 2004 operations.

Other Funds

The other funds category includes the state's special revenue, capital projects and permanent funds. These funds had a fund balance of \$1.3 billion on June 30, 2004 of which \$0.7 billion was unreserved. In fiscal 2004 the Clean Energy fund, which in prior years was combined with the CT Innovations, Inc. component unit, was presented as part of the environmental fund, a special revenue fund of the state.

In Fiscal Year 2004, expenditures exceeded revenues by \$1.2 billion in the other funds category. Bonds issued in the amount of \$1.3 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, 2004 amounts to \$12.4 billion (net of accumulated depreciation). The total of capital assets for governmental activities remained largely unchanged from the prior year while the increase for business-type activities was 9.0%. Depreciation charges for the fiscal year totaled \$0.8 billion.

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

	2004	2003	2004	2003*	2004	2003
Land	\$ 935.0	\$ 911.8	\$ 51.9	\$ 44.8	\$ 986.9	\$ 956.6
Buildings	1,036.3	879.9	1,916.1	1,706.1	2,952.4	2,586.0
Improvements Other than Buildings	133.9	63.2	245.5	230.0	379.4	293.2
Equipment	381.8	458.4	350.0	355.5	731.8	813.9
Infrastructure	5,396.0	5,481.8	-	-	5,396.0	5,481.8
Construction in Progress	1,662.8	1,736.9	293.4	285.1	1,956.2	2,022.0
Total	<u>\$ 9,545.8</u>	<u>\$ 9,532.0</u>	<u>\$ 2,856.9</u>	<u>\$ 2,621.5</u>	<u>\$ 12,402.7</u>	<u>\$ 12,153.5</u>

* totals differ with that of the prior year due to the implementation of GASB 39 (see Note 21)

Additional information on the State of Connecticut's capital assets can be found in Note 10 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 the debt service fund and revenue debt, which is payable from specified revenues of enterprise funds.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	\$ 9,606.6	\$ 9,216.4	\$ -	\$ -	\$ 9,606.6	\$ 9,216.4
Transportation Related Bonds	3,153.9	3,205.8	-	-	3,153.9	3,205.8
Revenue Bonds	-	-	1,713.8	1,547.5	1,713.8	1,547.5
Total	<u>\$ 12,760.5</u>	<u>\$ 12,422.2</u>	<u>\$ 1,713.8</u>	<u>\$ 1,547.5</u>	<u>\$ 14,474.3</u>	<u>\$ 13,969.7</u>

In Fiscal Year 2004 the state increased outstanding bonds by \$0.5 billion. For the year, outstanding debt in governmental activities increased by 2.7 percent and for business-type activities the increase was 10.8 percent. It should also be noted that the state also issued \$97.7 million in economic recovery notes (see note 17). The state's General Obligation bonds are rated Aa3, AA and AA by Moodys, Standard and Poors and Fitch respectively. Special Tax Obligation bonds are rated A1, AA-, AA- by Moodys, Standard and Poors and Fitch respectively.

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

CONTACTING THE STATE'S OFFICES OF FINANCIAL MANAGEMENT

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

*Basic
Financial
Statements*

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Statement of Net Assets

June 30, 2004

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ 1,041,388	\$ 436,936	\$ 1,478,324	\$ 139,538
Deposits with U.S. Treasury	-	477,197	477,197	-
Investments	106,120	171,156	277,276	233,307
Receivables, (Net of Allowances)	1,927,577	559,784	2,487,361	63,626
Due from Component Units	1,484	-	1,484	-
Due from Primary Government	-	-	-	22,179
Inventories	55,174	8,637	63,811	-
Restricted Assets	-	12,334	12,334	1,308,138
Internal Balances	(134,416)	134,416	-	-
Other Current Assets	16,185	7,413	23,598	7,135
Total Current Assets	3,013,512	1,807,873	4,821,385	1,773,923
Noncurrent Assets:				
Cash and Cash Equivalents	-	102,145	102,145	-
Due From Component Units	10,606	-	10,606	-
Investments	-	367,558	367,558	68,794
Loans, (Net of Allowances)	208,875	549,380	758,255	137,447
Restricted Assets	634,597	540,904	1,175,501	3,318,946
Capital Assets, (Net of Accumulated Depreciation)	9,545,745	2,856,957	12,402,702	227,926
Other Noncurrent Assets	47,658	207,572	255,230	32,068
Total Noncurrent Assets	10,447,481	4,624,516	15,071,997	3,785,181
Total Assets	13,460,993	6,432,389	19,893,382	5,559,104
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	599,666	192,507	792,173	74,983
Due to Component Units	22,179	-	22,179	-
Due to Primary Government	-	-	-	1,484
Due to Other Governments	125,106	-	125,106	-
Current Portion of Long-Term Obligations	1,328,704	171,112	1,499,816	167,885
Amount Held for Institutions	-	-	-	431,010
Deferred Revenue	10,325	142,314	152,639	36
Medicaid Liability	561,118	-	561,118	-
Liability for Escheated Property	77,106	-	77,106	-
Other Current Liabilities	200,255	100,935	301,190	-
Total Current Liabilities	2,924,459	606,868	3,531,327	675,398
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	16,042,966	2,165,604	18,208,570	3,565,108
Total Noncurrent Liabilities	16,042,966	2,165,604	18,208,570	3,565,108
Total Liabilities	18,967,425	2,772,472	21,739,897	4,240,506
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,166,710	2,209,541	5,376,251	42,867
Restricted For:				
Statutory Budget Reserve Requirements	302,155	-	302,155	-
Transportation	102,077	-	102,077	-
Debt Service	605,123	68,094	673,217	-
Capital Projects	216,068	68,507	284,575	-
Unemployment Compensation	-	635,902	635,902	-
Clean Water Projects	-	449,055	449,055	-
Bond Indenture Requirements	-	-	-	684,009
Permanent Investments or Endowments:				
Expendable	4,471	-	4,471	77,929
Nonexpendable	88,820	11,499	100,319	174,761
Other Purposes	248,977	176,858	425,835	95,016
Unrestricted (Deficit)	(10,240,833)	40,461	(10,200,372)	244,016
Total Net Assets (Deficit)	\$ (5,506,432)	\$ 3,659,917	\$ (1,846,515)	\$ 1,318,598

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

Statement of Activities

For The Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services, Fees, Fines, and Forfeitures</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
Governmental Activities:				
Legislative	\$ 72,566	\$ 2,367	\$ 21	\$ -
General Government	1,242,144	392,396	182,910	-
Regulation and Protection	593,129	486,918	107,298	-
Conservation and Development	468,936	105,631	75,963	-
Health and Hospitals	1,767,467	32,440	117,589	-
Transportation	1,162,242	108,937	-	537,754
Human Services	4,600,127	83,252	2,847,794	-
Education, Libraries, and Museums	3,035,681	11,244	396,196	-
Corrections	1,587,618	22,544	126,571	-
Judicial	522,879	98,713	4,946	-
Interest and Fiscal Charges	576,814	-	-	-
Total Governmental Activities	15,629,603	1,344,442	3,859,288	537,754
Business-Type Activities:				
University of Connecticut	1,254,402	677,819	149,998	8,243
State Universities	469,712	282,447	31,908	-
Bradley International Airport	59,338	51,157	-	1,096
Connecticut Lottery Corporation	656,716	907,866	-	-
Employment Security	811,483	778,797	-	-
Clean Water	24,759	16,518	1,991	-
Other	361,367	221,351	43,777	-
Total Business-Type Activities	3,637,777	2,935,955	227,674	9,339
Total Primary Government	\$ 19,267,380	\$ 4,280,397	\$ 4,086,962	\$ 547,093
Component Units				
Connecticut Housing Finance Authority (12-31-03)	\$ 207,982	\$ 182,868	\$ -	\$ -
Connecticut Health and Educational Facilities Authority	4,184	4,253	-	-
Other	240,922	231,826	4,929	4,995
Total Component Units	\$ 453,088	\$ 418,947	\$ 4,929	\$ 4,995
General Revenues:				
Taxes:				
Personal Income				
Corporate Income				
Sales and Use				
Other				
Restricted for Transportation Purposes:				
Motor Fuel				
Other				
Casino Gaming Payments				
Tobacco Settlement				
Unrestricted Investment Earnings				
Contributions to Endowments				
Special Items:				
Statutory Payment from Component Units				
Transfer of Loans to Component Unit				
Statutory Payment to State				
Loss on Disposal of Assets				
Extraordinary Item-Loss on Early Retirement of Debt				
Transfers-Internal Activities				
Total General Revenues, Contributions, Special Items, Extraordinary Item, and Transfers				
Change in Net Assets				
Net Assets (Deficit)- Beginning (as restated)				
Net Assets (Deficit)- Ending				

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

Connecticut

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>			
<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>	<u>Component</u>
<u>Activities</u>	<u>Activities</u>		<u>Units</u>
\$ (70,178)	\$ -	\$ (70,178)	\$ -
(666,838)	-	(666,838)	-
1,087	-	1,087	-
(287,342)	-	(287,342)	-
(1,617,438)	-	(1,617,438)	-
(515,551)	-	(515,551)	-
(1,669,081)	-	(1,669,081)	-
(2,628,241)	-	(2,628,241)	-
(1,438,503)	-	(1,438,503)	-
(419,220)	-	(419,220)	-
(576,814)	-	(576,814)	-
<u>(9,888,119)</u>	<u>-</u>	<u>(9,888,119)</u>	<u>-</u>
-	(418,342)	(418,342)	-
-	(155,357)	(155,357)	-
-	(7,085)	(7,085)	-
-	251,150	251,150	-
-	(32,686)	(32,686)	-
-	(6,250)	(6,250)	-
-	(96,239)	(96,239)	-
-	<u>(464,809)</u>	<u>(464,809)</u>	<u>-</u>
<u>(9,888,119)</u>	<u>(464,809)</u>	<u>(10,352,928)</u>	<u>-</u>
-	-	-	(25,114)
-	-	-	69
-	-	-	828
-	-	-	<u>(24,217)</u>
4,409,277	-	4,409,277	-
473,505	-	473,505	-
3,061,404	-	3,061,404	-
1,274,150	-	1,274,150	-
470,010	-	470,010	-
70,412	-	70,412	-
402,733	-	402,733	-
116,578	-	116,578	-
17,321	90,486	107,807	25,137
-	-	-	41,339
17,500	-	17,500	-
(204,117)	-	(204,117)	-
-	-	-	(15,000)
-	(4,190)	(4,190)	-
-	(1,983)	(1,983)	-
<u>(417,062)</u>	<u>417,062</u>	<u>-</u>	<u>-</u>
<u>9,691,711</u>	<u>501,375</u>	<u>10,193,086</u>	<u>51,476</u>
(196,408)	36,566	(159,842)	27,259
<u>(5,310,024)</u>	<u>3,623,351</u>	<u>(1,686,673)</u>	<u>1,291,339</u>
<u>\$ (5,506,432)</u>	<u>\$ 3,659,917</u>	<u>\$ (1,846,515)</u>	<u>\$ 1,318,598</u>

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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 special tax obligation bonds of the Transportation fund.

Transportation Fund:

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

Nonmajor Funds

Nonmajor governmental funds are presented, by fund type beginning on page 90.

Balance Sheet**Governmental Funds**

June 30, 2004

(Expressed in Thousands)

	<u>General</u>	<u>Debt Service</u>	<u>Transportation</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and Cash Equivalents	\$ -	\$ -	\$ 124,036	\$ 903,117	\$ 1,027,153
Investments	-	-	-	106,120	106,120
Securities Lending Collateral	-	-	-	15,346	15,346
Receivables:					
Taxes, Net of Allowances	830,383	-	45,443	-	875,826
Accounts, Net of Allowances	186,653	-	10,922	50,329	247,904
Loans, Net of Allowances	-	-	-	208,875	208,875
From Other Governments	590,687	-	-	154,534	745,221
Interest	-	4,487	170	-	4,657
Other	-	-	-	70	70
Due from Other Funds	18,741	1,083	5,964	225,973	251,761
Advances to Other Funds	4,700	-	-	-	4,700
Due from Component Units	12,090	-	-	-	12,090
Inventories	37,478	-	13,069	-	50,547
Restricted Assets	-	634,596	-	-	634,596
Total Assets	<u>\$ 1,680,732</u>	<u>\$ 640,166</u>	<u>\$ 199,604</u>	<u>\$ 1,664,364</u>	<u>\$ 4,184,866</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable and Accrued Liabilities	\$ 277,979	\$ -	\$ 22,484	\$ 173,856	\$ 474,319
Due to Other Funds	249,715	4,487	534	98,680	353,416
Due to Component Units	-	-	-	22,179	22,179
Due to Other Governments	122,053	-	-	3,053	125,106
Deferred Revenue	392,102	-	10,339	34,493	436,934
Medicaid Liability	561,118	-	-	-	561,118
Liability For Escheated Property	77,106	-	-	-	77,106
Securities Lending Obligation	-	-	-	15,346	15,346
Other Liabilities	180,712	-	-	2,709	183,421
Total Liabilities	<u>1,860,785</u>	<u>4,487</u>	<u>33,357</u>	<u>350,316</u>	<u>2,248,945</u>
Fund Balances					
Reserved For:					
Petty Cash	996	-	-	-	996
Inventories	37,478	-	13,069	-	50,547
Loans	16,790	-	-	208,875	225,665
Continuing Appropriations	212,862	-	34,166	-	247,028
Debt Service	-	635,679	-	-	635,679
Restricted Purposes	-	-	-	368,218	368,218
Statutory Surplus - FYE '05	150,300	-	-	-	150,300
Transfer to Budget Reserve Fund	302,155	-	-	-	302,155
Unreserved Reported In:					
General Fund	(900,634)	-	-	-	(900,634)
Transportation Fund	-	-	119,012	-	119,012
Special Revenue Funds	-	-	-	514,174	514,174
Capital Project Funds	-	-	-	222,781	222,781
Total Fund Balances	<u>(180,053)</u>	<u>635,679</u>	<u>166,247</u>	<u>1,314,048</u>	<u>1,935,921</u>
Total Liabilities and Fund Balances	<u>\$ 1,680,732</u>	<u>\$ 640,166</u>	<u>\$ 199,604</u>	<u>\$ 1,664,364</u>	<u>\$ 4,184,866</u>

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, 2004

(Expressed in Thousands)

Total Fund Balance - Governmental Funds	\$	1,935,921
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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	2,756,263	
Equipment	1,063,910	
Infrastructure	11,290,148	
Other Capital Assets	1,251,685	
Accumulated Depreciation	<u>(6,857,939)</u>	9,504,067

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.		45,890
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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.		426,738
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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.		29,816
---	--	--------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds (Note 16).

Net Pension Obligation	(3,440,354)	
Worker's Compensation	(276,681)	
Capital Leases	(54,168)	
Compensated Absences	(365,559)	
Claims and Judgments	<u>(13,183)</u>	(4,149,945)

Long-term bonded debt is not due and payable in the current period and therefore is not reported in the funds. Unamortized premiums, loss on refundings, and interest payable are not reported in the funds. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement (Note 16).

Economic Recovery Note	(273,215)	
Bonds Payable	(12,760,560)	
Unamortized Premiums	(457,490)	
Less: Deferred Loss on Refundings	276,124	
Accrued Interest Payable	<u>(83,778)</u>	<u>(13,298,919)</u>

Net Assets of Governmental Activities	\$	<u>(5,506,432)</u>
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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, 2004
(Expressed in Thousands)

	<u>General</u>	<u>Debt Service</u>	<u>Transportation</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 9,198,784	\$ -	\$ 535,469	\$ 25,413	\$ 9,759,666
Assessments	-	-	-	25,827	25,827
Licenses, Permits and Fees	153,737	-	310,811	50,892	515,440
Tobacco Settlement	-	-	-	116,578	116,578
Intergovernmental	2,827,287	-	-	1,559,316	4,386,603
Charges for Services	39,714	-	55,054	3,440	98,208
Fines, Forfeits and Rents	107,843	-	27,138	3,638	138,619
Casino Gaming Payments	402,733	-	-	-	402,733
Investment Earnings	233	12,304	2,534	11,432	26,503
Miscellaneous	135,523	-	5,786	405,932	547,241
Total Revenues	<u>12,865,854</u>	<u>12,304</u>	<u>936,792</u>	<u>2,202,468</u>	<u>16,017,418</u>
Expenditures					
Current:					
Legislative	65,721	-	-	2,138	67,859
General Government	784,356	-	1,582	422,210	1,208,148
Regulation and Protection	276,359	-	68,935	218,507	563,801
Conservation and Development	130,394	-	-	324,084	454,478
Health and Hospitals	1,447,129	-	-	281,638	1,728,767
Transportation	6,709	-	437,683	82,897	527,289
Human Services	4,197,093	-	-	325,610	4,522,703
Education, Libraries, and Museums	2,104,304	-	-	859,791	2,964,095
Corrections	1,499,870	-	-	39,133	1,539,003
Judicial	485,123	-	-	26,423	511,546
Capital Projects	-	-	-	779,276	779,276
Debt Service:					
Principal Retirement	724,973	236,300	4,035	5	965,313
Interest and Fiscal Charges	398,406	179,030	13,125	56,601	647,162
Total Expenditures	<u>12,120,437</u>	<u>415,330</u>	<u>525,360</u>	<u>3,418,313</u>	<u>16,479,440</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>745,417</u>	<u>(403,026)</u>	<u>411,432</u>	<u>(1,215,845)</u>	<u>(462,022)</u>
Other Financing Sources (Uses)					
Bonds/Notes Issued	97,700	-	-	1,297,845	1,395,545
Premiums on Bonds Issued	-	200,328	-	68,730	269,058
Transfers In	607,456	428,328	26,906	617,446	1,680,136
Transfers Out	(1,241,981)	(26,605)	(440,789)	(389,528)	(2,098,903)
Refunding Bonds Issued	-	1,961,040	-	-	1,961,040
Payment to Refunded Bond Escrow Agent	-	(2,146,469)	-	-	(2,146,469)
Capital Lease Obligations	-	-	406	-	406
Total Other Financing Sources (Uses)	<u>(536,825)</u>	<u>416,622</u>	<u>(413,477)</u>	<u>1,594,493</u>	<u>1,060,813</u>
Special Item-Statutory Payment from Component Units	17,500	-	-	-	17,500
Special Item-Transfer of Loans to Component Unit	-	-	-	(204,117)	(204,117)
Net Change in Fund Balances	<u>226,092</u>	<u>13,596</u>	<u>(2,045)</u>	<u>174,531</u>	<u>412,174</u>
Fund Balances - Beginning (as restated)	(401,499)	622,083	168,303	1,139,517	1,528,404
Changes in Reserves for Inventories	(4,646)	-	(11)	-	(4,657)
Fund Balances - Ending	<u>\$ (180,053)</u>	<u>\$ 635,679</u>	<u>\$ 166,247</u>	<u>\$ 1,314,048</u>	<u>\$ 1,935,921</u>

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, 2004

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		\$	412,174
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	(1,395,545)		
Refunding Bonds Issued	(1,961,040)		
Premium on Bonds Issued	<u>(269,058)</u>	(3,625,643)	
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	965,313		
Payments to Refunded Bond Escrow Agent (\$25,100 reported in debt service)	2,171,568		
Capital Lease Payments	<u>14,227</u>	3,151,108	
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	677,059		
Depreciation Expense	<u>(641,993)</u>	35,066	
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.			(406)
Inventories are reported as expenditures in the governmental funds when purchased. However, in the Statement of Activities the cost of these assets is recognized when those assets are consumed. This is the amount by which consumption exceeded purchases of inventories.			(4,657)
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	5,510		
Decrease in Interest Accreted on Capital Appreciation Debt	8,835		
Amortization of Bond Premium	26,234		
Amortization of Loss on Debt Refundings	(16,865)		
Increase in Compensated Absences Liability	(23,210)		
Increase in Workers Compensation Liability	(11,036)		
Increase in Claims and Judgments Liability	(5,571)		
Increase in Net Pension Obligation	<u>(183,757)</u>	(199,860)	
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 increased by this amount this year.			17,853
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of internal service funds is reported with the governmental activities.			(3,577)
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	24,356		
Amortization of Debt Issue Costs	<u>(2,822)</u>	21,534	
Change in Net Assets of Governmental Activities		\$	<u>(196,408)</u>

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, 2004

(Expressed in Thousands)

	General Fund			Variance with Final Budget positive (negative)
	Budget		Actual	
	Original	Final		
Revenues				
Budgeted:				
Taxes, Net of Refunds	\$ 8,624,000	\$ 9,121,600	\$ 9,182,555	\$ 60,955
Operating Transfers In	380,600	401,300	401,277	(23)
Casino Gaming Payments	410,000	402,700	402,733	33
Licenses, Permits, and Fees	149,500	149,800	154,593	4,793
Other	238,800	268,900	271,744	2,844
Federal Grants	2,527,000	2,539,800	2,564,105	24,305
Transfer to the Resources of the General Fund	207,700	-	232,305	232,305
Refunds of Payments	(500)	(600)	(574)	26
Operating Transfers Out	(85,000)	(3,000)	(85,000)	(82,000)
Transfer out- Transportation Strategy Board	-	-	-	-
Total Revenues	<u>12,452,100</u>	<u>12,880,500</u>	<u>13,123,738</u>	<u>243,238</u>
Expenditures				
Budgeted:				
Legislative	62,033	66,284	57,221	9,063
General Government	436,640	444,573	394,193	50,380
Regulation and Protection	217,255	217,790	198,945	18,845
Conservation and Development	72,474	99,486	81,580	17,906
Health and Hospitals	1,259,016	1,377,476	1,206,855	170,621
Transportation	8,953	7,613	5,931	1,682
Human Services	3,779,660	3,875,193	3,776,416	98,777
Education, Libraries, and Museums	2,834,745	2,860,859	2,789,367	71,492
Corrections	1,172,902	1,200,187	1,165,656	34,531
Judicial	390,253	390,824	368,327	22,497
Non Functional	<u>2,564,981</u>	<u>2,615,747</u>	<u>2,502,332</u>	<u>113,415</u>
Total Expenditures	12,798,912	13,156,032	12,546,823	609,209
Appropriations Lapsed	<u>260,311</u>	<u>285,300</u>	<u>-</u>	<u>(285,300)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(86,501)</u>	<u>9,768</u>	<u>576,915</u>	<u>567,147</u>
Other Financing Sources (Uses)				
Prior Year Appropriations Carried Forward	86,647	86,647	86,647	-
Appropriations Continued to Fiscal Year 2004-2005	-	-	(212,862)	(212,862)
Miscellaneous Adjustments	-	105,881	1,755	(104,126)
Total Other Financing Sources (Uses)	<u>86,647</u>	<u>192,528</u>	<u>(124,460)</u>	<u>(316,988)</u>
Net Change in Fund Balance	<u>\$ 146</u>	<u>\$ 202,296</u>	<u>452,455</u>	<u>\$ 250,159</u>
Budgetary Fund Balances (deficit) - July 1			792,654	
Changes in Reserves			<u>(578,796)</u>	
Budgetary Fund Balances - June 30			<u>\$ 666,313</u>	

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

Connecticut

Transportation Fund

<u>Budget</u>		<u>Actual</u>	Variance with Final Budget
<u>Original</u>	<u>Final</u>		positive (negative)
\$ 535,400	\$ 538,500	\$ 535,298	\$ (3,202)
-	-	-	-
-	-	-	-
353,400	370,900	374,233	3,333
30,700	27,800	28,254	454
3,300	-	-	-
-	-	-	-
(2,800)	(2,500)	(2,507)	(7)
(8,500)	(8,500)	(8,500)	-
(10,000)	(23,000)	(22,850)	150
<u>901,500</u>	<u>903,200</u>	<u>903,928</u>	<u>728</u>
-	-	-	-
2,250	2,250	1,589	661
55,932	56,406	48,690	7,716
-	-	-	-
-	-	-	-
361,462	361,613	340,996	20,617
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>519,852</u>	<u>519,226</u>	<u>502,032</u>	<u>17,194</u>
939,496	939,495	893,307	46,188
<u>22,064</u>	<u>10,675</u>	<u>-</u>	<u>(10,675)</u>
<u>(15,932)</u>	<u>(25,620)</u>	<u>10,621</u>	<u>36,241</u>
19,866	19,866	19,866	-
-	-	(34,166)	(34,166)
-	-	4	4
<u>19,866</u>	<u>19,866</u>	<u>(14,296)</u>	<u>(34,162)</u>
<u>\$ 3,934</u>	<u>\$ (5,754)</u>	<u>(3,675)</u>	<u>\$ 2,079</u>
		356,314	
		(189,200)	
		<u>\$ 163,439</u>	

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Proprietary Fund Financial Statements

Major Funds

UConn:

This fund is used to account for the operations of the University of Connecticut a comprehensive institution of higher education, which includes the University of Connecticut Health Center and John Dempsey Hospital.

State Universities:

This fund is used to account for the operations of the State University System which consist of four universities: Central, Eastern, Southern, and Western.

Bradley International Airport:

The airport is owned by the State of Connecticut and is operated by the Bureau of Aeronautics of the State of Connecticut, Department of Transportation. In 1982, the State issued the Airport, 1982 series, Revenue Bonds in the aggregate principal amount of \$100,000,000. The bonds were refunded in 1992 with the issuance of \$94,065,000 in refunding bonds. The refunding bonds are secured by and payable solely from the gross operating revenues generated by the State from the operations of the Airport and other receipts, funds or monies pledged in the Indenture.

The Connecticut Lottery Corporation:

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

Employment Security:

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

Clean Water:

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

Nonmajor Funds

Nonmajor proprietary funds are presented, by fund type beginning on page 112.

Statement of Net Assets**Proprietary Funds**

June 30, 2004

(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	University of Connecticut	State Universities	Bradley International Airport	Connecticut Lottery Corporation
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ 247,584	\$ 69,179	\$ 19,637	\$ 23,802
Deposits with U.S. Treasury	-	-	-	-
Investments	587	122,849	-	47,720
Receivables:				
Accounts, Net of Allowances	91,409	96,211	4,927	9,799
Loans, Net of Allowances	2,229	1,425	-	-
Interest	-	-	-	14,263
From Other Governments	-	1,874	1,163	-
Due from Other Funds	50,204	36,683	-	-
Inventories	7,641	-	-	-
Restricted Assets	157	-	12,177	-
Other Current Assets	2,296	1,195	690	1,977
Total Current Assets	402,107	329,416	38,594	97,561
Noncurrent Assets:				
Cash and Cash Equivalents	1,450	100,695	-	-
Investments	11,514	-	-	334,568
Loans, Net of Allowances	10,083	10,243	-	-
Restricted Assets	25,925	-	129,105	-
Capital Assets, Net of Accumulated Depreciation	1,624,428	595,865	312,335	2,484
Other Noncurrent Assets	9,498	2,600	6,236	4,713
Total Noncurrent Assets	1,682,898	709,403	447,676	341,765
Total Assets	2,085,005	1,038,819	486,270	439,326
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	95,653	33,846	9,075	11,785
Due to Other Funds	8,908	1,636	2,071	-
Current Portion of Long-Term Obligations	45,971	16,372	8,780	50,661
Deferred Revenue	36,732	101,371	656	438
Other Current Liabilities	23,707	18,505	3,397	38,671
Total Current Liabilities	210,971	171,730	23,979	101,555
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	287,359	356,468	242,514	334,568
Total Noncurrent Liabilities	287,359	356,468	242,514	334,568
Total Liabilities	498,330	528,198	266,493	436,123
Net Assets (Deficit)				
Invested in Capital Assets, Net of Related Debt	1,372,885	462,358	103,800	2,484
Restricted For:				
Debt Service	10,794	-	35,241	-
Unemployment Compensation	-	-	-	-
Clean Water Projects	-	-	-	-
Capital Projects	21,743	-	46,764	-
Nonexpendable Purposes	10,962	517	-	-
Other Purposes	19,648	27,340	22,868	3,203
Unrestricted	150,643	20,406	11,104	(2,484)
Total Net Assets	\$ 1,586,675	\$ 510,621	\$ 219,777	\$ 3,203

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

Connecticut

Business-Type Activities				Governmental
Enterprise Funds				Activities
Employment Security	Clean Water	Other Funds	Total	Internal Service Funds
\$ -	\$ 2,966	\$ 73,768	\$ 436,936	\$ 14,235
477,197	-	-	477,197	-
-	-	-	171,156	-
155,490	-	26,317	384,153	10,581
-	136,926	3,773	144,353	-
-	6,705	436	21,404	-
6,428	409	-	9,874	-
1,474	-	63,357	151,718	5,874
-	-	996	8,637	4,627
-	-	-	12,334	-
-	-	1,255	7,413	839
<u>640,589</u>	<u>147,006</u>	<u>169,902</u>	<u>1,825,175</u>	<u>36,156</u>
-	-	-	102,145	-
-	-	21,476	367,558	-
-	479,120	49,934	549,380	-
-	307,315	78,559	540,904	-
-	-	321,845	2,856,957	41,678
-	163,080	21,445	207,572	1,768
-	949,515	493,259	4,624,516	43,446
<u>640,589</u>	<u>1,096,521</u>	<u>663,161</u>	<u>6,449,691</u>	<u>79,602</u>
-	6,432	35,716	192,507	36,887
4,687	-	-	17,302	-
-	38,207	11,121	171,112	212
-	-	3,117	142,314	129
-	2,589	14,066	100,935	1,489
<u>4,687</u>	<u>47,228</u>	<u>64,020</u>	<u>624,170</u>	<u>38,717</u>
-	543,339	401,356	2,165,604	11,069
-	543,339	401,356	2,165,604	11,069
<u>4,687</u>	<u>590,567</u>	<u>465,376</u>	<u>2,789,774</u>	<u>49,786</u>
-	-	268,014	2,209,541	17,783
-	-	22,059	68,094	-
635,902	-	-	635,902	-
-	449,055	-	449,055	-
-	-	-	68,507	-
-	-	20	11,499	-
-	-	103,799	176,858	-
-	56,899	(196,107)	40,461	12,033
<u>\$ 635,902</u>	<u>\$ 505,954</u>	<u>\$ 197,785</u>	<u>\$ 3,659,917</u>	<u>\$ 29,816</u>

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

For The Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	University of Connecticut	State Universities	Bradley International Airport	Connecticut Lottery Corporation
Operating Revenues				
Charges for Sales and Services	\$ 585,961	\$ 161,814	\$ 37,587	\$ 907,656
Assessments	-	-	-	-
Intergovernmental	160,962	30,545	-	-
Private Gifts and Grants	31,809	1,363	-	-
Interest on Loans	-	-	-	-
Other	49,085	73,282	-	192
Total Operating Revenues	827,817	267,004	37,587	907,848
Operating Expenses				
Cost of Sales and Services	157,333	-	-	611,844
Salaries, Wages and Administrative	798,488	287,956	29,464	11,881
Unemployment Compensation	-	-	-	-
Claims Paid	-	-	-	-
Depreciation and Amortization	89,684	37,549	16,477	458
Other	188,337	144,207	-	3,126
Total Operating Expenses	1,233,842	469,712	45,941	627,309
Operating Income (Loss)	(406,025)	(202,708)	(8,354)	280,539
Nonoperating Revenue (Expenses)				
Interest and Investment Income	4,513	5,023	3,705	29,758
Interest and Fiscal Charges	(10,198)	-	(13,397)	(29,407)
Other	(10,362)	47,351	13,570	18
Total Nonoperating Revenues (Expenses)	(16,047)	52,374	3,878	369
Income (Loss) Before Capital Contributions, Grants, Special Item, Extraordinary Item and Transfers	(422,072)	(150,334)	(4,476)	280,908
Capital Contributions	8,243	-	1,096	-
Federal Grants	-	-	-	-
Special Item-Loss on Disposal of Capital Assets	(4,190)	-	-	-
Extraordinary Item-Loss on Early Retirement of Debt	-	-	-	-
Transfers In	479,467	206,705	8,695	-
Transfers Out	-	-	-	(280,763)
Change in Net Assets	61,448	56,371	5,315	145
Total Net Assets - Beginning (as restated)	1,525,227	454,250	214,462	3,058
Total Net Assets - Ending	\$ 1,586,675	\$ 510,621	\$ 219,777	\$ 3,203

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

Connecticut

Business-Type Activities				Governmental
Enterprise Funds				Activities
Employment Security	Clean Water	Other Funds	Totals	Internal Service Funds
\$ -	\$ -	\$ 83,199	\$ 1,776,217	\$ 86,811
628,026	-	93,965	721,991	-
150,771	-	36,944	379,222	-
-	-	935	34,107	-
-	12,268	1,216	13,484	-
-	-	41,799	164,358	1,026
<u>778,797</u>	<u>12,268</u>	<u>258,058</u>	<u>3,089,379</u>	<u>87,837</u>
-	-	7,077	776,254	36,042
-	604	279,701	1,408,094	33,835
811,483	-	-	811,483	-
-	-	36,496	36,496	-
-	-	14,721	158,889	20,248
-	-	12,610	348,280	1,300
<u>811,483</u>	<u>604</u>	<u>350,605</u>	<u>3,539,496</u>	<u>91,425</u>
<u>(32,686)</u>	<u>11,664</u>	<u>(92,547)</u>	<u>(450,117)</u>	<u>(3,588)</u>
25,451	18,829	3,207	90,486	62
-	(24,155)	(10,762)	(87,919)	(51)
-	4,250	1,172	55,999	-
<u>25,451</u>	<u>(1,076)</u>	<u>(6,383)</u>	<u>58,566</u>	<u>11</u>
<u>(7,235)</u>	<u>10,588</u>	<u>(98,930)</u>	<u>(391,551)</u>	<u>(3,577)</u>
-	-	-	9,339	-
-	1,991	5,898	7,889	-
-	-	-	(4,190)	-
-	-	(1,983)	(1,983)	-
-	10,282	208,384	913,533	-
<u>(3,262)</u>	<u>(659)</u>	<u>(211,787)</u>	<u>(496,471)</u>	<u>-</u>
<u>(10,497)</u>	<u>22,202</u>	<u>(98,418)</u>	<u>36,566</u>	<u>(3,577)</u>
<u>646,399</u>	<u>483,752</u>	<u>296,203</u>	<u>3,623,351</u>	<u>33,393</u>
<u>\$ 635,902</u>	<u>\$ 505,954</u>	<u>\$ 197,785</u>	<u>\$ 3,659,917</u>	<u>\$ 29,816</u>

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	Uconn	State Universities	Bradley International Airport	Connecticut Lottery Corporation
Cash Flows from Operating Activities				
Receipts from Customers	\$ 597,353	\$ 256,882	\$ 37,255	\$ 907,015
Payments to Suppliers	(341,499)	(32,796)	(18,316)	(20,917)
Payments to Employees	(741,620)	(278,039)	(10,855)	(10,090)
Other Receipts (Payments)	247,666	(107,232)	-	(595,347)
Net Cash Provided by (Used in) Operating Activities	(238,100)	(161,185)	8,084	280,661
Cash Flows from Noncapital Financing Activities				
Proceeds from Sale of Bonds	-	-	-	-
Retirement of Bonds and Annuities Payable	-	-	-	(51,090)
Interest on Bonds and Annuities Payable	-	-	-	(31,207)
Transfers In	327,745	189,417	8,695	-
Transfers Out	-	-	-	(280,763)
Other Receipts (Payments)	7,987	47,524	-	-
Net Cash Flows from Noncapital Financing Activities	335,732	236,941	8,695	(363,060)
Cash Flows from Capital and Related Financing Activities				
Additions to Property, Plant and Equipment	(212,734)	(124,022)	(28,481)	(1,549)
Proceeds from Capital Debt	123,410	117,731	-	-
Principal Paid on Capital Debt	(51,795)	(68,312)	(6,140)	-
Interest Paid on Capital Debt	(35,293)	-	(13,783)	-
Transfer In	71,317	-	-	-
Federal Grant	-	-	-	-
Capital Contributions	-	15,289	2,840	-
Other Receipts (Payments)	34,112	231	11,051	-
Net Cash Flows from Capital and Related Financing Activities	(70,983)	(59,083)	(34,513)	(1,549)
Cash Flows from Investing Activities				
Proceeds from Sales and Maturities of Investments	-	62	70,849	50,559
Purchase of Investment Securities	(27,563)	(23,778)	-	-
Interest on Investments	4,249	4,987	4,658	31,557
(Increase) Decrease in Restricted Assets	-	-	-	-
Other Receipts (Payments)	-	40	-	-
Net Cash Flows from Investing Activities	(23,314)	(18,689)	75,507	82,116
Net Increase (Decrease) in Cash and Cash Equivalents	3,335	(2,016)	57,773	(1,832)
Cash and Cash Equivalents - Beginning of Year	271,127	171,890	85,473	25,634
Cash and Cash Equivalents - End of Year	\$ 274,462	\$ 169,874	\$ 143,246	\$ 23,802
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities				
Operating Income (Loss)	\$ (406,025)	\$ (202,708)	\$ (8,354)	\$ 280,539
Adjustments not Affecting Cash:				
Depreciation and Amortization	89,684	37,549	16,476	458
Others	47,295	300	-	51
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables, Net	8,625	(14,266)	(653)	(285)
(Increase) Decrease in Due from Other Funds	1,515	(2,999)	-	-
(Increase) Decrease in Inventories and Other Assets	547	13,574	-	(19)
Increase (Decrease) in Accounts Payables & Accrued Liabilities	19,501	7,311	615	(83)
Increase (Decrease) in Due to Other Funds	758	54	-	-
Total Adjustments	167,925	41,523	16,438	122
Net Cash Provided by (Used In) Operating Activities	\$ (238,100)	\$ (161,185)	\$ 8,084	\$ 280,661
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets				
Cash and Cash Equivalents - Current	\$ 247,584	\$ 69,179	\$ 19,637	
Cash and Cash Equivalents - Noncurrent	1,450	100,695	-	
Cash and Cash Equivalents - Restricted	25,428	-	123,609	
	\$ 274,462	\$ 169,874	\$ 143,246	

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

Connecticut

Business-Type Activities				Governmental
Enterprise Funds				Activities
Employment Security	Clean Water	Other	Totals	Internal Service Funds
\$ 761,758	\$ 50,278	\$ 182,525	\$ 2,793,066	\$ 74,114
-	-	(59,302)	(472,830)	(34,915)
-	(602)	(215,791)	(1,256,997)	(33,818)
(807,963)	(48,665)	(1,330)	(1,312,871)	-
(46,205)	1,011	(93,898)	(249,632)	5,381
-	314,609	245,982	560,591	-
-	(36,723)	(58,207)	(146,020)	-
-	(22,717)	(8,414)	(62,338)	-
-	9,623	168,885	704,365	-
(3,262)	-	(211,787)	(495,812)	-
-	(271,441)	(3,997)	(219,927)	-
(3,262)	(6,649)	132,462	340,859	-
-	-	(7,101)	(373,887)	(1,321)
-	-	-	241,141	-
-	-	-	(126,247)	-
-	-	(3,582)	(52,658)	-
-	-	40,425	111,742	-
-	1,714	5,011	6,725	-
-	-	-	18,129	-
-	-	(6,461)	38,933	-
-	1,714	28,292	(136,122)	(1,321)
-	-	-	121,470	-
-	-	(40,095)	(91,436)	-
25,451	19,130	3,195	93,227	62
-	-	2,788	2,788	-
24,016	(12,684)	(12,839)	(1,467)	-
49,467	6,446	(46,951)	124,582	62
-	2,522	19,905	79,687	4,122
-	444	62,641	617,209	10,113
\$ -	\$ 2,966	\$ 82,546	\$ 696,896	\$ 14,235
\$ (32,686)	\$ 11,664	\$ (92,547)	\$ (450,117)	\$ (3,588)
-	-	14,729	158,896	20,248
-	-	(23,492)	24,154	-
(15,667)	(10,653)	(17,743)	(50,642)	2,866
3,252	-	-	1,768	(1,093)
-	-	15,266	29,368	95
-	-	9,889	37,233	1,687
(1,104)	-	-	(292)	(14,834)
(13,519)	(10,653)	(1,351)	200,485	8,969
\$ (46,205)	\$ 1,011	\$ (93,898)	\$ (249,632)	\$ 5,381

\$ -
-
8,778
\$ 8,778

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Fiduciary Fund Financial Statements

Investment Trust Fund

External Investment Pool:

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

Private Purpose Trust Fund

Escheat Securities:

to account for securities that are held by the State Treasurer for individuals under escheat laws of the State.

Individual fund descriptions and financial statements begin on the following pages:

Pension (and Other Employee Benefit) Trust Funds, page 120

Agency Funds, page 126

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

(Expressed in Thousands)

	<u>Pension & Other Employee Benefit Trust Funds</u>	<u>Investment Trust Fund External Investment Pool</u>	<u>Private- Purpose Trust Fund Escheat Securities</u>	<u>Agency Funds</u>	<u>Total</u>
Assets					
Cash and Cash Equivalents	\$ 6,088	\$ -	\$ -	\$ 163,141	\$ 169,229
Receivables:					
Accounts, Net of Allowances	12,475	-	-	2,478	14,953
From Other Funds	8,108	-	-	4,675	12,783
Interest	382	871	-	63	1,316
Investments	20,099,983	791,474	-	-	20,891,457
Inventories	-	-	-	440	440
Securities Lending Collateral	2,107,047	-	-	-	2,107,047
Other Assets	5,107	6	104,272	525,322	634,707
Total Assets	<u>22,239,190</u>	<u>792,351</u>	<u>104,272</u>	<u>\$ 696,119</u>	<u>23,831,932</u>
Liabilities					
Accounts Payable and Accrued Liabilities	-	758	-	1,523	2,281
Securities Lending Obligation	2,107,047	-	-	-	2,107,047
Due to Other Funds	51,418	-	-	-	51,418
Other Liabilities	-	-	-	2,751	2,751
Funds Held for Others	-	90	-	691,845	691,935
Total Liabilities	<u>2,158,465</u>	<u>848</u>	<u>-</u>	<u>\$ 696,119</u>	<u>2,855,432</u>
Net Assets					
Held in Trust For:					
Employees' Pension Benefits (Note 13)	20,047,047	-	-		20,047,047
Other Employee Benefits	33,678	-	-		33,678
Individuals, Organizations, and Other Governments	-	791,503	104,272		895,775
Total Net Assets	<u>\$ 20,080,725</u>	<u>\$ 791,503</u>	<u>\$ 104,272</u>		<u>\$ 20,976,500</u>

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, 2004

(Expressed in Thousands)

	<u>Pension & Other Employee Benefit Trust Funds</u>	<u>Investment Trust Fund External Investment Pool</u>	<u>Private- Purpose Trust Fund Escheat Securities</u>	<u>Total</u>
Additions				
Contributions:				
Plan Members	\$ 308,193	\$ -	\$ -	\$ 308,193
State	679,485	-	-	679,485
Municipalities	17,290	-	-	17,290
Total Contributions	<u>1,004,968</u>	<u>-</u>	<u>-</u>	<u>1,004,968</u>
Investment Income	2,777,351	14,854	-	2,792,205
Less: Investment Expense	<u>(65,717)</u>	<u>(368)</u>	<u>-</u>	<u>(66,085)</u>
Net Investment Income	<u>2,711,634</u>	<u>14,486</u>	<u>-</u>	<u>2,726,120</u>
Escheat Securities Received	-	-	69,718	69,718
Transfers In	1,705	-	-	1,705
Other	53	-	9,027	9,080
Total Additions	<u>3,718,360</u>	<u>14,486</u>	<u>78,745</u>	<u>3,811,591</u>
Deductions				
Administrative Expense	1,608	-	-	1,608
Benefit Payments and Refunds	1,880,051	-	-	1,880,051
Escheat Securities Returned or Sold	-	-	9,041	9,041
Pool's Share Transactions	-	257,544	-	257,544
Distributions to Pool Participants	-	14,486	-	14,486
Other	4,066	-	-	4,066
Total Deductions	<u>1,885,725</u>	<u>272,030</u>	<u>9,041</u>	<u>2,166,796</u>
Change in Net Assets Held In Trust For:				
Pension and Other Employee Benefits	1,832,635	-	-	1,832,635
Individuals, Organizations, and Other Governments	-	(257,544)	69,704	(187,840)
Net Assets - Beginning	<u>18,248,090</u>	<u>1,049,047</u>	<u>34,568</u>	<u>19,331,705</u>
Net Assets - Ending	<u>\$ 20,080,725</u>	<u>\$ 791,503</u>	<u>\$ 104,272</u>	<u>\$ 20,976,500</u>

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

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Component Unit Financial Statements

Major Component Units

Connecticut Housing Finance Authority:

The Connecticut Housing Finance Authority is a public instrumentality and political subdivision of the State created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development and construction of housing for low and moderate income families throughout the State.

Connecticut Health and Educational Facilities Authority:

The Connecticut Health and Educational Facilities Authority is a public instrumentality and political subdivision of the State. The Authority was created 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.

Nonmajor

The nonmajor component units are presented beginning on page 130.

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Statement of Net Assets Component Units

June 30, 2004

(Expressed in Thousands)

Assets	Connecticut Housing Finance Authority (12-31-03)	Connecticut Health and Educational Facilities Authority	Other Component Units	Total
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ 20,045	\$ 119,493	\$ 139,538
Investments	-	159	233,148	233,307
Receivables:				
Accounts, Net of Allowances	-	345	32,361	32,706
Loans, Net of Allowances	-	-	29,878	29,878
Other	-	-	1,042	1,042
Due from Primary Government	-	-	22,179	22,179
Restricted Assets	812,442	433,266	62,430	1,308,138
Other Current Assets	-	139	6,996	7,135
Total Current Assets	812,442	453,954	507,527	1,773,923
Noncurrent Assets:				
Investments	-	-	68,794	68,794
Loans, Net of Allowances	-	-	137,447	137,447
Restricted Assets	3,222,000	-	96,946	3,318,946
Capital Assets, Net of Accumulated Depreciation	3,438	187	224,301	227,926
Other Noncurrent Assets	-	-	32,068	32,068
Total Noncurrent Assets	3,225,438	187	559,556	3,785,181
Total Assets	4,037,880	454,141	1,067,083	5,559,104
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	35,742	592	38,649	74,983
Current Portion of Long-Term Obligations	137,335	-	30,550	167,885
Amount Held for Institutions	-	431,010	-	431,010
Due to Primary Government	-	-	1,484	1,484
Deferred Revenue	-	-	36	36
Total Current Liabilities	173,077	431,602	70,719	675,398
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	3,177,356	2,250	385,502	3,565,108
Total Noncurrent Liabilities	3,177,356	2,250	385,502	3,565,108
Total Liabilities	3,350,433	433,852	456,221	4,240,506
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,438	187	39,242	42,867
Restricted:				
Bond Indentures	684,009	-	-	684,009
Expendable Endowments	-	-	77,929	77,929
Nonexpendable Endowments	-	-	174,761	174,761
Other Purposes	-	-	95,016	95,016
Unrestricted	-	20,102	223,914	244,016
Total Net Assets	\$ 687,447	\$ 20,289	\$ 610,862	\$ 1,318,598

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

Statement of Activities

Component Units

For The Fiscal Year Ended June 30, 2004

(Expressed in Thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Connecticut Housing Finance Authority (12/31/03)	\$ 207,982	\$ 182,868	\$ -	\$ -
Connecticut Health and Educational Facilities Authority	4,184	4,253	-	-
Other Component Units	<u>240,922</u>	<u>231,826</u>	<u>4,929</u>	<u>4,995</u>
Total Component Units	<u>\$ 453,088</u>	<u>\$ 418,947</u>	<u>\$ 4,929</u>	<u>\$ 4,995</u>

General Revenues:

Investment Income (Loss)

Contributions to Endowments

Special Item:

Statutory Payment to State

Total General Revenues,

Contributions, and Special Item

Change in Net Assets

Net Assets - Beginning (as restated)

Net Assets - Ending

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

Connecticut

**Net (Expense) Revenue and
Changes in Net Assets**

Connecticut Housing Finance Authority (12-31-03)	Connecticut Health & Educational Facilities Authority	Other Component Units	Totals
\$ (25,114)	\$ -	\$ -	\$ (25,114)
-	69	-	69
-	-	828	828
<u>(25,114)</u>	<u>69</u>	<u>828</u>	<u>(24,217)</u>
25,342	245	(450)	25,137
-	-	41,339	41,339
-	-	(15,000)	(15,000)
<u>25,342</u>	<u>245</u>	<u>25,889</u>	<u>51,476</u>
228	314	26,717	27,259
<u>687,219</u>	<u>19,975</u>	<u>584,145</u>	<u>1,291,339</u>
<u>\$ 687,447</u>	<u>\$ 20,289</u>	<u>\$ 610,862</u>	<u>\$ 1,318,598</u>

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Notes to the Financial Statements

June 30, 2004

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 nonprofit 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 funding for the organization's programs (applies only to the Connecticut Innovations, Incorporated and the Capital City Economic Development Authority). In addition, a nongovernmental nonprofit corporation is included as a discretely presented component unit because of the nature and significance of its relationship with the State are such that it would be misleading to exclude the corporation from the State's reporting entity. 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, 2003.

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, tradeshow, 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.

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 major Enterprise fund.

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.

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

Fund Financial Statements

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

The State reports the following major governmental funds:

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

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

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

The State reports the following major enterprise funds:

University of Connecticut - This fund is used to account for the operations of the University of Connecticut a comprehensive institution of higher education, which includes the University of Connecticut Health Center and John Dempsey Hospital.

State Universities - This fund is used to account for the operations of the State University System which consists of four universities: Central, Eastern, Southern, and Western.

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

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

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

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

In addition, the State reports the following fund types:

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

Pension (and Other Employee Benefits) Trust Funds - These funds account for resources held in trust for the members and beneficiaries of the State's defined benefit pension plans, a defined contribution plan, and other employee benefits plans. These plans are discussed more fully in Notes 11 and 12.

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

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

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

d. Measurement Focus and Basis of Accounting Government-wide, Proprietary, and Fiduciary Fund Financial Statements

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not

conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. This option is followed by the following component units of the State: the Connecticut Development Authority and the Connecticut Health and Educational Facilities Authority.

Governmental Fund Financial Statements

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

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

e. Budgeting Process

By statute, the Governor must submit the State budget to the General Assembly in February of every other year. Prior to June 30, the General Assembly enacts the budget through the passage of appropriation acts for the next two fiscal years and sets forth revenue estimates for the same period for the following funds: the General Fund, the Transportation Fund, the Mashantucket Pequot Fund, the Workers' Compensation Administration Fund, the Banking Fund, the Consumer Counsel and Public Utility Control Fund, the Insurance Fund, the Criminal Injuries Fund, the Soldiers, Sailors, and Marines Fund and the Regional Market Operations Fund. Under the State Constitution, the Governor has the power to veto any part of the itemized appropriations bill and to accept the remainder of the bill. However, the General Assembly may separately reconsider and repass the disapproved items by a two-thirds majority vote of both the Senate and the House.

Budgetary control is maintained at the individual appropriation account level by agency as established in authorized appropriation bills and is reported in the Annual Report of the State Comptroller. A separate document is necessary because the level of legal control is more detailed than reflected in the CAFR. Before an agency can utilize funds appropriated for a particular purpose, such funds must be allotted for the specific purpose by the Governor and encumbered by the Comptroller upon request by the agency. Such funds can then be expended

by the Treasurer only upon a warrant, draft or order of the Comptroller drawn at the request of the responsible agency. The allotment process maintains expenditure control over special revenue, enterprise, and internal service funds that are not budgeted as part of the annual appropriation act.

The Governor has the power under Connecticut statute to modify budgetary allotment requests for the administration, operation and maintenance of a budgeted agency. However, the modification cannot exceed 3 percent of the fund or 5 percent of the appropriation amount. Modifications beyond those limits, but not in excess of 5 percent of the total funds, require the approval of the Finance Advisory Committee. The Finance Advisory Committee is comprised of the Governor, the Lieutenant Governor, the Treasurer, the Comptroller, two senate members, not of the same political party, and three house members, not more than two of the same political party. Additional reductions of appropriations of more than 5 percent of the total appropriated fund can be made only with the approval of the General Assembly.

All funds, except fiduciary funds, use encumbrance accounting. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditures of the fund are recorded in order to reserve that portion of the applicable appropriation. All encumbrances lapse at year-end and, generally, all appropriations lapse at year-end except for certain continuing appropriations (continuing appropriations are defined as carry forwards of spending authority from one fiscal budget into a subsequent budget). The continuing appropriations include: appropriations continued for a one-month period after year-end which are part of a program that was not renewed the succeeding year; appropriations continued the entire succeeding year, as in the case of highway and other capital construction projects; and appropriations continued for specified amounts for certain special programs. Carry forward appropriations are reported as reservations of the fund balance in the financial statements.

The budget is prepared on a "modified cash" basis of accounting under which revenues are recognized when received, except for certain taxes 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 2004 fiscal year, the original adopted budget was adjusted by the General Assembly and the Finance Advisory Committee.

f. Assets and Liabilities

Cash and Cash Equivalents (see Note 4)

In addition to petty cash and bank accounts, this account includes cash equivalents – short-term, highly liquid investments with original maturities of three months or less when purchased. Cash equivalents include investments in the Short-Term Investment Fund ("STIF") and the Tax Exempt Proceeds Fund, Inc. ("TEPF"). TEPF is a short-term, tax-

exempt money market fund reported under the Investment Company Act of 1940. Investments in STIF and TEPF are reported at the fund's share price.

Investments (see Note 4)

Investments include Equity in Combined Investment Funds and other investments. Equity in Combined Investment Funds is reported at fair value based on the funds' current share price. Other investments are reported at fair value, except for the following investments which are reported at cost or amortized cost:

- Nonparticipating interest-earning investment contracts.
- Money market investments that mature within one year or less at the date of their acquisition.
- Investments of the External Investment Pool fund (an Investment Trust fund).

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

- The fair value of State bonds held by the Clean Water and Drinking Water funds (Enterprise funds) which is estimated using matrix pricing.
- The fair value of equity and debt securities held by the Connecticut Innovations, Incorporated, a component unit. The fair value of these investments is determined by the Valuation Committee of the Corporation, after giving consideration to pertinent information about the companies comprising the investments, including but not limited to recent sales prices of the issuer's securities, sales growth, progress toward business goals, and other operating data.

The State invests in derivatives. These investments are held by the Combined Investment Funds and are reported at fair value in each fund's statement of net assets.

Inventories

Inventories are reported at cost. Cost is determined by the first-in first-out (FIFO) method. Inventories in the governmental funds consist of expendable supplies held for consumption whose cost was recorded as an expenditure at the time the individual inventory items were purchased. Reported inventories in these funds are offset by a fund balance reserve to indicate that they are unavailable for appropriation.

Capital Assets and Depreciation

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

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

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

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

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

Securities Lending Transactions (see Note 4)

Assets, liabilities, income, and expenses arising from securities lending transactions of the Combined Investment Funds are allocated ratably to the participant funds based on their equity in the Combined Investment Funds.

Deferred Revenues

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

Long-term Obligations

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

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

Capital Appreciation Bonds

Capital appreciation (deep-discount) bonds issued by the State, unlike most bonds, which pay interest semi-annually, do not pay interest until the maturity of the bonds. An investor who purchases a capital appreciation bond at its discounted price and holds it until maturity will receive an amount which equals the initial price plus an amount which has accrued over the life of the bond on a semiannual compounding basis. The net value of the bonds is accreted (the discount reduced), based on this semiannual compounding, over the life of the bonds. This deep-discount debt is reported in the government-wide statement of net assets at its net or accreted value rather than at face value.

Compensated Absences

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

Vacation and sick policy is as follows: Employees hired on or before June 30, 1977, and managers regardless of date hired can accumulate up to a maximum of 120 vacation days. Employees hired after that date can accumulate up to a maximum of 60 days. Upon termination or death, the employee is entitled to be paid for the full amount of vacation days owed. No limit is placed on the number of sick days that an employee can accumulate. However, the employee is entitled to payment for accumulated sick time only upon retirement, or after ten years of service upon death, for an amount equal to one-fourth of his/her accrued sick leave up to a maximum payment equivalent to sixty days.

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

g. Fund Balance

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

h. Interest Rate Swap Agreements

The State has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements (see Note 17).

i. Interfund Activities

In the fund financial statements, interfund activities are reported as follows:

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

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

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

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

j. Food Stamps

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

k. External Investment Pool

Assets and liabilities of the Short-Term Investment Fund are allocated ratably to the External Investment Pool Fund based on its investment in the Short-Term Investment Fund (see Note 4). Pool income is determined based on distributions made to the pool's participants.

l. Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Note 2 Budgetary vs. GAAP Basis of Accounting

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

	<u>General Fund</u>	<u>Transportation Fund</u>
Net change in fund balances (budgetary basis)	\$ 452,455	\$ (3,675)
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	117,916	3,801
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	(166,581)	(1,408)
Salaries and Fringe Benefits Payable	(97,256)	(5,037)
Transfer of Restricted Resources	(304,357)	(10,026)
Proceeds of Economic Recovery Notes	97,700	-
Increases (decreases) in continuing appropriations	<u>126,215</u>	<u>14,300</u>
Net change in fund balances (GAAP basis)	<u>\$ 226,092</u>	<u>\$ (2,045)</u>

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 Nonmajor Fund Deficits

The following funds have deficit balances at June 30, 2004, none of which constitutes a violation of statutory provisions (amounts in thousands).

Special Revenue Fund

Consumer Counsel and Public Utility Control	\$ 2,237
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Enterprise

Second Injury & Compensation Assurance	\$ 11,896
Bradley Parking Garage	\$ 8,624
Rate Reduction Bond Operations	\$ 194,336

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, 2004, the reported amount of the State's deposits was \$13.0 for the Primary Government and Fiduciary Funds (pooled deposits) and \$16.5 for the Component Units. The corresponding bank balance for such deposits was \$176.1 for the Primary Government and Fiduciary Funds and \$18.7 for the Component Units. Of the bank balance for the Primary Government and Fiduciary Funds \$91.3 was insured by the Federal Deposit Insurance Corporation or held in the State's name (Category 1) and \$84.8 was uninsured and uncollateralized (Category 3). Of the bank balance for the Component Units, \$6.3 was insured by the Federal Deposit Insurance Corporation or held in the Component Units' name (Category 1), and \$12.4 was uninsured and uncollateralized (Category 3).

Category 3 deposits include some deposits that are collateralized as required by state statute. Under the statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to 10 percent, 25 percent, 100 percent, or 120 percent of its public deposits. However, the collateral is held in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank.

Investments

The State Treasurer is the chief fiscal officer of State government and is responsible for the prudent management and investment of monies of State funds and agencies as well as monies of pension and other trust funds. The State Treasurer with the advice of the Investment Advisory Council, whose members include outside investment professionals and pension beneficiaries, establishes investment policies and guidelines. Currently, the State Treasurer manages one Short-Term Investment Fund ("STIF") and seven Combined Investment Funds (the "CIFS"), including one international investment fund.

STIF is a money market investment pool in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans. STIF's investments are reported at amortized cost (which approximates fair value) in the fund's statement of net assets and are disclosed in this note.

For financial reporting purposes, STIF is considered to be a mixed investment pool – a pool having external and internal portions. The external portion of STIF (i.e. the portion that belongs to participants which are not part of the State's financial reporting entity) is reported as an investment trust fund (External Investment Pool fund) in the fiduciary fund financial statements. The internal portion of STIF (i.e., the portion that belongs to participants that are part of the State's financial reporting entity) is not reported in the financial statements. Instead, each fund's investment in the internal portion of STIF is reported as "cash equivalents" in the government-wide and fund financial statements.

The CIFS are open-ended, unitized portfolios in which the State pension trust and permanent funds are eligible to invest. The State pension trust and permanent funds own the units of the CIFS. The State Treasurer is also authorized to invest monies of the CIFS in common stock, commercial equity real estate, foreign companies stocks and bonds, commercial and residential mortgages, foreign governments' obligations, mortgage-backed securities, and venture capital partnerships. CIFS' investments are reported at fair value in each fund's statement of net assets and are disclosed in this note.

For financial reporting purposes, the CIFS are considered to be internal investment pools and are not reported in the financial statements. Instead, each fund's equity in the CIFS is reported as investments in the government-wide and fund financial statements. Complete financial information about STIF and the CIFS can be obtained from financial statements issued by the State Treasurer.

As of June 30, 2004, investments consisted of the following (amounts in thousands):

	Primary Government		Component Units	Fiduciary Funds
	Governmental Activities	Business-Type Activities		
Equity in CIFS	\$ 88,820	\$ 587	\$ -	\$ 20,099,983
Other Investments	17,300	170,569	233,307	791,474
Total Investments-Current	\$ 106,120	\$ 171,156	\$ 233,307	\$ 20,891,457
Other Investments-Noncurrent	\$ -	\$ 367,558	\$ 68,794	\$ -
Other Investments-Restricted	\$ 509,641	\$ 323,561	\$ 1,131,807	\$ -

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, 2004. 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	Fair Value
	Category 1	
Certificates of Deposit	\$ 819,000	\$ 819,000
Commercial Paper	1,773,914	1,773,851
Corporate Notes	393,002	393,363
Bankers' Acceptances	24,899	24,863
Money Market Funds	117,506	117,506
Federal Agency Securities	10,000	9,994
Extendable Commercial Notes	490,792	490,811
Repurchase Agreements	200,000	200,000
Total Investments	\$ 3,829,113	\$ 3,829,388

Connecticut

Investments-Primary Government and Fiduciary Funds

Combined Investment Funds

(amounts in thousands)

Investment Type	Reported Amount (Fair Value)		Total
	Category 1	Category 3	
Certificates of Deposit-Negotiable	\$ -	\$ 449,490	\$ 449,490
Asset Backed Securities	573,352	-	573,352
U.S. Government and Agency Securities:			
Not on Securities Loan	1,360,258	-	1,360,258
On Securities Loan for Securities or Letter of Credit Collateral	-	54,528	54,528
Mortgage Backed Securities	538,702	-	538,702
Corporate Debt	2,745,364	1,669,430	4,414,794
Convertible Securities	34,989	-	34,989
U. S. Corporate Stock:			-
Not on Securities Loan	7,336,000	-	7,336,000
On Securities Loan for Securities or Letter of Credit Collateral	-	12,501	12,501
International Equity Securities:			
Not on Securities Loan	3,150,791	-	3,150,791
On Securities Loan for Securities or Letter of Credit Collateral	-	1,476	1,476
Preferred Stock	75,269	-	75,269
	<u>\$ 15,814,725</u>	<u>\$ 2,187,425</u>	18,002,150

Investments not categorized

because they are not evidenced by securities
that exist in physical or book entry form.

Real Estate Investment Trusts	76,727
Mutual Funds	179,393
Limited Liability Corporations	22,948
Trusts	46,404
Limited Partnerships	1,836,286
Annuities	1,314
Securities Held by Brokers-Dealers under Security Loans for Cash Collateral:	
U.S. Government and Agency Securities	916,311
U. S. Corporate Stock	436,761
International Equity Securities	533,527
Domestic Fixed Securities	178,874
International Fixed Securities	1,038
	<u>\$ 22,231,733</u>

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.

Connecticut

Other Investments-Primary Government
(amounts in thousands)

Investment Type	Reported Amount (Fair Value)		
	Category 1	Category 3	Total
Collateralized Investment Agreements	\$ 271,378	\$ -	\$ 271,378
State/Municipal Bonds	33,739	-	33,739
U.S. Government & Agency Securities	405,573	115,963	521,536
Mortgage Backed Securities	-	6,886	6,886
Other	9,452	-	9,452
	<u>\$ 720,142</u>	<u>\$ 122,849</u>	<u>842,991</u>

Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:

Annuity Contracts	382,288
Guaranteed Investment Contracts	158,640
Tax Exempt Proceeds Fund	46,294
Other	6,710
Total Investments	<u>\$ 1,436,923</u>

The Transportation fund owns approximately 53 percent and the State Universities own 100 percent of the investments in Category 1 and 3, respectively.

Other Investments-Component Units
(amounts in thousands)

Investment Type	Reported Amount (Fair Value)			
	Category 1	Category 2	Category 3	Total
U.S. Government & Agency Securities	\$ 733	\$ -	\$ 1,788	\$ 2,521
Common Stock	69,956	1,034	-	70,990
Repurchase Agreements	65,091	-	-	65,091
Collateralized Investment Agreements	1,953	-	1,636	3,589
Mortgage Backed Securities and Obligations	602,438	-	-	602,438
Corporate Debt	45,551	44,561	-	90,112
Other	21,775	-	-	21,775
	<u>\$ 807,497</u>	<u>\$ 45,595</u>	<u>\$ 3,424</u>	<u>856,516</u>

Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:

Guaranteed Investment Contracts	88,447
Fidelity Funds	306,079
Investment Agreements	17,713
Mutual Funds	71,816
Limited Partnerships	6,688
Other	86,649
Total Investments	<u>\$ 1,433,908</u>

CHFA owns approximately 92 percent and 48 percent of the investments that are in categories 1 and 3, respectively.

Security Lending Transactions

Certain of the Combined Investment Funds are permitted by State statute to lend its securities through a lending agent to authorized broker-dealers and banks for collateral with a simultaneous agreement to return the collateral for the same securities in the future.

During the year, the funds' lending agent lent securities similar to the types on loan at year-end and received cash (United States and foreign currency), U.S. Government securities, sovereign debt rated A or better, convertible bonds, and irrevocable bank letters of credit as collateral. The funds' lending agent did not have the ability to pledge or sell collateral securities delivered absent borrower default. Borrowers were required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in United States dollars or whose primary trading market was

located in the United States or sovereign debt issued by foreign governments, 102 percent of the market value of the loaned securities; and (2) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105 percent of the market value of the loaned securities. The funds did not impose any restrictions during the fiscal year on the amount of loans that the lending agent made on their behalf and the lending agent indemnified the funds by agreeing to purchase replacement securities, or return the cash collateral thereof in the event any borrowers failed to return the loaned securities or pay distributions thereon. At year-end, the funds had no credit exposure to the borrowers, because the amounts the funds owed the borrowers exceeded the amounts the borrowers owed the funds.

Connecticut

All securities loans can be terminated on demand by either the funds or the borrowers. Cash collateral is invested by the funds' lending agent, and the average duration of the investments can not exceed (a) 120 days or (b) the average duration of the loans by more than 45 days. At year-end, the average duration of the collateral investments was 63 days; the average duration of the loans was unknown, although it is assumed to remain at one day.

Note 5 Receivables

As of June 30, 2004, receivables consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	\$ 933,848	\$ -	\$ -
Accounts	1,193,281	467,546	32,854
Loans-Current Portion	-	144,354	32,478
Other Governments	745,221	10,323	-
Interest	4,657	21,404	-
Other	43,388	-	1,042
Total Receivables	2,920,395	643,627	66,374
Allowance for Uncollectibles	(992,818)	(83,843)	(2,748)
Receivables, net	<u>\$ 1,927,577</u>	<u>\$ 559,784</u>	<u>\$ 63,626</u>

Note 6 Taxes Receivable

Taxes receivable consisted of the following as of June 30, 2004 (amounts in thousands):

	Governmental Activities		
	General	Transportation	Total
	Fund	Fund	
Sales and Use	\$ 431,331	\$ -	\$ 431,331
Income Taxes	188,837	-	188,837
Corporations	87,590	-	87,590
Casoline and Special Fuel	-	45,636	45,636
Various Other	180,454	-	180,454
Total Taxes Receivable	888,212	45,636	933,848
Allowance for Uncollectibles	(57,829)	(193)	(58,022)
Taxes Receivable, net	<u>\$ 830,383</u>	<u>\$ 45,443</u>	<u>\$ 875,826</u>

Note 8 Restricted Assets

Restricted assets are defined as resources that are restricted by legal or contractual requirements. As of June 30, 2004, restricted assets were comprised of the following (amounts in thousands):

	Cash & Cash Equivalents	Investments	Loans, Net of Allowances	Other	Total Restricted Assets
Governmental Activities:					
Debt Service	\$ 124,955	\$ 509,641	\$ -	\$ -	\$ 634,596
Total-Governmental Activities	<u>\$ 124,955</u>	<u>\$ 509,641</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 634,596</u>
Business-Type Activities:					
Bradley International Airport	\$ 123,609	\$ 15,136	\$ -	\$ 2,537	\$ 141,282
Uconn	25,428	654	-	-	26,082
Clean Water	50,852	256,463	-	-	307,315
Other Proprietary	25,251	53,308	-	-	78,559
Total-Business-Type Activities	<u>\$ 225,140</u>	<u>\$ 325,561</u>	<u>\$ -</u>	<u>\$ 2,537</u>	<u>\$ 553,238</u>
Component Units:					
CHFA	\$ 682,518	\$ 710,628	\$ 2,543,494	\$ 97,802	\$ 4,034,442
CHEFA	38,675	394,393	-	198	433,266
Other Component Units	132,443	26,786	-	147	159,376
Total-Component Units	<u>\$ 853,636</u>	<u>\$ 1,131,807</u>	<u>\$ 2,543,494</u>	<u>\$ 98,147</u>	<u>\$ 4,627,084</u>

Note 7 Loans Receivable

Loans receivable (noncurrent portion) for the primary government and its component units, as of June 30, 2004, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Industrial	\$ -	\$ -	\$ 76,792
Housing	2,555	-	-
Clean Water	42,912	479,120	-
Education	-	28,509	71,502
Other	164,985	49,222	-
Total Loans	210,452	556,851	148,294
Allowance for Uncollectibles	(1,577)	(7,471)	(10,847)
Loans Receivable, Net	<u>\$ 208,875</u>	<u>\$ 549,380</u>	<u>\$ 137,447</u>

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 1.39 percent to 11.15 percent. As of June 30, 2004, loans in the amount of \$12.0 million (including loans of \$6.4 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 \$6.4 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 9 Accounts Payable and Accrued Liabilities

As of June 30, 2004, accounts payable and accrued liabilities consisted of the following:

	Vendors	Salaries and Benefits	Interest	Other	Total Payables & Accrued Liabilities
Governmental Activities:					
General	\$ 133,436	\$ 144,502	\$ -	\$ 41	\$ 277,979
Transportation	12,683	7,960	-	1,841	22,484
Other Governmental	115,254	15,139	258	43,205	173,856
Internal Service	34,538	2,270	-	79	36,887
Reconciling amount from fund financial statements to government-wide financial statements	-	-	83,778	4,682	88,460
Total-Governmental Activities	<u>\$ 295,911</u>	<u>\$ 169,871</u>	<u>\$ 84,036</u>	<u>\$ 49,848</u>	<u>\$ 599,666</u>
Business-Type Activities:					
University of Connecticut	\$ 49,185	\$ 46,468	\$ -	\$ -	\$ 95,653
State Universities	6,471	25,135	2,240	-	33,846
Other Proprietary	39,944	13,004	10,060	-	63,008
Total-Business-Type Activities	<u>\$ 95,600</u>	<u>\$ 84,607</u>	<u>\$ 12,300</u>	<u>\$ -</u>	<u>\$ 192,507</u>

Note 10 Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Capital Assets not being Depreciated:				
Land	\$ 911,754	\$ 28,160	\$ 4,955	\$ 934,959
Construction in Progress-Infrastructure	1,276,607	383,532	324,706	1,335,433
Construction in Progress	460,271	92,400	225,317	327,354
Total Capital Assets not being Depreciated	2,648,632	504,092	554,978	2,597,746
Other Capital Assets:				
Buildings	2,539,216	225,317	7,483	2,757,050
Improvements Other than Buildings	311,390	90,954	275	402,069
Equipment	1,353,217	85,772	211,481	1,227,508
Infrastructure	9,217,408	324,706	-	9,542,114
Total Other Capital Assets at Historical Cost	13,421,231	726,749	219,239	13,928,741
Less: Accumulated Depreciation For:				
Buildings	1,659,297	68,926	7,483	1,720,740
Improvements Other than Buildings	248,218	20,283	275	268,226
Equipment	894,755	162,390	211,481	845,664
Infrastructure	3,735,656	410,456	-	4,146,112
Total Accumulated Depreciation	6,537,926	662,055 *	219,239	6,980,742
Other Capital Assets, Net	6,883,305	64,694	-	6,947,999
Governmental Activities, Capital Assets, Net	<u>\$ 9,531,937</u>	<u>\$ 568,786</u>	<u>\$ 554,978</u>	<u>\$ 9,545,745</u>

* Depreciation expense was charged to functions as follows:

Governmental Activities:	
Legislative	\$ 4,902
General Government	19,555
Regulation and Protection	30,426
Conservation and Development	10,504
Health and Hospitals	12,079
Transportation	481,186
Human Services	3,009
Education, Libraries and Museums	32,739
Corrections	33,175
Judicial	14,417
Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets	20,063
Total Depreciation Expense	<u>\$ 662,055</u>

	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities				
Capital Assets not being Depreciated:				
Land	\$ 44,774	\$ 7,345	\$ 210	\$ 51,909
Construction in Progress	285,139	185,980	177,695	293,424
Total Capital Assets not being Depreciated	329,913	184,156	177,905	345,333
Capital Assets being Depreciated:				
Buildings	2,400,582	293,755	9,323	2,685,014
Improvements Other Than Buildings	361,994	32,362	1,156	393,200
Equipment	718,721	68,905	37,851	749,775
Total Other Capital Assets at Historical Cost	3,481,297	395,022	48,330	3,827,989
Less: Accumulated Depreciation For:				
Buildings	694,516	79,484	5,278	768,722
Improvements Other Than Buildings	131,946	15,809	100	147,655
Equipment	363,210	56,275	19,497	399,988
Total Accumulated Depreciation	1,189,672	151,568	24,875	1,316,365
Other Capital Assets, Net	2,291,625	243,454	23,455	2,511,624
Business-Type Activities, Capital Assets, Net	<u>\$ 2,621,538</u>	<u>\$ 427,610</u>	<u>\$ 201,360</u>	<u>\$ 2,856,957</u>

b. Component Units

Capital assets of the component units consisted of the following as of June 30, 2004:

Land	\$ 27,774
Buildings	197,211
Improvements other than Buildings	1,591
Machinery and Equipment	237,181
Construction in Progress	<u>501</u>
Total Capital Assets	464,258
Accumulated Depreciation	<u>(236,332)</u>
Capital Assets, net	<u>\$ 227,926</u>

Note 11 State Retirement Systems

The State sponsors three major public employee retirement systems: the State Employees' Retirement System (SERS)-consisting of Tier I (contributory), Tier II (noncontributory) and Tier IIA (contributory), the Teachers' Retirement System (TRS), and the Judicial Retirement System (JRS).

The State Comptroller's Retirement Division under the direction of the Connecticut State Employees Retirement Division administers SERS and JRS. The Teachers' Retirement Board administers TRS. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for SERS, TRS, and JRS are presented in Note No. 13.

Plan Descriptions, Funding Policy, and Annual Pension Cost and Net Pension Obligation

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

	<u>SERS</u>	<u>TRS</u>	<u>JRS</u>
	<u>6/30/2004</u>	<u>6/30/2004</u>	<u>6/30/2004</u>
Retirees and beneficiaries receiving benefits	36,749	24,297	217
Terminated plan members entitled to but not yet receiving benefits	1,744	1,250	3
Active plan members	<u>47,926</u>	<u>49,946</u>	<u>220</u>
Total	<u>86,419</u>	<u>75,493</u>	<u>440</u>

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 2004, the annual required contribution (ARC) was \$270.5 million; however, the State contributed \$185.3 million to the plan, reflecting a reduction of \$85.2 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):

	<u>SERS</u>	<u>TRS</u>	<u>JRS</u>
Annual required contribution	\$ 470,333	\$ 270,544	\$ 11,598
Interest on net pension obligation	176,941	99,866	4
Adjustment to annual required contribution	<u>(113,083)</u>	<u>(65,167)</u>	<u>(2)</u>
Annual pension cost	534,191	305,243	11,600
Contributions made	<u>470,333</u>	<u>185,348</u>	<u>11,598</u>
Increase (decrease) in net pension obligation	63,858	119,895	2
Net pension obligation beginning of year	<u>2,081,663</u>	<u>1,174,895</u>	<u>41</u>
Net pension obligation end of year	<u>\$ 2,145,521</u>	<u>\$ 1,294,790</u>	<u>\$ 43</u>

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

	<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
SERS	2002	\$ 479,501	86.7%	\$ 2,017,588
	2003	485,527	86.8%	2,081,663
	2004	534,191	88.0%	2,145,521
TRS	2002	\$ 246,404	83.0%	\$ 1,099,721
	2003	254,996	70.6%	1,174,893
	2004	305,243	60.7%	1,294,790
JRS	2002	\$ 9,599	100%	\$ 40
	2003	10,127	100%	41
	2004	11,600	100%	43

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.

Note 12 Other Retirement Systems Administered by the State of Connecticut

The State acts solely as the administrator and custodian of the assets of the Connecticut Municipal Employees' Retirement System (CMERS) and the Connecticut Probate Judges and Employees Retirement System (CPJERS). The State makes no contribution to and has only a fiduciary responsibility for these funds. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for CMERS and CPJERS are presented in Note No. 13.

Plan Descriptions and Contribution Information

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

	<u>CMERS 6/30/2003</u>	<u>CPJERS 12/31/2002</u>
Retirees and beneficiaries receiving benefits	4,743	226
Terminated plan members entitled to but not receiving benefits	419	34
Active plan members	<u>8,420</u>	<u>371</u>
Total	<u>13,582</u>	<u>631</u>
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.

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Note 13 Pension Trust Funds Financial Statements

The financial statements of the pension trust funds are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. State contributions are recognized in the period in which the contributions are appropriated. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investment income and related expenses of the Combined Investment Funds are allocated ratably to the pension trust funds based on each fund's equity in the Combined Investment Funds. (see Note No. 4)

Statement of Fiduciary Net Assets (000's)							
	State Employees	State Teachers	Judicial	Connecticut Municipal Employees	Probate Judges	Other	Total
Assets							
Cash and Cash Equivalents	\$ -	\$ -	\$ 106	\$ 250	\$ -	\$ 80	\$ 436
Receivables:							
Accounts, Net of Allowances	2,380	7,286	8	2,796	5	-	12,475
From Other Funds	-	1,641	-	-	-	-	1,641
Interest	138	209	4	25	4	-	380
Investments	7,709,616	10,860,276	140,387	1,303,833	67,072	716	20,081,900
Securities Lending Collateral	813,091	1,127,976	15,704	141,090	7,145	94	2,105,100
Total Assets	8,525,225	11,997,388	156,209	1,447,994	74,226	890	22,201,932
Liabilities							
Securities Lending Obligation	813,091	1,127,976	15,704	141,090	7,145	94	2,105,100
Due to Other Funds	32,151	17,609	-	-	25	-	49,785
Total Liabilities	845,242	1,145,585	15,704	141,090	7,170	94	2,154,885
Net Assets							
Held in Trust For Employee							
Pension Benefits	7,679,983	10,851,803	140,505	1,306,904	67,056	796	20,047,047
Total Net Assets	\$ 7,679,983	\$ 10,851,803	\$ 140,505	\$ 1,306,904	\$ 67,056	\$ 796	\$ 20,047,047

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	\$ 47,632	\$ 210,227	\$ 1,367	\$ 12,009	\$ 269	\$ 26	\$ 271,530
State	470,333	185,348	11,598	-	-	-	667,279
Municipalities	-	1,019	-	16,271	-	-	17,290
Total Contributions	517,965	396,594	12,965	28,280	269	26	956,099
Investment Income	1,060,852	1,518,735	17,055	170,045	9,002	81	2,775,770
Less: Investment Expenses	(25,103)	(35,937)	(403)	(4,024)	(213)	(2)	(65,682)
Net Investment Income	1,035,749	1,482,798	16,652	166,021	8,789	79	2,710,088
Transfers In	-	-	-	-	1,705	-	1,705
Other	-	51	-	-	2	-	53
Total Additions	1,553,714	1,879,443	29,617	194,301	10,765	105	3,667,945
Deductions							
Administrative Expense	-	-	7	9	-	-	16
Benefit Payments and Refunds	868,165	879,797	14,346	64,709	2,241	3	1,829,261
Other	2,009	-	-	-	1,967	13	3,989
Total Deductions	870,174	879,797	14,353	64,718	4,208	16	1,833,266
Changes in Net Assets	683,540	999,646	15,264	129,583	6,557	89	1,834,679
Net Assets Held in Trust For							
Employee Pension Benefits:							
Beginning of Year	6,996,443	9,852,157	125,241	1,177,321	60,499	707	18,212,368
End of Year	\$ 7,679,983	\$ 10,851,803	\$ 140,505	\$ 1,306,904	\$ 67,056	\$ 796	\$ 20,047,047

Note 14 Postemployment Benefits

In addition to the pension benefits described in Note 11, the State provides postretirement health care and life insurance benefits, in accordance with State statutes, Sections 5-257(d) and 5-259(a), to all employees who retire from the State.

As of June 30, 2004, 36,141 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,

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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, 2004, \$325.6 million was paid in postretirement benefits.

Note 15 Capital and Operating Leases

a. State as Lessor

The State leases building space, land, and equipment to private individuals. The minimum future lease revenues for the next five years and thereafter are as follows (amounts in thousands):

2005	\$	30,126
2006		25,261
2007		27,101
2008		27,616
2009		27,909
Thereafter		<u>22,345</u>
Total	\$	<u>160,358</u>

Contingent revenues for the year ended June 30, 2004, were \$2.4 million.

State as Lessee

Obligations under capital and operating leases as of June 30, 2004, were as follows (amounts in thousands):

	Noncancelable Operating Leases	Capital Leases
2005	\$ 26,583	\$ 7,086
2006	17,903	6,350
2007	12,638	6,054
2008	9,287	5,669
2009	915	5,350
2010-2014	19,073	27,357
2015-2019	-	6,156
2020-2024	-	6,142
2025-2029	-	6,110
2030-2034	-	<u>2,432</u>
Total minimum lease payments	<u>\$ 86,399</u>	78,706
Less: Amount representing interest costs		<u>24,538</u>
Present value of minimum lease payments		<u>\$ 54,168</u>

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, 2004, totaled \$11.1 million.

Note 16 Long-Term Debt

a) The following is a summary of changes in long-term debt of the primary government for the year ended June 30, 2004, (amounts in thousands):

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amounts due within one year
Governmental Activities					
Bonds:					
General Obligation	\$ 9,216,354	\$ 2,720,294	\$ 2,330,037	\$ 9,606,611	\$ 743,236
Transportation	<u>3,205,815</u>	<u>539,534</u>	<u>591,400</u>	<u>3,153,949</u>	<u>240,065</u>
	12,422,169	3,259,828	2,921,437	12,760,560	983,301
Plus/(Less) premiums and deferred amounts	<u>105,119</u>	<u>104,044</u>	<u>27,796</u>	<u>181,367</u>	<u>-</u>
Total Bonds	<u>12,527,288</u>	<u>3,363,872</u>	<u>2,949,233</u>	<u>12,941,927</u>	<u>983,301</u>
Economic Recovery Notes	<u>219,235</u>	<u>97,700</u>	<u>43,720</u>	<u>273,215</u>	<u>240,065</u>
Other Liabilities:					
Net Pension Obligation	3,256,597	851,036	667,279	3,440,354	-
Compensated Absences	347,933	28,447	5,464	370,916	14,682
Workers' Compensation	265,645	86,184	75,148	276,681	74,926
Capital Leases	67,988	407	14,227	54,168	9,768
Claims and Judgements	7,612	8,818	3,247	13,183	5,962
Contracts Payable	<u>7,186</u>	<u>-</u>	<u>5,960</u>	<u>1,226</u>	<u>-</u>
Total Other Liabilities	<u>3,952,961</u>	<u>974,892</u>	<u>771,325</u>	<u>4,156,528</u>	<u>105,338</u>
Governmental Activities Long-Term Liabilities	<u>\$ 16,699,484</u>	<u>\$ 4,436,464</u>	<u>\$ 3,764,278</u>	<u>\$ 17,371,670</u>	<u>\$ 1,328,704</u>
In prior years, the General and Transportation funds have been used to liquidate other liabilities.					
Business-Type Activities					
Revenue Bonds	\$ 1,547,526	\$ 610,904	\$ 444,625	\$ 1,713,805	\$ 76,321
Plus/(Less) premiums, discounts and deferred amounts	<u>5,717</u>	<u>30,663</u>	<u>31</u>	<u>36,349</u>	<u>-</u>
Total Revenue Bonds	<u>1,553,243</u>	<u>641,567</u>	<u>444,656</u>	<u>1,750,154</u>	<u>76,321</u>
Lottery Prizes	435,185	-	49,956	385,229	50,661
Compensated Absences	87,456	18,515	1,742	104,229	25,246
Other	<u>48,565</u>	<u>55,798</u>	<u>7,259</u>	<u>97,104</u>	<u>18,884</u>
Total Other Liabilities	<u>571,206</u>	<u>74,313</u>	<u>58,957</u>	<u>586,562</u>	<u>94,791</u>
Business-Type Long-Term Liabilities	<u>\$ 2,124,449</u>	<u>\$ 715,880</u>	<u>\$ 503,613</u>	<u>\$ 2,336,716</u>	<u>\$ 171,112</u>

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b) As of June 30, 2004, long-term debt of component units consisted of the following (amounts in thousands):

Long-Term Debt	Balance June 30, 2004	Amounts due within year
Bonds Payable	\$ 3,567,717	\$ 146,263
Escrow Deposits	115,071	19,325
Closure of Landfills	27,149	1,433
State Loan	12,090	1,484
Deferred Revenue	6,524	834
Other	5,926	30
Total	\$ 3,734,477	\$ 169,369

Note 17 Long-Term Notes and Bonded Debt

a. Economic Recovery Notes

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

Economic recovery notes outstanding at June 30 were \$273.2 million. These notes mature on various dates through 2008 and bear interest rates from 2.0% to 4.0%.

Future amounts needed to pay principal and interest on economic recovery notes outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 63,655	\$ 8,929	\$ 72,584
2006	63,470	6,548	70,018
2007	63,270	4,247	67,517
2008	63,270	2,017	65,287
2009	19,550	664	20,214
Total	\$ 273,215	\$ 22,405	\$ 295,620

b. 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, 2004, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital Improvements	2004-2023	2-8%	\$ 2,183,763	\$ 220,557
School Construction	2004-2022	2-7.441%	1,559,412	75,951
Municipal & Other				
Grants & Loans	2004-2022	2-8.4%	1,580,427	582,200
Elderly Housing	2005-2018	4.25-7.025%	9,605	-
Elimination of Water Pollution	2004-2023	3-7.525%	267,667	252,010
General Obligation Refunding	2004-2020	2-6.14%	3,346,721	-
Miscellaneous	2004-2031	2.5-6.75%	140,125	7,737
			9,087,720	\$ 1,138,455
Accretion-Variou Capital Appreciation Bonds			518,891	-
Total			\$ 9,606,611	

Future amounts (in thousands) needed to pay principal and interest on general obligation bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 743,236	\$ 489,901	\$ 1,233,137
2006	705,308	462,784	1,168,092
2007	694,952	439,494	1,134,446
2008	699,003	415,578	1,114,581
2009	663,763	425,085	1,088,848
2010-2014	2,844,095	1,293,580	4,137,675
2015-2019	1,851,761	454,597	2,306,358
2020-2024	872,082	99,193	971,275
2025-2029	11,325	2,172	13,497
2030-2034	2,195	109	2,304
Total	\$ 9,087,720	\$ 4,082,493	\$ 13,170,213

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, 2004, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Specific Highways Infrastructure	2017	4.25-5.50%	\$ 2,653	\$ 4,066
Improvements	2004-2024	2.5-8.0%	3,142,057	432,863
General Obligation				
Other	2008	7.513-7.525%	344	-
			3,145,054	\$ 436,929
Accretion-Variou Capital Appreciation Bonds			8,895	-
Total			\$ 3,153,949	

Future amounts (in thousands) required to pay principal and interest on transportation related bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 240,065	\$ 145,706	\$ 385,771
2006	265,635	133,849	399,484
2007	253,218	127,854	381,072
2008	261,693	115,882	377,575
2009	259,643	97,836	357,479
2010-2014	1,093,255	299,826	1,393,081
2015-2019	546,145	104,179	650,324
2020-2024	225,400	22,195	247,595
Total	\$ 3,145,054	\$ 1,047,327	\$ 4,192,381

Variable-Rate Demand Bonds

As of June 30, 2004, variable-rate demand bonds included in bonded debt were as follows (amounts in thousands).

<u>Bond Type</u>	<u>Outstanding</u>	<u>Issuance</u>	<u>Maturity</u>
	<u>Principal</u>	<u>Year</u>	<u>Year</u>
Special Tax Obligation	\$ 128,900	1990	2010
General Obligation	99,235	1997	2014
Special Tax Obligation	100,000	2000	2020
General Obligation	100,000	2001	2021
Special Tax Obligation	419,060	2003	2022
Total	<u>\$ 847,195</u>		

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

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

Terms, fair values, and credit risk

The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2004, are as follows. The notional amount of the swaps matches the principal amount of the associated debt. The State's swap agreements, except for the June 2001 swap, contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated debt. For the June 2001 swap, the swap agreement and associated debt are non-amortizing and mature on June, 2012.

<u>Associated Bond Issue</u>	<u>Notional Amounts (000's)</u>		<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values (000's)</u>	<u>SWAP</u>		<u>Counterparty Credit Rating</u>
	<u>Effective Date</u>	<u>Termination Date</u>						
1990 STO	\$ 77,400	12/19/1990	5.746%	65% of LIBOR (1)	\$ (8,159)	12/1/2010	Aaa/AAA/AAA	
1990 STO	51,500	12/19/1990	5.709%	65% of LIBOR (1)	(5,346)	12/1/2010	A3/BBB	
2001 GO	20,000	6/28/2001	4.330%	CPI (3) plus 1.43%	(483)	6/15/2012	Aa3/A+/AA-	
2003 STO	119,530	1/23/2003	3.293%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	429	2/1/2022	Aa1/AA-/AA	
2003 STO	99,315	1/23/2003	3.288%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	397	2/1/2022	Aa1/AA/AA+	
2003 STO	<u>200,215</u>	<u>1/23/2003</u>	<u>3.284%</u>	<u>BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter</u>	<u>914</u>	<u>2/1/2022</u>	<u>Aa2/AA+/AA+</u>	
Total	<u>\$ 567,960</u>				<u>\$ (12,248)</u>			

(1) London Interbank Offered Rate

(2) The Bond Market Association Municipal Swap Index

(3) Consumer Price Index

Fair value

As of June 30, 2004, the 2003 swaps had a positive fair value because interest rates have increased since January 2003; the 1990 swaps had a negative fair value because

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

The Standby Bond Purchase agreements expire as follows:

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

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

Interest Rate Swaps

Objective of the swaps

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

interest rates have declined since 1990. The negative fair values may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the State's variable-rate bonds adjust to changing interest rates,

the bonds do not have corresponding fair value increases. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payment required under the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date each future net settlement on the swaps.

As of June 30, 2004, the State had a minor exposure to credit risk on the 2003 swaps, but it had no credit risk exposure on the other outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the State would be exposed to credit risk in the amount of the swaps' fair value.

The swap agreements contain varying collateral agreements with the counterparties. All three of the swap agreements executed in 2004 require collateralization of the fair value of the swap in cash or government securities should the counterparty's credit rating fall below Aa3 as issued by Moody's Investors Service or AA- as issued by Standard & Poor's Ratings or Fitch Ratings. One of the swaps executed in 1990 requires collateral of cash or securities if the counterparty credit rating falls below A1/A+. The other swap agreements do not have any provisions for posting of collateral. The State is not required to post collateral for any of the swaps.

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

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

Easis Risk

The State's variable-rate bond coupon payments are equivalent to the BMA index rate, or the CPI plus 1.43% rate (2001 GO bonds only). For those swaps for which the State receives a variable-rate payment other than BMA or CPI, the State is exposed to basis risk should the relationship between LIBOR and BMA converge. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2004, the BMA rate was 1.06 percent, whereas 65 percent of LIBOR was 0.72 percent. The State recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal 2004, the state budgeted \$1,500,000 in basis risk for all six swap agreements.

Termination Risk

The State or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any swap is terminated, the associated

variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap has a negative fair value, the State would be liable to the counterparty for a payment equal to the swap's fair value. Under the 2003 swap agreements, the State has up to 270 days to fund any required termination payment. Under the 1990 swap agreements, the State may fund any required termination payment over a five-year period.

Rollover Risk

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

Swap Payments and Associated Debt

Using rates as of June 30, 2004, debt service requirements of the State's outstanding variable-rate bonds and net swap payments are as follows (amounts in thousands). As rates vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Variable-Rate Bonds		Interest Rate SWAP, Net	Total
	Principal	Interest		
2005	\$ 18,025	\$ 6,628	\$ 15,759	\$ 40,412
2006	19,135	6,429	14,907	40,471
2007	20,350	6,219	13,747	40,316
2008	21,665	5,994	12,427	40,086
2009	22,985	5,756	11,401	40,142
2010-2014	176,295	23,311	43,135	242,741
2015-2019	258,185	8,040	16,211	282,436
2020-2022	31,320	363	732	32,415
Total	\$ 567,960	\$ 62,740	\$ 128,319	\$ 759,019

c. 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, 2004, were as follows:

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
Higher Education	2009-2030	2.1-7%	\$ 537,126
Bradley International Airport	2012-2031	3.25-7.65%	252,020
Second Injury	2011	4.5-5.25%	54,255
Clean Water	2006-2025	2-10%	560,176
Other:			
Bradley Parking Garage	2006-2024	6.125-8%	53,800
Drinking Water	2022	4-5.5%	51,083
Rate Reduction Bonds	2004-2011	2.5-5%	205,345
Total Revenue Bonds			1,713,805
Plus/(Less) premiums, discounts and deferred amounts:			
Bradley International Airport			(726)
Clean Water			21,371
Other			15,704
Revenue Bonds, net			\$ 1,750,154

Bradley Airport has issued various revenue bonds to finance costs of improvements to the airport. As of June 30, 2004, the following bonds were outstanding:

- a) Airport Revenue Refunding Bonds in the amount of \$42.1 million. These bonds were issued in October, 1992, to redeem the 1982 revenue bonds, and are secured by and payable solely from the gross operating revenues generated by the State from the operations of the airport and other receipts, funds or monies pledged in the bond indenture.
- b) Bradley International Airport Revenue Bonds in the amount of \$191.2 million and Bradley International Airport Refunding Bonds in the amount of \$18.7 million. Both bond series are secured by and payable solely from the gross operating revenues generated by the state from the operation of the airport and other receipts, funds or monies pledged in the bond indenture.

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

In 1994, the State of Connecticut began issuing Clean Water Fund revenue bonds. The proceeds of these bonds are to be used to provide funds to make loans to Connecticut municipalities for use in connection with the financing or refinancing of wastewater treatment projects.

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

In 2004, the State of Connecticut issued \$205.3 million of Special Obligation Rate Reduction Bonds. These bonds were issued to sustain for two years the funding of energy conservation and load management and renewable energy investment programs by providing money to the State's General Fund.

Future amounts (in thousands) needed to pay principal and interest on revenue bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 118,043	\$ 89,385	\$ 207,428
2006	108,827	74,346	183,173
2007	102,776	67,657	170,433
2008	118,851	63,852	182,703
2009	173,863	95,024	268,887
2010-2014	402,595	205,784	608,379
2015-2019	270,088	134,546	404,634
2020-2024	226,750	74,118	300,868
2025-2029	149,654	29,315	178,969
2030-2034	42,358	2,856	45,214
Total	\$ 1,713,805	\$ 836,883	\$ 2,550,688

d. Component Units

Component units' revenue bonds outstanding at June 30, 2004, were as follows:

Component Unit	Final Maturity Date	Interest Rates	Amount Outstanding (000's)
CT Development Authority	2004-2019	4.75-8.75%	\$ 42,820
CT Housing Finance Authority	2003-2045	1.37-9.36%	3,199,620
CT Resources Recovery Authority	2004-2016	3.9-7.7%	205,409
Other:			
CT Higher Education			
Supplemental Loan Authority	2004-2021	4-7.5%	115,115
UConn Foundation	2029	3.6-5.375%	7,495
Total Revenue Bonds			3,570,459
Plus/(Less) premiums, discounts, and deferred amounts:			
CDA			(50)
CRRA			(2,797)
CHESLA			105
Revenue Bonds, net			\$ 3,567,717

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, 2004 were \$4.8 million. Assets totaling \$3.4 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 \$38.0 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, 2003, bonds outstanding under the bond resolution and the indenture were \$3,154.0 million and \$45.6 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 (\$261.5 million at 12/31/03) on all outstanding bonds. As of

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December 31, 2003, the Authority has entered into interest rate swap agreements for \$730.6 million of its variable rate bonds. These agreements are similar in nature to agreements discussed in the interest rate swaps section of this note.

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

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

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 \$178.7 million.

Future amounts (in thousands) needed to pay principal and interest on revenue bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 260,926	\$ 259,257	\$ 520,183
2006	137,874	131,749	269,623
2007	132,622	126,007	258,629
2008	140,220	120,658	260,878
2009	32,353	12,648	45,001
2010-2014	698,959	508,555	1,207,514
2015-2019	647,372	370,498	1,017,870
2020-2024	568,016	247,041	815,057
2025-2029	534,767	135,863	670,630
2030-2034	360,290	53,728	414,018
2035-2039	40,470	7,548	48,018
2040-2044	15,335	2,474	17,809
2045-2049	1,255	63	1,318
Total	\$ 3,570,459	\$ 1,976,089	\$ 5,546,548

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, 2004 were \$993.2 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, 2004 were \$203.9 million. Of this amount, \$61.5 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, 2004, were \$4,666.7 million, of which \$374.4 million was secured by special capital reserve funds.

The State may be contingently liable for those bonds that are secured by special capital reserve funds as discussed previously in this section.

d. Debt Refundings

During the year, the State issued \$1,967.5 million of general obligation and special tax obligation refunding bonds with an average interest rate of 4.35% to advance refund \$1,996.8 million of general obligation and special tax obligation refunding bonds with an average interest rate of 5.15%. 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 \$165 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 \$115.7 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$93.9 million. As of June 30, 2004, \$3,660.8 million of outstanding general obligation, special tax obligation, and revenue bonds are considered defeased.

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Note 18 Risk Management

The risk financing and insurance program of the State is managed by the State Insurance and Risk Management Board. The Board is responsible mainly for determining the method by which the State shall insure itself against losses by the purchase of insurance to obtain the broadest coverage at the most reasonable cost, determining whether deductible provisions should be included in the insurance contract, and whenever appropriate determining whether the State shall act as self-insurer. The schedule below lists the risks of loss to which the State is exposed and the ways in which the State finances those risks.

Risk of Loss	Risk Financed by	
	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 statute the State can be held liable for injuries suffered by a person on a defective State highway), or if it is required by a contract.

For the risk of theft, of damage to, or destruction of assets (particularly in the automobile fleet), the State insures only leased cars and vehicles valued at more than \$100 thousand.

When purchasing commercial insurance the State may retain some of the risk by assuming a deductible or self-insured retention amount in the insurance policy. This amount varies greatly because the State carries a large number of insurance policies covering various risks. The highest deductible or self-insured retention amount assumed by the State is \$25 million, which is carried in a railroad liability policy.

The State records its risk management activities related to the medical malpractice risk in the University of Connecticut 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 6-30-02	\$ 245,183	\$ 9,355
Incurred claims	95,707	351
Paid claims	(75,245)	(1,206)
Balance 6-30-03	265,645	8,500
Incurred claims	86,184	6,227
Paid claims	(75,148)	(4,387)
Balance 6-30-04	\$ 276,681	\$ 10,340

Note 19 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2004, were as follows (amounts in thousands):

Balance due from fund(s)	Balance due to fund(s)										
	General	Transportation	Other Governmental	UConn	State Universities	Other Proprietary	Employment Security	Internal Services	Fiduciary	Component Units	Total
General	\$ -	\$ -	\$ 173,401	\$ 40,039	\$ 14,663	\$ 10,115	\$ 1,474	\$ 5,340	\$ 4,683	\$ -	\$ 249,715
Transportation	-	-	-	-	-	-	-	534	-	-	534
Other Governmental	7,880	5,964	3,896	10,165	22,020	53,242	-	-	-	22,179	125,346
UConn	8,908	-	-	-	-	-	-	-	-	-	8,908
State Universities	1,636	-	-	-	-	-	-	-	-	-	1,636
Employment Security	-	-	4,687	-	-	-	-	-	-	-	4,687
Other Proprietary	317	-	1,754	-	-	-	-	-	-	-	2,071
Internal Services	4,700	-	-	-	-	-	-	-	-	-	4,700
Fiduciary	-	-	43,318	-	-	-	-	-	8,100	-	51,418
Component Units	12,090	-	-	-	-	-	-	-	-	-	12,090
Total	\$ 35,531	\$ 5,964	\$ 227,056	\$ 50,204	\$ 36,683	\$ 63,357	\$ 1,474	\$ 5,874	\$ 12,783	\$ 22,179	\$ 461,105

Interfund receivables and payables arose because of interfund loans and other interfund balances outstanding at year end. \$173 million owed to other governmental funds by the General fund resulted from a loan made by governmental funds to eliminate a cash overdraft in the General fund.

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Note 20 Interfund Transfer

Interfund transfers for the fiscal year ended June 30, 2004, consisted of the following (amounts in thousands):

	Amount transferred to fund(s)								
	General	Debt Service	Transportation	Other Governmental	Uconn	State Universities	Other Proprietary	Fiduciary	Total
<u>Amount transferred from fund(s)</u>									
General	\$ -	\$ 13,665	\$ -	\$ 495,292	\$ 375,535	\$ 190,450	\$ 167,039	\$ -	\$ 1,241,981
Debt Service	-	-	25,430	1,175	-	-	-	-	26,605
Transportation	-	399,413	-	41,376	-	-	-	-	440,789
Other Governmental	132,693	15,250	1,476	71,784	103,932	16,255	46,433	1,705	389,528
Connecticut Lottery	280,763	-	-	-	-	-	-	-	280,763
Other Proprietary	194,000	-	-	7,819	-	-	13,889	-	215,708
Total	<u>\$ 607,456</u>	<u>\$ 428,328</u>	<u>\$ 26,906</u>	<u>\$ 617,446</u>	<u>\$ 479,467</u>	<u>\$ 206,705</u>	<u>\$ 227,361</u>	<u>\$ 1,705</u>	<u>\$ 2,595,374</u>

Transfers were made to (1) move revenues from the fund that budget or statute requires to collect them to the fund that budget or statute requires to expend them and (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due.

Note 21 Restatement of Net Assets/Fund Balances

As of June 30, 2004, the beginning net assets/fund balances for the following funds and activities were restated as follows (amounts in thousands):

	Balance 6-30-03 Previously Reported	Fund Reclass	Correction of Reported Assets/ Liabilities	Balance 6-30-03 as Restated
Governmental Funds and Activities				
Major Funds:				
Transportation	\$ 158,277	\$ -	\$ 10,026	\$ 168,303
Nonmajor Funds:				
Environmental Programs	119,603	26,934	-	146,537
Total Governmental Funds	<u>\$ 277,880</u>	<u>\$ 26,934</u>	<u>\$ 10,026</u>	<u>\$ 314,840</u>
Net Assets of Governmental Activities	<u>\$ (5,346,984)</u>	<u>\$ 26,934</u>	<u>\$ 10,026</u>	<u>\$ (5,310,024)</u>
Proprietary Funds and Business-Type Activities				
Major Funds:				
Higher Education	\$ 2,535,973	\$ (2,535,973)	\$ -	\$ -
University of Connecticut	-	1,525,227	-	1,525,227
State Universities	-	464,000	(9,750)	454,250
Non-Major Funds:				
Community Technical Colleges	-	304,775	-	304,775
Total Proprietary Funds	<u>\$ 2,535,973</u>	<u>\$ (241,971)</u>	<u>\$ (9,750)</u>	<u>\$ 2,284,252</u>
Net Assets of Business-Type Activities	<u>\$ 3,875,072</u>	<u>\$ (241,971)</u>	<u>\$ (9,750)</u>	<u>\$ 3,623,351</u>
Component Units				
Connecticut Health & Educational Facilities Authority	\$ -	\$ 19,975	\$ -	\$ 19,975
Connecticut Resources Recovery Authority	117,489	(117,489)	-	-
Other Component Units				
Connecticut Resources Recovery Authority	-	117,489	-	117,489
Connecticut Health & Educational Facilities Authority	19,975	(19,975)	-	-
Connecticut Higher Education Supplemental Loan Authority	6,438	-	(1,220)	5,218
Connecticut Innovations, Incorporated	136,683	(31,900)	-	104,783
Uconn Foundation	-	241,971	(29,523)	212,448
Total Component Units	<u>\$ 280,585</u>	<u>\$ 210,071</u>	<u>\$ (30,743)</u>	<u>\$ 459,913</u>
Net Assets of Component Units	<u>\$ 1,112,011</u>	<u>\$ 210,071</u>	<u>\$ (30,743)</u>	<u>\$ 1,291,339</u>

During the year, the State implemented GASB Statement No.39, "Determining Whether Certain Organizations Are Component Units." This Statement requires the State to report certain organizations (mainly fund-raising foundations) as component units (discrete presentation). Thus, the State reclassified this year the University of Connecticut Foundation, Inc. as a discretely-presented component unit. In prior years, the Foundation was reported as a component unit of the Higher Education fund, an enterprise fund.

Also, the following reclassifications were made this year to improve financial reporting of enterprise funds and component units:

- 1) The University of Connecticut, the State Universities, and the Community/Technical colleges were reclassified as separate enterprise funds. In prior years, these funds were reported as part of the Higher Education fund, an enterprise fund.
- 2) The Clean Energy fund was reclassified as a special revenue fund. In prior years, this fund was reported as part of the Connecticut Innovations, Inc. fund, a component unit.

The beginning fund balance of the Transportation fund was adjusted to reflect a reduction of \$10 million to deferred revenue because revenue recognition requirements on related resources had been met in the prior year. For the University of Connecticut Foundation, Inc., the adjustment reflects a reduction of \$29.5 million to pledges receivable because such pledges should not be recognized as an asset until the resources are received by the Foundation.

Note 22 Related Organizations

Related organizations are legally separate organizations that are not financially accountable to the State. However, these organizations are still related to the State as discussed next.

The State appoints a voting majority of the following organizations' governing boards, the Community Economic Development Fund and the Connecticut Student Loan Foundation. The State's accountability for these organizations does not extend beyond making the appointments.

Note 23 Commitments and Contingencies

A. Commitments

At June 30, 2004, 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 \$1,958.5 million of which \$1,395.0 million is expected to be reimbursed by federal grants or other payments.
- 2) School construction and alteration grants with various towns for \$2,900 million and interest costs of \$190 million for a total of \$3,090 million. Funding for these projects is expected to come from bond sales.

- 3) Loan commitments, mortgage and grant programs, and loan guarantees total approximately \$553.4 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) 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, 2004, the Authority had drawn \$12.8 million 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.

In 2002 the City of Waterbury issued \$97.5 million of General Obligation Special Capital Reserve Fund Bonds. These bonds are secured by a Special Capital Reserve Fund for which the State may be contingently liable as explained previously in Note 17 – Component Units.

C. Litigation

The State, its units and employees are parties to numerous legal proceedings, many of which normally occur in government operations. Most of these legal proceedings are not, in the opinion of the Attorney General, likely to have a material adverse impact on the State's financial position.

There are, however, several legal proceedings which, if decided adversely against the State, may require the State to make material future expenditures for expanded services or capital facilities or may impair future revenue sources. It is neither possible to determine the outcome of these proceedings nor to estimate the possible effects adverse decisions may have on the future expenditures or revenue sources of the State.

Note 24 Special and Extraordinary Items

Special items are significant transactions or other events within management's control that are either unusual in nature or infrequent in occurrence. Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Transfers to the General fund from the State's component units were as follows (amounts in million):

Connecticut Innovations, Incorporated	\$ 5.0
Connecticut Development Authority	\$10.0
Connecticut Housing Finance Authority	\$ 2.5

The State, also, transferred mortgage loans with a carrying amount of \$204 million from the Housing Programs fund, a special revenue fund, to the Connecticut Housing Finance Authority, a component unit. The loans were recorded by the Authority at a net realizable value of \$65 million. In exchange, the State received \$85 million in cash in the prior year.

Note 25 Subsequent Events

In July, the State issued \$72.5 million of parking and energy fee revenue bonds. The bonds are special obligations of the Capital City Economic Development Authority, a component unit. However, the State is contractually

obligated to pay annual debt service requirements on the bonds, such payment not to exceed \$6.7 million.

In November, \$200 million of special tax obligation bonds for transportation infrastructure programs and \$89.7 million special tax obligation refunding bonds were issued. These bonds will mature through July, 2024 and July, 2019 respectively and bear interest rates ranging from 2.125% to 5% and 3% to 5.25% respectively.

In December, \$300 million of general obligation bonds were issued. The bonds will mature in years 2005 through 2024 and bear interest rates ranging from 2.15% to 5%.

*Required
PERS
Supplementary
Information*

Required Supplementary Information

Schedules of Funding Progress

(Expressed in Millions)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
SERS						
6/30/1998	\$5,669.9	\$9,592.4	\$3,922.5	59.1%	\$2,339.0	167.7%
6/30/1999 *	-	-	-	-	-	-
6/30/2000	\$7,196.0	\$11,512.1	\$4,316.1	62.5%	\$2,651.9	162.8%
6/30/2001	\$7,638.9	\$12,105.4	\$4,466.5	63.1%	\$2,784.5	160.4%
6/30/2002	\$7,893.7	\$12,806.1	\$4,912.4	61.6%	\$2,852.1	172.2%
6/30/2003	\$8,058.6	\$14,223.8	\$6,165.2	56.7%	\$2,654.3	232.3%
6/30/2004	\$8,238.3	\$15,128.5	\$6,890.2	54.5%	\$2,816.7	244.6%

*No actuarial valuations were performed as of June 30, 1999.

TRS						
6/30/1998	\$7,721.1	\$10,970.1	\$3,249.0	70.4%	\$2,298.9	141.3%
6/30/1999 *	-	-	-	-	-	-
6/30/2000	\$9,605.9	\$11,797.6	\$2,191.7	81.4%	\$2,501.5	87.6%
6/30/2001 *	-	-	-	-	-	-
6/30/2002	\$10,387.3	\$13,679.9	\$3,292.6	75.9%	\$2,698.3	122.0%
6/30/2003 *	-	-	-	-	-	-
6/30/2004	\$9,846.7	\$15,070.5	\$5,223.8	65.3%	\$2,930.8	178.2%

*No actuarial valuations were performed as of June 30, 1999, 2001 and 2003

JRS						
6/30/1998	\$98.1	\$168.1	\$70.0	58.4%	\$21.2	330.2%
6/30/1999	\$110.7	\$172.5	\$61.8	64.2%	\$21.9	282.2%
6/30/2000	\$123.4	\$181.7	\$58.3	67.9%	\$24.1	241.9%
6/30/2001	\$133.1	\$193.8	\$60.7	68.7%	\$26.3	230.8%
6/30/2002	\$138.4	\$209.4	\$71.0	66.1%	\$28.9	245.7%
6/30/2003	\$142.8	\$211.1	\$68.3	67.6%	27.84	245.3%
6/30/2004	\$150.9	\$219.8	\$69.0	68.7%	28.90	238.8%

MERS						
6/30/1997	\$872.0	\$731.1	\$(140.9)	119.3%	\$246.0	(57.3)%
6/30/1998	\$980.4	\$814.1	\$(166.3)	120.4%	\$258.2	(64.4)%
6/30/1999	\$1,100.7	\$860.1	\$(240.6)	128.0%	\$269.4	(89.3)%
6/30/2000	\$1,251.6	\$1,153.2	\$(98.4)	108.5%	\$290.3	(33.9)%
6/30/2001	\$1,353.1	\$1,238.1	\$(115.0)	109.3%	\$311.2	(37.0)%
6/30/2002	\$1,403.4	\$1,319.7	\$(83.7)	106.3%	\$321.8	(26.0)%
7/1/2003	\$1,417.7	\$1,378.2	\$(39.5)	102.9%	\$326.4	(12.1)%

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)

Fiscal Year	<u>SERS</u>		<u>TRS</u>		<u>JRS</u>		<u>MERS</u>		<u>PJRS</u>	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
1998	\$567.6	59.0%	\$211.0	85.0%	\$9.3	100.0%	\$18.8	100.0%	\$0.25	100.0%
1999	\$315.6	100.0%	\$221.6	85.0%	\$9.3	100.0%	\$18.1	100.0%	\$0.32	100.0%
2000	\$342.8	100.0%	\$240.5	85.0%	\$9.3	100.0%	\$32.0	100.0%	\$-	-
2001	\$375.6	100.0%	\$252.5	85.0%	\$9.8	100.0%	\$15.5	100.0%	\$-	-
2002	\$415.5	100.0%	\$210.7	97.1%	\$9.6	100.0%	\$15.3	100.0%	\$-	-
2003	\$421.5	100.0%	\$221.2	81.3%	\$10.1	100.0%	\$16.0	100.0%	\$-	-
2004	\$470.3	100.0%	\$270.5	68.5%	\$11.6	100.0%	\$16.3	100.0%	\$-	-

Note: During the years 2000 thru 2004 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.

	<u>SERS</u>	<u>TRS</u>	<u>JRS</u>	<u>MERS</u>	<u>PJRS</u>
Valuation date	6/30/2004	6/30/2004	6/30/2004	7/1/2003	12/31/2002
Actuarial cost method	Projected unit credit	Entry age	Projected unit credit	Entry age	Entry Age
Amortization method	Level percent of pay, closed	Level percent of pay, closed	Level percent of pay, closed	Level percent of pay, closed	-
Remaining amortization period	28 Years	8-27 Years	26 Years	3-21 Years	-
Asset valuation method	5 year smoothed market	4 year smoothed market	5 year smoothed market	5 year smoothed market	Asset smoothing
Actuarial assumptions:					
Investment rate of return	8.5%	8.5%	8.5%	8.5%	8.5%
Projected salary increases	4.25-15%	4-8%	5.5%	4.5-11.25%	6%
Includes inflation at	5%	4%	5.5%	3.75%	3.5%
Cost-of-living adjustments	2.75-3.75%	3%	3-5.5%	2.5-5.0%	3%

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APPENDIX III-D



NANCY WYMAN
COMPTROLLER

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

MARK E. OJAKIAN
DEPUTY COMPTROLLER

February 24, 2005

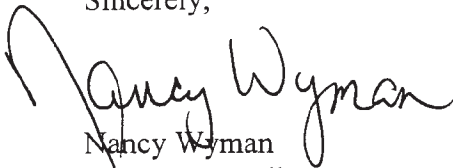
The Honorable Denise L. Nappier
State Treasurer
55 Elm Street
Hartford, CT 06106

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, 2000-2004. 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, 2000-2003.

The statements have been prepared on a modified cash basis of accounting for appropriated funds and on a cash basis of accounting for all other funds. These methods of accounting have been applied consistently and in accordance with the governing statutory requirements for all periods shown.

Sincerely,


Nancy Wyman
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, 2000, 2001, 2002 and 2003, and the related statements of revenues, expenditures, and changes in unappropriated surplus for the years ended on those dates as shown in Appendices III-D-4, III-D-5, III-D-6 and III-D-7. These financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note (a) to Appendix III-D-4, the State of Connecticut prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements referred to above present only the General Fund and are not intended to present fairly the financial position and results of operations of the State of Connecticut in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund as of June 30, 2000, 2001, 2002 and 2003, and the results of its operations for the years then ended, in conformity with the basis of accounting described in Note (a) to Appendix III-D-4.

As discussed in the litigation section of the accompanying 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.

Handwritten signature of Kevin P. Johnston in black ink.

Kevin P. Johnston
Auditor of Public Accounts

Handwritten signature of Robert G. Jaekle in black ink.

Robert G. Jaekle
Auditor of Public Accounts

December 31, 2003
State Capitol
Hartford, Connecticut

GENERAL FUND^(a)

**Balance Sheet
As of June 30
(In Thousands)**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Assets					
Cash and Short-Term Investments	\$ 150,871	\$ 178,428	\$ --	\$ --	\$ --
Accrued Taxes Receivable	667,036	751,329	731,462	759,320	811,239
Accrued Accounts Receivable	26,285	30,897	31,726	35,139	32,438
Federal and Other Grants Receivable and Unexpended	656,289	745,655	839,676	886,205	12,090
Investments	47,705	50,460	40,813	--	--
Due from Other Funds	<u>4,692</u>	<u>4,499</u>	<u>594,698</u>	<u>--</u>	<u>948</u>
Total Assets	<u>\$ 1,552,878</u>	<u>\$ 1,761,268</u>	<u>\$ 2,238,375</u>	<u>\$ 1,680,664</u>	<u>\$ 856,715</u>
Liabilities, Reserves and Surplus					
Liabilities					
Deficiency in Cash and Short-Term Investments	\$ --	\$ --	\$ 1,071,882	\$ 553,657	\$ 189,765
Accounts Payable ^(b)	--	--	85,032	--	--
Deferred Restricted Accounts and Federal and Other Grant Revenue	266,260	301,801	320,716	333,324	--
Due to Other Funds	<u>13,707</u>	<u>15,254</u>	<u>16,656</u>	<u>1,029</u>	<u>637</u>
Total Liabilities	<u>\$ 279,967</u>	<u>\$ 317,055</u>	<u>\$ 1,494,286</u>	<u>\$ 888,010</u>	<u>\$ 190,402</u>
Reserves					
Petty Cash Funds	\$ 1,092	\$ 1,043	\$ 1,031	\$ 991	\$ 996
Statutory Surplus Reserves	300,435	30,660	--	--	452,455
Appropriations Continued to Following Year	<u>971,384</u>	<u>1,412,510</u>	<u>965,446</u>	<u>888,278</u>	<u>212,862</u>
Total Reserves	\$ 1,272,911	\$ 1,444,213	\$ 966,477	\$ 889,269	\$ 666,313
Unappropriated Surplus (Deficit)	<u>0</u>	<u>0</u>	<u>(222,388)</u>	<u>(96,615)</u>	<u>0</u>
Total Liabilities, Reserves and Surplus	<u>\$ 1,552,878</u>	<u>\$ 1,761,268</u>	<u>\$ 2,238,375</u>	<u>\$ 1,680,664</u>	<u>\$ 856,715</u>

(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)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Unappropriated Surplus (Deficit), July 1	\$ - 0 -	\$ -0-	\$ - 0 -	\$ (222,388)	\$ (96,615)
Resources from Reserve for Debt					
Avoidance/ERN		265,474		222,388	96,615
Total Revenues (per Appendix III-D-6)	12,151,287 ^(a)	12,885,980 ^(c)	11,943,683 ^(e)	13,278,035 ^(h)	13,123,738 ⁽ⁱ⁾
Total Expenditures (per Appendix III-D-7)	12,138,545 ^(b)	12,783,210 ^(d)	13,285,284 ^(f)	13,465,043 ⁽ⁱ⁾	12,546,822
Operating Balance	12,742	368,244	(1,341,601)	(187,008)	576,916
Reserved for Prior Year Appropriations					
Less Appropriations Carried Forward	289,764	(333,999)	543,806	81,977	(126,216)
Transferred (Out) or Reserved for:					
Budget Reserve Fund	(34,960)	(30,660)	-0-	-0-	(302,155)
Reserve for Debt Retirement/Avoidance	(265,474)	-0-	-0-	-0-	(150,300)
Other Adjustments	<u>(2,072)</u>	<u>(3,585)</u>	<u>(19,291)</u>	<u>8,416</u>	<u>1,755</u>
Subtotal	-0-	-0-	(817,086)	(96,615)	-0-
Transferred from Budget Reserve Fund	<u>-0-</u>	<u>-0-</u>	<u>594,698</u>	<u>-0-</u>	<u>-0-</u>
Unappropriated Surplus (Deficit), June 30	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$(222,388)</u> ^(g)	<u>\$(96,615)</u>	<u>\$ - 0 -</u>

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

(b) 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.

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

(d) 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).

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

(f) 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.

(g) 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).

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

(i) 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.

(j) As of Fiscal Year 2003-04, Restricted Accounts in the Federal and Other Grants category have been segregated into a separate fund rather than being combined within the General Fund totals.

GENERAL FUND

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Taxes:					
Personal Income	\$ 4,238,228	\$ 4,744,233	\$4,265,912	\$4,263,070	\$4,943,430
Sales and Use	3,096,780	3,125,078	2,997,766	3,025,743	3,133,888
Corporations	587,756	550,509	380,985	507,975	518,009
Insurance Companies	201,225	191,107	217,371	239,358	233,412
Inheritance and Estate	228,072	252,802	153,092	184,320	147,614
Alcoholic Beverages	40,965	41,145	41,619	42,490	44,044
Cigarettes	122,045	119,476	160,904	256,052	279,572
Admissions, Dues, Cabaret	26,716	25,811	26,905	31,696	31,662
Oil Companies	54,285	64,497	24,309	117,451	106,894
Public Service Corporations	166,263	180,547	166,597	197,959	193,643
Real Estate Conveyance	114,565	112,282	120,717	149,317	176,743
Hospital Gross Receipts	69,180	--	--	--	--
Miscellaneous	40,227	35,088	26,267	33,731	34,822
Refunds of Taxes	(713,359)	(735,482)	(829,558)	(808,209)	(650,800)
R&D Credit Exchange	--	--	(21,933)	(11,148)	(10,378)
Other Revenue:					
Licenses, Permits, Fees	127,544	124,331	137,518	125,179	154,593
Sales of Commodities and Services	32,941	31,312	30,479	32,869	40,991
Transfer – Special Revenue	259,785	258,181	277,589	262,776	286,699
Investment Income	53,371	67,868	23,828	7,083	1,779
Transfers — To Other Funds	(180,000)	(85,400)	(147,685)	(93,009) ^(a)	(85,000)
Fines, Escheats and Rents	45,659	48,228	47,620	81,490	117,719
Miscellaneous	125,498	125,594	114,273	182,364	111,255
Refunds of Payments	--	--	(373)	(397)	(574)
Federal Grants	2,078,914	2,237,045	2,142,269	2,318,421	2,564,105
Indian Gaming Payments	318,986	332,418	368,954	387,256	402,733
Statutory Transfers From Other Funds	<u>78,000</u>	<u>138,800</u>	<u>120,000^(b)</u>	<u>489,486</u>	<u>346,883</u>
Total Unrestricted Revenue	11,213,646	11,985,470	10,845,425	12,023,326	13,123,738
Restricted Accounts and Federal and Other Grants	<u>937,641</u>	<u>900,510</u>	<u>1,098,258</u>	<u>1,254,709</u>	<u>0^(d)</u>
Total Revenues^(c)	<u>\$ 12,151,287</u>	<u>\$ 12,885,980</u>	<u>\$ 11,943,683</u>	<u>\$ 13,278,035</u>	<u>\$ 13,123,738</u>

(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.

(d) As of Fiscal Year 2003-04, Restricted Accounts in the Federal and Other Grants category have been segregated into a separate fund rather than being combined within the General Fund totals.

GENERAL FUND
Statement of Expenditures
Fiscal Year Ended June 30
(In Thousands)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> (unaudited)
Legislative	\$ 54,541	\$ 55,406	\$ 58,095	\$ 57,340	\$ 57,221
General Government					
Executive	9,929	10,018	9,569	8,650	9,286
Financial Administration	495,118	438,800	451,738	346,282	321,723
Legal	<u>61,263</u>	<u>62,612</u>	<u>65,980</u>	<u>65,309</u>	<u>63,184</u>
Total General Government	<u>566,310</u>	<u>511,430</u>	<u>527,287</u>	<u>420,241</u>	<u>394,193</u>
Regulation and Protection of Persons and Property					
Public Safety	129,216	130,051	141,830	138,450	129,845
Regulative	<u>77,785</u>	<u>73,427</u>	<u>80,660</u>	<u>73,881</u>	<u>69,100</u>
Total Regulation and Protection	<u>207,001</u>	<u>203,478</u>	<u>222,490</u>	<u>212,331</u>	<u>198,945</u>
Conservation and Development					
Agriculture	10,026	10,500	11,015	10,521	9,435
Environment	45,621	47,668	42,716	40,837	34,648
Historical Sites, Commerce and Industry	<u>22,508</u>	<u>25,486</u>	<u>24,733</u>	<u>22,117</u>	<u>37,497</u>
Total Conservation and Development	<u>78,155</u>	<u>83,654</u>	<u>78,464</u>	<u>73,475</u>	<u>81,580</u>
Health and Hospitals					
Public Health	79,445	82,225	85,058	80,171	67,791
Mental Retardation	627,435	654,698	701,343	719,964	718,858
Mental Health	<u>298,353</u>	<u>355,438</u>	<u>411,934</u>	<u>422,843</u>	<u>420,206</u>
Total Health and Hospitals	<u>1,005,233</u>	<u>1,092,361</u>	<u>1,198,335</u>	<u>1,222,978</u>	<u>1,206,855</u>
Transportation	-	34,857	37,653	5,731	5,931
Human Services	<u>3,430,561</u>	<u>3,537,462</u>	<u>3,589,653</u>	<u>3,724,789</u>	<u>3,776,416</u>
Education, Libraries and Museums					
Department of Education	1,825,305	2,169,762	1,995,545	1,989,531	1,999,613
Education of the Blind and Deaf	16,052	16,757	15,978	14,864	14,887
University of Connecticut	260,972	271,378	265,854	265,450	263,748
Higher Education and the Arts	55,326	61,888	66,425	47,511	42,180
Libraries	14,326	14,800	17,439	13,126	10,204
Teachers Retirement	215,396	226,663	217,762	193,780	199,394
Community—Technical Colleges	115,432	115,587	129,262	126,664	123,302
State University	<u>134,709</u>	<u>130,556</u>	<u>139,276</u>	<u>138,125</u>	<u>136,039</u>
Total Education, Libraries and Museums	<u>2,637,518</u>	<u>3,007,391</u>	<u>2,847,541</u>	<u>2,789,051</u>	<u>2,789,367</u>
Corrections	<u>957,555</u>	<u>999,052</u>	<u>1,068,183</u>	<u>1,111,416</u>	<u>1,165,656</u>
Judicial	<u>309,319</u>	<u>338,568</u>	<u>376,813</u>	<u>368,143</u>	<u>368,326</u>
Non-Functional					
Debt Service	926,365	973,554	992,071	986,130	1,125,095
Miscellaneous	<u>1,028,346</u>	<u>1,045,487</u>	<u>1,190,441</u>	<u>1,238,708</u>	<u>1,377,237</u>
Total Non-Functional	<u>1,954,711</u>	<u>2,019,041</u>	<u>2,182,512</u>	<u>2,224,838</u>	<u>2,502,332</u>
Totals	<u>11,200,904</u>	<u>11,882,700</u>	<u>12,187,026</u>	<u>12,210,333</u>	<u>12,546,822</u>
Restricted Accounts and Federal and Other Grants	<u>937,641</u>	<u>900,510</u>	<u>1,098,258</u>	<u>1,254,709</u>	<u>0^(b)</u>
Total Expenditures^(a)	<u>\$ 12,138,545</u>	<u>\$ 12,783,210</u>	<u>\$ 13,285,284</u>	<u>\$ 13,465,043</u>	<u>\$ 12,546,822</u>

(a) See Operating Balance on **Appendix III-D-5** for surplus or deficit for each fiscal year.

(b) In Fiscal Year 2003-04 Restricted Accounts in the Federal and Other Grants category were segregated in a separate fund rather than being combined within General Fund totals.

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

(In Millions)

	Revised Adopted Budget <u>2003-04</u> ^(h)	Estimated Final Budget <u>2003-04</u> ^(k)	Revised Adopted Budget <u>2004-05</u> ^(h)	Estimated Budget <u>2004-05</u> ⁽ⁿ⁾
Revenues				
<u>Taxes</u>				
Personal Income Tax	\$ 4,852.0	\$ 4,943.4	\$ 5,131.0	\$ 5,350.0
Sales & Use Corporation ^(a)	3,142.0 ⁽ⁱ⁾	3,133.9 ⁽ⁱ⁾	3,320.3 ⁽ⁱ⁾	3,278.8 ⁽ⁱ⁾
Public Service	497.7	518.0	501.7	570.3
Inheritance & Estate ^(b)	188.9	193.6	189.4	206.0
Insurance Companies	140.1	147.6	166.1	165.0
Cigarettes ^(c)	237.0	233.4	234.8	239.0
Real Estate Conveyance	274.0	279.6	266.0	267.6
Oil Companies	140.0	176.7	145.8	176.5
Alcoholic Beverages	92.0	106.9	89.6	137.4
Admissions and Dues	43.5	44.0	43.5	44.1
Miscellaneous	31.0	31.7	33.1	32.3
	<u>32.4</u>	<u>34.8</u>	<u>33.8</u>	<u>36.6</u>
Total Taxes	\$ 9,670.6	\$ 9,843.7	\$ 10,155.1	\$ 10,503.6
Less Refunds of Taxes	(726.0)	(650.8)	(700.0)	(720.0)
Less R&D Credit Exchange	(14.0)	(10.4)	(14.0)	(14.0)
Net Taxes	\$ 8,930.6	\$ 9,182.5	\$ 9,441.1	\$ 9,769.6
<u>Other Revenues</u>				
Transfers- Special Revenues	269.6	286.7	283.1	266.6
Indian Gaming Payments	405.0	402.7	430.0	420.0
Licenses, Permits, Fees	149.5	154.6	138.1	140.5
Sales of Commodities & Services	31.0	41.0	36.0	37.0
Rents, Fines & Escheats	107.3	117.7	144.5 ^(m)	180.0 ^(o)
Investment Income	7.5	1.8	15.3	12.0
Miscellaneous	118.0	111.3	105.0	111.8
Less Refunds of Payments	(0.5)	(0.6)	(0.5)	(0.6)
Total Other Revenue	\$ 1,087.4	\$ 1,115.2	\$ 1,151.5	\$ 1,167.3
<u>Other Sources</u>				
Federal Grants	2,538.7 ⁽ⁱ⁾	2,564.1 ⁽ⁱ⁾	2,469.6	2,497.2
Transfers to the Resources of the G.F. ^(d)	207.7	232.3	94.5	54.5 ^(p)
Transfers from Tobacco Settlement Funds	114.6	114.6	113.0	108.3
Transfers from Fiscal Year 2004 to Fiscal Year 2005	-	-	125.3	125.3
Transfers to Other Funds ^(e)	(85.0)	(85.0)	(85.0)	(85.0)
Total Other Sources	\$ 2,776.0	\$ 2,826.0	\$ 2,717.4	\$ 2,700.3
Total Unrestricted Revenues ^(f)	\$ 12,794.0	\$ 13,123.7	\$ 13,310.0	\$ 13,637.2

	Revised Adopted Budget 2003-04 ^(h)	Estimated Final Budget 2003-04 ^(k)	Revised Adopted Budget 2004-05 ^(h)	Estimated Budget 2004-05 ⁽ⁿ⁾
Appropriations/Expenditures				
Legislative	\$ 65.6	\$ 60.9	\$ 66.0	\$ 66.0
General Government	419.4	389.7	440.0	451.5
Regulation & Protection	213.1	200.4	209.4	215.9
Conservation & Development	89.6 ⁽ⁱ⁾	83.1 ⁽ⁱ⁾	91.4 ⁽ⁱ⁾	91.4 ⁽ⁱ⁾
Health & Hospitals	1,268.3	1,210.5	1,267.3	1,283.2
Human Services	3,860.8	3,833.9	3,916.6	3,921.0
Education, Libraries & Museums	2,851.9	2,814.8	2,901.5	2,903.4
Corrections	1,198.5	1,172.6	1,197.3	1,234.4
Judicial	390.3	370.3	399.5	400.4
Non- Functional				
Debt Service	1,136.2	1,127.5	1,311.2	1,311.2
Miscellaneous	1,425.5	1,409.2	1,535.9	1,535.9
Subtotal	<u>\$12,919.2</u>	<u>\$ 12,672.9</u>	<u>\$ 13,336.2</u>	<u>\$13,414.3</u>
Unallocated Lapse	(264.5)	-	(109.9)	(104.8)
Net Appropriations/Expenditures	<u>\$12,654.7</u>	<u>\$ 12,672.9</u>	<u>\$ 13,226.3</u>	<u>\$13,309.5</u>
Surplus (or Deficit) from				
Operations	139.3	450.8	83.7	327.7
Miscellaneous Adjustments	(14.0)	1.7	-	(12.3)
Reserve for Fiscal Year 2004-05	<u>(125.3)</u>	<u>(150.3)</u>	<u>-</u>	<u>-</u>
Balance^(g)	\$ 0.0	\$ 302.2^(l)	\$ 83.7	\$315.4

NOTE: Columns may not add due to rounding.

- (a) Per Public Act No. 03-1 and No. 03-6 includes a 25% corporate tax surcharge and an increase in the preference tax. These changes are expected to yield \$79.5 million in fiscal 2003-04 and \$63.5 million in fiscal 2004-05.
- (b) Reflects the combination of the phase-out in the Connecticut Succession Tax pursuant to Public Act No. 95-256, Public Act No. 01-1 of the November Special Session, Public Act No. 03-1 of the June Special Session, and changes to the federal estate pick-up tax pursuant to federal law P.L. 107-16. The imposition of a temporary estate tax is estimated to raise \$55 million in fiscal year 2004-05 if the State fails to receive extraordinary federal assistance similar to that contained in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.
- (c) Per Public Act No. 03-2, the increase in Cigarette Tax from \$1.11 per pack to \$1.51 per pack effective March 15, 2003 is estimated to yield \$70.9 million in fiscal year 2003-04 and \$70.9 million in fiscal year 2004-05 in cigarette and sales taxes.
- (d) Per the adopted budget, funds being transferred in fiscal year 2003-04 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 2004-05, transfers include \$40 million from securitization of unclaimed property, \$25.0 million from a securitization of a portion of the Clean Energy Fund, \$17.5 million from quasi-public agencies, and approximately \$12 million from miscellaneous accounts.
- (e) Transfer to Mashantucket Pequot and Mohegan Fund for grants to towns.
- (f) Additional revenues may be received with respect to Restricted Accounts and Federal & Other Grants, which are not included in this Appendix. Expenditures of these grants are also not included; the amount of such expenditures is generally the same as the amount of grants received.
- (g) 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.
- (h) Public Act No. 04-216 constitutes the revised biennial budget for fiscal years 2003-04 and 2004-05, with revisions by Public Act No. 04-253, Public Act No. 04-258, and Public Act No. 04-2 of the May Special Session. The act includes a total of \$234.9 million in additional appropriations to fiscal year 2003-04. These additional appropriations include \$90.5 million for deficiencies in fiscal year 2003-04, \$20.0 million for the incorporation

of the Commission on Arts, Tourism, Culture, History and Film into the General Fund, \$11.7 million for the TANF High Performance Bonus funding, \$0.3 million related to the State Marshals, and \$112.4 million for appropriations carried forward to fund fiscal year 2004-05 expenditures. The Act also transferred \$125.3 million to fiscal year 2004-05 revenue and provided \$259.1 additional appropriations for fiscal year 2004-05.

- (i) Public Act No. 04-216 incorporates the Commission on Arts, Tourism, Culture, History, and Film into the general fund beginning in fiscal year 2003-04.
- (j) Per the Federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (PL 108-27), the State will receive \$115.8 million of flexible grants and an estimated \$134.3 million due to a temporary increase in the federal medical assistance percentage (FMAP) for medical expenses in fiscal year 2003-04.
- (k) Per the Comptroller's annual report dated February 23, 2005 for the period ending June 30, 2004, with presentation modifications as to certain line items as determined by the Office of Policy and Management.
- (l) Once the surplus is certified by the Comptroller, this surplus will be deposited into the Budget Reserve Fund and added to the balance in the Budget Reserve Fund.
- (m) Per Public Act No. 04-216, the one time sale of unclaimed property will raise revenue by \$50 million.
- (n) Per the Comptroller's monthly report dated February 1, 2005 for the period ending December 31, 2004, with presentation modifications as to certain line items as determined by the Office of Policy and Management.
- (o) Per Public Act 04-216, the Treasurer's Office transferred to the State's General Fund a sum in excess of \$88 million, which exceeds the projected revenue by just over \$38 million.
- (p) Eliminates the securitization of unclaimed property revenue of \$40 million.

NOTE: The information in **Appendix III-E** of this **Annual Information Statement** contains only projections and no assurances can be given that subsequent projections will not result in 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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