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

$135,385,000
UNIVERSITY OF CONNECTICUT

$89,355,000 General Obligation Bonds, 2007 Series A
$46,030,000 General Obligation Bonds, 2007 Refunding Series A

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

The University of Connecticut General Obligation Bonds, 2007 Series A (the "2007 Series A Bonds") and the University of Connecticut General Obligation Bonds, 2007 Refunding Series A (the "2007 Refunding Series A Bonds") are general obligations of the University of Connecticut (the "University"), a body politic and corporate constituting a public instrumentality and agency of the State of Connecticut (the "State"), and are issued pursuant to Sections 10a-109a to 10a-109y inclusive of the General Statutes of Connecticut, 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 Eighth Supplemental Indenture and the Thirteenth Supplemental Indenture (collectively, the "Indentures") for the purpose of providing funds for the UCONN 2000 Infrastructure Improvement Program. The 2007 Series A Bonds and the 2007 Refunding Series A Bonds are additionally secured by a pledge of and payable from amounts of the State Debt Service Commitment equal to the interest and principal due on the 2007 Series A Bonds and the 2007 Refunding Series A Bonds appropriated out of the resources of the State General Fund and mandated and obligated to be paid by the State Treasurer to U. S. Bank National Association (successor to State Street Bank and Trust Company and 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds by the University does not obligate the State or any municipality or political subdivision to levy or pledge any form of taxation. The University has no taxing power. See "NATURE OF OBLIGATION AND SOURCE OF REPAYMENT" herein.

The 2007 Series A Bonds and the 2007 Refunding Series A Bonds are issuable only as fully-registered bonds, without coupons, and when issued will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the 2007 Series A Bonds and the 2007 Refunding Series A Bonds. Purchases of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds will be made in book-entry form, in the denomination of $5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interests in the 2007 Series A Bonds and the 2007 Refunding 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein. Principal of and interest on the 2007 Series A Bonds and the 2007 Refunding Series A Bonds will be paid directly to DTC by the Trustee, as Paying Agent, so long as DTC or its nominee, Cede & Co., is the Bondowner. Interest on the 2007 Series A Bonds and the 2007 Refunding Series A Bonds will be payable semiannually on April 1 and October 1 in each year, commencing on October 1, 2007. 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 2007 Series A Bonds and the 2007 Refunding 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, P.A., 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 2007 Series A Bonds and the 2007 Refunding 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, P.A., under existing statutes, interest on the 2007 Series A Bonds and the 2007 Refunding Series A Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

The 2007 Series A Bonds and the 2007 Refunding Series A Bonds are offered when, as, and if issued and received by the Underwriters, subject to the approval of legality by Pullman & Comley, LLC, Hartford, Connecticut, Bond Counsel, and the Law Offices of Joseph C. Reid, P.A., New York, New York, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their Counsel, Robinson & Cole LLP, Hartford, Connecticut and Gonzalez Saggio & Harlan LLP, Milwaukee, Wisconsin. Certain legal matters will be passed upon for the State by its Disclosure Counsel, Day Pitney LLP, Hartford, Connecticut. It is expected that the 2007 Series A Bonds and the 2007 Refunding Series A Bonds in definitive form will be available for delivery at The Depository Trust Company in New York, New York on or about April 12, 2007.

Loop Capital Markets, LLC

A.G. Edwards **JPMorgan** **Wachovia Bank, National Association**

Banc of America Securities LLC **First Albany Capital** **Jackson Securities, LLC** **M. R. Beal & Company**
Merrill Lynch **Popular Securities** **Prager, Sealy & Co., LLC** **Ramirez & Co., Inc.**
RBC Capital Markets **Roosevelt & Cross, Inc.** **Webster Bank, N.A.**

Dated: March 29, 2007

$135,385,000
UNIVERSITY OF CONNECTICUT

$89,355,000 General Obligation Bonds, 2007 Series A
MATURITY SCHEDULE

Maturity	Principal Amount	Interest Rate	Yield	CUSIP*
04/01/2008	$5,270,000	4.000%	3.400%	914233QC8
04/01/2009	5,270,000	4.000	3.480	914233QD6
04/01/2010	5,270,000	3.500	3.530	914233QE4
04/01/2011	5,270,000	3.750	3.550	914233QF1
04/01/2012	5,270,000	5.000	3.580	914233QG9
04/01/2013	4,205,000	4.000	3.620	914233QH7
04/01/2014	4,200,000	3.600	3.670	914233QJ3
04/01/2015	4,200,000	4.500	3.730	914233QK0
04/01/2016	4,200,000	3.700	3.780	914233QL8
04/01/2017	4,200,000	4.000	3.820	914233QM6
04/01/2018†	4,200,000	5.000	3.880	914233QN4
04/01/2019	3,200,000	4.000	4.030	914233QP9
04/01/2019†	1,000,000	4.250	4.000	914233QQ7
04/01/2020	4,200,000	4.000	4.080	914233QR5
04/01/2021	4,200,000	4.000	4.150	914233QS3
04/01/2022	4,200,000	4.000	4.200	914233QT1
04/01/2023	4,200,000	4.000	4.230	914233QU8
04/01/2024	4,200,000	4.000	4.250	914233QV6
04/01/2025	4,200,000	4.000	4.270	914233QW4
04/01/2026	4,200,000	4.000	4.280	914233QX2
04/01/2027	4,200,000	4.250	4.287	914233QY0

$46,030,000 General Obligation Bonds,
2007 Refunding Series A
MATURITY SCHEDULE

Maturity	Principal Amount	Interest Rate	Yield	CUSIP*
04/01/2016	$4,615,000	5.000%	3.780%	914233QZ7
04/01/2017	5,320,000	5.000	3.820	914233RA1
04/01/2018†	4,855,000	5.000	3.880	914233RB9
04/01/2019†	2,865,000	5.000	3.950	914233RC7
04/01/2020†	9,280,000	5.000	3.990	914233RD5
04/01/2021†	9,610,000	5.000	4.020	914233RE3
04/01/2022†	9,485,000	5.000	4.050	914233RF0

† Priced to the first optional call date of April 1, 2017 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 2007 Series A Bonds or the 2007 Refunding Series A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the University of Connecticut and the State of Connecticut and other sources which are believed to be reliable but is not guaranteed as to its accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstance, create any implication that there has been no change in the affairs of said University or the State since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2007 SERIES A BONDS AND THE 2007 REFUNDING SERIES A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

In making an investment decision, investors must rely on their own examination of the security for the 2007 Series A Bonds and the 2007 Refunding Series A Bonds and terms of this offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commissioners or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

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CONTENTS OF OFFICIAL STATEMENT

This Official Statement of the University of Connecticut, including the cover 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 $135,385,000 aggregate principal amount of its 2007 Series A Bonds and 2007 Refunding Series A Bonds.

Part I of this Official Statement, including the cover and inside cover page and the Appendices thereto, contains information relating to the 2007 Series A Bonds and the 2007 Refunding Series A Bonds. Appendix I-A of this Official Statement contains certain information concerning the University as of its date, except as otherwise provided therein. Part II of this Official Statement is the Information Supplement of the State of Connecticut which supplements as of its date certain information contained in the most recent Annual Information Statement of the State. Part III of this Official Statement, including the Appendices thereto, is the most recent Annual Information Statement of the State and contains certain information about the State as of its date. The cover page, inside cover page, Parts I, II, and III and the Appendices and Schedules thereto should be read collectively and in their entirety.

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OFFICIAL STATEMENT
relating to

$135,385,000
UNIVERSITY OF CONNECTICUT

$89,355,000 General Obligation Bonds, 2007 Series A
$46,030,000 General Obligation Bonds, 2007 Refunding Series A

INTRODUCTORY STATEMENT

This Official Statement, including the cover page, the inside cover page, the appendices and schedules attached hereto, is provided for the purpose of presenting certain information in connection with the offering and sale of $89,355,000 General Obligation Bonds, 2007 Series A (the "2007 Series A Bonds") and $46,030,000 General Obligation Bonds, 2007 Refunding Series A (the "2007 Refunding Series A Bonds") of the University of Connecticut (the "University"). The 2007 Series A Bonds and the 2007 Refunding Series A Bonds are authorized pursuant to the University of Connecticut 2000 Act, Sections 10a-109a to 10a-109y inclusive of the General Statutes of Connecticut, Revision of 1958 as amended ("the Act" or the "UCONN 2000 Act") and are authorized, issued and secured under the provisions of a General Obligation Master Indenture of Trust, dated as of November 1, 1995 (the "Master Indenture"), as supplemented and amended by certain supplemental indentures, including the Eighth Supplemental Indenture dated as of January 15, 2004 (the "Eighth Supplemental Indenture") and the Thirteenth Supplemental Indenture dated as of April 1, 2007 (the "Thirteenth Supplemental Indenture"). The Master Indenture and supplements thereto, including the Eighth Supplemental Indenture and the Thirteenth Supplemental Indenture, are collectively referred to herein as the "Indentures." All series of bonds issued under the Master Indenture are herein called the "Bonds" or "General Obligation Bonds." The Indentures were each approved by the Board of Trustees of the University (the "Board") and entered into with U. S. Bank National Association (successor to State Street Bank and Trust Company and 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. As of the date of delivery, the University has outstanding $828,107,147 of its General Obligation Bonds, secured by the State Debt Service Commitment, $183,285,000 of its Special Obligation Bonds and $78,641,564 of its Governmental Lease Purchase Agreement, the proceeds of which have funded or will fund UConn 2000 projects. See Appendix I-A, "UNIVERSITY FINANCES - University Indebtedness and Capitalized Lease Obligations."

The 2007 Series A Bonds represent the fourteenth series of General Obligation Bonds being issued pursuant to the Act and the Master Indenture. As of the date of delivery, pursuant to the Indentures, $1,180,000,000 of General Obligation Bonds has been authorized to be issued for UConn 2000 projects, of which $1,180,000,000 has been issued and made available for UConn 2000 projects. See "UCONN 2000 INFRASTRUCTURE IMPROVEMENT PROGRAM."

The 2007 Refunding Series A Bonds represent the fifteenth series of General Obligation Bonds being issued pursuant to the Act and the Master Indenture. See "PLAN OF REFINANCING" herein.

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

NATURE OF OBLIGATION AND SOURCE OF REPAYMENT

The Bonds (including the 2007 Series A Bonds and the 2007 Refunding Series A Bonds) are general obligations of the University for the payment of which, in accordance with their terms, the full faith and credit of the University are pledged. The 2007 Series A Bonds and the 2007 Refunding Series A Bonds are additionally secured by the pledge of and a lien upon the State Debt Service Commitment. The State Debt Service Commitment is defined by the Act and the Master Indenture as the commitment by the State to pay an annual amount for the punctual payment of Special Debt Service Requirements on securities issued as general obligations of the University, as the same shall arise and shall become due and payable. Special Debt Service Requirements include, among other things, the principal on serial 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds, the Act provides that appropriation of all amounts of the State Debt Service Commitment shall be made out of the resources of the General Fund of the State and that the Treasurer of the State (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 Thirteenth Supplemental Indenture provides for the pledge of and a lien upon the State Debt Service Commitment. The 2007 Series A Bonds and the 2007 Refunding Series A Bonds are general obligations of the University for which its full faith and credit are pledged and are payable from all Assured Revenues. 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 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds and, accordingly, is not planning to budget any of the other Assured Revenues for the payment of the Bonds, including the 2007 Series A Bonds and the 2007 Refunding Series A Bonds. Under the Master Indenture, the University has reserved the right and expects to issue Additional Bonds to finance UCONN

2000 projects secured by the State Debt Service Commitment upon the terms and conditions set forth therein (See Appendix I-B, "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL OBLIGATION MASTER INDENTURE OF TRUST"). The Act currently limits the maximum amount of Bonds so secured 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 Indentures 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 2007 Series A Bonds and the Thirteenth Supplemental Indenture was submitted to the Governor on June 23, 2006 and was approved by the Governor on June 28, 2006. The resolution approving the issuance of refunding bonds and the Eighth Supplemental Indenture was submitted to the Governor on October 4, 2001 and approved by the Governor on October 19, 2001. Appendix A of the Thirteenth Supplemental Indenture was amended by the Board of Trustees on September 26, 2006 in accordance with the Act and the Indenture.

Pursuant to the Act, the Bonds, including the 2007 Series A Bonds and the 2007 Refunding Series A Bonds, do not constitute a debt or liability of the State or any municipality thereof and neither the faith and credit nor taxing power of the State or any municipality is pledged to the payment of principal of or interest on the 2007 Series A Bonds and the 2007 Refunding Series A Bonds. The issuance of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds by the University does not obligate the State or any municipality or political subdivision to levy or pledge any form of taxation to the payment of principal of or interest on the 2007 Series A Bonds and the 2007 Refunding Series A Bonds. The University has no taxing power.

However, pursuant to the Act, the 2007 Series A Bonds and the 2007 Refunding Series A Bonds, for purposes of the State's statutory debt limit computation, are deemed to be indebtedness of the State. Reference is made to Part III of this Official Statement under the heading STATE DEBT - *Types of Direct General Obligation Debt - UCONN 2000 Financing* wherein the State identifies the financings by the University secured by the State Debt Service Commitment for treatment as direct debt of the State. As noted therein, the Act requires that the State include a certain amount of University securities secured by the State Debt Service Commitment in each fiscal year from 1996 to 2015 in the computation of the statutory limitation on indebtedness of the State pursuant to Section 3-21 of the Connecticut General Statutes, as amended.

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

DESCRIPTION OF THE 2007 SERIES A BONDS

In General

The 2007 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 2007 Series A Bonds

The 2007 Series A Bonds will be dated the Date of Delivery, will bear interest at the rates per annum and will mature on the dates and in the amounts as set forth on the inside cover page of this Official Statement. Interest on the 2007 Series A Bonds will be paid semiannually on April 1 and October 1 in each year, commencing on October 1, 2007. 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 fifteenth day of March and September in each year or the preceding business day if such fifteenth day is not a business day.

Principal of and interest on the 2007 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 2007 Series A Bonds maturing on or after April 1, 2018 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 April 1, 2017, 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 2007 Series A Bonds, all notices of redemption will be sent only to DTC.

DESCRIPTION OF THE 2007 REFUNDING SERIES A BONDS

In General

The 2007 Refunding Series A Bonds are issuable only as fully registered bonds, in book-entry-only form (as described herein), in the denomination of $5,000 or any integral multiple thereof.

The 2007 Refunding Series A Bonds

The 2007 Refunding Series A Bonds will be dated the Date of Delivery, will bear interest at the rates per annum and will mature on the dates and in the amounts as set forth on the inside cover page of this Official Statement. Interest on the 2007 Refunding Series A Bonds will be paid semiannually on April 1 and October 1 in each year, commencing on October 1, 2007. 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 fifteenth day of March and September in each year or the preceding business day if such fifteenth day is not a business day.

Principal of and interest on the 2007 Refunding Series A Bonds will be paid directly to The Depository Trust Company ("DTC") by U. S. Bank National Association, Hartford, Connecticut, as Paying Agent, so long as DTC or its nominee, Cede & Co., is the Bondowner. See "BOOK-ENTRY-ONLY SYSTEM."

Optional Redemption. The 2007 Refunding Series A Bonds maturing on or after April 1, 2018 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 April 1, 2017 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 2007 Refunding Series A Bonds, all notices of redemption will be sent only to DTC.

PLAN OF REFINANCING

The 2007 Refunding Series A Bonds are being issued to refund all or a portion of selected maturities of certain outstanding Bonds including the University of Connecticut General Obligation Bonds 2002 Series A (the "2002 Series A Bonds") and the University of Connecticut General Obligation Bonds 2003 Series A (the "2003 Series A Bonds" and together with the 2002 Series A Bonds, the "Refunded Bonds"). The University and the Treasurer reserve the right to refund all, only a portion or none of the Bonds of each series to be refunded.

Refunded Bonds

Series	Maturity Date	Principal Amount	Coupon	Call Date	Call Price	CUSIP
2002 Series A	4/1/2017	$ 715,000	4.800%	4/1/2012	100.000%	914233GU9
2002 Series A	4/1/2018	600,000	4.900	4/1/2012	100.000	914233GV7
2002 Series A	4/1/2019	540,000	4.900	4/1/2012	100.000	914233GW5
2002 Series A	4/1/2020	5,000,000	5.000	4/1/2012	100.000	914233GX3
2002 Series A	4/1/2021	5,000,000	5.000	4/1/2012	100.000	914233GY1
2002 Series A	4/1/2022	5,000,000	5.000	4/1/2012	100.000	914233GZ8
		$16,855,000				
2003 Series A	2/15/2016	$ 4,675,000	5.250%	2/15/2013	100.000%	914233JR3
2003 Series A	2/15/2017	4,680,000	5.250	2/15/2013	100.000	914233JS1
2003 Series A	2/15/2018	4,345,000	5.125	2/15/2013	100.000	914233JT9
2003 Series A	2/15/2019	2,420,000	5.125	2/15/2013	100.000	914233JU6
2003 Series A	2/15/2020	4,385,000	5.125	2/15/2013	100.000	914233JV4
2003 Series A	2/15/2021	4,725,000	5.125	2/15/2013	100.000	914233JW2
2003 Series A	2/15/2022	4,610,000	5.125	2/15/2013	100.000	914233JX0
		$29,840,000				
TOTAL		**$46,695,000**				

Upon delivery of the 2007 Refunding Series A Bonds, proceeds will be deposited in the Redemption Fund pursuant to the Indenture and will be placed in escrow with U.S. Bank National Association (the "Escrow Agent"), under an Escrow Deposit Agreement (the "Escrow Deposit Agreement") to be dated as of April 12, 2007, between the Escrow Agent and the University. The Escrow Agent will deposit in an irrevocable trust fund called the Escrow Deposit Fund $49,505,476.89 representing $49,505,476.89 of the net proceeds of the 2007 Refunding Series A Bonds which will be used to purchase $49,505,475.00 direct obligations or obligations guaranteed by the United States of America, including State and Local Government Series Securities (the "Government Obligations"), the principal of and interest on which, when due, along with the uninvested cash amount of $1.89, will provide amounts sufficient to meet principal, interest payments and redemption prices on the Refunded Bonds on the dates such payments are due. All investment income on and maturing principal of the Government Obligations held in the Escrow Deposit Fund and needed to pay the principal and premium of, and interest on the Refunded Bonds will be irrevocably deposited by the University for payment of the Refunded Bonds.

SOURCES AND USES OF PROCEEDS OF THE 2007 SERIES A BONDS AND THE 2007 REFUNDING SERIES A BONDS

The University expects to apply the proceeds from the sale of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds as follows:

Sources	
Par Amount of the 2007 Series A Bonds	$ 89,355,000.00
Par Amount of the 2007 Refunding Series A Bonds	46,030,000.00
Net Original Issuance Premium of the 2007 Series A Bonds (Discount)	431,003.90
Net Original Issuance Premium of the 2007 Refunding Series A Bonds (Discount)	3,897,620.40
Total Sources	**$139,713,624.30**
Uses	
Construction Account	$ 89,000,000.00
Deposit to Redemption Fund	49,505,476.89
Costs of Issuance Account for 2007 Series A Bonds	233,717.58
Costs of Issuance Account for 2007 Refunding Series A Bonds	117,280.03
Underwriters' Discount for 2007 Series A Bonds	552,286.32
Underwriters' Discount for 2007 Refunding Series A Bonds	304,863.48
Total Uses	**$139,713,624.30**

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

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 2007 Series A Bonds and the 2007 Refunding Series A Bonds, payment of interest and other payments on the 2007 Series A Bonds and the 2007 Refunding Series A Bonds to DTC Participants (as hereinafter defined) or Beneficial Owners (as hereinafter defined) of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds, confirmation and transfer of beneficial ownership interests in the 2007 Series A Bonds and the 2007 Refunding Series A Bonds and other bond-related transactions by and between DTC (as hereinafter defined), the DTC Participants and Beneficial Owners of the 2007 Series A Bonds and the 2007 Refunding 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds. The 2007 Series A Bonds and the 2007 Refunding 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 2007 Series A Bonds certificate and one 2007 Refunding Series A Bonds certificate will be issued for each maturity of the 2007 Series A Bonds and the 2007 Refunding 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 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 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 Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, 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 and www.dtc.org.

Purchases of 2007 Series A Bonds and the 2007 Refunding Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2007 Series A Bonds and the 2007 Refunding Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2007 Series A Bond and 2007 Refunding Series A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. 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 2007 Series A Bonds and 2007 Refunding Series A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2007 Series A Bonds and the 2007 Refunding Series A Bonds, except in the event that use of the book-entry system for a series of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds is discontinued.

To facilitate subsequent transfers, all 2007 Series A Bonds and 2007 Refunding Series A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2007 Series A Bonds and 2007 Refunding 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2007 Series A Bonds and 2007 Refunding Series A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2007 Series A Bonds and the 2007 Refunding Series A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy 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 2007 Series A Bonds and the 2007 Refunding 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, 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) is 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds registered in its name for the purposes of payment of the principal and redemption premium, if any, of, or interest on, the 2007 Series A Bonds and the 2007 Refunding Series A Bonds, giving any notice permitted or required to be given to registered owners under the Resolution, registering the transfer of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. The University, the State and the Trustee shall not have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the 2007 Series A Bonds and the 2007 Refunding Series A Bonds under or through DTC or any Participant, or any other person which is not shown on the registration books of the University, the State (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Participant; the payment by DTC or any Participant of any amount in respect of the principal, redemption premium, if any, or interest on the 2007 Series A Bonds and the 2007 Refunding Series A Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the University; or other action taken by DTC as registered owner. Interest, redemption premium, if any, and principal will be paid by the Trustee to DTC, or its nominee. Disbursement of such payments to the Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Participants or the Indirect Participants.

For every transfer and exchange of beneficial ownership of any of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may discontinue providing its services as securities depository with respect to a series of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds at any time by giving reasonable notice to the University and discharging its responsibilities with respect thereto under applicable law, or the University may terminate its participation in the system of book-entry transfer through DTC at any time by giving notice to DTC. In either event, the University may retain another securities depository for a Series of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds or may direct the Trustee to deliver bond certificates in accordance with instructions from DTC or its successor. If the University directs the Trustee to deliver such bond certificates, such 2007 Series A Bonds or 2007 Refunding Series A Bonds of a series may thereafter be exchanged for an equal aggregate principal amount of 2007 Series A Bonds or 2007 Refunding Series A Bonds of such series in any other authorized denominations and of the same maturity as set forth in the Resolution, upon surrender thereof at the principal corporate trust office of the Trustee, who will then be responsible for maintaining the registration books of the University.

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

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

So long as Cede & Co. is the registered owner of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds (other than under the captions "Tax Exemption" and "Continuing Disclosure" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the 2007 Series A Bonds and the 2007 Refunding 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds.

Principal and Interest Payments. Principal of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds will be payable at the corporate trust office of the Trustee in Hartford, Connecticut, and interest on the 2007 Series A Bonds and the 2007 Refunding Series A Bonds will be payable to the registered owner thereof on each interest payment date by check mailed to such registered owner at the address shown on the bond register maintained by the Trustee, or on the special record date established for the payment of defaulted interest. However, registered owners of $1,000,000 or more in aggregate principal amount of 2007 Series A Bonds or 2007 Refunding Series A Bonds may be paid interest by wire transfer upon written request filed with the Trustee on or before the Record Date for the applicable interest payment date.

Registration and Transfer. The Trustee will keep or cause to be kept, at its corporate office in Hartford, Connecticut, sufficient books for the registration and transfer of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds, and, upon presentation of 2007 Series A Bonds or 2007 Refunding Series A Bonds for each purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer, or cause to be registered or transferred, on such books such 2007 Series A Bonds or 2007 Refunding Series A Bonds. Any 2007 Series A Bond or 2007 Refunding Series A Bond may, in accordance with its terms, be transferred upon such books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such registered 2007 Series A Bond or 2007 Refunding Series A Bond for cancellation, accompanied by delivery of a written instrument of transfer executed in a form approved by the Trustee. Whenever any 2007 Series A Bond or 2007 Refunding Series A Bond shall be surrendered for transfer, the University shall execute and the Trustee shall authenticate and deliver a new 2007 Series A Bond or 2007 Refunding Series A Bond and maturity and for a like aggregate principal amount. The Trustee is not required to transfer or exchange any 2007 Series A Bond or 2007 Refunding Series A Bond during the period 15 days before the mailing of a notice of redemption. The Trustee shall require the Bondholder requesting such transfer or exchange to pay any tax or other governmental charge required to be paid with respect to such transfer or exchange and may require the payment of any reasonable sum to cover expenses incurred by the Trustee or University in connection with such exchange.

UCONN 2000 INFRASTRUCTURE IMPROVEMENT PROGRAM

Introduction

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

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 2007 Series A Bonds represent the fourteenth series of General Obligation Bonds being issued pursuant to the Act and the Master Indenture. As of the date of delivery, pursuant to the Indentures, $1,180,000,000 of General Obligation Bonds has been authorized to be issued for UCONN 2000 projects, of which $1,180,000,000 has been issued (consisting of par amount of $1,177,092,147 of Bonds plus $2,907,853 of original issue premium) (excluding Costs of Issuance). See Appendix I-A, "GOVERNANCE, ACADEMIC PROGRAMS AND CAMPUSES – Status of UCONN 2000 Projects," for a list of projects funded by the UCONN 2000 Infrastructure Program and the 2007 Series A Bonds. In addition, the University authorized and issued $216,950,000 General Obligation Bonds, 2004 Refunding Series A to refund $223,160,000 of prior Bonds and $61,020,000 General Obligation Bonds 2006 Refunding Series A to refund $61,675,000 of prior Bonds. The 2007 Refunding Series A Bonds represent the fifteenth series of General Obligation Bonds being issued pursuant to the Act and the Master Indenture. See "PLAN OF REFINANCING" herein.

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, $27,640,000 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 2007 Series A Bonds or the 2007 Refunding Series A Bonds or any other general obligation bonds of the University.

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

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

The Endowment Fund is dedicated to endowed professorships, scholarships and programmatic enhancements. To provide an incentive for gifts to the Endowment Fund, the State has agreed to make matching grants to the Endowment Fund in the form of the Endowment Fund State Grants. See Appendix I-A under the subsection, "The University of Connecticut Foundation, Inc. and The University of Connecticut Law School 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, 2006, 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 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. The second periodic performance review was submitted on January 1, 2006 in compliance with the Act.

Recent Events

In 2004, the University discovered construction and code compliance problems with three recently-built residential complexes. 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 to 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. Almost all of the code violations have been corrected. Actual and estimated costs of achieving code compliance are reflected in the University's audited financial statements. To date, much of the corrective work has been performed and paid for by the original contractors; the University will continue to pursue financial recovery as appropriate.

In 2005, the University broadened its review beyond the specific construction issues and identified weaknesses in the administration of the UCONN 2000 program with regard to code compliance, building inspection and organizational checks and balances. These issues have been addressed through an extensive corrective action plan undertaken by the University, as well as through recommendations made by the Governor's Commission on UConn Review and Accountability, a panel convened by Governor Rell to take an in-depth look at contract management and construction oversight.

Key elements of the effort to strengthen the administration of the program include (1) a new Office of the Fire Marshall and Building Inspector (staffed by 10 professionals as of July 1, 2006), (2) organizational restructuring to strengthen segregation of duties and checks and balances, (3) personnel actions including the resignation of two managers and another being placed on administrative leave, (4) enhanced documentation of competitive selection procedures and contract awards, and a new comprehensive Capital Project Delivery Process Manual incorporating added controls in the budgeting, contracting and expenditure review processes, (5) revised project budgeting and reporting, (6) implementation of a comprehensive capital asset management system to enhance project tracking and reporting, facilities work order management and space inventory and planning, (7) a significant expansion in audit, compliance and risk management capacity and expanded oversight by the Board of Trustees, and (8) active pursuit, from the responsible construction and design professionals, of cost recovery associated with construction correction action.

In 2006, the University continued implementation of its UCONN 2000 corrective action plan and in compliance with state statutory requirements established a Construction Management Oversight Committee, the Buildings, Grounds and Environment Committee of the Board of Trustees, and the Construction Assurance Office. From time to time, questions concerning different financial and performance aspects of the UCONN 2000 program do arise. An extensive audit of the program is nearing completion. The University has also implemented and staffed a new organizational structure for capital program contracting and procurement.

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 2007 Series A Bonds and the 2007 Refunding Series A Bonds, or in any way contesting or affecting the validity of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds or any proceedings of the University taken with respect to the issuance or sale thereof, the application of the proceeds of the 2007 Series A Bonds or the 2007 Refunding Series A Bonds or of amounts appropriated as the State Debt Service Commitment out of the resources of the State General Fund under the UCONN 2000 Act for the payment of the 2007 Series A Bonds or the 2007 Refunding Series A Bonds or the existence or powers of the University. While the University is defending a few legal matters in state and federal courts, the Office of the Attorney General 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 2007 Series A Bonds or the 2007 Refunding Series A Bonds. However, the State, its officers and employees are defendants in pending lawsuits. The Attorney General's Office has reviewed the status of such pending lawsuits. See "LITIGATION" in Part III hereto for a description of such litigation.

Upon delivery of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds, the State shall furnish a certificate of the Attorney General of the State, dated the date of delivery of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds, which shall state that, except as disclosed in the Official Statement, there is no controversy or litigation of any nature now pending by or against the State which, in the opinion of the Attorney General, will be finally determined so as to result individually or in the aggregate in a final judgment against the State which would materially adversely affect its financial condition or the power of the State to levy, collect and enforce the collection of taxes or other revenues for the payment of its bonds.

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 2007 Series A Bonds and the 2007 Refunding Series A Bonds, that the State will not limit or alter the rights vested in the University until such obligations, together with the interest thereon, are fully met and discharged, provided that nothing shall preclude such limitation or alteration if and when adequate provision shall be made by law for the protection of the holders of such bonds and notes.

LEGALITY FOR INVESTMENT

The Act provides that the 2007 Series A Bonds and the 2007 Refunding Series A Bonds shall be legal investments and public bodies of the State and its political subdivisions, all municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, banking associations, trust companies, savings banks and savings associations, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, board of trustees and other fiduciaries, and all other persons whatsoever who are now or may be authorized to invest in securities of the State, may properly and legally invest funds, including capital, in their control, or belonging to them. Those securities are also made securities which may properly and legally be deposited with and received by all public officers and bodies of the State or any agency or political subdivision and all municipalities and public corporations for any purpose for which the deposit of securities of the State is now or may be authorized by law.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters related to the authorization, issuance and sale of the 2007 Series A Bonds and the 2007 Refunding 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds substantially in the form 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 and Gonzalez Saggio & Harlan LLP, Milwaukee, Wisconsin. Certain legal matters will be passed upon for the State by its Disclosure Counsel, Day Pitney 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds in order that interest on the 2007 Series A Bonds and the 2007 Refunding Series A Bonds not be included in gross income of the owners thereof for federal income tax purposes under Section 103 of the Code. The Tax Regulatory Agreement of the University and the Treasurer which will be delivered concurrently with the delivery of the 2007 Series A Bonds and the 2007 Refunding 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 2007 Series A Bonds and the 2007 Refunding 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 2007 Series A Bonds and the 2007 Refunding 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds accrued and properly allocable to the owners thereof under the Code is not included in gross income for federal income tax purposes if interest on the 2007 Series A Bonds and the 2007 Refunding 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 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds (the "OIP Bonds") may be more than their stated principal amounts. An owner who purchases a 2007 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 2007 Series A Bond for federal income tax purposes. Prospective purchasers of OIP Bonds should consult their tax advisors regarding the amortization of premium and the effect upon basis.

Other Federal Tax Matters

In addition to the matters addressed above, prospective purchasers of the 2007 Series A Bonds and the 2007 Refunding 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 2007 Series A Bonds and the 2007 Refunding 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds will not have an adverse effect upon the tax-exempt status or the market price of the 2007 Series A Bonds and the 2007 Refunding 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

Interest on the 2007 Series A Bonds and the 2007 Refunding Series A Bonds is included in gross income for purposes of the Connecticut corporation business tax.

Accrued original issue discount on a 2007 Series A Bond or a 2007 Refunding 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 OID 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the 2007 Series A Bonds and the 2007 Refunding 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 dates, 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 2007 Series A Bond or a 2007 Refunding Series A Bond. Prospective owners of the 2007 Series A Bonds and the 2007 Refunding 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds.

RATINGS

The 2007 Series A Bonds and the 2007 Refunding Series A Bonds have been rated “Aa3” by Moody’s Investors Service (“Moody’s”), 99 Church Street, New York, New York; “AA” by Standard & Poor’s Ratings Services (“Standard & Poor’s”), 55 Water Street, New York, New York and “AA-” by Fitch Ratings (“Fitch”), One State Street Plaza, New York, New York. The 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 2007 Series A Bonds or the 2007 Refunding Series A Bonds. There is no assurance that any ratings will continue for any period of time or that they will not be revised or withdrawn. Any revision or withdrawal of any of such ratings on the 2007 Series A Bonds or the 2007 Refunding Series A Bonds may have an adverse effect on the market price thereof.

CONTINUING DISCLOSURE UNDERTAKING

The Act gives the University and State the specific authority to enter into continuing disclosure agreements in accordance with the requirements of Securities and Exchange Commission Rule 15c2-12 (the "Rule"). Pursuant to Article XV of the Master Indenture, the University as issuer of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds under the Rule has included an article (the "Continuing Disclosure Article", a summary of which is set forth in Appendix 1-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 2007 Series A Bonds and the 2007 Refunding Series A Bonds), for the benefit of the beneficial holders of such Bonds, substantially in the form of the Continuing Disclosure Agreement also attached as Appendix I-D to this Part I. Under this Article with respect to the University, and under this Continuing Disclosure Agreement with respect to the State (such Article and such Agreement herein called the "Continuing Disclosure Undertaking"), the University and the State, respectively, agree to provide or cause to be provided, in accordance with the requirements of the Rule, (i) certain annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the Bonds (only by the University with respect to the University), 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds shall be conditioned upon their receiving, at or prior to the delivery of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds, an executed copy of the Continuing Disclosure Undertaking.

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

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

The University has never defaulted in its obligations to meet any of its undertakings under the Continuing Disclosure Article.

The State has never defaulted in its obligation to provide annual financial information pursuant to a continuing disclosure agreement executed by the State in connection with the sale of any other general obligation bonds, except for (i) a failure to make a timely provision to the nationally recognized municipal securities information repositories (the "NRMSIRs") by February 28, 2005 and February 28, 2006 of audits of its financial statements and certain operating data comparing operating results and unreserved fund balances on a budgetary and GAAP basis for the fiscal years ending June 30, 2004 and June 30, 2005, respectively and (ii) failure to make a timely provision to the NRMSIRs by February 28, 2007 of audits of its financial statements on a GAAP basis for the fiscal year ending June 30, 2006, as required under the State's various continuing disclosure agreements in connection with certain of its prior bond issues. The State experienced delays in completing its financial statements due to implementation of a new financial management software system, which resulted in delays in completing its audits, as explained in **Part III**. On or prior to February 28, 2005, the State filed with the NRMSIRs its financial statements and certain other operating data for the fiscal year ending June 30, 2004, which had not been audited but which the State believed to be accurate in all material respects. Thereafter, the State filed with the NRMSIRs its audited financial statements and certain other operating data for the fiscal year ending June 30, 2004 promptly after they became available. On or prior to February 28, 2006, the State filed with the NRMSIRs preliminary estimated financial statements which had not been audited but which the State believed to be accurate in all material respects, and certain operating data contained in **Part III**, in each case for the fiscal year ending June 30, 2005. Thereafter the State filed with the NRMSIRs its audited financial statements and certain other operating data for the fiscal year ending June 30, 2005 promptly after they became available. On February 28, 2007, the State filed certain operating data, audited budgetary basis financial statements and unaudited GAAP basis financial statements, each for the fiscal year ending June 30, 2006. The State expects to file its audited financial statements on a GAAP basis for the fiscal year ending June 30, 2006 promptly after they become available.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions precedent, to purchase all, but not less than all, of the 2007 Series A Bonds from the University at an aggregate purchase price of $89,233,717.58 (representing the aggregate principal amount of the 2007 Series A Bonds plus net original issue premium of $431,003.90 and less Underwriters' discount of $552,286.32). The 2007 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 2007 Series A Bonds into investment trusts) at prices lower than those stated on the inside cover page of this Official Statement and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have jointly and severally agreed, subject to certain conditions precedent, to purchase all, but not less than all, of the 2007 Refunding Series A Bonds from the University at an aggregate purchase price of $49,622,756.92 (representing the aggregate principal amount of the 2007 Refunding Series A Bonds plus net original issue premium of $3,897,620.40 and less Underwriters' discount of $304,863.48). The 2007 Refunding Series A Bonds may be reoffered and sold to certain dealers (including unit investment trusts and other affiliated portfolios of certain underwriters and other dealers depositing the 2007 Refunding Series A Bonds into investment trusts) at prices lower than those stated on the inside cover page of this Official Statement and such public offering prices may be changed, from time to time, by the Underwriters.

FINANCIAL ADVISOR

P.G. Corbin & Company, Inc. is serving as financial advisor in connection with the issuance of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

AMTEC will deliver to the University, on or before the settlement date of the 2007 Refunding Series A Bonds, its attestation report indicating that it has examined the information and assertions provided by the University and its representatives. Included in the scope of its examination will be a verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Government Obligations to pay, when due, the maturing principal of and interest and redemption premium on the Refunded Bonds, and (b) the mathematical computations supporting the conclusion of Bond Counsel that the 2007 Refunding Series A Bonds are not "arbitrage bonds" under the Code.

FINANCIAL STATEMENTS OF THE UNIVERSITY AND THE STATE

Included in Appendix I-A of Part I is various financial information relating to the University. The audited financial statements of the University (excluding the 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, dated December 29, 2006 and February 16, 2007.

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

ADDITIONAL INFORMATION

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

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

Additional information concerning the University may be obtained upon request of the President, Philip E. Austin, Attention: 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 of the Office of the State Treasurer, Honorable Denise L. Nappier, Treasurer, Attention: Sarah Sanders, Acting 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds.

This Official Statement is submitted only in connection with the issuance and sale of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds by the University and may not be reproduced or used in whole or in part for any other purpose.

Dated: March 29, 2007

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Pursuant to the UCONN 2000 Act, the 2007 Series A Bonds and the 2007 Refunding Series A Bonds described above have been sold by the Treasurer of the State of Connecticut in conjunction with the University and the inclusion of Part II and Part III has been authorized by the

TREASURER OF THE STATE OF CONNECTICUT	**UNIVERSITY OF CONNECTICUT**
By /s/ Denise L. Nappier	By /s/ Lorraine M. Aronson
Denise L. Nappier	Lorraine M. Aronson
State Treasurer	Vice President and
	Chief Financial Officer

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APPENDIX I-A
UNIVERSITY OF CONNECTICUT
INFORMATION CONCERNING THE UNIVERSITY

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APPENDIX I-A
UNIVERSITY OF CONNECTICUT

March 29, 2007

This Appendix I-A, furnished by the University of Connecticut (the "University") contains information through March 29, 2007, except as expressly provided herein. This Appendix A and the schedules attached hereto should be read collectively and in their entirety.

Board of Trustees

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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 2006, the University had almost 175,000 alumni and 28,481 students (including the Health Center) studying in 14 colleges and schools offering eight undergraduate and 21 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 4,108 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 21 persons. The Governor, the Commissioner of Education, the Commissioner of Agriculture, the Commissioner of Economic & Community Development and the Chair of the Health Center Board of Directors 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 March 29, 2007. The name, term, position and affiliation or profession of each member of the Board of Trustees is as follows:

Name	Term Ends	Position	Affiliation/Profession
The Honorable M. Jodi Rell		President ex-officio	Governor of the State of Connecticut
The Honorable George A. Coleman		Member ex-officio	Interim Commissioner of Education
The Honorable Philip Prelli		Member ex-officio	Commissioner of Agriculture
The Honorable Ronald F. Angelo, Jr.		Member ex-officio	Acting Commissioner of Economic and Community Development
Gerard N. Burrow, M.D.		Member ex-officio, Chair UCHC BOD	President and CEO, Sea Research Foundation, Inc.
John W. Rowe, M.D.	2009	Chair	Professor, Columbia University
Louise M. Bailey	2009	Secretary and Vice-Chair	Government Affairs Consultant
Philip P. Barry	2009	Member	Retired University Employee and Former Member of Mansfield Town Council
Michael A. Bozzuto	2011	Member	Chairman, President and CEO, Bozzuto's, Inc.
Andrea Dennis-LaVigne, D.V.M.	2007	Member	Veterinarian, Bloomfield Animal Hospital
Peter S. Drotch	2007	Vice-Chair	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
Salmun Kazerounian	2007	Member	Student, University of Connecticut
Rebecca Lobo	2007	Member	Sports Broadcaster
Michael J. Martinez	2011	Member	Developer, Alliance Five, Inc.
Denis J. Nayden	2007	Vice-Chair	Managing Partner, Oak Hill Capital
Michael J. Nichols	2008	Member	Student, University of Connecticut
Thomas D. Ritter, Esq.	2009	Member	Attorney, Brown Rudnick Berlack Israels LLP
Wayne J. Shepperd	2007	Member	Director of Economic Development, City of Danbury
Richard Treibick	2011	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.

On December 20, 2006, President Philip E. Austin informed the Board of Trustees of his plan to leave his presidential duties and join the UConn faculty in September 2007. He marked his 10-year anniversary in the post in October 2006. A committee has been formed to conduct a national search for the University's next president. The committee's goal is complete its work in time for a successor to be in place before the 2007-08 academic year begins.

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

Name	Position	Background
Peter J. Nicholls	Provost and Executive Vice President for Academic Affairs	Ph.D. Mathematics, Cambridge University (England), 1970; 36 years in higher education including Kansas State and Northern Illinois University; 3 years in an administrative capacity at Colorado State University; and 2 years in an administrative capacity at the University of Connecticut.

Name	Position	Background
Peter J. Deckers, M.D.	Executive Vice President for Health Affairs and Dean of School of Medicine, Health Center	M.D., Boston University School of Medicine; over 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 30 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.
Barry M. Feldman	Vice President and Chief Operating Officer	Ph.D., University of Connecticut; over 30 years in public management; prior senior management experience included city manager positions in West Hartford, Connecticut, Sterling Heights, Michigan, and Portsmouth, Ohio.

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 60% and minority enrollment is up 95% at the main campus. The average SAT score of the freshman class for Fall 2006 was 82 points higher than the entering class of Fall 1996. The percentage of Storrs freshmen who were in the top 10% of their high school class has grown from 23% in Fall 1995 to 38% in Fall 2006. Since 1995, 785 valedictorians and salutatorians have enrolled at all campuses.

- 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, American Studies and Nursing at Tri-Campus.

- Over 83% 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 93% retention rate from first to second year is but one indicator of FYE's demonstrated 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 1397 on the SAT (31 on the ACT) and a class rank in the top 4%. The Honors First Year Residential Community in Shippee Hall houses all honors students and provides an intellectually stimulating, supportive living and learning environment. A Sophomore Honors Living Learning Community, focused on community service, will begin in Fall 2007, joining the established Honors Residential Community in South A in its service of upper class students. Beginning in 2007, all Honors students will enroll in a specially developed Honors Core Curriculum course in addition to the very popular Honors First Year Seminar taken during their first semester at UConn.

- The Institute for Teaching and Learning (ITL) has led the University in the rigorous development of on-line, face-to-face, and blended courses with regular faculty. Courses from across the campuses have been created under the direction of the Instructional Design and Development (IDD) unit who have diligently enabled faculty to develop their own professional skills while employing the latest instructional technology as well as leading edge instructional design methodologies. In addition, the IDD has designed and supported delivery of a range of Distance Education courses through Interactive Compressed Video between the Storrs and Regional Campuses.

- The Writing (W) and Quantitative (Q) Centers have realized a focus on tutoring support to the students and curriculum development to faculty with courses that are writing intensive or quantitatively oriented. These centers have a significant presence in the student Learning Resources Center located in the Library at the Storrs Campus. The Learning Resource Center provides computer tutoring and collaborative work spaces to assist students with academic assignments that utilize technology.

- The ITL has developed programs of support for the Regional Campuses through seminars and workshops that have addressed the needs of faculty in technology and pedagogy. An Adjunct Faculty Associates program is supporting the training of adjunct faculty who are based at the Regional Campuses.

- The Center for Undergraduate Education (CUE), located in the center of campus across from the library, 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 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.

- The University and Mystic Seaport have collaborated to provide summer internships for students in the Maritime, Coastal, and American Studies programs at the Avery Point campus, to make available the museum's maritime history resources to the University's students and faculty, and to share the University's library resources with Mystic Seaport staff.

- The University has placed three Technology Incubation Program (TIP) companies in the Avery Point campus. These are small science and technology companies that contribute to the economic development sector of southeastern Connecticut while also enhancing the strong applied science programs at Avery point and Storrs.

Recent Significant Improvements and Achievements

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

- For the eighth consecutive year, the University was named the top public university in New England in the annual U.S. News & World Report rankings. It was ranked 27th among 162 public universities in the nation.

- The University's graduate and professional programs were highly rated in the latest U.S. News & World Report: America's Best Graduate Schools. The Neag School of Education was ranked 21st among all graduate schools of education in the country, named the top public graduate school of education in the northeast, and rated 13th among all public doctoral education programs in the country. Examples of other University programs highly ranked in the latest national review of public graduate and professional programs include: Law 24th; Medical Schools-Research 27th; Medical Schools-Primary Care 28th; Business master's programs 32nd; Engineering doctoral programs 40th; Biological Sciences 40th; Physics 45th; Mathematics 51st; and Chemistry 52nd. The rankings in U.S. News & World Report are based on expert opinion about program quality and statistical indicators of quality of faculty, research, and students.

- The University ranked in the top 30 best value public colleges for in-state costs by Kiplinger's Personal Finance. The ranking is based on a combination of quality measures and cost, which Kiplinger defines in terms of schools where students can receive an excellent education without accumulating a large amount of debt.
- The Department of Agricultural and Resource Economics received high worldwide ratings in two academic areas by the prestigious American Economics Association. The department ranked 15th in resource and environmental economics and 23rd in the sub-discipline of resource and agricultural economics. The Association based its rankings on faculty articles published in 63 refereed professional journals during a ten-year period (1993-2003).
- The School of Business was recognized as one of the best undergraduate business programs nationwide by Business Week. The University was ranked 53rd overall and 24th among public institutions.
- Neag School of Education's doctoral program in Kinesiology was ranked first among 62 doctoral programs in the nation by the American Academy of Kinesiology and Physical Education. The Neag program tied for first place with Pennsylvania State University.
- The College of Liberal Arts & Sciences Political Science Internship Program was awarded the 2006 Public University of the Year Award from The Washington Center for Internships and Academic Seminars, a nonprofit educational organization serving hundreds of colleges around the world. The University's internship program each year places 150 to 175 interns in the Connecticut legislature and judiciary criminal justice systems, in Washington, D.C., government agencies and congressional offices, and in nonprofit organizations. The program provides opportunities for students to work on substantive policy issues.
- The University, including both the Health Center and the Storrs-based programs, ranked 75/630 among all institutions and 52/367 among public universities nationwide in research and development expenditures, as measured by the National Science Foundation.
- For the second consecutive year, John Dempsey Hospital was named a "Top 100 Hospital Performance Improvement Leader," joining such major teaching hospitals as Johns Hopkins Hospital in Baltimore, Dartmouth-Hitchcock Hospital in Hanover, N.H., and the Hospital of the University of Pennsylvania, in Philadelphia. The "Top 100" designation was conferred by Solucient, a health care information and data analysis software company, and is based on data on mortality, complications, length of stay, and over 800 other elements for more than 6,000 U.S. acute care and specialty hospitals. The Top Performance Improvement Leader hospitals had: fewer patient deaths, complications, and adverse safety events than expected; discharged patients earlier; and increased the operating profit margin by more than six percentage points.

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

- The University has the fourth 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 11,600 students live on the main campus at the University, including 71% of the Storrs undergraduate population.
- The Educational Policy Institute awarded the University the 2006 Outstanding Retention Program Award in recognition of excellence in development and implementation of a program that increases the persistence of students at the postsecondary level and that creates opportunities for students of color, first generation, and other historically underrepresented students. For students of color at the Storrs Campus, the first-to-second year retention rate is 91 percent (compared to 93 percent for all first year freshmen), and the six-year graduation rate is 69% (compared to 74% for all first year freshmen).
- New Mobility Magazine, a lifestyle magazine for individuals with disabilities, named the University one of the top ten "disability-friendly" institutions in the nation. Initiatives of the University have included a

University Center that works with individual students to assure appropriate accommodations and provides training for groups that interact with students, an Asperger's Support Group for students identified with this form of autism, and an "Age Appropriate Program" to provide campus life opportunities for individuals with intellectual disabilities who are 18 years old and older.

- The University was one of only nine colleges in the nation to receive a Katrina Compassion Award for excellence in hurricane relief service, placing it on the first-ever President's Higher Education Community Service Honor Roll. An estimated 1,000 students had participated in fund-raising projects for hurricane relief, contributing some 11,000 hours of service. Student groups also went to New Orleans and Mississippi during spring break and the summer to help restore or rebuild homes. The Honor Roll is co-sponsored by the U.S. Department of Education, the U.S. Department of Housing and Urban Development, USA Freedom Corps, the President's Council on Service and Civic Participation, and the Corporation for National and Community Service.

- In 2006, the University became the first college in the history of the National Basketball Association (NBA) to have five players selected in the first two rounds of the Draft. The Huskies' men's basketball team had four players selected in the first round, for the first time in school history, and an additional player selected in the second round.

- Geno Auriemma, head coach of the University's women's basketball, in 2006 was elected to and inducted into the Women's Basketball Hall of Fame in Knoxville, Tennessee, and the National Basketball Hall of Fame in Springfield, Massachusetts. At the time of election, Auriemma had won five national titles (1995, 2000, 2002, 2003 and 2004), guided the Huskies to a combined 27 Big East titles (14 regular season and 13 tournament), had a career winning record of 589-116 (.835), and had been named National Coach of the Year on five occasions. The University of Connecticut joins UCLA and North Carolina State as the only three universities in the country to have both the women's and men's basketball coaches enshrined in Springfield. Jim Calhoun, head coach of the University's men's basketball, was inducted into the National Hall of Fame in 2005.

- Two new facilities of the University - the Burton Family Football Complex and the Mark R. Shenkman Training Center - were certified as meeting the Leadership in Energy and Environmental Design (LEED) standards for "green" buildings. LEED designation is a process certifying that a building project meets a wide variety of environmentally friendly criteria. The University is the first college in the nation with athletic projects to earn this designation.

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 University sponsored several human rights-related programs: awards to graduate students to encourage primary research on human rights topics; visiting professorships to leading human rights scholars; an Intergenerational Conference on Human Rights, "Human Rights as a Tool for Social Change"; and the 10th anniversary celebration of the Thomas J. Dodd Research Center and its extensive archives and special collections on human rights. The University's UNESCO (United Nations Educational, Scientific and Cultural Organization) Chair in Human Rights, one of 52 Chairs worldwide, also has initiated several programs, including partnerships with the African National Congress and the University of Fort Hare in South Africa, the creation of a Coalition of Human Rights Organizations of New England (CHRONE), and the formation of the Student Ambassadors, a human rights outreach program staffed by the University's students.

- The Roper Center was awarded the 2006 Outstanding Achievement Award by the New York Chapter of the American Association for Public Opinion Research. As the Center entered its 60th year, it continued to maintain the largest archive of survey research and public opinion data in the country.

- A new era of coastal exploration and education was offered in the Long Island Sound Integrated Coastal Observing System (LISICOS) that enabled marine scientists to monitor the coastal environment and provided the public with real-time weather, water quality and wave data (www.mysound.uconn.edu). The Aquanaut Program, through LISICOS, provided teachers an authentic research experience working with scientists from the National Undersea Research Center, the National Marine Fisheries Service, and the University's Department of Marine Sciences, and on the R/V Lowell Weicker, the University's 36-foot research vessel, to learn the issues and methodologies being used to study Long Island Sound. The University is a national Sea Grant institution and one of only six National Undersea Research Centers.

- The Diagnostic Testing Services Laboratory, in the College of Agriculture and Natural Resources, continued to be the only animal disease testing site in New England accredited by the U.S. Department of Agriculture, and has worked closely with the region's public health and environmental protection agencies, veterinarians, and livestock and other animal industries to provide bacteriology, parasitology, serology, and virology testing. The health status of domestic birds and migrating waterfowl in the northeast region has been monitored in the Connecticut Veterinary Medical Lab, also located in the College. These University services have increased in importance with the deadly strains of avian influenza killing millions of wild birds and chickens in Asia and Europe and the potential for similar health risks in this country.

- Hispanic/Latino health issues were the focus of collaborative research among University faculty members from the Storrs campus, the School of Medicine and the School of Social Work. Working with the Hartford Hospital and the Hispanic Health Council, faculty employed an interdisciplinary mix of research, education and training and community outreach to address health disparities and to recruit more minority students to study health and health disparities.

- School of Pharmacy students placed second in a national competition for Medicare outreach programs, according to the National Council of State Pharmacy Association Executives. Students assisted the Connecticut Department of Social Services in analyzing patient profiles and reviewing drug plans to help seniors to pick the most appropriate Medicare plans

- Healthnet, the University Health Center Library's free outreach program, was names one of 10 finalists in a national health awards competition sponsored by the National Commission on Libraries and Information Science. Healthnet, started in 1985, provides a website to help people evaluate available resources for accurate and up-to-date health and medical information.

- The Center for Advanced Reproductive Services at the University's Health Center was included in an exclusive list of 20 sources of commendable fertility practices in Child Magazine, a national publication for parents. The magazine performed an extensive study of more than 400 fertility centers across the country, looking at criteria such as high success rates, laboratory certification and birth rates of triplets.

- Officials with the March of Dimes selected the University's Newborn Intensive Care Unit (NICU) as the first site in Connecticut for its national NICU Family Support project. Now in its 31st year, the NICU at the Health Center provides care for more than 500 babies every year.

Status of UCONN 2000 Projects

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

Projects Authorized	Project Construction Status[1]
General Obligation Bonds	
Total – Storrs and Regional Campus Project List	
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 Renovation – Phase II	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 - Phase III	Continuing
East Campus North Renovations[4]	Completed August 2003
Equipment, Library Collections & Telecommunications - Phase I	Completed
Equipment, Library Collections & Telecommunications - Phase II	Continuing
Equipment, Library Collections & Telecommunications - Phase III	Continuing
Farm Buildings Repairs/Replacement	Design and Construction
Gant Plaza Deck	Completed September 2001
Gentry Renovations	Completed July 2004
Grad Dorm Renovations	Completed August 2003
Heating Plant Upgrade[2]	Completed May 1999
Hilltop Dormitory Renovations	Completed October 2001
Ice Rink Enclosure	Completed November 1998
International House Conversion (a.k.a Museum of Natural History)	Completed May 2001
Intramural, Recreational and Intercollegiate Facilities	Completed September 2006
Lakeside Renovation	Construction
Law School Renovations/Improvements	Design and Construction
Litchfield Agricultural Center – Phase I	Completed August 2001
Mansfield Apartments Renovation	Completed September 2002
Mansfield Training School Improvements – Phase II	Completed
Mansfield Training School Improvements – Phase III	Planning and Design
Monteith Renovation	Completed September 2001
Music Drama Addition	Completed September 1999
Natural History Museum Completion	Construction
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 Spinepath & Walkways/(a.k.a. Fairfield Road Pedestrian Mall)	Completed December 1998
Residential Life Facilities	Design and Construction
School of Business	Completed September 2001
School of Pharmacy	Completed June 2005
School of Pharmacy / Biology Completion	Completed June 2005
Shippee/Buckley Renovations[4]	Completed August 2002
South Campus Complex[6]	Completed January 1999
Stamford Campus Improvements	Design and Construction
Stamford Downtown Relocation – Phase I	Completed December1998
Student Union Addition – Phase II & III	Completed June 2006
Technology Quadrant-Phase IA[3]	Completed December 2002
Technology Quadrant-Phase II	Completed May 2003
Torrey Life Science Renovation	Completed 2006
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 Downtown Campus	Planning
Waterbury Property Purchase	Completed January 1999
West Campus Renovations	Completed August 2004
West Hartford Campus Renovations/Improvements	Design and Construction
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	Continuing
Dental School Renovation	Planning
Equipment, Library Collections and Telecommunications - Health Center	Continuing
Library/Student Computer Center Renovation	Design
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] In addition, the University has entered into a tax-exempt lease financing for a Co-Generation Facility for the Heating Plant in the amount of $81.9 million under the UCONN 2000 authority.
[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 paid the University $25.35 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 3,423 acres and 159 major buildings. Additionally, as of Fall 2006, there are 119 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 11,600 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 almost 28,500 in the 2005-06 academic year. The University is involved in over a $2.3 billion construction program for UCONN 2000 for which the proceeds of the 2007 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 14 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 105 majors, 16 graduate degrees in 90 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 Biotechnology/Bioservices Center; Booth Engineering Center for Advanced Technology; Center for Conservation and Biodiversity; Center for Environmental Health; Center for Integrative Geosciences; Center for Nursing Research; Center for Optics, Sensing and Tracking in Homeland Security; Center for Oral History; Center for Public Health and Health Policy; Center for Real Estate and Urban Economic Studies; Center for Regenerative Biology; Center for Science and Technology Commercialization; Center for Survey Research and Analysis; Connecticut Center for Economic Analysis; Connecticut Global Fuel Cell Center; Connecticut Information Technology Institute; Connecticut Transportation Institute; Institute of Materials Science; Marine Sciences and Technology Center; Neag Center for Gifted Education and Talent Development; and Thomas J. Dodd Research Center.

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 52 out of 367 public universities in the country in research and development spending. The Carnegie Foundation currently classifies the institution with only 63 other public institutions nationwide in the highest category of Research University (Very High Research Activity). To qualify for this classification, universities must annually award at least 20 doctorates and demonstrate high levels of research based on several aggregate and per-capita (full-time faculty) measures, including research and development expenditures, postdoctoral appointees, non-faculty research staff, and doctoral conferrals in humanities, social sciences, STEM (science, technology, engineering, and mathematics) fields, and other fields (e.g., business, education, public policy, social work).

The quality of the University's diverse graduate programs is enhanced by the presence of exceptional graduate students. About 5,400 matriculated graduate students at both the master's and doctoral levels in academic year 2006-07, approximately 2,200 are supported on merit based graduate assistantships and approximately 800 on merit based pre-doctoral and other fellowships. This support is available in 90 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. Fall 2006, compared to Fall 2005, freshman enrollment increased by 3.2%; and undergraduate degree enrollment increased by 2.8%. Student enrollment in the PharmD professional degree program increased by 8.0%. Planned freshman enrollment growth for the near future will be 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 2002 - 2006

	2002	2003	2004	2005	2006
Undergraduates					
Storrs	14,693	15,163	15,722	16,091	16,339
Regional Campuses[2]	3,969	4,124	4,429	4,434	4,445
Total	18,662	19,287	20,151	20,525	20,784
Graduates/Professionals[3]	6,711	6,869	6,943	7,073	7,210
Health Center					
Medicine	311	312	318	319	328
Dental Medicine	158	161	167	166	159
Total	469	473	485	485	487
GRAND TOTAL	**25,842**	**26,629**	**27,579**	**28,083**	**28,481**

[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 2002 - 2006

	Undergraduate				Graduate/Professional	
	Storrs Campus		Total University		Total University (excl. Schools of Medicine and Dental Medicine)	
	In-State	Out-of-State	In-State	Out-of-State	In-State	Out-of-State
Fall 2002	76.0%	24.0%	80.5%	19.5%	69.0%	31.0%
Fall 2003	75.5%	24.5%	80.2%	19.8%	70.1%	29.9%
Fall 2004	75.3%	24.7%	80.1%	19.9%	70.4%	29.6%
Fall 2005	75.9%	24.1%	80.5%	19.5%	72.3%	27.7%
Fall 2006	75.8%	24.2%	80.3%	19.7%	71.0%	29.0%

Schedule of Freshmen Enrollment - All Campuses
Fall 2002 - 2006

Fall	Freshmen Applications	% Change in Applications	Accepted	Enrolled	% Change in Enrolled	Enrolled as a % of Accepted
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%
2005	19,763	1.0%	12,227	4,246	(0.7%)	34.7%
2006	20,996	6.2%	13,359	4,381	3.2%	32.8%

Admissions. The University of Connecticut is rated as "highly competitive" by Barron's Profiles of American Colleges, Edition 27 for 2007. 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 2002 - 2006

Fall	Storrs Campus	Regional Campuses	State of Connecticut Average	National Average
2002	1149	1012	1018	1020
2003	1167	1018	1026	1026
2004	1177	1035	1030	1026
2005	1189	1033	1034	1028
2006	1192	1011	1028	1021

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 2007, students classified as full-time undergraduate residents of Connecticut pay tuition of $6,456. Full-time out-of-state undergraduates pay $19,656 per year. In the 2006 academic year, total tuition revenues were $166.6 million of which $69.4 million were out-of-state tuition revenues. Undergraduate degree seeking students accounted for 86% of tuition revenues in the 2005-06 academic year. In November 2006, the Board of Trustees approved a tuition rate increase of 5.6% over the 2007 rate for academic year 2008 for in-state students.

Mandatory Fees. For academic year 2007, undergraduate students must pay a General University Fee of $1,344 per year. Students also pay $562 per year in other fees, of which $144 is for various student-controlled organizations, $342 is for infrastructure maintenance, $50 is a transit fee, and $26 is for a Student Union Building Fee. For academic year 2006, the General University fee generated $22.0 million of revenue. In November 2006, the Board of Trustees approved increases in mandatory fees for academic year 2008 to the following amounts: General University Fee - $1,416 and other fees - $610. 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 2007 are the room ($4,350) and board ($3,736) fee, which includes the charge for technology services ($250) and parking and transportation. In November 2006, the Board of Trustees approved an increase in the Room Fee for 2008 to $4,698 and the Board Fee to $3,960.

Annual Cost of an Undergraduate In-State Student Enrolled at the University
Academic Years 2003 - 2007

	2003	2004	2005	2006	2007
Tuition	$ 4,730	$ 5,260	$ 5,772	$ 6,096	$ 6,456
Room & Board[1]	6,542	6,888	7,404	7,704	8,086
General University Fee	1,032	1,092	1,200	1,272	1,344
Other Fees[2]	392	460	518	544	562
TOTAL	**$12,696**	**$13,700**	**$14,894**	**$15,616**	**$16,448**

[1] Beginning in 2007, the Board Fee represents the Value Meal Plan which is the most popular meal plan available. Lower cost meal plan options are available. Before 2007, the Board Fee represented the most expensive meal plan available.

[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 starting in 2004.

Undergraduate Tuition, Fees, Room and Board
for the University's Top Competitors
for Fiscal Year 2006-07

	In-State Student Cost*	**Out-of-State Student Cost***
Boston College	$44,596	$44,596
Boston University	$44,502	$44,502
Fairfield University	$41,935	$41,935
Northeastern University	$41,529	$41,529
Syracuse University	$41,010	$41,010
Providence College	$37,925	$37,925
University of Hartford	$36,988	$36,988
Quinnipiac College	$36,980	$36,980
University of Vermont	$20,914	$35,898
Pennsylvania State	$19,564	$30,112
Rutgers	$19,270	$27,775
University of New Hampshire	$18,785	$31,235
University of Massachusetts	$16,850	$26,572
University of Rhode Island	$16,722	$30,422
University of Maryland	$16,668	$30,107
University of Connecticut	***$16,628***	***$29,828***
University of Delaware	$15,406	$26,116
University of Maine	$14,588	$25,538

*Student cost includes tuition, mandatory fees, standard double room rate and the most expensive board rate.

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 2006, approximately 77% 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 2006 academic year was $34.6 million, of which 84% was provided to graduate assistants.

Financial Aid to University Students
for Fiscal Years 2002 - 2006

	2002	2003	2004	2005	2006
Scholarships/Grants					
Institutional	$ 24,891,455	$ 28,567,656	$ 32,244,454	$ 35,793,104	$38,328,581
State - CT	8,683,447	8,153,671	7,792,037	7,951,209	8,804,055
State - Non CT	138,725	157,632	164,822	107,990	136,850
Federal Funds	8,110,336	8,685,342	9,305,797	9,355,547	9,521,469
Private	12,409,479	13,757,017	14,553,849	15,555,129	15,584,300
Total Scholarships/Grants	54,233,442	59,321,318	64,060,959	68,762,979	72,375,255
Loans					
Private	6,385,001	10,099,864	3,895,012	6,385,001	10,099,864
Federal	50,413,401	62,749,260	87,027,907	94,736,231	101,376,633
Total Loans	56,798,402	72,849,124	90,922,919	101,121,232	111,476,497
Student Employment					
University Student Payroll	9,537,588	10,263,498	10,880,971	11,412,160	11,427,678
Federal Work Study	1,231,242	1,269,757	1,232,696	1,215,426	1,233,281
Total Student Employment	10,768,830	11,533,255	12,113,667	12,627,586	12,660,959
GRAND TOTAL	**$121,800,674**	**$143,703,697**	**$167,097,545**	**$182,511,797**	**$196,512,711**

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.

While the University's operational flexibility and capacity has grown, all of these activities also take place within a context of continuing vigilance. The financial statements contained in this official statement reflect budget execution results consistent with spending plans, operating and capital budgets approved by the University Board of Trustees. In addition, in 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 state auditors. An important component of external oversight, 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 the financial statements.

In 2005, the University identified weaknesses in the administration of the UCONN 2000 program with regard to code compliance, building inspection and organizational checks and balances. These issues have been addressed through an extensive corrective action plan undertaken by the University, as well as through recommendations made by the Governor's Commission on UConn Review and Accountability. The financial implications of this matter relate in large measure to the cost of corrective action for code deficiencies in three residential complexes. Actual and estimated costs of achieving code compliance are reflected in the financial statements contained in this Official Statement. Please note also that, to date, much of the corrective work has been performed and paid for by contractors; the University will continue to pursue financial recovery as appropriate.

Financial Statements of the University

The audited financial statements of the University of Connecticut and the University of Connecticut Health Center (excluding the University of Connecticut Foundation, Inc.) for the fiscal year ended June 30, 2006 are included as Schedule 1 and Schedule 2 to this Official Statement.

Below is a five-year presentation of the Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2006, 2005, 2004, 2003 and 2002. See "UNIVERSITY OF CONNECTICUT HEALTH CENTER" below in this Appendix A for the same information for the Health Center.

UNIVERSITY OF CONNECTICUT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2006, 2005, 2004, 2003 and 2002

	2006	2005	2004	2003	2002
OPERATING REVENUES					
Student tuition and fees[1]	$ 177,210,259	$ 162,442,352	$ 145,218,784	$ 123,689,877	$ 105,615,762
Federal grants and contracts	79,604,501	86,277,144	78,454,917	73,342,732	67,753,605
State and local grants and contracts	17,305,776	16,879,914	17,486,752	16,511,793	17,859,232
Nongovernmental grants and contracts	10,298,876	9,293,290	7,952,256	10,329,075	12,760,474
Sales and services of educational departments	15,504,841	13,755,026	12,166,016	13,514,914	12,020,682
Sales and services of auxiliary enterprises[2]	119,203,886	113,537,985	104,784,446	89,438,533	81,002,139
Other sources[3]	10,231,304	10,007,008	9,007,326	8,228,181	10,442,761
Total Operating Revenues	429,359,443	412,192,719	375,070,497	335,055,105	307,454,655
OPERATING EXPENSES					
Educational and general					
Instruction	245,567,278	227,084,420	200,872,187	210,682,856	198,738,445
Research	55,933,021	64,364,998	61,993,855	56,170,809	49,310,979
Public service	31,184,522	31,076,037	29,480,541	25,125,045	21,754,712
Academic support	74,664,985	72,213,723	63,932,206	61,117,844	61,853,232
Student services	30,570,516	29,365,354	24,958,903	25,494,540	23,785,758
Institutional support	60,767,532	53,927,431	49,439,568	50,604,026	46,956,545
Operations and maintenance of plant	65,676,823	54,321,765	44,935,019	45,246,949	39,588,031
Depreciation	86,528,795	84,508,242	69,594,696	63,402,505	50,624,858
Student aid	3,822,397	3,806,841	4,194,451	3,972,102	3,656,938
Auxiliary enterprises	121,955,025	116,021,275	102,573,786	93,185,331	90,957,783
Total Operating Expenses	776,670,894	736,690,086	651,975,212	635,002,007	587,227,281
Operating Loss	(347,311,451)	(324,497,367)	(276,904,715)	(299,946,902)	(279,772,626)
NONOPERATING REVENUES (EXPENSES)					
State appropriation	285,675,894	273,085,313	256,467,347	258,751,010	259,447,742
State debt service commitment for interest	33,093,947	32,332,930	27,852,310	29,228,519	25,907,563
State match to endowment	35,093	994,759			
Gifts	20,476,003	15,290,616	15,319,152	18,936,287	16,202,233
Investment income[4]	9,647,570	4,551,132	2,388,513	3,565,261	5,572,628
Interest expense	(43,262,087)	(41,864,618)	(37,817,551)	(39,794,329)	(33,955,787)
Other nonoperating revenues (expenses), net	(4,204,731)	(3,254,416)	(6,802,412)	522,514	(2,715,738)
Net Nonoperating Revenues	301,461,689	281,135,716	257,407,359	271,209,262	270,458,641
Loss Before Capital Additions (Deductions)	(45,849,762)	(43,361,651)	(19,497,356)	(28,737,640)	(9,313,985)
CAPITAL ADDITIONS (DEDUCTIONS)					
State debt service commitment for principal	61,569,575	81,720,000	91,635,000	96,210,000	100,000,000
Capital grants and gifts	9,965,822	9,163,961	8,243,365	7,558,843	12,316,127
Disposal of property and equipment, net	(897,448)	(511,441)	(4,190,358)	(2,454,738)	(3,102,251)
Capital other	(10,593,490)	(33,072,921)	(19,566,305)	(2,405,030)	13,357,569
Total Capital Additions (Deductions)	60,044,459	57,299,599	76,121,702	98,909,075	122,571,445
Increase in Net Assets	14,194,697	13,937,948	56,624,346	70,171,435	113,257,460
NET ASSETS					
Net Assets-beginning of year	1,369,456,926	1,355,518,978	1,298,894,632	1,228,723,197	1,203,523,254
Cumulative effects of changes in accounting principle					(88,057,517)
Net Assets-beginning of year, as adjusted	1,369,456,926	1,355,518,978	1,298,894,632	1,228,723,197	1,115,465,737
Net Assets-end of year	$1,383,651,623	$1,369,456,926	$1,355,518,978	$1,298,894,632	$1,228,723,197

[1] Net of scholarship allowances of $59,503,422 for 2006, $56,964,921 for 2005, $51,383,456 for 2004, $46,314,208 for 2003 and $43,318,891 for 2002. Revenues totaling approximately $29,652,000 for 2006, $27,308,000 for 2005, $24,230,000 for 2004, $21,912,000 for 2003 and $19,978,000 for 2002 are used as security for revenue bonds.

[2] Net of scholarship allowances of $2,194,046 for 2006, $1,240,886 for 2005, $1,386,360 for 2004, $1,283,335 for 2003 and $824,538 for 2002. Net revenues totaling approximately $14,311,000 for 2006, $11,184,000 for 2005, $17,195,000 for 2004, $13,822,000 for 2003 and $9,522,000 for 2002 are used as security for revenue bonds.

[3] Net revenues totaling approximately $3,410,000 for 2006, $2,973,000 for 2005, $3,098,000 for 2004, $2,629,000 for 2003 and $2,066,000 for 2002 are used as security for revenue bonds.

[4] Income totaling approximately $142,000 for 2006, $136,000 for 2005, $169,000 for 2004, $857,000 for 2003 and $1,077,000 for 2002 are used as security for revenue bonds.

Note: Reclassifications were made between the categories of Student tuition and fees and Student aid for the year ended June 30, 2005, 2004, 2003 and 2002 to better reflect scholarship allowances. This had no effect on the operating loss shown on the Statements of Revenues, Expenses, and Changes in Net Assets.

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 was or will be financed by bonds of the University, secured by the State debt service commitment and $18 million was 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 2005-15 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 2007 Spending Plan. The fiscal year 2007 spending plan was presented to and approved by the Board of Trustees on June 20, 2006. Since its approval, the proposed Spending Plan has been updated on September 26, 2006 with final State fringe benefit rates. The Research Fund budget, Investment Income and Operating Fund Gifts, Grants and Contracts have been revised to reflect activity more consistent with fiscal year 2006 closeout.

As a result, the updated fiscal year 2007 Spending Plan includes $855.0 million of revenue, including state funding of $222.1 million (excluding fringe benefits), to cover $856.0 million in expenses, yielding a $1.0 million net loss. The net loss is comprised of a $1.0 million gain representing the reserve repayment for the November

2001 drawdown of $11.5 million for the Towers Dining Center and Student Union and a $2.0 million loss in Auxiliary Enterprises due to increased energy costs. The Spending Plan incorporates wage increases for settled collective bargaining agreements including American Association of University Professors (AAUP) at 5.21% and University of Connecticut Professional Employees Association (UCPEA) at 5%, as well as a managerial merit pool based on 5% of the wage base.

Fiscal Year 2007 Revenue. For fiscal year 2007, State support is budgeted at a level of $305.8 million (appropriation/allotments $222.1 million; fringe benefits $83.7 million), an increase of $20.1 million or 7.0% over the fiscal year 2006 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 $179.6 million, an increase of $13.0 million or 7.8% over the fiscal year 2006 amount. Tuition revenue collections reflect a 5.9% rate increase coupled with a 1.8% increase in the number of undergraduate degree-seeking students who account for approximately 86.9% of budgeted tuition revenues. 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 Fees and Late Payment Fees. The Fee collections for fiscal year 2007 are budgeted to be $71.4 million, an increase of $1.3 million or 1.9% over the fiscal year 2006 amount. Auxiliary Enterprise Revenue is budgeted to be $132.4 million, which is an increase of $11.0 million or 9.1% over the fiscal year 2006 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 2007 are budgeted to be $70.0 million, which reflects no increase over fiscal year 2006.

Fiscal Year 2007 Expenditures/Transfers. Total fiscal year 2007 expenditures and transfers of $856.0 million are budgeted to increase by $48.9 million or 6.1% over the fiscal year 2006 amount. The University's Operating Fund is budgeted to increase by 6.3%. Personal services expenditures are expected to reach $367.6 million or $23.4 million more than fiscal year 2006. Fringe benefit expenditures are expected to be $118.2 million or $8.4 million more than fiscal year 2006. Financial Aid expenditures are budgeted to be $72.0 million, which is an increase of $4.7 million or 7.0% over the fiscal year 2006 amount.

The following schedule reflects the fiscal year 2007 spending plan as approved by the Board of Trustees on September 26, 2006 and the forecast as presented to the Board of Trustees on January 30, 2007.

University of Connecticut
Statement of Current Funds Operations (in millions)

Current Funds Revenues:	Fiscal Year 2007 Budget	Fiscal Year 2007 Forecast (as of 12/31/06)
Operating Fund		
State Support	$305.8	$306.5
Tuition (Net of Discounts)	179.6	179.6
Fees	71.4	71.4
Auxiliary Enterprise Revenue	132.4	132.4
All Other Revenues	95.8	98.3
Total Operating Fund	785.0	787.5
Research Fund	70.0	70.0
Total Current Funds Revenues	$855.0	$857.5
Current Funds Expenditures / Transfers:		
Operating Fund		
Personal Services	$367.6	$367.6
Fringe Benefits	118.2	118.2
Other Expenses	185.0	181.0
Equipment	9.8	10.8
Student Financial Aid	72.0	76.5
Transfers	33.4	33.4
Total Operating Fund	786.0	787.5
Research Fund Expenditures	70.0	70.0
Total Current Funds Expenditures / Transfers	$856.0	$857.5
Net Gain (Loss)	**($1.0)***	**$0.0**

* The net loss of $1.0 million is the result of a $1.0 million repayment to reserves and a $2.0 million loss in Auxiliary Enterprises due to increased energy costs.

Fiscal Year 2008-2009 Budgets. Preliminary fiscal year 2008-2009 budgets were submitted to the State in August 2006. These budgets will be updated and presented to the Board of Trustees for approval in June 2007.

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, 2007 is $222.1 million. At this time, the University has requested $232.7 million and is uncertain of the actual appropriation for fiscal year 2008. With the start of the 2007 legislative session, the University is focusing its efforts on a faculty expansion plan for the Storrs-based program. The proposal is a plan to address the dramatic enrollment increases, which have resulted in a deteriorating student:faculty ratio, with the hiring of 175 faculty over the next five years.

Schedule of State Operating Support and Fringe Benefits to the University for Fiscal Years 2004 – 2007 (in millions)

Fiscal Year	Operating Appropriations[1] and Allotments	Fringe Benefits	Operating Total
2004	$192.5	$64.0	$256.5
2005	$197.0	$76.1	$273.1
2006	$205.8	$79.9	$285.7
2007	$222.1	$83.7	$305.8

[1]Excludes 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 2000[1]	Total
1996	$18,000,000[2]	$112,542,000	$130,542,000
1997	$9,400,000[2]	$112,001,000	$121,401,000
1998		$93,146,000	$93,146,000
1999		$64,311,000	$64,311,000
2000	$2,000,000[3]	$130,000,000	$132,000,000
2001	$20,000,000[3]	$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[4]		$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 Babbidge Library on the Storrs campus.
[3]For the development of a new downtown campus for the University of Connecticut in Waterbury.
[4]For fiscal year 2005, $50,000,000 was authorized under UCONN 2000 Phase II and an additional $50,000,000 was authorized under UCONN 2000 Phase III. Fiscal years 2006-15 represent additional authorizations under UCONN 2000 Phase III of approximately $305,400,000 for Health Center projects.

Grants and Contracts

Revenue from federal, state, local and non-governmental grants and contracts totaled $107.2 million in fiscal year 2006, representing 25.0% 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, 2006, included in this Appendix A. Revenue from federal, state and local governmental grants and contracts, including financial aid and recovery of indirect costs, totaled $96.9 million for this time period, which represented 22.6% of total operating revenues.

Governmental Grants and Contracts
for Fiscal Years 2002 - 2006
(in Millions of Dollars)

Fiscal Year	Amount
2002	$85.6
2003	$89.9
2004	$95.9
2005	$103.2
2006	$96.9

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

- The Center for Health, Intervention and Prevention (CHIP) is 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 Connecticut Center for Regenerative Biology is to develop a world-class research center by fostering teamwork and multi-disciplinary research collaboration and to nurture business development in Connecticut by developing advanced technologies and building partnerships with Connecticut businesses in the area of regenerative biology and medicine.

- The 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 focus 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 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 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), Marine Sciences and Technology Center (MSTC), and Booth Engineering Center for Advanced Technology (BECAT).

The University of Connecticut Foundation, Inc. and The University of Connecticut Law School Foundation, Inc.

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). For financial reporting purposes, the Law School Foundation is included as a component unit with the University, the Foundation is an independent, privately governed institution which is separately audited. It 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.

Gift revenue to the University, 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, and research activities. Both the Foundation and the Law School 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 $26.1 million in fiscal year 2006 compared to $19.6 million in fiscal year 2005. Both Foundations also paid approximately $4.7 million in fiscal year 2006 ($5.7 million in fiscal year 2005) to third parties on behalf of the University. This amount is not reflected in the University's financial statements. In addition, the University receives gifts directly. Total nonoperating gifts and capital gifts and grants revenue to the University from all sources amounted to $30.4 million and $24.5 million in fiscal years 2006 and 2005, respectively.

During fiscal year 2006, the Foundation received a number of significant gifts in support of students, faculty and programs. These included:

- The Patrick and Catherine Weldon Donaghue Foundation committed $3.5 million to various medical research initiatives at the UConn Health Center.

- The Estate of Marianne Hartly provided a $1.5 million bequest to establish the Dr. Manfred J. Sakel Endowed Chair in Psychiatry at the UConn Health Center.

- Mr. and Mrs. Morris N. Trachten pledged $1 million to endow a new building for the Hillel student center.

- The MassMutual Life Insurance Company provided a $584,000 gift to the MassMutual Hartford Huskies Scholars Program.

- The Whelen Engineering Company made a gift of $500,000 to the Division of Athletics.

- The Dr. Robert Atkins Foundation pledged $450,000 to the Neag School of Education.

- Straumann USA committed $450,000 to the Center for Implant and Reconstructive Dentistry Fund at the UConn Health Center.

- The Alfred P. Sloan Foundation pledged $350,000 for a Census of Marine Zooplankton through the Marine Sciences Program at UConn Avery Point.

- Mr. and Mrs. John P. Maloney pledged $250,000 to the Division of Athletics for the Burton Family Football Complex.

- The Andrew W. Mellon Foundation pledged $250,000 to the African National Congress Archives project at the Dodd Research Center.

University of Connecticut Foundation, Inc.
Summary of Total Assets, Revenue and Expenditures
for Fiscal Years 2002 - 2006

	2002 $000's	2003 $000's	2004 $000's	2005 $000's	2006 $000's
Assets					
Endowment assets	$196,784	$209,132	$252,383	$271,984	$298,953
All other assets	47,591	48,359	58,890	71,012	67,470
Total Assets	$244,375	$257,491	$311,273	$342,996	$366,423
Support and Revenue					
Contributions and educational support	$ 38,334	$ 29,998	$ 54,179	$35,333[1]	$29,526
Payment from the University	3,482	5,676	6,082	7,184	8,348
Investment income, net	(17,658)	11,762	27,447	22,577	34,154
Other revenues	1,028	1,015	1,022	1,076	1,209
Total Support and Revenue	25,186	48,451	88,730	66,170	73,237
Expenditures					
Disbursements to and on behalf of the University	22,327	25,624	23,518	27,939	33,649
Foundation expenses (development, asset mgt, admin.)	11,128	9,417	9,531	10,721	11,668
Total Expenditures	33,455	35,041	33,049	38,660	45,317
Support and Revenues Over/Under Expenditures	$ (8,269)	$ 13,410	$ 55,681	$ 27,510	$ 27,920

[1] Contributions are shown net of an adjustment of ($3,671) for the endowment state matching program due to changes in the legislation.

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 2007 Series A Bonds and the 2007 Refunding Series A Bonds, the State of Connecticut will have outstanding $8,009,542 of self-liquidating bonds for University capital projects. The University also will have outstanding its general obligation bonds secured by the State Debt Service Commitment, in the amount of $828,107,147 including the 2007 Series A Bonds and the 2007 Refunding Series A Bonds. Additionally, there is outstanding $1,647,906 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 in the amount of $96,130,000. 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds, the amount of Special Obligation Bonds outstanding will be $183,285,000, 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 Tax-Exempt Lease Purchase Agreement (the "Lease") with Caterpillar Financial Services Corporation, a Delaware Corporation, at a nominal interest rate of 4.42% compounded monthly, to finance the design and construction of a combined heat and power plant. On August 15, 2005, the University amended the agreement for an additional amount of up to $6,900,000 at a 5.09% interest rate compounded monthly. The heat and power plant is part of the UCONN 2000 Heating Plant Upgrade project, as defined under the UCONN 2000 Act, which is expected to generate substantially all of the needs for electrical power, heating and cooling on the main campus at Storrs. The Lease was subsequently changed again on December 28, 2005 and August 18, 2006 to amend certain terms and dates. As of the date hereof, the University has drawn down $81,900,000 of advances under the Lease, the maximum amount permitted thereby. Lease payments are due monthly for 240 months in the amount of $517,135 per month. The first lease payment was made on January 29, 2006. The Lease is a UCONN 2000 debt obligation entered into under certain separately negotiated documents and agreements and is not secured by the General Obligation or Special Obligation Indentures of Trust. The Heating Plant Upgrade project has also been partially funded with University General Obligation Bonds secured by the State debt service commitment. According to a study prepared by Dahlen, Berg & Co of Minneapolis, Minnesota dated December 19, 2006, the project is expected to generate approximately $233.6 million in net present value savings compared to the cost of capital improvement and operation of its existing power, heating and cooling system. As of the date of delivery of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds, the amount of the Lease outstanding will be $78,641,564.

On August 1, 2004, the University entered into a loan agreement for leasehold improvements related to the School of Business MBA programs, a new educational initiative known as the SS&C Technologies Financial Accelerator. The loan for $3,500,000 is payable monthly over 12 years with interest at 8.0%. The outstanding balance as of the date of delivery of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds will be $3,000,712.

Additionally, the University has outstanding approximately $981,829 of capital lease obligations subject to annual appropriation payable on various dates through 2011.

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 2007 Series A Bonds and the 2007 Refunding Series A Bonds.

University of Connecticut
Debt Service on General Obligation Bonds[1]
as of April 12, 2007

Fiscal Year Ending June 30th	Outstanding General Obligation Bonds Principal[2]	Interest[3]	Subtotal	This Issue General Obligation Bonds Principal[2]	Interest[3]	Subtotal	Total Debt Service
2007	$ 4,975,000	$ 213,925	$ 5,188,925	-	-	-	$ 5,188,925
2008	54,448,792	33,359,533	87,808,325	$ 5,270,000	$ 5,754,113	$ 11,024,113	98,832,439
2009	58,053,640	31,694,743	89,748,383	5,270,000	5,724,675	10,994,675	100,743,058
2010	52,162,274	28,710,041	80,872,315	5,270,000	5,513,875	10,783,875	91,656,190
2011	55,137,441	26,805,324	81,942,765	5,270,000	5,329,425	10,599,425	92,542,190
2012	51,730,000	22,237,157	73,967,157	5,270,000	5,131,800	10,401,800	84,368,957
2013	49,325,000	19,920,435	69,245,435	4,205,000	4,868,300	9,073,300	78,318,735
2014	52,505,000	17,580,634	70,085,634	4,200,000	4,700,100	8,900,100	78,985,734
2015	52,575,000	15,096,396	67,671,396	4,200,000	4,548,900	8,748,900	76,420,296
2016	43,170,000	12,551,774	55,721,774	8,815,000	4,359,900	13,174,900	68,896,674
2017	41,100,000	10,432,832	51,532,832	9,520,000	3,973,750	13,493,750	65,026,582
2018	38,540,000	8,441,607	46,981,607	9,055,000	3,539,750	12,594,750	59,576,357
2019	36,550,000	6,529,866	43,079,866	7,065,000	3,087,000	10,152,000	53,231,866
2020	25,065,000	4,749,949	29,814,949	13,480,000	2,773,250	16,253,250	46,068,199
2021	18,690,000	3,568,236	22,258,236	13,810,000	2,141,250	15,951,250	38,209,486
2022	13,810,000	2,733,774	16,543,774	13,685,000	1,492,750	15,177,750	31,721,524
2023	18,640,000	2,096,859	20,736,859	4,200,000	850,500	5,050,500	25,787,359
2024	13,640,000	1,233,896	14,873,896	4,200,000	682,500	4,882,500	19,756,396
2025	8,750,000	593,713	9,343,713	4,200,000	514,500	4,714,500	14,058,213
2026	3,855,000	177,910	4,032,910	4,200,000	346,500	4,546,500	8,579,410
2027	-	-	-	4,200,000	178,500	4,378,500	4,378,500
Totals[4]	**$692,722,147**	**$248,728,605**	**$941,450,752**	**$135,385,000**	**$65,511,338**	**$200,896,338**	**$1,142,347,091**

[1] Secured by State Debt Service Commitment, and net of refunded bonds.
[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 under the UCONN 2000 program and outstanding as of the date of delivery of the 2007 Series A Bonds and the 2007 Refunding Series A Bonds.

University of Connecticut
Total UConn 2000 Bonds And Leases Outstanding
as of April 12, 2007

	Original Par Amount	Amount Outstanding Pre GO DSC 2007 Bonds[1]	Amount Refunded By GO DSC 2007 Bonds	Amount Outstanding Post GO DSC 2007 Bonds	Dated Date[2]
General Obligation Debt Service Commitment Bonds					
GO DSC 1996 Series A	$ 83,929,715	$ 4,369,715	-	$ 4,369,715	January 1, 1996
GO DSC 1997 Series A	124,392,432	7,392,432	-	7,392,432	April 1, 1997
GO DSC 1998 Series A	99,520,000	9,950,000	-	9,950,000	June 1, 1998
GO DSC 1999 Series A	79,735,000	25,000,000	-	25,000,000	March 1, 1999
GO DSC 2000 Series A	130,850,000	22,375,000	-	22,375,000	March 1, 2000
GO DSC 2001 Series A	100,000,000	30,625,000	-	30,625,000	March 15, 2001
GO DSC 2002 Series A	100,000,000	41,855,000	$16,855,000	25,000,000	April 1, 2002
GO DSC 2003 Series A	96,210,000	76,770,000	29,840,000	46,930,000	March 1, 2003
GO DSC 2004 Series A	97,845,000	83,160,000	-	83,160,000	January 15, 2004
GO DSC 2004 Series A Refunding[3]	216,950,000	216,765,000	-	216,765,000	January 15, 2004
GO DSC 2005 Series A	98,110,000	88,310 000	-	88,310 000	February 15, 2005
GO DSC 2006 Series A	77,145,000	73,290,000	-	73,290,000	March 15, 2006
GO DSC 2006 Series A Refunding[4]	61,020,000	59,555,000	-	59,555,000	March 15, 2006
GO DSC 2007 Series A	-	-	-	89,355,000	April 12, 2007
GO DSC 2007 Series A Refunding[5]	-	-	-	46,030,000	April 12, 2007
Total[6]	**$1,365,707,147**	**$739,417,147**	**$46,695,000**	**$828,107,147**	
Special Obligation Student Fee Revenue Bonds					
UCONN 2000 SPEC OB 1998-A	$ 33,560,000			$ 27,640,000	January 1, 1998
UCONN 2000 SPEC OB 2002-A	75,430,000			69,365,000	January 15, 2002
UCONN 2000 SPEC OB 2002-A Refunding[7]	96,130,000			86,280,000	February 1, 2002
Total[8]	**$205,120,000**			**$183,285,000**	
Capital Leases[9]					
Governmental Lease Purchase Agreement	$75,000,000			$71,998,299	December 18, 2003
Governmental Lease Purchase Agreement	6,900,000			6,643,265	August 15, 2005
Total	**$81,900,000**			**$78,641,564**	

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1 Net of bonds previously refunded.

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

3 The General Obligation 2004-A Refunding Bonds refunded $223,160,000 of the outstanding GO DSC Series 1996-A, 1997-A, 1998-A, 2000-A, 2001-A, and 2002-A Bonds.

4 The General Obligation 2006-A Refunding Bonds refunded $61,675,000 of the outstanding GO DSC Series 1998-A, 1999-A, 2000-A, 2001-A and 2002-A Bonds.

5 The General Obligation 2007-A Refunding Bonds refunded $46,695,000 of the outstanding GO DSC Series 2002-A and 2003-A Bonds.

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

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

8 Debt Service on the Special Obligation Bonds are payable from certain Pledged Revenues of the University as further defined in the Indentures.

9 Net of Monthly Payments of Principal to and including March 29, 2007. Does not include capital lease obligations subject to annual appropriation.

Employee Data

Faculty and Staff. As of October 2006, the University had 4,348 full-time equivalent ("FTE") employees. Full and part-time faculty accounted for 1,289 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 2006, 65% of full-time teaching faculty were tenured, 16% were tenure track and the remaining were non-tenure track faculty. The average age of full-time faculty was 50. Additionally, the University also has 452 FTE graduate student assistants who receive stipends.

Seven bargaining units represented approximately 3,985 FTE union members as of October 2006. Approximately 8% of University faculty and staff were non-union employees. The University bargains with two units covering 3,024 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, 2011. Law school faculty, University exempt (management) and certain temporary and part-time employees are not represented by bargaining units. The remaining five unions covering 961 FTE employees bargain directly with the State and have settled contracts with expiration dates ranging from June 30, 2007 to June 30, 2009.

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 42% 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 organizational unit of the University of Connecticut, the Health Center is a comprehensive State-owned Academic Health Center which has the traditional tripartite missions of education, patient care and research facility as well as community service and public health. Its main campus is 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/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 2006, the Health Center has 487 professional students in the Schools of Medicine and Dental Medicine, 393 graduate students in Master's and Doctoral programs, and 820 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 of which one is vacant, three members appointed by the Governor of which one is vacant, and three voting Ex Officio members (the Secretary of OPM, the President of the University and the Commissioner of Public Health).

Membership as of March 29, 2007. The name, term, position and affiliation or profession of each member of the Board of Directors is as follows:

Name	Term Ends	Position	Affiliation/Profession
Philip E. Austin		Member ex-officio	President, University of Connecticut
Michael J. Cicchetti		Member ex-officio	Deputy Secretary, Office of Policy and Management
Gerard N. Burrow	2007	Appointed by Chairperson, Board of Trustees	President and CEO, Sea Research Foundation, Inc.
Cheryl Chase	2009	Member at Large	EVP and General Counsel, Chase Enterprises
Sanford Cloud, Jr.	2008	Member at Large	Chairman and CEO, Cloud Company, LLC
David B. Friend, M.D.	2006*	Appointed by the Governor	
The Honorable Robert Galvin		Member ex-officio	Commissioner, Public Health
A. Jon Goldberg	2009	Member at Large	Professor, Department of Prosthodontics and Operative Dentistry, and Director, Center for Biomaterials, University of Connecticut Health Center
John L. Haberland	2006*	Appointed by the Governor	Vice President, Business Controls, United Technologies Corporation
Robert Hennessey	2007	Member at Large	President and CEO, Genome Therapeutics Corporation (retired)
Brian Hehir	2008	Member at Large	Vice Chairman Investment Banking, Merrill Lynch, Chairman National Board of Visitors Georgetown University School of Nursing and Health Studies

Lenworth M. Jacobs, Jr., M.D.	2008	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
Claire Rochat Leonardi	2007	Chair, Appointed by Chairperson, Board of Trustees	General Partner, Fairview Capital, L.P.
David P. Marks	2007	Member at Large	Chief Investment Officer, CUNA Mutual Group
Robert T. Samuels	2009	Member at Large	Founder, ABS Development Company
Ann Slaughter	2008	Member at Large	Assistant Professor and course director for geriatric dentistry at the University of Pennsylvania School of Dental Medicine

* Members appointed by the Governor or Chairperson, Board of Trustees continue to serve until replaced.

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, and its 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 of the Board and each of its subcommittees: Academic Affairs, Clinical Affairs and Finance. 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. Approximately 600 residents and fellows populate John Dempsey and other regional hospitals.

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 $91.2 million was generated in fiscal year 2006 by the research activities of the various faculties which supplements appropriations from the State of Connecticut.

In the research arena, in November 2006 the University received 15 grant awards totaling more than $12 million of the nearly $20 million awarded by the Connecticut Stem Cell Research Advisory Committee to advance embryonic and human adult stem cell research in the state. The disbursements are the first made under Connecticut's 10-year, $100 million commitment to fund stem cell research, as authorized by Gov. M. Jodi Rell and the General Assembly in 2005.

The grants will support some 23 investigators from UConn departments at both the Storrs campus and the Health Center who are already engaged in significant stem cell and regenerative biology research. The grants also will expand the university-wide Stem Cell Institute, which is committed to stem cell biology, while allowing scientists in the state to conduct human embryonic stem cell research in the face of a ban on the use of federal funds for such research.

On February 1, 2007, the University purchased through the UCONN 2000 program the property and building located at 400 Farmington Avenue, Farmington, Connecticut. The 113,000 square foot building will be renovated to house research—most immediately the rapidly expanding stem cell research activity—and some technology incubator space (also likely to focus on stem cell work).

Student Enrollment and Admission

Enrollment. The Health Center's enrollment in fall 2006 was 328 in the School of Medicine, 159 in the School of Dental Medicine, and 393 Graduate students, taught by over 500 full time faculty members.

Average Total MCAT and DAT Scores
Fall 2002- 2006

Fall	MCAT	DAT
2002	29.7	20.1
2003	30.5	19.8
2004	30.8	20.0
2005	30.2	20.6
2006	30.8	20.1

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 for the last seven years.

Passing Rates on National Exams
2002- 2006

Year	School of Medicine	School of Dental Medicine
2002	100%	100%
2003	99%	100%
2004	97%	100%
2005	99%	100%
2006	99%	99%

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 are expected to prevail during the following fiscal year. Such tuition and fees must comply with the polity of the Board of Governors of Higher Education that requires them to be between the 70th and 75th percentiles of public schools nationally.

Tuition. For the academic year 2007, students classified as full-time residents of Connecticut paid tuition of $18,250 for the School of Medicine and $14,665 for the School of Dental Medicine. Regional students paid $31,938 for the School of Medicine and $25,664 for the School of Dental Medicine per year. Out-of-state students paid $41,525 for the School of Medicine and $37,587 for the School of Dental Medicine per year. The Board of Directors approved a School of Medicine in-state combined tuition and fee rate increase of 3.5% over the 2007 rate for academic year 2008 and 5.0% for 2009. These increases are 10.4% and 5.0% for the School of Dental Medicine.

Mandatory Fees. For academic year 2007, students must pay a Fee of $7,670 for the School of Medicine and $7,000 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's Enrolled at the Health Center by School
Academic Years 2003- 2007

School of Medicine

	2003	2004	2005	2006	2007
Tuition	$ 10,440	$ 12,000	$13,800	$15,870	$18,250
Fees	4,380	5,040	5,900	6,670	7,670
TOTAL	**$ 14,820**	**$17,040**	**$19,700**	**$22,540**	**$25,920**

School of Dental Medicine

	2003	2004	2005	2006	2007
Tuition	$ 8,385	$ 9,643	$11,089	$12,752	$14,665
Fees	4,355	5,010	5,430	6,130	7,000
TOTAL	**$12,740**	**$14,653**	**$16,519**	**$18,882**	**$21,665**

Percentage of Enrollment by Residence Status
Fall 2002- 2006

	School of Medicine		School of Dental Medicine	
	In-State	Out-of-State	In-State	Out-of-State
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%
Fall 2005	90.2%	9.8%	75.5%	24.5%
Fall 2006	90.5%	9.5%	77.4%	22.6%

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).

Correctional Managed Health Care. The Health Center is responsible for providing all health care services for all persons incarcerated in Connecticut's jails and prisons. The vast majority of these activities takes place at facilities operated by the Department of Correction, but the John Dempsey Hospital does maintain a high security prison ward for patients requiring in-patient services.

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). This Plan has been revised since, delaying investments in Brain and Human Behavior, adding Cardiology and Expanding Connecticut Health into a broader Public Health focus.

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.

The Health Center has proposed a long-term plan for the replacement of the undersized and outdated John Dempsey Hospital which is currently under review.

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, 2006, the Fund had a balance of $22.9 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 5,100 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 3,700 employees as of January 2007 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 2,270 employees, has a settled contract that expires on June 30, 2010. The remaining six unions covering 1,400 employees bargain directly with the State and have settled contracts with expiration dates ranging from June 30, 2007 to June 30, 2009. 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 890 additional exempt personnel.

HEALTH CENTER FINANCES

Financial Statements of the Health Center

Below is a five-year presentation of the Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2006, 2005, 2004, 2003 and 2002.

University of Connecticut Health Center[A]
Statement of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2006, 2005, 2004, 2003 and 2002

	2006	2005	2004	2003	2002 Memo Only[B]
OPERATING REVENUES					
Student tuition and fees[1]	$ 9,209,712	$ 8,321,010	$ 7,659,757	$ 6,588,157	$ 6,535,261
Patient services[2]	368,563,662	348,799,319	319,777,310	298,136,870	288,842,328
Federal grants and contracts	66,921,657	70,187,854	65,019,826	59,266,016	46,934,848
Nongovernmental grants and contracts	24,343,306	21,200,597	23,856,803	21,536,972	19,952,258
Contract and other operating revenues	48,450,061	48,196,931	48,442,838	50,088,959	45,758,622
Total operating revenues	517,488,398	496,705,711	464,756,534	435,616,974	408,023,317
OPERATING EXPENSES					
Educational and General					
Instruction	100,072,838	100,192,686	98,274,728	94,139,803	97,334,274
Research	58,519,762	60,469,782	56,597,973	49,861,751	44,554,808
Patient services	385,029,829	363,872,294	336,255,034	321,285,349	304,006,148
Academic support	15,316,392	15,169,210	14,326,226	12,657,206	13,448,798
Student services		-	565,681	720,032	908,227
Institutional support	54,862,516	42,519,275	43,974,145	38,529,599	32,752,767
Operations and maintenance of plant	20,241,322	18,939,314	14,889,973	14,158,592	14,839,374
Depreciation	25,172,041	20,914,597	19,511,082	18,991,156	17,654,076
Loss on disposal	189,089	128,029	340,629	215,893	715,635
Student aid	543,726	616,426	776,293	640,106	436,473
Total operating expenses	659,947,515	622,281,613	585,511,764	551,199,487	526,650,580
Operating (loss) income	(142,459,117)	(126,115,902)	(120,755,230)	(115,582,513)	(118,627,263)
NONOPERATING REVENUES (EXPENSES)					
State appropriations	130,527,835	124,580,676	119,067,925	115,445,236	117,964,237
Gifts	974,337	1,507,042	688,133	30,030	506,526
Interest income[3]	5,385,122	2,339,388	2,103,722	3,537,322	1,835,409
Interest on capital asset – related debt	(2,863,424)	(1,626,794)	(233,320)	(157,777)	(242,527)
Net nonoperating revenues	134,023,870	126,800,312	121,626,460	118,854,811	120,063,645
Income before other revenues, expenses, gains or losses	(8,435,247)[C]	684,410	871,230	3,272,298	1,436,382
Capital appropriations	14,920,425	16,890,000	3,931,636	754,544	16,384,954
Total other revenues	14,920,425	16,890,000	3,931,636	754,544	16,384,954
Increase in net assets	6,485,178	17,574,410	4,802,866	4,026,842	17,821,336
NET ASSETS					
Net assets-beginning of year	248,143,420	230,569,010	225,766,144	221,739,302	215,588,376
Cumulative effect of change in accounting principal	N/A	N/A	N/A	N/A	(11,670,410)
Net assets-beginning of year as restated	248,143,420	230,569,010	225,766,144	221,739,302	203,917,966
Net assets-end of year	$254,628,598	$248,143,420	$230,569,010	$225,766,144	$221,739,302

[1] Net of scholarship allowances of $3,322,672, $2,750,102, $1,793,336, $1,636,773 and $1,085,674 respectively.
[2] Net of charity care of $393,055, $1,278,242, $231,712, $117,773 and $108,502 respectively.
[3] Net of investment expense of $65,196, $63,996, $63,996, $71,471 and $68,315 respectively for the primary institution.

[A] 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.

[B] Memo Only - The fiscal year 2002 audit had the Hospital presented separately from the Institution. The numbers presented are the summation of the two entities which does not include eliminations for inter-company transactions.

[C] Please see Budget and Budgeting Procedure of the Health Center – Fiscal Year 2006 in this Appendix A.

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 which then must be approved by the University's Board of Trustees. 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 UCONN 2000 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 2006. The Health Center ended fiscal year 2006 with an $8.4 million deficit. This deficit was the result of the cost of the academic and research enterprise being $12.7 million more than the revenues generated through tuition, grants/contracts and state support. The deficit was partially funded by $4.3 million in surplus funds generated by the Hospital.

Fiscal Year 2007 Spending Plan. The fiscal year 2007 spending plan was presented to and approved by the Board of Trustees on June 20, 2006. The proposed spending plan includes total revenue of $555.5 million, State appropriations and in-kind fringe benefits of $104.8 million and total expenditures of $660.3 million resulting in a net gain of $13,000.

For fiscal year 2007, a $9 million plan is in place to address the forecasted fiscal year 2007 shortfall. This cost-reduction/revenue enhancement plan is on track. Since fiscal year 2000, the Health Center has implemented $74 million in cost-revenue improvements.

For the seven months ended January 2007, the Health Center has experienced a $13.6 million deficit which is forecasted to grow to a $20.8 million deficit by year-end. A majority of this shortfall is attributable to hospital revenues as a result of changes in payor mix and inadequate payor reimbursement levels.

Fiscal Year 2007 Revenue. For fiscal year 2007, Net Patient Revenues are budgeted at a level of $299.6 million, an increase of $16 million or 5.7% over the fiscal year 2006 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 $104.8 million (appropriation/allotments $77 million; fringe benefits $27.8 million) increased $2.9 million or 2.8% over the fiscal year 2006 amount. Research, both federal and non-federal research grants and contracts, represents the next largest revenue stream with $91.6 million. This represents a $1 million increase or 1.1% over the fiscal year 2006 amount. The Health Center was also projected to receive $90.7 million in exchange for its services rendered to the Department of Corrections. This amount is $4 million or 6.7% higher than in fiscal year 2006. Tuition and fee revenue collections in the amount of $14.9 million represent 2.7% of total revenue streams.

Fiscal Year 2007 Expenditures/Transfers. Estimated fiscal year 2007 expenditures and transfers of $660.3 million are budgeted to increase by $25.9 million or 4.1% over the fiscal year 2006 amount. Personal services expenditures are expected to reach $330.1 million or $15.4 million more than fiscal year 2006. Fringe benefit expenditures are expected to be $92.4 million or $10.9 million more than fiscal year 2006. The combined increase of 6.7% 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 2007 include investments in campus infrastructure and additional investments in clinical operations.

The Health Center has requested operating funds through an increase in the State appropriation to address the fiscal year 2007 forecasted deficit, but it is uncertain as to whether that request will be granted. The following schedule reflects the fiscal year 2007 spending plan as approved by the Board of Trustees on September 26, 2006 and the forecast as presented to the Board of Directors on March 5, 2007.

University of Connecticut Health Center
Statement of Operations (in millions)

	Fiscal Year 2007 Budget	Fiscal Year 2007 Forecast (As of 1/31/07)
Revenues:		
Tuitions	$9.3	$8.9
Fees	5.7	5.2
Federal Research Grants and Contracts	70.4	66.3
Non-Federal Research Grants and Contracts	21.2	24.4
Auxiliary Enterprises	17.5	14.6
Interns and Residents	29.7	31.2
Net Patient Care	299.6	287.4
Correctional Managed Health Care	90.7	93.0
Endowment/Foundation Income	4.0	3.4
Investment Income	2.7	0.5
Other Income	5.0	4.8
Total Revenues	**$555.5**	**$539.7**
Expenses:		
Personal Services	$330.1	$328.7
State Supported Fringe Benefits	27.1	26.4
Fringe Benefits	65.3	66.0
Medical Contractual Support	8.2	8.4
Medical/Dental House Staff	32.6	32.8
Outside Agency Per Diems	3.6	2.0
Drugs	33.4	32.5
Medical Supplies	37.8	36.8
Utilities	13.5	15.9
Outside & Other Purchased Services	41.0	44.5
Insurance	5.0	4.7
Repairs & Maintenance	9.9	10.6
Provision for Bad Debts	6.8	6.2
Other Expenses	21.5	21.5
Depreciation	24.6	27.3
Total Expenses	**$660.3**	**$664.3**
Excess/(Deficiency) of Revenues over Expenses Prior to State Appropriations	**($104.7)**	**($124.6)**
State Appropriation-Block Grant	76.9	77.4
State Supported Fringe Benefits & Other Adjustments	27.8	26.4
Excess/(Deficiency)	**$0.0**	**($20.8)**

Fiscal Year 2008-2009 Budgets. Preliminary fiscal year 2008-2009 budgets were presented in the biennial budget report sent to the State on October 30, 2006. The budgets will be updated and presented to the Board of Trustees for approval in June 2007. Please note that the Health Center has requested additional operating funds through an increase in the State appropriation to address the projected shortfalls for fiscal years 2008 and 2009 ($13.5 million in fiscal year 2008 and an additional $6.5 million in fiscal year 2009).

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, 2007 is $76.9 million. At this time, the Health Center has requested $93.5 million and is uncertain of the actual fiscal year 2008 appropriation.

Grants and Contracts

Revenue from federal, State, local and non-governmental grants and contracts totaled $91.2 million in fiscal year 2006, representing 17.6% 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, 2006, included in this Appendix A.

Governmental Grants and Contracts
for Fiscal Years 2002 - 2006
(in Millions of Dollars)

Fiscal Year	Amount
2002	$66.9
2003	$80.8
2004	$88.9
2005	$91.4
2006	$91.2

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 totaling $4,171,781 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, through the Finance Corporation, entered into a $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%.

During fiscal year 2005 the Health Center through the UCHCFC Munson Corporation (Munson Road Corp.), acquired land and property at 16 Munson Road. The Health Center exchanged cash, a note payable to the Munson Road, LLC and assumed the mortgage on the Munson Road property from the Munson Road, LLC. The building, whose property was adjacent to the Health Center, has 9 years remaining on its mortgage of $11,324,733. The mortgage, at 7.85%, will be paid back via monthly payments and a balloon payment due January 2011. The transaction also included a $300,000 payment and a $700,000 note payable to Munson Road, LLC. The note, at 6.5%, will be paid back quarterly over the next 6 years.

During fiscal year 2006, the Health Center entered into three capital leases totaling $6,624,055 through which it obtained its various clinical equipment. Two leases have five year terms and were obtained at fixed interest rates of 4.8% and 5.2% and the third has a three and a half year term obtained at a fixed interest rate of 9.36%.

During fiscal year 2006, the Health Center, through the Farmington Surgery Center, entered into a $4.8 million equipment and leasehold improvement loan for the equipment and improvements of the Farmington Surgery Center located in the new Medical Arts Research Building (MARB) on campus. This is an eight year loan that was renegotiated from a variable interest rate to a fixed interest rate of 6.35% during fiscal year 2007.

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 $21,636,000 at June 30, 2006, of which it was estimated that $3,853,000 could be used in fiscal 2007 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, 2006.

Long-term liability composition and activity for the years ended June 30, 2006 and 2005 was as follows:

Long-Term Liability
for Years Ended June 30, 2005 and 2006

	June 30, 2005 Balance	Additions	Reductions	June 30, 2006 Balance	Amounts Due Within 1 Year
Long-Term Debt					
Bonds Payable John Dempsey Hospital	$ 404,182	-	$ 128,141	$ 276,741	$ 112,491
Bonds Payable Primary Institution	711,189	-	220,732	490,457	197,913
Loans payable John Dempsey Hospital	-	5,355,300	-	5,355,300	1,338,633
Lease Agreements John Dempsey Hospital	3,001,232	6,624,055	1,508,026	8,117,261	2,090,088
Mortgage Agreements Primary Institution	34,393,207	-	832,019	33,561,188	888,609
Total Long-Term Debt	38,510,510	11,979,355	2,688,918	47,800,947	4,627,734
Malpractice Reserve	13,362,000	11,777,394	3,503,394	21,636,000	3,853,000
Compensated Absences	35,021,430	11,498,002	13,673,221	32,846,211	12,810,022
Total Long-Term Liabilities	$86,893,940	$35,254,751	$19,865,533	$102,283,158	$21,290,756

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

Fiscal Year Ending June 30th	**Principal[1]**	**Interest**	**Total Long Term Debt**
2007	4,678,721	3,022,604	7,701,325
2008	4,377,170	2,744,587	7,121,757
2009	3,754,002	2,524,072	6,278,074
2010	3,303,725	2,321,902	5,625,627
2011	12,715,322	1,788,049	14,503,371
2012	1,691,101	1,182,418	2,873,519
2013	945,746	1,068,441	2,014,187
2014	1,007,480	1,006,708	2,014,188
2015	1,073,243	940,944	2,014,187
2016	1,143,299	870,888	2,014,187
2017	1,217,928	796,259	2,014,187
2018	1,297,429	716,759	2,014,188
2019	1,382,118	632,069	2,014,187
2020	1,472,336	541,851	2,014,187
2021	1,568,443	445,744	2,014,187
2022	1,670,824	343,364	2,014,188
2023	1,779,887	234,301	2,014,188
2024	1,896,069	118,118	2,014,187
2025	826,105	13,140	839,245
Totals	$47,800,948	$21,312,218	$69,113,166

[1]Totals may not sum due to rounding

SCHEDULE 1

UNIVERSITY OF CONNECTICUT JUNE 30, 2006

AUDITED FINANCIAL STATEMENTS

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University of Connecticut

Financial Report

For the Year Ended June 30, 2006

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, service and outreach. 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, 2006 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 2006 topped 27,500 students, taught by 1,251 full-time faculty members and an additional 687 part-time faculty and adjuncts. In total, the University employs almost 4,400 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 vigilance. 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 Board of Trustees, through its Joint Audit and Compliance Committee, exercises 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 state auditors. An important component of external oversight, 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.

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, service and outreach 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, for the seventh consecutive year, the University was named the top public university in New England in the annual *U.S. News and World Report* rankings. The University is ranked 28th 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 2005 freshman enrollment at the main campus was up 61%, minority freshman enrollment was up 111% and, since 1996, average SAT scores were up 76 points. Thirty-seven percent of these students ranked in the top 10% of their high school class. In 2006, the University added 51 faculty members to address the increased instructional demand.

- The Educational Policy Institute (EPI) awarded the University the 2006 Outstanding Retention Program Award in recognition of excellence in development and implementation of a program that increases the persistence of students at the postsecondary level. The University's freshman-to-sophomore retention rate at the main campus is 92% and the 6-year graduation rate is 72%.
- Approximately 6,400 degrees were conferred in the 2005-2006 school year for the completion of undergraduate, graduate and professional programs at the Storrs and regional campuses.
- Research awards for the Storrs-based program grew from $55.9 million in fiscal year 1996 to $91.7 million in fiscal year 2006.
- UConn, including both the Health Center and Storrs-based programs, ranked 74th among all institutions and 52nd among public universities nationwide in research and development expenditures, as measured by the National Science Foundation.
- The Foundation's endowment, including both the Health Center and Storrs-based programs, which stood at $42 million at the start of 1995, is now valued at approximately $300 million. Total Foundation net assets reached $353 million, the highest ever and an 8.6% increase over 2005. The University received a record $33.6 million in disbursements in support of scholarships, faculty, programs and facilities from the Foundation, a 20% increase over 2005.
- By 2006, the UCONN 2000 program had led to the completion of 87 major projects and 9.2 million square feet of new and renovated space.
- In 2006, the University continued implementation of its UCONN 2000 corrective action plan with the establishment of the Construction Management Oversight Committee, the Buildings, Grounds and Environment Committee of the Board of Trustees, and the Construction Assurance Office. The financial implications of these activities relate in large measure to the cost of corrective action for code deficiencies in three residential complexes. Actual and estimated costs are reflected in the accompanying financial statements. To date, much of the corrective work has been performed and paid for by contractors; the University will continue to pursue financial recovery as appropriate.
- Two new athletics facilities – the Burton Family Football Complex and the Mark R. Shenkman Training Center – were certified as meeting the Leadership in Energy and Environmental Design (LEED) standards for "green" buildings. The University is the first college in the nation with university athletic projects to earn this designation.
- The University welcomed 55 students from Connecticut who attended 5 New Orleans-area colleges and universities affected by Hurricane Katrina. This effort, coupled with fundraising and volunteer work for the Gulf Coast, contributed to making the University one of only nine colleges and universities in the nation to receive a Katrina Compassion Award for excellence in hurricane relief service, placing it on the first-ever President's Higher Education Community Service Honor Roll.
- The University celebrated its 125th anniversary with a yearlong series of events and activities highlighting the institution's history. President Austin stated, "In the past century and a quarter, we have grown from a small agricultural school to one of the nation's outstanding public universities, and in the process we have become one of our state's greatest assets. We are excited to share our story with both the UConn community and the citizens of Connecticut."

Respectfully Submitted,

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

Bruce A. DeTora
Chief Financial Officer
Storrs-based Programs

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STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON

STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the
University of Connecticut

We have audited the accompanying statements of net assets of the University of Connecticut (University) as of June 30, 2006 and 2005, 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% and revenues constituting .2% of the related totals of the University in 2006. 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, 2006 and 2005, and the changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 2 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sincerely,

Kevin P. Johnston

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

December 29, 2006
State Capitol
Hartford, Connecticut

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, 2006, based on currently known facts, decisions, or conditions. It also includes selected comparative information for the years ended June 30, 2005 and 2004. 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, service and outreach. 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, 2006 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 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's Board of Trustees. The Auditors of Public Accounts issue an Independent Auditors' Report on the financial statements of the University. They are responsible for auditing its financial operations and their opinion appears on Page 1.

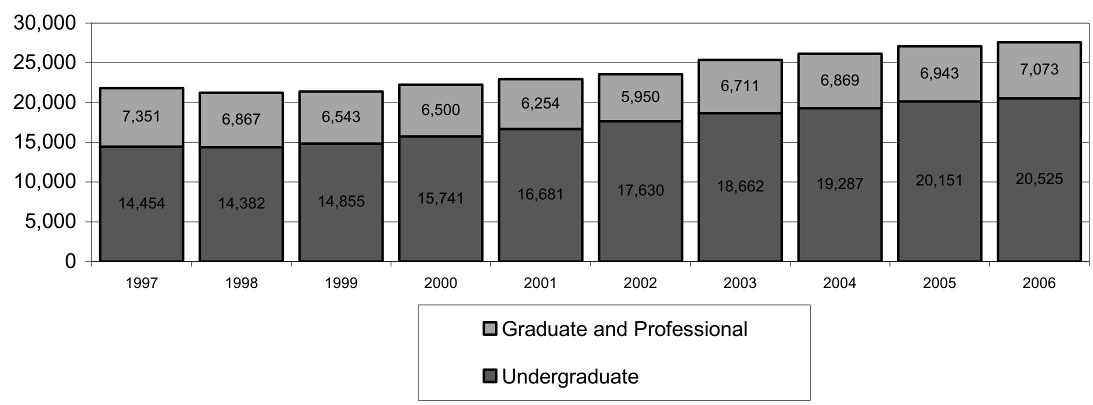
FINANCIAL HIGHLIGHTS AND ECONOMIC OUTLOOK

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. 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 $347.3 million for the year ending June 30, 2006 (fiscal year 2006) as compared to $324.5 million for the year ending June 30, 2005 (fiscal year 2005), and $276.9 million for the year ending June 30, 2004 (fiscal year 2004). The increase in operating loss in fiscal year 2006 from fiscal year 2005 was due to an increase in total operating expenses of 5.4%, primarily caused by a 6.6% increase in salaries as a result of a 1.6% increase in full-time equivalent staff and negotiated raises. The increase in operating loss in fiscal year 2005 from fiscal year 2004 was due to the combined effect of a 6.2% increase in full-time equivalent staff, replacing many of the staff who participated in the fiscal year 2003 Early Retirement Incentive Program (ERIP), and a 21.4% increase in depreciation expense, offset by an increase in enrollment and tuition and fees. 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 $45.8 million in fiscal year 2006 as compared to $43.4 million and $19.5 million for fiscal years 2005 and 2004, respectively. Total operating revenues grew $17.2 million in fiscal year 2006 and $37.1 million in fiscal year 2005. At the same time, operating expenses increased $40.0 million in fiscal 2006 as compared to an increase in fiscal year 2005 of $84.7 million over fiscal year 2004. Investment income increased for the second time in five years by $5.1 million ($2.2 million in fiscal year 2005). It decreased $1.2 million in fiscal year 2004 compared to fiscal year 2003.

Sources of recurring operating and nonoperating revenues continue to exhibit strength with increases in the past three fiscal years. State support increased for the second time in four years. The University's total enrollment in fiscal year 2003 topped 25,000 students and grew to 27,598 students in fiscal year 2006. These students are taught by 1,251 full-time faculty members (an increase of 51 faculty over the prior year) and an additional 687 part-time faculty and adjuncts. Undergraduate enrollment at the University reached 20,525 students in fiscal year 2006, 1.9% more than fiscal year 2005 (4.5% more students in fiscal year 2005 over 2004). At the same time, an in-state tuition and mandatory fee increase of 5.63% and an out-of-state increase of 5.66% were approved for fiscal year 2006. Graduate and professional enrollment also increased by 1.9%, with an in-state tuition and mandatory fee increase of 5.83% and an out-of-state increase of 5.98%. 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 $17.3 million (7.9%) as compared to $22.8 million (11.6%) increase in 2005. Sales and services of auxiliary enterprises, before scholarship allowances, increased $6.6 million (5.8%), primarily as a result of an overall increase in room and board fees of 4.1% for undergraduate students and 4.2% for graduate students. In fiscal year 2005, sales and services of auxiliary enterprises, before scholarship allowances, increased by $8.6 million (8.1%). Grant and contract revenues decreased $5.2 million (4.7%) in fiscal year 2006 as compared to an increase of $8.6 million (8.2%) in fiscal year 2005 over 2004.

HEADCOUNT ENROLLMENT IN FALL OF EACH FISCAL YEAR
TEN YEAR COMPARISON



The 21st Century UConn program, also known as Phase III of UCONN 2000, began in fiscal year 2005. It represents a $1.3 billion, 10-year extension of the original UCONN 2000 program (see Note 4), and provides $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 provide quality facilities commensurate with the enrollment growth experienced in recent years.

The financial condition of the University is closely tied to the State's economic condition. While it is difficult to project the State's economy and resulting effect on the State's financial condition, the experience of cutbacks and ERIP from fiscal years 2004 and 2003 has been turned around. The State's significant revenue streams have begun to grow at a healthy pace, a reality which is in turn reflected in the State's appropriation to the University which has increased for the second year in a row since fiscal year 2002. The University is well positioned to maintain its financial condition and high standard of service to its students and the citizens of the State.

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 (those maturing and due within one year) and noncurrent (those 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, including payments made to others before a service was received. Assets are recorded at their current value, except for property and equipment that are 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 (in millions):

	2006	**2005**	**2004**
Current assets	$ 390.7	$ 351.1	$ 311.7
Noncurrent assets			
State debt service commitment	734.4	715.4	669.7
Investments	13.5	12.6	11.5
Property and equipment, net	1,524.7	1,507.1	1,446.1
Other	20.5	20.3	20.6
Total assets	$2,683.8	$2,606.5	$2,459.6
Current liabilities	$ 258.1	$ 232.9	$ 181.3
Noncurrent liabilities			
Long-term debt and bonds payable	1,020.7	984.1	902.3
Other	21.3	20.0	20.5
Total liabilities	$1,300.1	$1,237.0	$1,104.1
Invested in capital assets, net	$1,228.5	$1,230.0	$1,206.3
Restricted	60.9	47.8	47.7
Unrestricted	94.3	91.7	101.5
Total net assets	$1,383.7	$1,369.5	$1,355.5

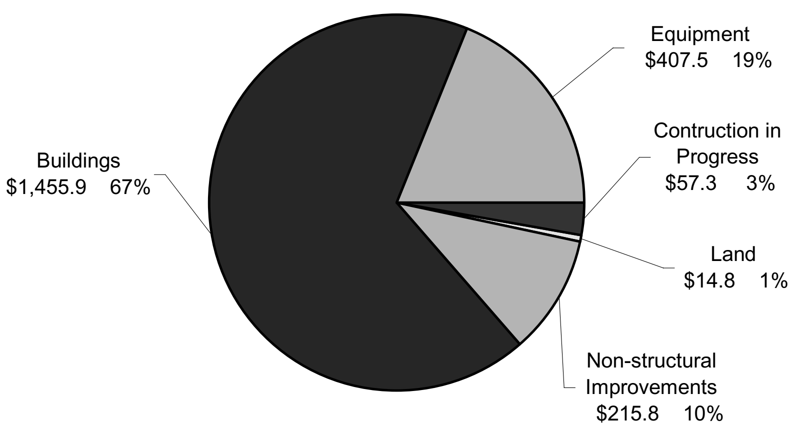
The total assets increased $77.3 million in fiscal year 2006 over 2005 and $146.8 million in fiscal year 2005 over 2004. The growth in fiscal year 2006 was primarily due to $18.4 million ($61.5 million in fiscal year 2005) of additions to property and equipment, net of accumulated depreciation, a $7.1 million ($10.1 million in fiscal year 2005) increase in cash and cash equivalents, a $23.3 million increase ($16.6 million increase in fiscal year 2005) in deposit with bond trustee and a $23.7 million ($50.5 million in fiscal year 2005) increase in the state debt service commitment.

The total liabilities for fiscal year 2006 increased $63.1million ($132.9 million in fiscal year 2005) primarily due to newly acquired debt through the sale of general obligation bonds and other new debt, totaling $166.1 million ($142.8 million in fiscal year 2005) and the retirement of prior year debt on existing bonds and loans of $124.2 million ($55.9 million in fiscal year 2005). The increase is also related to $22.3 million due to affiliate for the unspent portion of bonds issued in fiscal year 2006 ($16.3 million in fiscal year 2005) that are committed for projects at the Health Center and a $1.8 million decrease in other liabilities ($23.7 million increase in fiscal year 2005). The combination of the increase in total assets of $77.3 million ($146.8 million for fiscal year 2005) and total liabilities of $63.1 million ($132.9 million for fiscal year 2005) yields an increase in total net assets of $14.2 million ($13.9 million in fiscal year 2005).

Capital and Debt Activities

During fiscal year 2006, the University recorded additions to property and equipment totaling $105.0 million ($146.1 million and $182.3 million in 2005 and 2004, respectively) of which $68.3 million related to buildings and construction in progress ($105.2 million and $145.5 million in 2005 and 2004, respectively). The 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, expands and builds 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, 2006
($ in Millions) Total $2,151.3

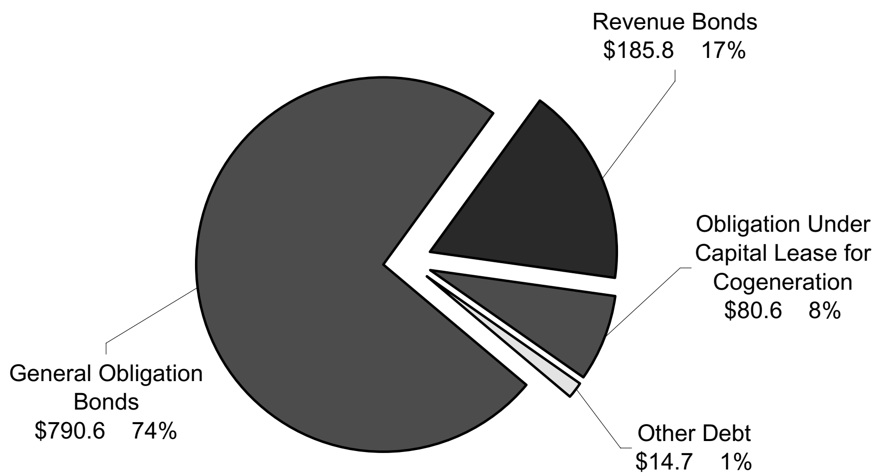


In fiscal year 2006, the University issued bonds with a total face value of $138.2 million from the sale of UCONN 2000 general obligation bonds ($98.1 million in fiscal year 2005) of which $14.9 million is committed ($16.4 million in fiscal year 2005) to the Health Center for its UCONN 2000 projects (see Note 4). The State has made a commitment to fund the University for all principal and interest payments due on UCONN 2000 general obligation debt, inclusive of 21st Century UConn. 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. As bonds are issued, the amount of the commitment for the Health Center is reflected as a liability by the University.

The University began providing on-site generation of electricity, steam and chilled water for heating and cooling for the University at its Storrs campus in fiscal year 2006 (see Note 4). Long-term savings in costs for utilities are anticipated from the operation of the plant.

See Notes 3 and 4 of the financial statements for further information on capital and debt activities. The chart below illustrates the categories of debt as of June 30, 2006, exclusive of premiums, discounts and differences due to refunding:

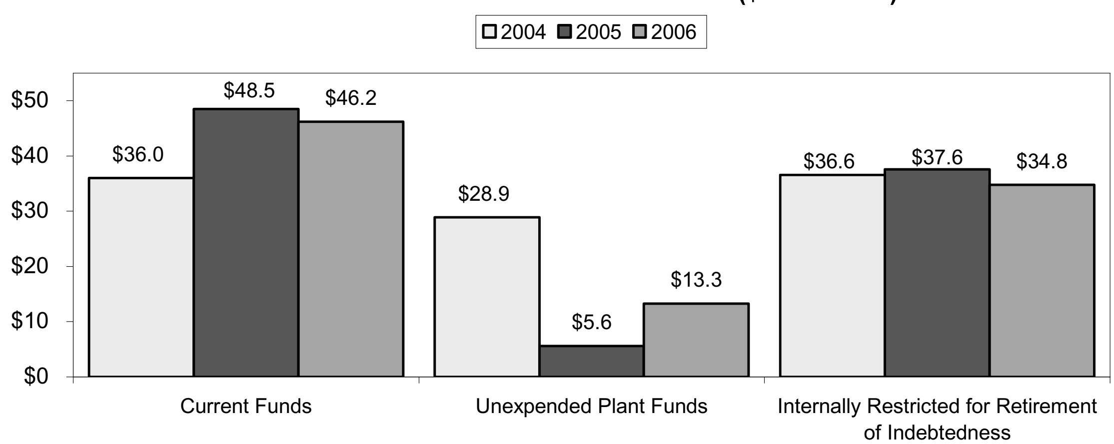
CATEGORIES OF DEBT AT JUNE 30, 2006
($ in Millions) Total $1,071.7



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 are 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

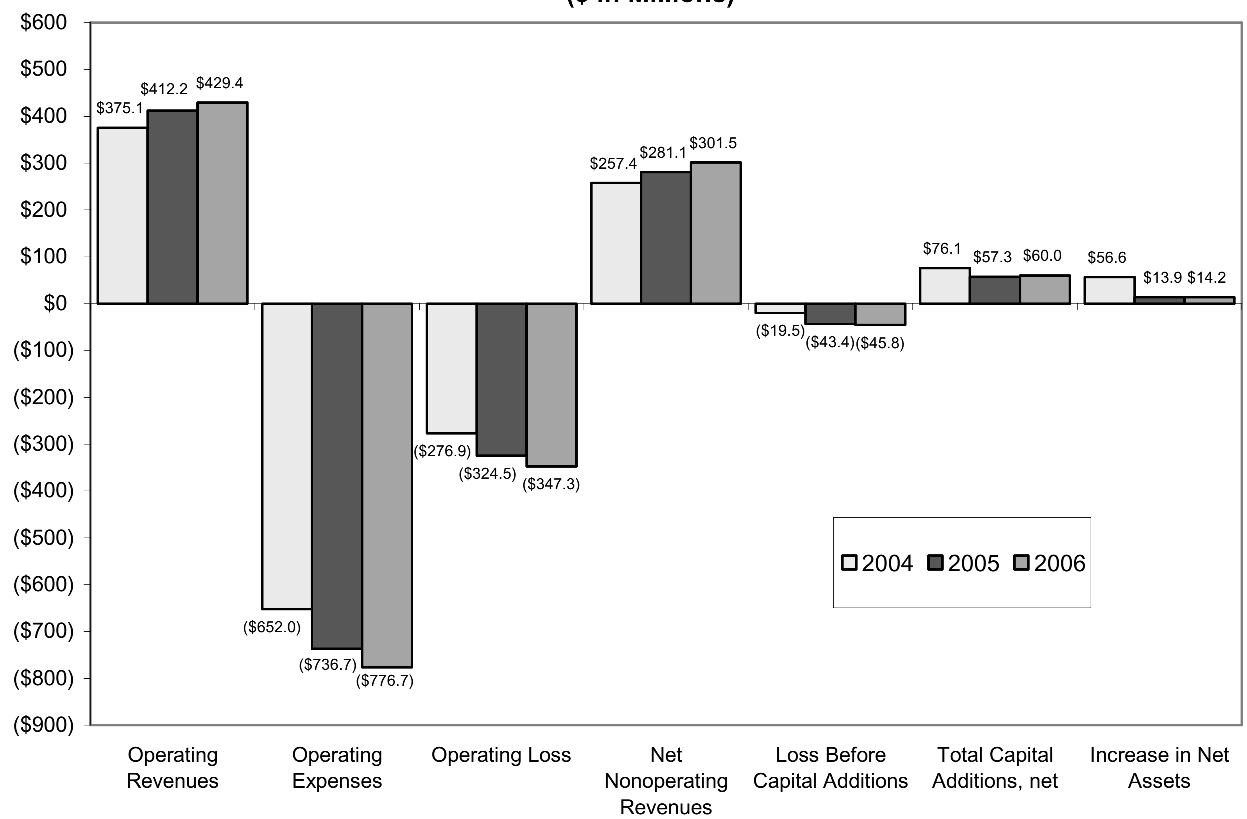
Revenues and expenses are classified as operating, nonoperating, or capital additions (deductions) according to definitions prescribed by GASB. Significant recurring sources of nonoperating revenues utilized in balancing the operating loss each year include state appropriations for general operations,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

	2006	2005	2004
Operating revenues	$ 429.4	$ 412.2	$ 375.1
Operating expenses	776.7	736.7	652.0
Operating loss	(347.3)	(324.5)	(276.9)
Net nonoperating revenues	301.5	281.1	257.4
Loss before capital additions	(45.8)	(43.4)	(19.5)
Total capital additions	60.0	57.3	76.1
Increase in net assets	$ 14.2	$ 13.9	$ 56.6

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

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



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

Nonoperating revenues are revenues received for which goods and services are not provided, including state appropriations and state debt service commitment for interest. Such revenues are provided by the State to the University without the State directly receiving commensurate goods and services in exchange 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 $14.2 million, $13.9 million, and $56.6 million at the end of the fiscal years 2006, 2005 and 2004, respectively.

Revenues

The following table summarizes operating and nonoperating revenues and capital additions for the fiscal years ended June 30 (in millions):

	2006	**2005**	**2004**
Operating revenues:			
Student tuition and fees, net	$ 177.2	$ 162.4	$ 145.2
Grants and contracts	107.3	112.5	103.9
Sales and services of educational departments	15.5	13.8	12.2
Sales and services of auxiliary enterprises, net	119.2	113.5	104.8
Other sources	10.2	10.0	9.0
Total operating revenues	429.4	412.2	375.1
Nonoperating revenues:			
State appropriation	285.7	273.1	256.5
State debt service commitment for interest	33.1	32.3	27.9
State match to endowments	-	1.0	-
Gifts	20.5	15.3	15.3
Investment income	9.6	4.6	2.4
Total nonoperating revenues	348.9	326.3	302.1
Capital additions:			
State debt service commitment for principal	61.6	81.7	91.6
Capital grants and gifts	10.0	9.2	8.2
Capital other, net (see *Expense* section)	-	-	-
Total capital additions	71.6	90.9	99.8
Total revenues	$ 849.9	$ 829.4	$ 777.0

Revenue highlights, for fiscal years 2006 and 2005 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 9.1% in fiscal year 2006 (11.9% in 2005) and 7.9% before scholarship allowance (11.6% in fiscal 2005). The increase in fiscal year 2006 was due in part to 1.9% (4.5% in fiscal year 2005) more undergraduates enrolled at the University and an increase of 5.63% (10.0% in fiscal year 2005) for undergraduate in-state tuition and mandatory fees charged, and 5.66% (9.8% in fiscal 2005) for out-of-state tuition and mandatory fees.

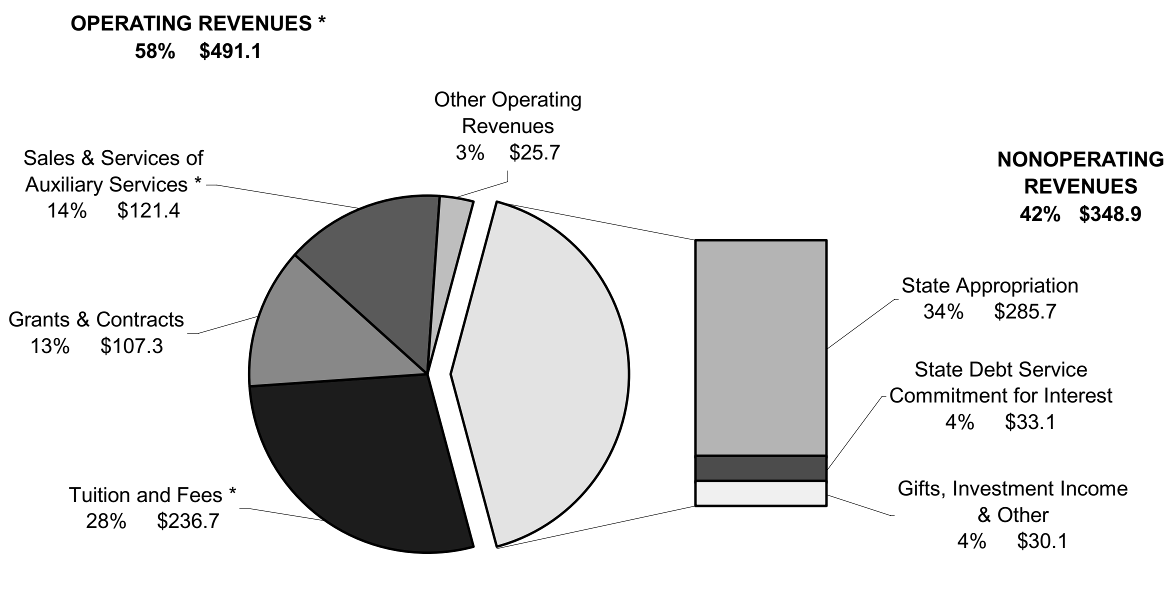
- Sales and services of auxiliary enterprises, net of scholarship allowances, increased approximately 5.0% and 8.4% during fiscal years 2006 and 2005, respectively. The increase in fiscal year 2006 resulted primarily from an increase in fees charged for both room and board of 4.1% for undergraduate students and 4.2% for graduate students. The increase in fiscal year 2005 resulted primarily from a significant increase in athletic conference and sponsor revenues and a 7.5% increase in fees charged for both room and board.

- The largest source of revenue, state appropriation including fringe benefits, increased $12.6 million, a 4.6% increase in fiscal year 2006 and $16.6 million, a 6.5% increase in fiscal year 2005, after two years of slight declines. The state appropriation 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 Net Assets to reflect this commitment. This results in revenue that is recorded as a capital addition and totaled $61.6 million in fiscal year 2006 ($81.7 million in fiscal year 2005).

- 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, and research activities. Both the Foundation and the Law School 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 $26.1 million in fiscal year 2006 compared to $19.6 million in fiscal year 2005. Both Foundations also paid approximately $4.7 million in fiscal year 2006 ($5.7 million in fiscal year 2005) to third parties on behalf of the University. This amount is not reflected in the University's financial statements. In addition, the University receives gifts directly. Total nonoperating gifts and capital gifts and grants revenue to the University from all sources amounted to $30.4 million and $24.5 million in fiscal years 2006 and 2005, respectively.

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

REVENUES FOR FISCAL YEAR 2006 ($ in Millions)
Total: $840.0



* Shown here at gross amounts, not netted for student financial aid totalling $61.7 million.

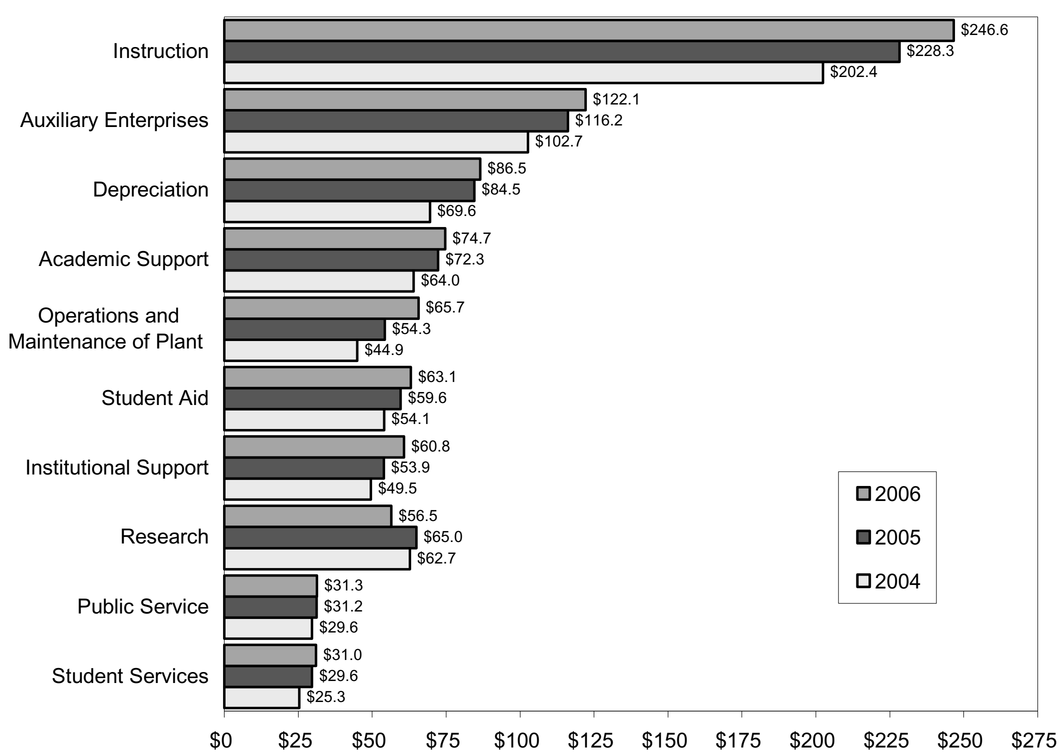
Expenses

The following table summarizes operating and nonoperating expenses and capital deductions for the fiscal years ended June 30 (in millions):

	2006	2005	2004
Operating expenses:			
Instruction	$ 245.6	$ 227.1	$ 200.9
Research	55.9	64.4	62.0
Operations and maintenance of plant	65.7	54.3	44.9
Auxiliary enterprises	122.0	116.0	102.6
Depreciation	86.5	84.5	69.6
Other	201.0	190.4	172.0
Total operating expenses	776.7	736.7	652.0
Nonoperating expenses:			
Interest expense	43.3	41.9	37.8
Other nonoperating expense, net (see *Revenue* section)	4.2	3.3	6.8
Total nonoperating expenses	47.5	45.2	44.6
Capital deductions:			
Disposal of property and equipment, net	0.9	0.5	4.2
Capital other, net (see *Revenue* section)	10.6	33.1	19.6
Total capital deductions	11.5	33.6	23.8
Total expenses	$ 835.7	$ 815.5	$ 720.4

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 mission 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).

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



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

- Instruction, the University's largest operating expense, increased $18.5 million (8.1%) in fiscal year 2006, primarily due to an increase of approximately 35 full-time equivalent faculty and staff, an average compensation increase for the bargaining units of approximately 5% and an increase in supplies, commodities and other expenditures. Instruction increased $26.2 million (13.0%) in fiscal year 2005, primarily due to hiring 116 full-time equivalent faculty and staff beginning in August, 2004, to replace ERIP employees from the prior year. The change also reflected an average compensation increase for the bargaining units of approximately 5% and an increase in supplies, commodities and other expenditures.

- A slight decrease was experienced in fiscal year 2006 for research expenditures commensurate with the decrease in associated revenues. These expenditures are related primarily to sponsored research revenues and are affected by the timing of purchases of supplies and commodities that can be charged to grants. In fiscal year 2005, research expenses increased $2.4 million or 3.8%.

- Operations and maintenance of plant increased $11.4 million (20.9%) in fiscal year 2006. The University began providing on-site generation of electricity, steam and chilled water for heating and cooling for the University at its Storrs campus in fiscal year 2006 (see Note 4). Electricity and gas were the two major energy sources for the University and while the purchase of electricity decreased 20.8% due to the on-site generation of electricity (rates increased approximately 28.0%), gas consumption increased 46.8% and its rates increased 20.4%. Also, significant increases in supplies and commodities resulted from bringing the cogeneration plant on-line. In fiscal year 2005 the operations and maintenance of plant increased $9.4 million (20.9%). The consumption of energy only increased 1.0% but gas prices increased 40.2% and electricity rates remained constant. In addition, the hiring of 18 full-time equivalent staff related to the operations and maintenance of plant function and contractual increases of approximately 5% contributed to an increase in salaries, wages and fringe benefits of $2.8 million (14.4%).

- Auxiliary enterprises expenditures increased 5.1% in fiscal year 2006, primarily due to contractual salary increases and the hiring of 11 full-time equivalent staff. Total salaries, wages and fringe benefits increased $3.5 million, contributing to more than half of the total increase in auxiliary enterprises. Auxiliary enterprises expenditures increased 13.1% in fiscal year 2005, primarily due to contractual salary increases and the hiring of 18 additional full-time equivalent staff to replace many of those lost through ERIP. Total salaries, wages and fringe benefits increased $6.8 million, contributing to half of the total increase in auxiliary enterprises. Supplies, commodities and other and utilities expenditures increased $6.7 million resulting from the significant rate increase in gas prices (see above).

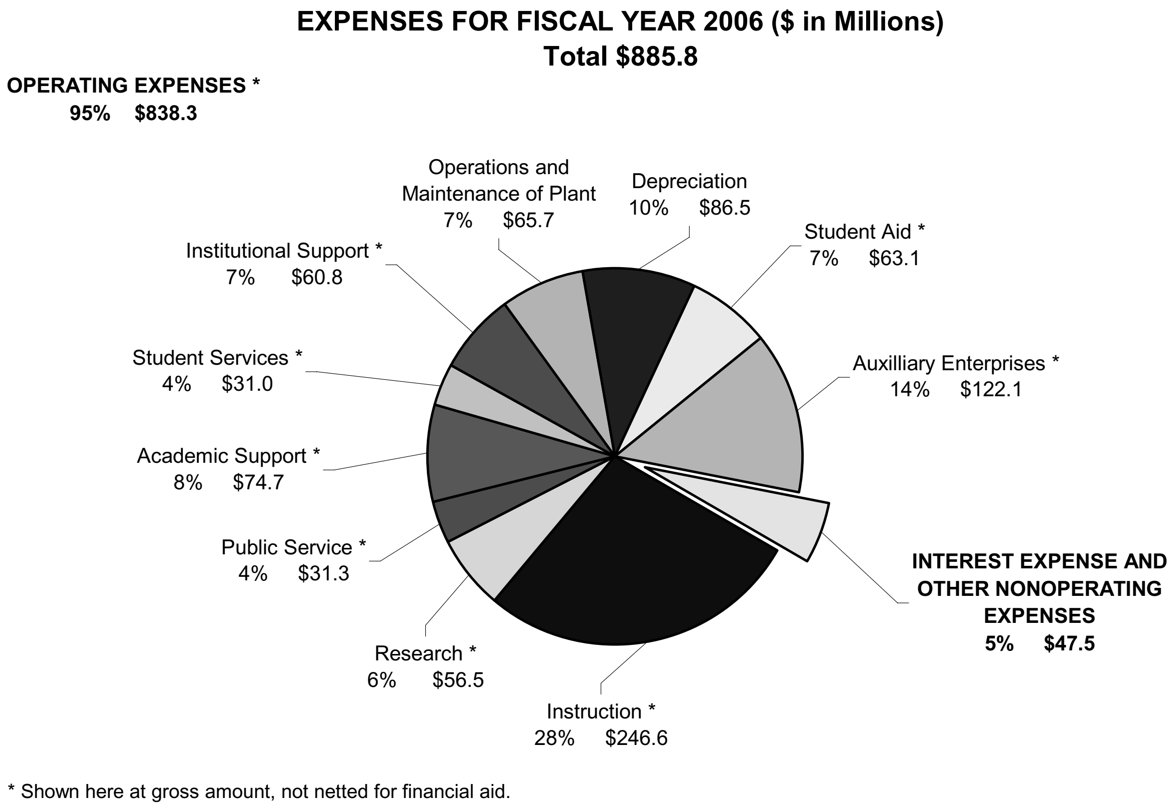
- In fiscal year 2006, the eleventh year of UCONN 2000 (see Note 4), the University recorded additions of $105.0 million ($146.1 million fiscal year 2005) in property and equipment. These significant additions contributed to a 2.4% or $2.0 million increase in depreciation expense in fiscal year 2006 (21.4% or $14.9 million in fiscal year 2005).

- Other nonoperating expenditures totaled $4.2 million ($3.3 million in fiscal year 2005) and primarily consisted of certain legal fees and matters of a nonrecurring nature.

- In fiscal year 2006, capital other includes several items discussed in Note 3 including: $5.4 million ($21.1 million in fiscal 2005) for work to correct certain deficiencies in the construction of three residential facilities and $5.1 million in 2006 ($6.8 million in 2005) to complete a project to remediate and close an existing landfill.

Total operating expenses were $776.7 million and $736.7 million in fiscal years 2006 and 2005, respectively, netted for student financial aid totaling $61.7 million and $58.2 million, respectively. Note 12 to the financial statements details operating expenses by object (natural classification), and shows an increase in salaries and wages of 6.6%. This resulted from an approximate 5.0% staff and contractual wage increase and a 1.6% increase in the number of full-time equivalent staff.

The pie chart on the next page illustrates operating expenses by function, not netted for financial aid. A significant portion of student aid is 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.



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 revenues and expenses; cash flows from capital financing activities that reflect 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 (in millions):

	2006	2005	2004
Cash provided from operating activities	$ 430.6	$ 407.7	$ 380.7
Cash used in operating activities	(676.3)	(635.2)	(575.2)
Net cash used in operating activities	(245.7)	(227.5)	(194.5)
Net cash provided from noncapital financing activities	296.4	278.6	261.5
Net cash used in (provided from) capital financing activities	(29.0)	(27.5)	(91.3)
Net cash provided from (used in) investing activities	(14.6)	(13.5)	54.3
Net increase in cash and cash equivalents	$ 7.1	$ 10.1	$ 30.0

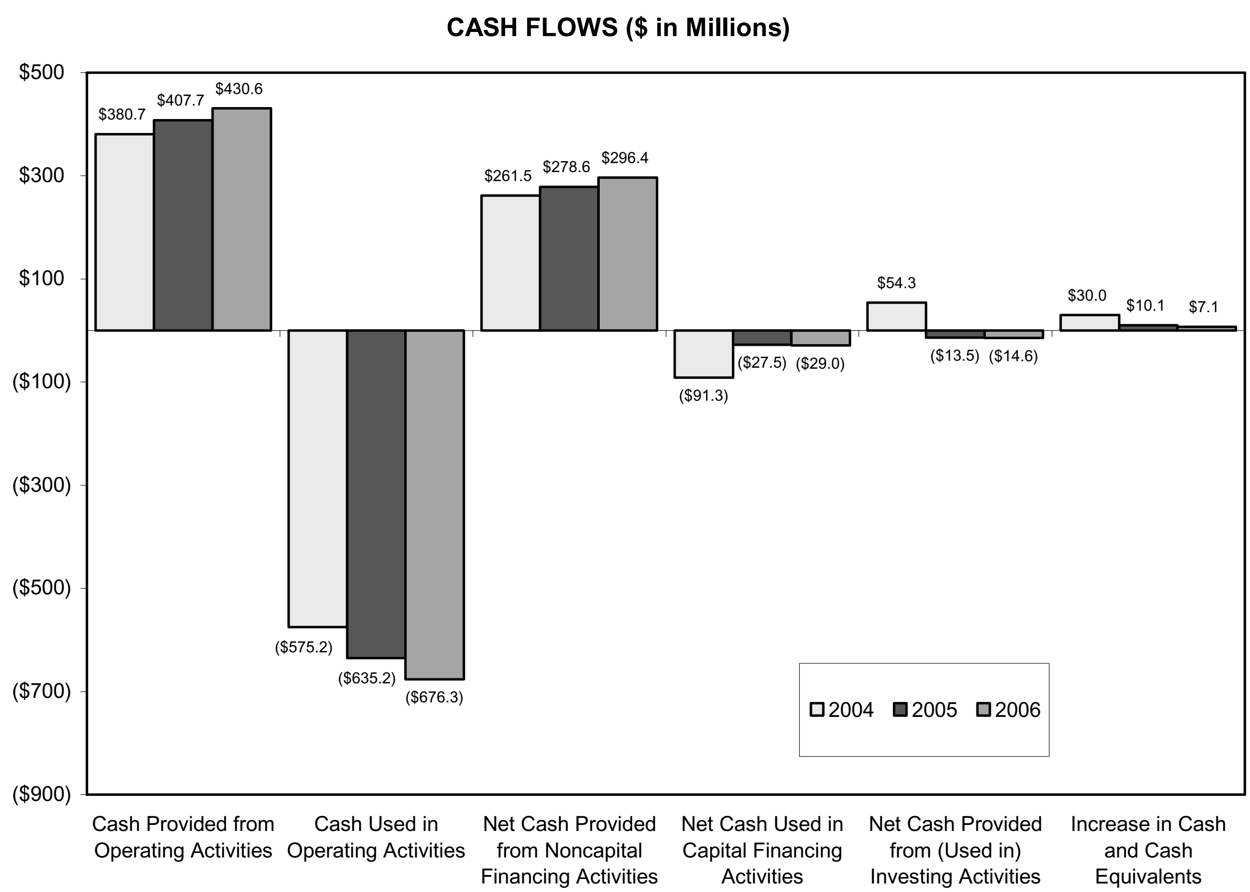
Net cash used in operating activities was $245.7 million and $227.5 million in fiscal years 2006 and 2005, respectively, and is consistent with the operating loss discussed earlier after adding back depreciation (a noncash expense), the major difference between the two statements. GASB requires that cash flows from noncapital financing activities include State appropriations and noncapital gifts. Cash flows from these activities totaled $296.4 million in fiscal year 2006 ($278.6 million in fiscal year 2005), a $17.8 million increase from 2005.

Cash flows used in capital financing activities were $29.0 million and $27.5 million in fiscal years 2006 and 2005, respectively. The major difference between fiscal years 2006 and 2005 was a decrease in the amount of additions to property and equipment of $18.7 million ($74.0 million decrease in 2005 over 2004) and an increase in capital other of $13.7 million principally for payments to correct certain deficiencies in the construction of three residential facilities and payments made on behalf of the Health Center.

Cash of $14.6 million was used in fiscal year 2006 ($13.5 million in 2005) for investing activities.

An Accompanying Schedule of Non-Cash Transactions is included with the Statements of Cash Flows and represents certain non-cash items including capital leases.

Total cash and cash equivalents increased $7.1 million and $10.1 million in fiscal years 2006 and 2005, 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:



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FINANCIAL STATEMENTS

UNIVERSITY OF CONNECTICUT
STATEMENTS OF NET ASSETS
As of June 30, 2006 and 2005

	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	$ 177,962,029	$ 170,827,965
Accounts receivable, net	28,052,657	28,141,674
Student loans receivable, net	2,534,701	2,347,199
Due from State of Connecticut	38,214,372	33,282,383
Due from related agencies	161,709	1,016,114
State debt service commitment	69,107,581	64,445,681
Inventories	2,582,502	2,260,602
Deposit with bond trustee	71,177,339	47,877,543
Deferred charges	896,797	815,786
Other assets	47,389	49,741
Total Current Assets	390,737,076	351,064,688
Noncurrent Assets		
Cash and cash equivalents	1,454,455	1,443,678
Investments	13,495,254	12,588,877
Student loans receivable, net	9,577,435	9,217,395
State debt service commitment	734,442,147	715,382,147
Property and equipment, net of accumulated depreciation	1,524,691,534	1,507,144,640
Deferred charges	9,380,916	9,645,395
Total Noncurrent Assets	2,293,041,741	2,255,422,132
Total Assets	$ 2,683,778,817	$ 2,606,486,820
LIABILITIES		
Current Liabilities		
Accounts payable	$ 32,486,047	$ 23,095,948
Deferred income	23,774,271	22,174,239
Wages payable	41,468,862	36,057,682
Compensated absences	14,561,263	17,687,775
Due to the State of Connecticut	14,424,816	12,036,129
Due to Affiliate (see Note 4)	22,270,879	16,253,127
Due to related agencies	23,502	11,129
Current portion of long-term debt and bonds payable	66,213,253	61,020,400
Other current liabilities	42,849,203	44,606,264
Total Current Liabilities	258,072,096	232,942,693
Noncurrent Liabilities		
Compensated absences	8,701,638	7,148,566
Deposits held for others	2,836,047	3,106,185
Long-term debt and bonds payable	1,020,726,571	984,070,589
Refundable for federal loan program	9,790,842	9,761,861
Total Noncurrent Liabilities	1,042,055,098	1,004,087,201
Total Liabilities	$ 1,300,127,194	$ 1,237,029,894
NET ASSETS		
Invested in capital assets, net of related debt	$ 1,228,523,269	$ 1,229,952,094
Restricted nonexpendable	13,506,699	12,532,244
Restricted expendable		
Research, instruction, scholarships and other	11,273,079	9,894,092
Loans	3,350,071	3,283,317
Capital projects	21,361,924	10,718,251
Debt service	11,298,515	11,400,800
Unrestricted (see Note 13)	94,338,066	91,676,128
Total Net Assets	$ 1,383,651,623	$ 1,369,456,926

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, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Student tuition and fees (Net of scholarship allowances of $59,503,422 for 2006 and $56,964,921 for 2005. See Note 1. Revenues totaling approximately $29,652,000 for 2006 and $27,308,000 for 2005 are used as security for revenue bonds. See Note 4)	$ 177,210,259	$ 162,442,352
Federal grants and contracts	79,604,501	86,277,144
State and local grants and contracts	17,305,776	16,879,914
Nongovernmental grants and contracts	10,298,876	9,293,290
Sales and services of educational departments	15,504,841	13,755,026
Sales and services of auxiliary enterprises (Net of scholarship allowance of $2,194,046 for 2006 and $1,240,886 for 2005. See Note 1. Net revenues totaling approximately $14,311,000 for 2006 and $11,184,000 for 2005 are used as security for revenue bonds. See Note 4)	119,203,886	113,537,985
Other sources (Net revenues totaling approximately $3,410,000 for 2006 and $2,973,000 for 2005 are used as security for revenue bonds. See Note 4)	10,231,304	10,007,008
Total Operating Revenues	429,359,443	412,192,719
OPERATING EXPENSES		
Educational and general		
Instruction	245,567,278	227,084,420
Research	55,933,021	64,364,998
Public service	31,184,522	31,076,037
Academic support	74,664,985	72,213,723
Student services	30,570,516	29,365,354
Institutional support	60,767,532	53,927,431
Operations and maintenance of plant	65,676,823	54,321,765
Depreciation	86,528,795	84,508,242
Student aid	3,822,397	3,806,841
Auxiliary enterprises	121,955,025	116,021,275
Total Operating Expenses	776,670,894	736,690,086
Operating Loss	(347,311,451)	(324,497,367)
NONOPERATING REVENUES (EXPENSES)		
State appropriation	285,675,894	273,085,313
State debt service commitment for interest	33,093,947	32,332,930
State match to endowment	35,093	994,759
Gifts	20,476,003	15,290,616
Investment income (Income totaling approximately $142,000 for 2006 and $136,000 for 2005 are used as security for revenue bonds. See Note 4)	9,647,570	4,551,132
Interest expense	(43,262,087)	(41,864,618)
Other nonoperating expenses, net	(4,204,731)	(3,254,416)
Net Nonoperating Revenues	301,461,689	281,135,716
Loss Before Capital Additions (Deductions)	(45,849,762)	(43,361,651)
CAPITAL ADDITIONS (DEDUCTIONS)		
State debt service commitment for principal	61,569,575	81,720,000
Capital grants and gifts	9,965,822	9,163,961
Disposal of property and equipment, net	(897,448)	(511,441)
Capital other	(10,593,490)	(33,072,921)
Total Capital Additions	60,044,459	57,299,599
Increase in Net Assets	14,194,697	13,937,948
NET ASSETS		
Net Assets-beginning of year	1,369,456,926	1,355,518,978
Net Assets-end of year	$ 1,383,651,623	$ 1,369,456,926

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

UNIVERSITY OF CONNECTICUT
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 177,036,524	$ 161,192,495
Research grants and contracts	108,680,853	112,133,562
Sales and services of auxiliary enterprise	119,332,592	110,385,894
Sales and services of educational departments	16,154,494	12,780,163
Payments to suppliers and others	(183,185,105)	(171,633,702)
Payments to employees	(377,798,829)	(350,734,432)
Payments for benefits	(115,289,015)	(112,866,060)
Other receipts, net	9,399,728	11,231,066
Net Cash Used in Operating Activities	(245,668,758)	(227,511,014)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	280,941,705	269,506,835
Gifts	20,908,755	15,824,136
Other nonoperating expenses, net	(5,485,645)	(6,755,902)
Net Cash Provided from Noncapital Financing Activities	296,364,815	278,575,069
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from bonds	79,000,000	100,000,000
Proceeds from obligation under capital lease for cogeneration	16,955,579	3,060,075
State debt service commitment	86,517,048	79,917,211
Purchases of property and equipment	(92,433,392)	(111,149,257)
Principal paid on debt and bonds payable	(61,963,639)	(55,938,135)
Interest paid on debt and bonds payable	(44,198,411)	(42,004,690)
Capital grants and gifts	8,433,642	6,245,422
Capital other	(21,311,134)	(7,598,404)
Net Cash Used in Capital Financing Activities	(29,000,307)	(27,467,778)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments, net	631,217	(593,645)
Interest on investments	8,117,670	3,725,760
Deposits with bond trustee	(23,299,796)	(16,605,971)
Net Cash Used in Investing Activities	(14,550,909)	(13,473,856)
INCREASE IN CASH AND CASH EQUIVALENTS	7,144,841	10,122,421
BEGINNING CASH AND CASH EQUIVALENTS	172,271,643	162,149,222
ENDING CASH AND CASH EQUIVALENTS	$ 179,416,484	$ 172,271,643
ACCOMPANYING SCHEDULE OF NON-CASH TRANSACTIONS		
Obligations under capital leases	$ 7,543,749	$ 38,516,348
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	$ (347,311,451)	$ (324,497,367)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation expense	86,528,795	84,508,242
Changes in Assets and Liabilities:		
Receivables, net	(157,424)	(2,254,237)
Inventories	(321,900)	(81,598)
Other assets	1,778	(574)
Accounts payable, wages payable and compensated absences	11,122,164	15,126,733
Deferred revenue	1,600,032	(3,219,831)
Deferred charges	119,118	59,134
Deposits	(270,139)	756,503
Due from state	2,152,325	1,903,215
Due from related agencies	866,777	(535,036)
Other liabilities	548,708	(24,273)
Loans to students and employees	(547,541)	748,075
Net Cash Used in Operating Activities	$ (245,668,758)	$ (227,511,014)

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, 2006 AND 2005

ASSETS	2006	2005
Current Assets		
Cash and cash equivalents	$ 655,826	$ 921,632
Investments	14,275,820	13,094,399
Pledges receivable, net of allowance	1,611,614	1,863,778
Prepaid expenses	-	12,878
Other receivables	67,331	43,296
Total Current Assets	16,610,591	15,935,983
Property and equipment, net of accumulated depreciation of $72,231 for 2006 and $67,911 for 2005	36,038	316
Total Assets	$ 16,646,629	$ 15,936,299
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts payable	$ 16,862	$ 2,880
Due to University of Connecticut Law School Alumni Association	20,970	23,653
Total Liabilities	37,832	26,533
NET ASSETS		
Unrestricted	1,256,356	1,372,678
Temporarily restricted	4,405,814	3,879,318
Permanently restricted	10,946,627	10,657,770
Total Net Assets	16,608,797	15,909,766
Total Liabilities and Net assets	$ 16,646,629	$ 15,936,299

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2006 and 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006 Total	2005 Total
REVENUES AND SUPPORT					
Contributions	$ 353,418	$ 265,810	$ 288,857	$ 908,085	$ 2,370,549
Interest and dividends	12,592	395,723	-	408,315	292,164
Realized and unrealized gains and losses	58,947	792,474	-	851,421	1,135,428
Net assets released from restrictions	927,511	(927,511)	-	-	-
Total Revenues and Support	1,352,468	526,496	288,857	2,167,821	3,798,141
EXPENSES					
Program Expenses					
Scholarships and awards	48,155	-	-	48,155	17,687
Student support and faculty support	949,229	-	-	949,229	460,184
Alumni and graduate relations	91,191	-	-	91,191	109,462
Total Program Expenses	1,088,575			1,088,575	587,333
Support Expenses					
Management and general	308,858	-	-	308,858	279,835
Fundraising	71,357	-	-	71,357	64,845
Total Support Expenses	380,215	-	-	380,215	344,680
Total Expenses	1,468,790	-	-	1,468,790	932,013
Changes in Net Assets	(116,322)	526,496	288,857	699,031	2,866,128
Net Assets-beginning of year	1,372,678	3,879,318	10,657,770	15,909,766	13,043,638
Net Assets-end of year	$ 1,256,356	$ 4,405,814	$ 10,946,627	$ 16,608,797	$ 15,909,766

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, 2006 and 2005

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, 2006 and 2005 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. These 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 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).

For reporting periods beginning after June 15, 2005, GASB Statement No. 47, *Accounting for Termination Benefits*, was required for universities. This statement requires employers to recognize a liability and expense for voluntary termination benefits when the termination offer is accepted and the amount of the benefits can be estimated. Any pension liability related to early retirement is the State's responsibility and therefore none is recorded by the University (see Note 5). However, an accrual for compensated absences is recorded as of June 30, 2006 and 2005 in the Statements of Net Assets that includes a component that is related to an early retirement plan in fiscal year 2003, (see Note 6).

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 and GASB Statement No. 40. Changes in the unrealized gain (loss) on the carrying value are recorded in Nonoperating Revenues (Expenses) in the accompanying Statements of Revenues, 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 consist of tuition, fees, and auxiliary enterprises service fees charged to students, faculty, staff and others, 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. Inventory is valued at cost as 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 also invested in longer term federal agency fixed income Investment Obligations as defined in the Special Obligation Indenture of Trust.

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 earnings on the UCONN 2000 General Obligation Debt Service Commitment Refunding Bonds, Series 2004-A and 2006-A, and the Special Obligation Student Fee Revenue Refunding Series 2002-A Redemption Fund escrow, form part of the irrevocable escrows and are used by the Trustee Bank to meet the debt service payments on the defeased bonds until called.

Also contained within the deposit with bond trustee, is the remaining portion of an advance request that the University received related to the lease purchase agreement for the cogeneration plant construction project at the University. Although these funds are not held by the Trustee Bank, they are invested in a dedicated State Treasurer's Short Term Investment Fund or Tax Exempt Proceeds Fund, and are invested and disbursed as directed by the University similar to bond proceeds. (see Note 4)

Deferred Charges – Current and Noncurrent (see Note 9)
Deferred charges consist of payments made in advance of revenues being earned. Deferred charges also 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)
Property and equipment 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 3 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.

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.

GASB No. 35 requires that revenues be reported net of discounts and scholarship allowances. Student aid for scholarships and fellowships, recorded in the Statements of Revenues, Expenses and Changes in Net Assets, includes payments made directly to students. Any aid applied directly to the students' accounts in payment of tuition and fees, housing charges and dining services is reflected as a scholarship allowance and deducted from the University's revenues. Certain governmental grants, such as Pell grants, and other Federal, State or nongovernmental programs, are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance. Certain reclassifications were made between the categories of student tuition and fees and student aid in the Statements of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2005, to better reflect the scholarship allowance. This had no effect on the operating loss shown on that statement.

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

GASB Statement No. 40 of the requires governmental entities to disclose credit risk associated with cash deposits and investment balances, and investment policies applied to mitigate such risks, especially as they relate to 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.

The University's total cash and cash equivalents balance was $179,416,484 and $172,271,643, as of June 30, 2006 and 2005, respectively and included the following:

	2006	2005
Cash maintained by State of Connecticut Treasurer	$ 151,176,101	$ 149,129,420
Invested in State of Connecticut Investment Pool	20,039,616	16,603,116
Invested in State of Connecticut Investment Pool - Endowments	1,454,455	1,443,678
Invested in Short-term Corporate Notes	5,648,662	4,354,070
Deposits with Financial Institutions and Other	1,097,650	741,359
Total cash and cash equivalents	179,416,484	172,271,643
Less: current balance	177,962,029	170,827,965
Total noncurrent balance	$ 1,454,455	$ 1,443,678

Collateralized deposits are 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 are 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 permits the University to invest in the State 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 $20,039,616 and $1,454,455 invested in the State of Connecticut Investment Pool is invested by the State Treasurer in its Short-term Investment Fund and had a Standard and Poor's rating of AAA during fiscal year 2006. The $5,648,662 invested in Short-term Corporate Notes includes repurchase agreements held with a financial institution and is collateralized by the Federal National Mortgage Association with an A1 Standard and Poor's rating.

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, are included in cash and cash equivalents (see table on previous page for total amounts). The Foundation makes spending allocation distributions to the University for each participating endowment. The 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.

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 unitized market value will be distributed for spending in accordance with the respective purposes of the individual endowment funds. Spending distributions may be made from current or accumulated investment return, and calculations for individual endowment funds will be performed on a unitized basis. If an individual endowment fund does not have sufficient funds to support its computed spending allocation from the current period net total return and/or from accumulated gains from prior periods, the amount allocated for spending will be limited to the interest and dividends of the fund from the current period.

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

	2006		2005	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Endowments:				
Foundation Managed	$ 9,081,468	$ 12,046,583	$ 8,880,948	$ 11,081,107
Corporate Bonds	6,000	5,660	8,000	7,460
Other:				
U.S. Government Agency Securities (AAA rated securities; see Note 4)	1,500,000	1,443,011	1,500,000	1,500,310
Total Investments	$ 10,587,468	$ 13,495,254	$ 10,388,948	$ 12,588,877

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 20%. 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.

Asset Class	Percentage
Fixed Income	
Investment Grade Ex TIPS	5% - 15%
Treasury Inflation Protected Securities	0% - 10%
High Yield	0% - 10%
Total Fixed Income Class	10% - 30%
Equities	
U.S. Equities	20% - 40%
Non – U.S. Equities	10% - 30%
Total Equities Class	35% - 65%
Alternatives	
Hedge Funds	10% - 20%
Private Capital	0% - 15%
Real Estate	0% - 10%
Total Alternatives Class	10% - 40%

The endowments invested with the Foundation are subject to risk due to the uncollateralized nature of most of its investments. Certain investments of the Foundation include external investment pools. The bond mutual funds had average credit quality of Aa2/AA (Moody's and Standard and Poor's) and pooled investments of fixed income an average credit quality of B2/B+ (Moody's and Standard and Poor's). A portion of the University's endowment pool is also invested with ICM Asset Management (ICM) in a separate account with Wachovia Bank, NA as custodian and inherent in such investments is custodial credit risk. These investments are all publicly traded U.S. equities and money market and are uncollateralized. The value of the equities at June 30, 2006 was $255,106. The money market balance held in the account available for ICM to use for purchases was $9,289 at June 30, 2006. The University's endowment invested by the Foundation also has investments in foreign publicly traded equities totaling $2,733,992 and there are amounts included in private capital investments totaling approximately $463,320 at June 30, 2006.

Certain other 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 of these funds was $12,554,199 and $12,306,178 as of June 30, 2006 and 2005, respectively. Investment income earned on these assets is transferred to the University in accordance with applicable trust agreements. Income received from those sources for the years ended June 30, 2006 and 2005 was $522,876 and $493,585, 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 3 years to 30 years. Library materials have an estimated useful life of 15 years. The value of library materials, before depreciation, is $71,889,581 and $67,273,101 at June 30, 2006 and 2005, respectively, and is included in equipment in the table on the following page. Historical collections and art are recognized at their estimated fair values at the time of donation. Historical collections and art totaled $47,265,731 and $45,692,867 at June 30, 2006 and 2005, respectively, and is included in equipment in the analysis of changes in property and equipment. Historical collections and art are not depreciated.

In the accompanying Statements of Revenues, Expenses, and Changes in Net Assets in capital other a total of $5,121,381 and $6,838,423 was expensed in fiscal years 2006 and 2005, respectively, 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. An accrual for estimated expenditures to complete this project totaling $14,424,265 at June 30, 2006 ($10,060,000 at June 30, 2005) is recorded in other current liabilities in the Statement of Net Assets.

For the years ended June 30, 2006 and 2005, a total of $5,369,228 and $21,136,756, respectively, was expensed in the accompanying Statements of Revenues, Expenses, and Changes in Net Assets in capital other for work to correct certain deficiencies in the construction of three residential facilities. At June 30, 2006 and 2005 an accrual for estimated expenditures to complete this project totaling $11,179,522 and $18,026,415, respectively is recorded in other current liabilities in the Statement of Net Assets. While the University is pursuing recovery of these costs, the outcome is unknown as of the date of these financial statements. These expenditures will not increase the value of the buildings or extend their useful lives. Due to limited vacancies projected for these buildings during the corrective construction, no impairment is anticipated to these assets.

The following table describes the changes in property and equipment for the years ended June 30, 2006 and 2005.

Changes in Property and Equipment for the Year Ended June 30, 2006:

	Balance July 1, 2005	Additions	Retirements	Transfers and Other	Balance June 30, 2006
Property and equipment:					
Land	$ 14,806,847	$ -	$ (67)	$ -	$ 14,806,780
Non-structural Improvements	165,676,551	13,097,862	(16,506)	37,075,755	215,833,662
Buildings	1,340,155,862	38,847,411	(395,391)	77,236,851	1,455,844,733
Equipment	393,433,456	23,607,511	(9,518,452)	-	407,522,515
Construction in Progress	142,204,119	29,420,353	-	(114,312,606)	57,311,866
Total property and equipment	2,056,276,835	104,973,137	(9,930,416)	-	2,151,319,556
Less accumulated depreciation:					
Non-structural Improvements	52,338,492	8,790,630	(797)	-	61,128,325
Buildings	293,503,949	50,343,831	(220,185)	-	343,627,595
Equipment	203,289,754	27,394,334	(8,811,986)	-	221,872,102
Total accumulated depreciation	549,132,195	86,528,795	(9,032,968)	-	626,628,022
Property and equipment, net:					
Land	14,806,847	-	(67)	-	14,806,780
Non-structural Improvements	113,338,059	4,307,232	(15,709)	37,075,755	154,705,337
Buildings	1,046,651,913	(11,496,420)	(175,206)	77,236,851	1,112,217,138
Equipment	190,143,702	(3,786,823)	(706,466)	-	185,650,413
Construction in Progress	142,204,119	29,420,353	-	(114,312,606)	57,311,866
Property and equipment, net:	$ 1,507,144,640	$ 18,444,342	$ (897,448)	$ -	$ 1,524,691,534

Changes in Property and Equipment for the Year Ended June 30, 2005:

	Balance July 1, 2004	Additions	Retirements	Transfers and Other	Balance June 30, 2005
Property and equipment:					
Land	$ 14,177,498	$ 654,000	$ (24,651)	$ -	$ 14,806,847
Non-structural Improvements	153,621,148	8,323,433	-	3,731,970	165,676,551
Buildings	1,217,486,371	50,924,482	(90,221)	71,835,230	1,340,155,862
Equipment	367,908,752	31,917,673	(6,392,969)	-	393,433,456
Construction in Progress	163,535,121	54,236,198	-	(75,567,200)	142,204,119
Total property and equipment	1,916,728,890	146,055,786	(6,507,841)	-	2,056,276,835
Less accumulated depreciation:					
Non-structural Improvements	45,664,805	6,673,687	-	-	52,338,492
Buildings	247,195,355	46,375,659	(67,065)	-	293,503,949
Equipment	177,760,193	31,458,896	(5,929,335)	-	203,289,754
Total accumulated depreciation	470,620,353	84,508,242	(5,996,400)	-	549,132,195
Property and equipment, net:					
Land	14,177,498	654,000	(24,651)	-	14,806,847
Non-structural Improvements	107,956,343	1,649,746	-	3,731,970	113,338,059
Buildings	970,291,016	4,548,823	(23,156)	71,835,230	1,046,651,913
Equipment	190,148,559	458,777	(463,634)	-	190,143,702
Construction in Progress	163,535,121	54,236,198	-	(75,567,200)	142,204,119
Property and equipment, net:	$ 1,446,108,537	$ 61,547,544	$ (511,441)	$ -	$ 1,507,144,640

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 to finance UCONN 2000 projects as of June 30, 2006 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
2005 Series A	98,110,000
2006 Series A	77,145,000
Total issued	$ 1,087,737,147

These bonds are general obligations of the University, for which its full faith and credit are pledged, and are payable from all assured revenues. The bonds are additionally secured by the pledge of and a lien upon the State Debt Service Commitment. The State Debt Service Commitment is the commitment by the State to pay an annual amount of debt service on securities issued as general obligations of the University. The University, consistent with the Act, is relying upon the receipt of the annual amount of the pledged State Debt Service Commitment for the payment of the bonds and, accordingly, is not planning to budget any revenues for the payment of these 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 Revenues, Expenses, and Changes in Net Assets totaling $77,145,000 and $98,110,000 for the years ended June 30, 2006 and 2005, respectively, representing the increase in the State's debt service commitment for principal as a result of the issuance of the 2006 and 2005 Series A bonds, respectively.

The principal amounts of $77,145,000 and $98,110,000, recorded as state debt service commitment for principal, together with part of the respective original issue premium, resulted in total proceeds of $79,000,000 and $100,000,000 for the 2006 and 2005 Series A bonds. The proceeds include $14,920,425 and $16,390,000, respectively to finance projects for the Health Center. As noted above, Phase III of UCONN 2000 includes a commitment to fund projects totaling $305,400,000 for the Health Center. As bonds are issued, the amount of the commitment for the Health Center is reflected as an offset to the revenue for the University. In fiscal year 2006 and 2005, this offset totaled $14,920,425 and $16,390,000, respectively, resulting in net revenue of $61,569,575 (including $655,000 due to a decrease in bonds as a result of refunding) and $81,720,000 recorded in the capital additions (deductions) section of the Statements of Revenues, Expenses, and Changes in Net Assets of these financial statements. A corresponding liability is recorded for the unspent portion of the bonds due to the Health Center ($22,270,879 and $16,253,127 at June 30, 2006 and 2005, respectively) in the Statement of Net Assets.

Also, for the years ended June 30, 2006 and 2005, nonoperating revenues include state debt service commitment for interest on general obligation bonds of $33,093,947 and $32,332,930, respectively.

In addition to the 2006 Series A Bonds, in March of 2006 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 $61,020,000, and these bonds have a final maturity date of February 15, 2020. Proceeds from the sale of the bonds totaled $65,472,900 and comprised the face value plus the net premium and accrued interest, less the costs of issuance. The proceeds were deposited with the Escrow Agent and held by the Trustee Bank in an irrevocable Redemption Fund escrow and invested in U.S. Treasury, State and Local Government Securities and cash in accordance with the Escrow Agreement and will provide amounts sufficient to meet principal, interest payments, and redemption prices on the refunded bonds on the dates such payments are due. The difference between the carrying value of the defeased debt and its reacquisition price (refunding bonds) is amortized over the remaining life of the debt, and the reduction of the face value of the bonds, $655,000, is reflected as an expense in fiscal year 2006 (net of the $77,145,000 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:

1998 Series A	$ 14,925,000
1999 Series A	19,000,000
2000 Series A	12,005,000
2001 Series A	11,285,000
2002 Series A	4,460,000
Total defeased debt	61,675,000
Total refunding bonds	61,020,000
Decrease in bonds as a result of refunding	$ 655,000

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 of a Special Capital Reserve Fund held by the Trustee Bank, and the remainder to pay costs of issuance, including the underwriters' discount. A portion of the Special Capital Reserve Fund is included in noncurrent investments at its fair value and totaled $1,443,010 and $1,500,310 at June 30, 2006 and 2005, respectively. At June 30, 2006 and 2005, $626,425 of the Special Capital Reserve Fund was invested in the State Treasurer's Short-term Investment Fund and held by the Trustee Bank pursuant to the Indenture and restrictions thereof. 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 bond refundings, 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 $47,515,000 and $41,601,000 in fiscal years 2006 and 2005, 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 $142,000 and $136,000 for the fiscal years ending June 30, 2006 and 2005, 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 $8,359,542 and $9,666,673 at June 30, 2006 and 2005, 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 initially assumed a total cost of $75,000,000 and included construction of a building, engineering, design and installation of certain equipment at the Storrs campus. The lease was amended in August, 2005 as a result of an increase in the total anticipated cost to $81,900,000. In December 2005, the University requested a final advance from the lessor related to this lease purchase agreement. At June 30, 2006, $9,070,372 of the unspent advance is included in deposit with bond trustee in the Statements of Net Assets (see Note 1). With the amendment, monthly payments of $471,254 increased to $517,135. Payments began January, 2006 and mature in 20 years from commencement with interest at a nominal rate of 4.42% on the first $75,000,000 and 5.09% for the last $6,900,000 of advances. As of June 30, 2006 and 2005, the University owed $80,618,404 and $57,629,131, respectively, for amounts advanced by the lessor, including capitalized interest during construction. This amount is reflected as long-term debt in the accompanying financial statements. At the completion of the lease term the University has an option to purchase the project assets for $1.

The University entered into a 12 year operating lease agreement on August 1, 2004, for the School of Business MBA program's new education initiative in downtown Hartford known as the SS&C Technologies Financial Accelerator. As part of the lease, the University entered into a loan agreement with the lessor to borrow up to $3,500,000 for leasehold improvements. The loan is payable monthly over 12 years with interest at 8.0%.

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, 2006 and 2005 was as follows:

Long-term Debt Activity for the Year Ended June 30, 2006:

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006	Current Portion
General Obligation Bonds	$ 767,767,147	$ 138,165,000	$ (115,285,000)	$ 790,647,147	$ 56,205,000
Revenue Bonds	189,855,000	-	(4,030,000)	185,825,000	4,170,000
Self Liquidating Bonds	9,666,673	-	(1,307,131)	8,359,542	1,337,640
U.S. Dept. of Ed. Towers Loan	1,734,372	-	(42,061)	1,692,311	44,405
Installment Loans	2,045,581	228,459	(844,226)	1,429,814	515,798
Obligation Under Capital Lease for Cogeneration	57,629,131	24,270,868	(1,281,595)	80,618,404	2,650,634
Financial Accelerator Loan	3,350,031	-	(193,625)	3,156,406	209,696
Total long-term debt	1,032,047,935	162,664,327	(122,983,638)	1,071,728,624	65,133,173
Premiums/discounts/debt difference due to refunding	13,043,054	3,390,306	(1,222,160)	15,211,200	1,080,080
Total long-term debt, net	$ 1,045,090,989	$ 166,054,633	$ (124,205,798)	$ 1,086,939,824	$ 66,213,253

Long-term Debt Activity for the Year Ended June 30, 2005:

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005	Current Portion
General Obligation Bonds	$ 717,907,147	$ 98,110,000	$ (48,250,000)	$ 767,767,147	$ 52,385,000
Revenue Bonds	193,755,000	-	(3,900,000)	189,855,000	4,030,000
Self Liquidating Bonds	10,871,410	274,800	(1,479,537)	9,666,673	1,307,130
U.S. Dept. of Ed. Towers Loan	1,774,210	-	(39,838)	1,734,372	42,060
Installment Loans	2,504,992	1,659,381	(2,118,792)	2,045,581	814,337
Obligation Under Capital Lease for Cogeneration	20,609,266	37,019,865	-	57,629,131	1,368,592
Financial Accelerator Loan	-	3,500,000	(149,969)	3,350,031	193,625
Total long-term debt	947,422,025	140,564,046	(55,938,136)	1,032,047,935	60,140,744
Premiums/discounts/debt difference due to refunding	10,811,905	2,231,149	-	13,043,054	879,656
Total long-term debt, net	$ 958,233,930	$ 142,795,195	$ (55,938,136)	$ 1,045,090,989	$ 61,020,400

Long-term debt outstanding at June 30, 2006 and 2005 consisted of the following:

Type of Debt and Issue Date	Type of Issue	Principal Payable	Maturity Dates Through Fiscal Year	Interest Rate	Balance	
Bonds:					2006	2005
GO 1996 Series A	original	various	2011	4.7-5.1%	$ 8,874,715	$ 13,379,715
GO 1997 Series A	original	annually	2009	5.0-5.3%	13,892,432	20,392,432
GO 1998 Series A	original	various	2008	4.25-4.35%	9,950,000	29,850,000
GO 1999 Series A	original	annually	2012	4.0-4.5%	30,000,000	54,000,000
GO 2000 Series A	original	various	2010	4.9-5.0%	28,925,000	47,480,000
GO 2001 Series A	original	various	2021	3.85-4.75%	35,625,000	51,910,000
GO 2002 Series A	original	various	2022	3.7-5.0%	46,855,000	56,315,000
GO 2003 Series A	original	annually	2023	2.0-5.25%	81,490,000	86,490,000
GO 2004 Series A	original	annually	2024	2.0-5.0%	88,055,000	92,950,000
GO 2004 Ref. Series A	refund	annually	2020	2.0-5.0%	216,830,000	216,890,000
GO 2005 Series A	original	annually	2025	3.0-5.0%	93,210,000	98,110,000
GO 2006 Series A	original	annually	2026	3.2-5.0%	77,145,000	-
GO 2006 Ref. Series A	refund	various	2020	3.2-5.0%	59,795,000	-
Total General Obligation Bonds					790,647,147	767,767,147
Rev 1998 Series A	original	annually	2028	4.1-5.125%	28,405,000	29,140,000
Rev 2002 Ref. Series A	refund	annually	2030	3.5-5.25%	88,055,000	89,770,000
Rev 2002 Series A	original	annually	2030	3.38-5.25%	69,365,000	70,945,000
Total Revenue Bonds					185,825,000	189,855,000
March 1992	original	various	2007	6.25-6.5%	293,759	587,518
March 1993	original	annually	2012	5.3-5.5%	375,000	429,125
October 1993	refund	various	2012	4.7-6.0%	205,690	205,752
March 1994	original	various	2010	5.4-5.5%	148	148
August 1994	original	various	2009	5.7-5.8%	10	10
October 1995	original	annually	2006	5.0-6.0%	-	76,686
March 1997	original	various	2008	5.0-6.0%	590,000	885,000
September 1997	refund	annually	2013	4.5-5.5%	316,437	318,146
February 1998	refund	annually	2015	4.4-5.25%	986,665	989,371
June 2001	refund	various	2016	4.4 -5.5%	1,277,231	1,415,418
November 2001	refund	various	2014	3.0-5.125%	2,091,652	2,520,117
June 2002	refund	various	2010	3.15 -5.5%	670,357	681,448
August 2002	refund	various	2016	2.5-5.5%	551,867	551,867
April 2003	refund	annually	2007	2.5-5.0%	399	436
December 2003	refund	annually	2011	2.0-5.0%	645,522	650,763
April 2004	refund	various	2007	2.0-5.0%	80,005	80,068
April 2005	original	various	2017	3.99-5.25%	274,800	274,800
Total Self-Liquidating Bonds					8,359,542	9,666,673
Total bonds					984,831,689	967,288,820
Loans and other:						
U.S. Dept. Ed. Towers loan		semi-annually	2027	5.5%	1,692,311	1,734,372
Installment Loans		various	various	2.52-13.629%	1,429,814	2,045,581
Obligation Under Capital Lease for Cogeneration		monthly	2026	4.42-5.09%	80,618,404	57,629,131
Financial Accelerator Loan		monthly	2017	8.0%	3,156,406	3,350,031
Total loans and other					86,896,935	64,759,115
Total bonds, loans and installment purchases					1,071,728,624	1,032,047,935
Premiums/discounts/debt difference due to refunding					15,211,200	13,043,054
Total bonds, loans and installment purchases, net					1,086,939,824	1,045,090,989
Less: current portion, net					66,213,253	61,020,400
Total noncurrent portion, net					$1,020,726,571	$ 984,070,589

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

	General Obligation Bonds			Long-term Debt Other than General Obligation Bonds			Total Obligations		
Year(s)	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	56,205,000	34,456,345	90,661,345	8,974,345	13,430,704	22,405,049	65,179,345	47,887,049	113,066,394
2008	54,448,792	35,740,708	90,189,500	8,928,633	13,006,861	21,935,494	63,377,425	48,747,569	112,124,994
2009	58,053,640	34,075,918	92,129,558	9,059,608	12,622,447	21,682,055	67,113,248	46,698,365	113,811,613
2010	52,162,274	31,091,215	83,253,489	9,169,652	12,214,844	21,384,496	61,331,926	43,306,059	104,637,985
2011	55,137,441	29,186,499	84,323,940	9,262,309	11,784,562	21,046,871	64,399,750	40,971,061	105,370,811
2012-2016	253,980,000	99,292,268	353,272,268	52,758,216	51,787,943	104,546,159	306,738,216	151,080,211	457,818,427
2017-2021	192,355,000	41,749,145	234,104,145	62,138,655	37,734,457	99,873,112	254,493,655	79,483,602	333,977,257
2022-2026	68,305,000	7,322,414	75,627,414	75,463,625	20,917,458	96,381,083	143,768,625	28,239,872	172,008,497
2027-2031	-	-	-	45,326,434	4,890,915	50,217,349	45,326,434	4,890,915	50,217,349
Total	$790,647,147	$312,914,512	$1,103,561,659	$281,081,477	$178,390,191	$459,471,668	$1,071,728,624	$491,304,703	$1,563,033,327

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 44% 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. Employees may also choose to participate in the Alternative Retirement Plan (ARP) which is a defined contribution plan administered through a third-party administrator, ING Life Insurance and Annuity Company. Under this arrangement, the University and the plan participants make annual contributions to the plan.

With respect to the University's Department of Dining Services, of its approximately 378 full-time employees, 83 participate in the State Employees' Retirement System and 295 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 include accrued unused vacation and sick leave balances for employees, and at June 30, 2006 totaled $21,313,843 and $1,949,058, respectively, and at June 30, 2005 totaled $22,684,937 and $2,151,404, 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. While the State has committed to reimburse the University for the amounts due to its employees under ERIP, the University will record these payments as a reduction to the liability as the amounts are received from the State, consistent with the accounting for other State appropriations. Included in the noncurrent compensated absences liability as of June 30, 2006 are $737,859 for accrued vacation and $303,530 for sick leave for University employees that participated in ERIP (at June 30, 2005, $2,256,798 for accrued vacation and $919,767 for sick leave). Compensated absences are recorded in accordance with GASB Statement No. 16 and represent the amounts earned by eligible employees through June 30, 2006 and 2005. 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 5-257(d) and 5-259(a). 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, 2006, the University had outstanding commitments (over $100,000 each) totaling $34,895,507, which included $22,550,736 of commitments related to capital projects. Of the total amount, $2,760,860 was included in accounts payable at June 30, 2006. In addition to the amount for capital outlay, commitments were also related to research, academic, and institutional support. Of these commitments, the University expects $3,886,546 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, 2006 and 2005 deferred income is as follows:

	2006	2005
Certain restricted research grants	$ 8,688,313	$ 7,858,573
Tuition and fees and auxiliary services	9,843,624	9,620,933
Athletic ticket sales and commitments	3,693,544	3,420,499
Contingent grant	500,000	500,000
Other	1,048,790	774,234
Total deferred income	$ 23,774,271	$ 22,174,239

A portion of current deferred charges totaling $802,084 and $601,956 and noncurrent deferred charges totaling $9,380,916 and $9,645,395 at June 30, 2006 and 2005, 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, graduate assistants, and certain other students. The University is required by collective bargaining agreements to waive tuition for certain employees and their dependents. Tuition and fee revenue does not include foregone revenue resulting from tuition waivers. Waivers totaled $34,623,415 and $33,756,530 in fiscal year 2006 and 2005, respectively. In fiscal year 2006, approximately 84% of such waivers were provided to graduate assistants, with 85% in 2005.

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, 2006 and 2005:

Operating Expenses by Object for the Year Ended June 30, 2006

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salaries and Wages	$173,195,866	$32,358,178	$18,969,505	$45,533,117	$19,790,741	$35,165,208	$15,106,404	$ -	$262,519	$ 41,260,242	$381,641,780
Fringe Benefits	47,204,329	7,395,604	5,645,469	14,556,655	6,400,864	14,151,992	8,167,964	-	5,012	14,149,814	117,677,703
Supplies & Other Expenses	25,167,083	16,179,239	6,569,548	14,575,213	4,251,463	11,351,565	20,885,385	-	3,554,866	53,626,204	156,160,566
Utilities	-	-	-	-	127,448	98,767	21,517,070	-	-	12,918,765	34,662,050
Depreciation	-	-	-	-	-	-	-	86,528,795	-	-	86,528,795
	$245,567,278	$55,933,021	$31,184,522	$74,664,985	$30,570,516	$60,767,532	$65,676,823	$86,528,795	$3,822,397	$121,955,025	$776,670,894

Operating Expenses by Object for the Year Ended June 30, 2005

	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Operations and Maintenance of Plant	Depreciation	Student Aid	Auxiliary Enterprises	Total
Salaries and Wages	$161,699,339	$33,082,334	$18,216,597	$42,464,796	$18,573,846	$31,049,389	$14,614,329	$ -	$260,536	$ 38,013,805	$357,974,971
Fringe Benefits	45,204,701	7,727,732	5,672,057	14,581,202	6,534,690	13,225,561	7,965,228	-	1,009	13,857,578	114,769,758
Supplies & Other Expenses	20,180,380	23,554,932	7,187,383	15,167,725	4,164,885	9,564,224	13,720,878	-	3,545,296	54,426,043	151,511,746
Utilities	-	-	-	-	91,933	88,257	18,021,330	-	-	9,723,849	27,925,369
Depreciation	-	-	-	-	-	-	-	84,508,242	-	-	84,508,242
	$227,084,420	$64,364,998	$31,076,037	$72,213,723	$29,365,354	$53,927,431	$54,321,765	$84,508,242	$3,806,841	$116,021,275	$736,690,086

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, 2006

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

UNIVERSITY OF CONNECTICUT
1881

SCHEDULE 2

UNIVERSITY OF CONNECTICUT HEALTH CENTER JUNE 30, 2006

AUDITED FINANCIAL STATEMENTS

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University of Connecticut
Health Center

Financial Report

For the Year Ended June 30, 2006

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. 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 vigilance. 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 Board of Trustees, through its Joint Audit and Compliance Committee, exercises 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 state auditors. An important component of external oversight, 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.

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 full-time equivalent employees, the Health Center is one of Connecticut's 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 37 buildings totaling over 2 million square feet.

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, 1,213 men and women have received the D.M.D. degree; 2,585 the M.D. degree.

Through a variety of residency programs, the School of Medicine provides postgraduate training for more than 590 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, high-quality research programs have been part of the institution's fabric. This history 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. FY 06 saw significant expansion in the area of stem cell research. Research awards have grown from $44.8 million in FY 97 to over $90 million in FY 06.

Health Care Services

Through John Dempsey Hospital (224 licensed 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 fiscal years 2005 and 2006, John Dempsey Hospital received the "Top 100 Hospitals, Performance Improvement Leaders" designation, an award given for consistent clinical and financial improvement over five years compared to peer hospitals. The hospital was also designated a Community Value Index Top 100 hospital by Cleverly & Associates and a Clinical Best Performer in the CMS Hospital Compare Program. 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 230 Health Center physicians in more than 50 specialties. While the hospital, the faculty practice and the dental clinics continue to achieve record volume, the challenges of the health care marketplace (recruitment, malpractice reserves and low reimbursement) also continue to take their toll.

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
STATE CAPITOL
210 CAPITOL AVENUE
HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

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, 2006 and 2005, 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 33 and 30 percent of the assets of the Health Center as of June 30, 2006 and 2005, respectively and 33 and 32 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2006 and 2005, 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 2 through 8 is not a required part of the basic financial statements of the Health Center, 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,

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

February 16, 2007
State Capitol
Hartford, Connecticut

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion and Analysis

INTRODUCTION

The following discussion and analysis 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, 2006. 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") which includes the operations of the Farmington Surgery Center LLC., (the "FSC"). The Health Center's enrollment in fiscal year 2006 was 319 in the School of Medicine, 166 in the School of Dental Medicine, and 390 Graduate students, taught by over 500 full time equivalent (FTE) faculty members. The Health Center employs approximately 5,000 people. John Dempsey Hospital (JDH) has 204 acute care beds and 20 nursery beds and in fiscal year 2006 provided care to over 359,000 inpatient and outpatient visits. UConn Medical Group (UMG) in fiscal year 2006 provided care to over 507,000 patient visits.

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, 2006, 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.

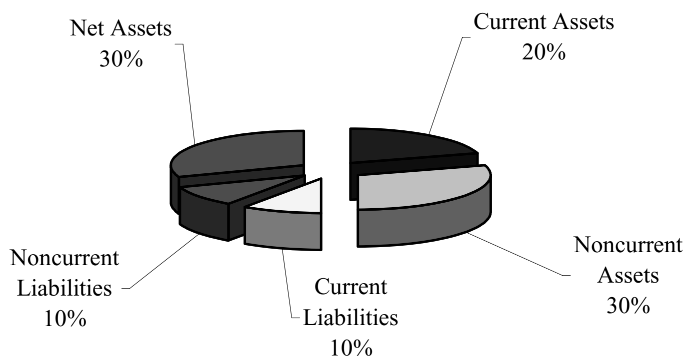
OVERVIEW OF THE FINANCIAL STATEMENTS

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, 2006, 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 at June 30, 2006, consisted of assets of $418.3 million and liabilities of $163.7 million. Net assets, which represent the residual interest in the Health Center's assets after liabilities are deducted, increased $6.5 million in fiscal year 2006 to $254.6 million at June 30, 2006.

Statement of Net Assets



The increase in net assets is primarily attributable to clinical operations of the John Dempsey Hospital and capital appropriations related to the issuance of UCONN 2000 bond funds 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 years ended June 30, 2006, 2005 and 2004 as follows:

	(in millions) 2006	2005	2004
Total operating revenue	$ 517.5	$ 496.7	$ 464.8
Total operating expenses	660.0	622.8	585.5
Operating (loss)	(142.5)	(126.1)	(120.7)
Other changes in net assets	149.0	143.7	125.5
Increase in net assets	$ 6.5	$ 17.6	$ 4.8

The financial statements contained herein show an operating loss of $142.5 million for the year ending June 30, 2006 (fiscal year 2006). The measure more indicative of normal and recurring activities is net income before capital appropriations, which includes revenue from state appropriations. Additions to capital assets are, in a large part, funded by capital appropriations from the state and issuance of UCONN 2000 bond funds, which are not included as revenues 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 loss before capital appropriations of $ 8.4 million in fiscal year 2006.

Sources of recurring operating and nonoperating revenues increased in 2006 and most are expected to have slight increases in 2007, including tuition and fees revenue, patient service revenues, grants and contracts revenue. State support, not including state funded capital appropriations, increased 4.8% from the prior year with slightly more than half 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, 2006, 2005 and 2004 is as follows:

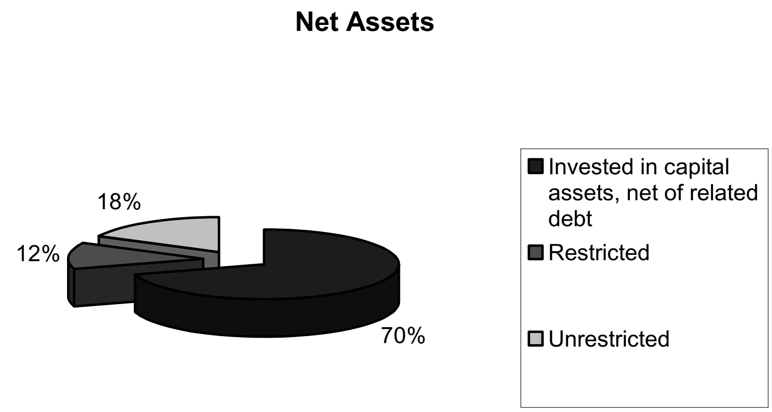
	(in millions) 2006	2005	2004
Current assets	$ 169.9	$ 169.3	$ 144.2
Noncurrent assets:			
Capital assets, net	226.3	212.5	178.3
Other	22.1	19.4	35.5
Total assets	$ 418.3	$ 401.2	$ 358.0
Current liabilities	$ 81.7	$ 84.5	$ 83.1
Noncurrent liabilities	82.0	68.6	44.3
Total liabilities	$ 163.7	$ 153.1	$ 127.4
Net assets	$ 254.6	$ 248.1	$ 230.6

The total assets of the Health Center increased by $ 17.1 million, or 4.3% over the prior year. The increase was primarily due to an increase in plant of $13.8 million. Amounts Due from Affiliates represent UCONN 2000 bond funds held by the University for the Health Center. Increases in plant were offset by decreases of $1.7 million in Assets Limited As to Use. These funds were used in the completion of the MARB building. These increases were offset by a $1.6 million decrease in the receivable for capital allocations from the State of Connecticut not associated with UCONN 2000 bond funds.

The total liabilities for the year increased by $10.6 million or 6.9% primarily due to a $9.3 million increase in long-term debt and a $8.3 increase in the malpractice reserve. The increase in the malpractice reserve was a direct result of an actuarial review of the Hospital's reserve. Increases in Long Term Debt resulted from the consolidation of the Farmington Surgery Center LLC., and two new capital leases entered into by John Dempsey Hospital. These increases were offset by a $8.6 million decrease in Due to third party payors which actually switched to a receivable Due from third party payors of $1.5 million during fiscal year 2006. Increases were also offset by a $2.2 million decrease in compensated absences. The decrease in amounts Due to third party payers is the result of the Hospital's settlements and analysis of outstanding Medicare and Medicaid cost reports. The decrease in compensated absences was the result of a change in the estimate of the amount of fringe benefits associated with accrued balances.

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 $254.6 million at June 30, 2006, 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, 2006, 2005 and 2004 are as follows:

(in millions)	2006	2005	2004
Operating revenues			
Patient Services	$ 368.6	$ 348.8	$ 319.8
Grants and Contracts	91.3	91.4	88.9
Other	57.6	56.5	56.1
Total operating revenue	517.5	496.7	464.8
Operating expenses			
Patient services	385.0	363.9	336.3
Instruction	100.1	100.2	98.3
Other	174.9	158.7	150.9
Total operating expenses	660.0	622.8	585.5
Operating (loss)	(142.5)	(126.1)	(120.7)
Net nonoperating revenues	134.1	126.8	121.6
Total other revenues	14.9	16.9	3.9
Increase in net assets	$ 6.5	$ 17.6	$ 4.8

Revenue highlights for the year ending June 30, 2006, 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 $19.8 million or 5.7% over the prior year. Prior to consolidation the increase for the John Dempsey Hospital of $14.4 million or 6.9% was mainly due to increased volume with discharges to the hospital increasing 1.1% and outpatient visits increasing by 4.6%. 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 $ 130.5 million. This represents a 4.7% increase over the prior year mainly due to the increased in-kind fringe benefits associated with salary expense of general funded employees.

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 58.3% of total operating expenses. It increased of $21.2 million or 5.8% over the prior year. The increase is mainly attributable to the increase in patient volume for the John Dempsey Hospital and UConn Medical Group.

- Instruction, the Health Center's second largest operating expense, had minimal increase. 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.

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, 2006, 2005 and 2004 is as follows:

		(in millions)	
	2006	**2005**	**2004**
Cash received from operations	$ 500.2	$ 498.1	$ 467.9
Cash expended for operations	(573.1)	(542.2)	(511.5)
Net cash (used in) operating activities	(72.9)	(44.1)	(43.6)
Net cash (used in) investing activities	(25.4)	(37.7)	(39.9)
Net cash provided by noncapital financing activities	77.1	74.7	74.2
Net cash provided by capital and related financing activities	10.3	13.4	25.3
Net (decrease) increase in cash and cash equivalents	(10.9)	6.3	16.0
Cash and cash equivalents, beginning of the year	70.8	64.5	48.5
Cash and cash equivalents, end of the year	$ 59.9	$ 70.8	$ 64.5

CAPITAL AND DEBT ACTIVITIES

During fiscal year 2006 the Health Center participated in the UCONN 2000 program. This is the third phase of the program also known as 21st Century UConn, which provides $1.3 billion for improvements to facilities at the University and the Health Center. The Health Center is scheduled to receive $305 million over the 10 year life of this program. During fiscal 2006 the Health Center received $14.9 million from the UCONN 2000 bond issuance which is included in the capital appropriation line in the Statements of Revenues, Expenses, and Changes in Net Assets.

At June 30, 2006, the Health Center had plant and equipment, net of accumulated depreciation, of $226.3 million. The Health Center's fiscal 2007 capital budget projects spending of approximately $77.3 million, which includes $23.5 million from issuance of UCONN 2000 Bond Funds, $2.8 million from allocated State bond funds, and $51.0 million from other Health Center sources.

Debt activity during fiscal year 2006 included 2 new capital leases of equipment by the John Dempsey Hospital, a line of credit for the Farmington Surgery Center as well as was the annual payments for the bonds and loans outstanding and lease payments on capital leases 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 2007 OUTLOOK

Due to the loss before capital appropriations in fiscal year 2006 the Health Center was forced to make certain expense reduction for fiscal year 2007. Included in these reductions were elimination of travel, other expense reductions and a work force reduction plan that was implemented in the first quarter of fiscal year 2007. Management has developed a budget to break even in fiscal 2007 which included the above reductions.

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, 2006 and 2005

	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	$ 42,038,494	$ 59,017,579
Assets limited as to use	136,998	147,246
Patient receivables, net	37,170,955	30,143,345
Contract and other receivables	37,151,940	36,632,480
Due from Affiliates	22,270,879	16,253,127
Due from State of Connecticut	5,063,151	4,360,924
Due from Department of Correction	11,208,612	13,372,269
Inventories	6,355,073	5,137,415
Due from third party payors	1,518,871	-
Prepaid expenses	6,974,216	4,220,927
Total current assets	169,889,189	169,285,312
Noncurrent Assets		
Restricted cash and cash equivalents	17,895,446	11,842,883
Other assets	509,655	586,000
Assets limited as to use	232,327	1,969,787
Due from State of Connecticut	3,463,991	5,043,324
Capital assets, net	226,288,121	212,548,492
Total noncurrent assets	248,389,540	231,990,486
Total assets	$ 418,278,729	$ 401,275,798
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 23,713,348	$ 22,888,227
Due to State of Connecticut	5,826,487	5,700,525
Accrued salaries	21,793,659	19,008,733
Compensated absences	12,810,022	13,658,358
Due to third party payors	-	8,559,000
Deferred revenue	9,013,575	10,081,953
Malpractice reserve	3,853,000	2,634,000
Long-term debt - current portion	4,627,734	1,997,184
Total current liabilities	81,637,825	84,527,980
Noncurrent Liabilities		
Malpractice reserve	17,783,000	10,728,000
Compensated absences	20,036,189	21,363,072
Minority financing interests - Farmington Surgery Center	1,019,904	-
Long-term debt	43,173,213	36,513,326
Total noncurrent liabilities	82,012,306	68,604,398
Total liabilities	163,650,131	153,132,378
NET ASSETS		
Invested in capital assets, net of related debt	179,022,474	175,050,339
Restricted for		
Nonexpendable		
Scholarships	60,451	58,451
Expendable		
Research	3,497,523	3,532,683
Loans	2,967,866	3,186,477
Capital projects	24,425,576	20,771,408
Unrestricted	44,654,708	45,544,062
Total net assets	$ 254,628,598	$ 248,143,420

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, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Student tuition and fees (net of scholarship allowances of $3,322,672 and $2,750,102 respectively)	$ 9,209,712	$ 8,321,010
Patient services (net of charity care of $393,055 and $1,278,242 respectively)	368,563,662	348,799,319
Federal grants and contracts	66,921,657	70,187,854
Nongovernmental grants and contracts	24,343,306	21,200,597
Contract and other operating revenues	48,450,061	48,196,931
Total operating revenues	517,488,398	496,705,711
OPERATING EXPENSES		
Educational and General		
Instruction	100,072,838	100,192,686
Research	58,519,762	60,469,782
Patient services	385,029,829	363,872,294
Academic support	15,316,392	15,169,210
Institutional support	54,862,516	42,519,275
Operations and maintenance of plant	20,241,322	18,939,314
Depreciation	25,172,041	20,914,597
Loss on disposal	189,089	128,029
Student aid	543,726	616,426
Total operating expenses	659,947,515	622,821,613
Operating loss	(142,459,117)	(126,115,902)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	130,527,835	124,580,676
Gifts	974,337	1,507,042
Investment income (net of investment expense of $65,196 and $63,996 for 2006 and 2005, respectively)	5,385,122	2,339,388
Interest on capital asset - related debt	(2,863,424)	(1,626,794)
Net nonoperating revenues	134,023,870	126,800,312
(Loss) / income before other revenues, expenses, gains or losses	(8,435,247)	684,410
Capital appropriations	14,920,425	16,890,000
Total other revenues	14,920,425	16,890,000
Increase in net assets	6,485,178	17,574,410
NET ASSETS		
Net assets-beginning of year	248,143,420	230,569,010
Net assets-end of year	$ 254,628,598	$ 248,143,420

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, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Cash received from patients and third-party payors	$ 353,621,838	$ 353,073,072
Cash received from tuition and fees	9,209,712	8,321,010
Cash received from grants, contracts and other revenue	137,393,694	136,676,139
Cash paid to employees for personal services and fringe benefits	(376,628,474)	(346,379,305)
Cash paid for other than personal services	(196,515,052)	(195,773,238)
Net cash (used in) operating activities	(72,918,282)	(44,082,322)
Cash flows from investing activities:		
Net change in malpractice, advances and bond trust funds	1,747,708	15,033,970
Interest received	5,306,515	2,494,390
Additions to property and equipment	(32,476,705)	(55,272,227)
Net cash (used in) investing activities	(25,422,482)	(37,743,867)
Cash flows from noncapital financing activities:		
State appropriations	76,154,940	73,186,783
Gifts	974,337	1,507,042
Net cash provided by noncapital financing activities	77,129,277	74,693,825
Cash flows from capital and related financing activities:		
Capital appropriations	10,482,006	4,779,283
Interest paid	(2,863,424)	(1,626,794)
Net proceeds, repayment of long-term debt	2,666,383	10,297,163
Net cash provided by capital and related financing activities	10,284,965	13,449,652
Net (decrease) increase in cash and cash equivalents	(10,926,522)	6,317,288
Cash and cash equivalents at beginning of year	70,860,462	64,543,174
Cash and cash equivalents at end of year	$ 59,933,940	$ 70,860,462
Accompanying schedule of non-cash transactions		
Proceeds from capital leases	$ 6,624,054	$ —

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, 2006 and 2005

	2006	2005
Operating income	$ (142,459,117)	$ (126,115,902)
Adjustments to reconcile operating income to net cash		
(Used in) operating activities:		
Depreciation and loss on disposal	25,361,130	21,042,626
Personal services and fringe benefits in-kind from State	54,069,952	50,870,149
Changes in assets and liabilities:		
Patients receivables, net	(7,027,610)	1,478,870
Contract and other receivables	(519,460)	(1,653,143)
Due from DOC	2,163,657	(2,385,184)
Inventories	(1,217,658)	324,668
Third party payors	(10,077,871)	5,180,067
Prepaid expenses	(2,753,289)	(2,792,255)
Other assets	76,345	(239,045)
Accounts payable and accrued liabilities	825,121	(2,607,500)
Due to State of Connecticut	(194,715)	3,004,023
Accrued salaries	2,784,926	4,407,180
Compensated absences	(2,175,219)	3,637,224
Deferred revenue	(1,068,378)	(1,256,100)
Minority financing interests - Farmington Surgery Center	1,019,904	—
Malpractice reserve	8,274,000	3,022,000
Net cash (used in) operating activities	$ (72,918,282)	$ (44,082,322)

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, 2006 and 2005

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, 2006 and 2005, 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") which includes the operations of the Farmington Surgery Center LLC., (the "FSC"). The FSC, located on the second floor of the Medical Arts Research Building (MARB), is a public-private partnership with Health Resources International. The FSC was open for business throughout the year. As per the operating agreement, the Hospital receives the majority share of the entity's gains and losses. The Hospital also serves as the default guarantor for liabilities generated by the business. As such, based on industry practice as influenced by FIN 46, the Hospital has consolidated the Surgery Center operations into these consolidated financial statements. The Health Center offers medical and dentistry degrees and operates a physician/dentist practice and a teaching and research hospital. There is also an affiliated 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 not elected this option.

For reporting periods beginning after June 15, 2005, GASB Statement No. 47, *Accounting for Termination Benefits*, was required for universities. This statement requires employers to recognize a liability and expense for voluntary termination benefits when the termination offer is accepted and the amount of the benefits can be estimated. Any pension liability related to early retirement is the State's responsibility and therefore none is recorded by the Health Center (see Note 11). Related to an early retirement plan in fiscal year 2003, an accrual for Compensated Absences is recorded as of June 30, 2006 and 2005 (see Note 8).

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 35015). 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, 2006, and 2005, 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, 2006, the Health Center's cash and cash equivalents balance was $59,933,940 which included $14,904,165 in cash balances maintained by the State of Connecticut Treasurer, $44,252,988 of investments with the State of Connecticut Investment Pool (Short Term Investment Fund), $775,287 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 $14,904,165 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 $44,252,988 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 $775,287 were considered uninsured and uncollateralized (Category 3).

The Health Center's investments of $369,324 consisted of U.S. Treasury notes which were uninsured, unregistered and held by the Health Center's agent in the Health Center'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, 2006 was $2,539,775. Investment income earned on these assets is transferred to the Health Center in accordance with the applicable trust agreement. Income received, net of investment expenses, for the year ended June 30, 2006 was $98,208.

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 2006 and 2005, the Hospital provided charity care services of $393,055 and $1,287,242, 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:

	2006		2005	
John Dempsey Hospital				
Gross patient services revenue	$ 373,182,759		$ 375,878,199	
Less allowances	148,942,812		166,049,901	
Net patient service revenue		224,239,947		209,828,298
UConn Medical Group				
Gross patient services revenue	143,058,471		139,316,911	
Less allowances	77,800,263		75,532,030	
Net patient service revenue		65,258,208		63,784,881
Correctional Managed Health Care		86,852,076		83,398,842
All other		2,872,999		2,829,437
Total net patient service revenue per business unit		379,223,230		359,841,458
Eliminations		(10,659,568)		(11,042,139)
Total net patient service revenue	$	368,563,662	$	348,799,319

(Amounts above include internal transactions eliminated on face of statements. See Supplemental Information for greater details)

5. CAPITAL ASSETS

Capital assets at June 30, 2006 and 2005 consisted of the following:

	2006	2005
Land	$ 8,423,594	8,423,594
Construction in Progress	26,125,745	26,052,366
Buildings	316,774,893	300,391,576
Equipment	170,020,373	157,856,145
Capital leases	10,795,834	4,171,780
	532,140,439	496,895,461
Less accumulated depreciation	305,852,318	284,346,969
Capital assets, net	$ 226,288,121	212,548,492

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, 2006 and 2005. Plant and equipment activity and related information on accumulated depreciation for the Health Center for the year's ended June 30, 2006 and 2005 was as follows:

	2005	Additions	Deletions	2006
Property and equipment:				
Land	$ 8,423,594	$ -	$ -	$ 8,423,594
Construction in Progress	26,052,366	15,118,639	(15,045,260)	26,125,745
Buildings	292,050,457	16,301,491	-	308,351,948
Improvements other than buildings	8,341,119	81,826	-	8,422,945
Equipment	157,856,145	16,020,009	(3,855,781)	170,020,373
Capital leases	4,171,780	6,624,054	-	10,795,834
Total property and equipment	496,895,461	54,146,019	(18,901,041)	532,140,439
Less accumulated depreciation:				
Buildings	160,704,632	9,581,624	-	170,286,256
Improvements other than buildings	6,257,185	130,841	-	6,388,026
Equipment	116,133,618	13,947,497	(3,666,692)	126,414,423
Capital Leases	1,251,534	1,512,079	-	2,763,613
Total accumulated depreciation	284,346,969	25,172,041	(3,666,692)	305,852,318
Net property and equipment:				
Land	8,423,594	-	-	8,423,594
Construction in Progress	26,052,366	15,118,639	(15,045,260)	26,125,745
Buildings	131,345,825	6,719,867	-	138,065,692
Improvements other than buildings	2,083,934	(49,015)	-	2,034,919
Equipment	41,722,527	2,072,512	(189,089)	43,605,950
Capital leases	2,920,246	5,111,975	-	8,032,221
Total capital assets, net	$ 212,548,492	$ 28,973,978	$ (15,234,349)	$ 226,288,121

	2004	Additions	Deletions	2005
Property and equipment:				
Land	$ 1,830,510	$ 6,593,084	$ -	$ 8,423,594
Construction in Progress	32,922,884	27,109,178	(33,979,696)	26,052,366
Buildings	257,987,238	34,063,219	-	292,050,457
Improvements other than buildings	6,466,944	1,874,175	-	8,341,119
Equipment	140,038,449	19,978,327	(2,160,631)	157,856,145
Capital leases	4,171,780	-	-	4,171,780
Total property and equipment	443,417,805	89,617,983	(36,140,327)	496,895,461
Less accumulated depreciation:				
Buildings	152,181,606	8,523,026	-	160,704,632
Improvements other than buildings	5,903,493	353,692	-	6,257,185
Equipment	106,596,637	11,568,659	(2,031,678)	116,133,618
Capital leases	417,178	834,356	-	1,251,534
Total accumulated depreciation	265,098,914	21,279,733	(2,031,678)	284,346,969
Net property and equipment:				
Land	1,830,510	6,593,084	-	8,423,594
Construction in Progress	32,922,884	27,109,178	(33,979,696)	26,052,366
Buildings	105,805,632	25,540,193	-	131,345,825
Improvements other than buildings	563,451	1,520,483	-	2,083,934
Equipment	33,441,812	8,409,668	(128,953)	41,722,527
Capital leases	3,754,602	(834,356)	-	2,920,246
Total capital assets, net	$ 178,318,891	$ 68,338,250	$ (34,108,649)	$ 212,548,492

Construction in progress at June 30, 2006 and 2005, 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.

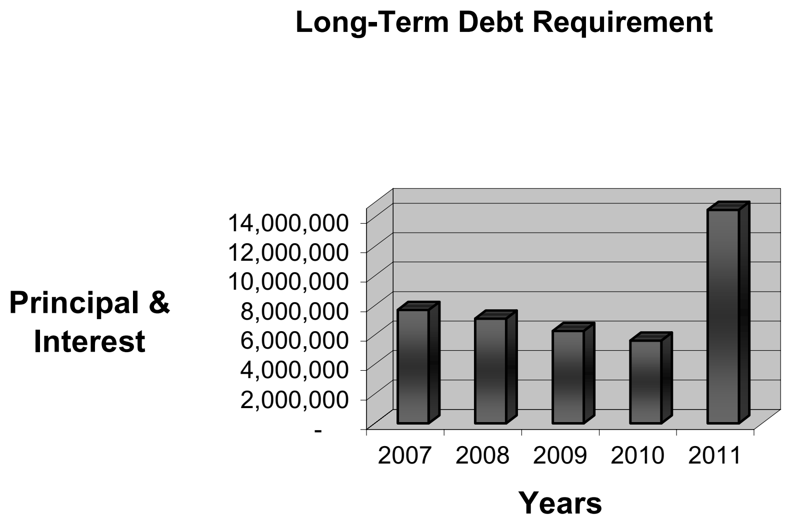
8. LONG-TERM LIABILITIES

Long-term liability activity for the year's ended June 30, 2006 and 2005 was as follows:

		June 30, 2005 Balance	Additions	Reductions	June 30, 2006 Balance	Amounts due within 1 year
Long-Term debt:						
Bonds Payable John Dempsey Hospital	$	404,882	-	128,141	276,741	112,491
Bonds Payable Primary Institution		711,189	-	220,732	490,457	197,913
Loans payable John Dempsey Hospital		-	5,355,300	-	5,355,300	1,338,633
Lease Agreements John Dempsey Hospital		3,001,232	6,624,055	1,508,026	8,117,261	2,090,088
Mortgage Agreements Primary Institution		34,393,207	-	832,019	33,561,188	888,609
Total Long-Term Debt		38,510,510	11,979,355	2,688,918	47,800,947	4,627,734
Malpractice reserve		13,362,000	11,777,394	3,503,394	21,636,000	3,853,000
Compensated absences		35,021,430	11,498,002	13,673,221	32,846,211	12,810,022
Total Long - Term Liabilities	$	86,893,940	35,254,751	19,865,533	102,283,158	21,290,756

		June 30, 2004 Balance	Additions	Reductions	June 30, 2005 Balance	Amounts due within 1 year
Long-Term debt:						
Bonds Payable John Dempsey Hospital	$	590,215	-	185,333	404,882	125,696
Bonds Payable Primary Institution		1,036,588	-	325,399	711,189	222,904
Lease Agreements John Dempsey Hospital		3,786,663	-	785,431	3,001,232	816,565
Mortgage Agreements Primary Institution		22,799,881	12,024,733	431,407	34,393,207	832,019
Total Long-Term Debt		28,213,347	12,024,733	1,727,570	38,510,510	1,997,184
Malpractice reserve		10,340,000	3,958,921	936,921	13,362,000	2,634,000
Compensated absences		31,384,206	16,168,285	12,531,061	35,021,430	26,966,501
Total Long - Term Liabilities	$	69,937,553	32,151,939	15,195,552	86,893,940	31,597,685

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



Year		Long-Term Debt
2007	$	7,701,326
2008		7,121,756
2009		6,278,074
2010		5,625,627
2011		14,503,371
Thereafter		27,883,013
Totals	$	69,113,167

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.

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, 2006 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 are funded from Health Center resources or issued under the UCONN 2000 program are sold.

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 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. Project costs include $305,400,000 authorized for the Health Center.

The University recorded total revenue of $77,145,000 as State debt service commitment for principal for the 2006 Series A bonds which includes $14,920,425 to finance projects for the Health Center. As noted above, Phase III includes a commitment to fund projects totaling $305,400,000 for the Health Center. As bonds are issued, the amount of the commitment for the Health Center is reflected as an offset to the revenue, which in fiscal year 2006 totaled $14,920,425. 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. The University therefore acts as custodian of the funds for the Health Center. A corresponding receivable is recorded for the unspent portion of the bonds ($22,270,879 at June 30, 2006) in the Statement of Net Assets.

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, 2006, the Health Center had individual outstanding commitments exceeding $300,000 in amount, totaling $8,763,853. A portion of this amount was included in the June 30, 2006 accounts payable. Commitments above do not include any commitments arising from the administration of UCONN 2000 funds by the University on the Health Center's behalf. Such obligations would be paid directly from proceeds of current and future bond issuances.

The Health Center agreed to pay $33,311,100 during the 2006-2007 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 2017. Expenses related to these leases were approximately $3,420,000 and $2,312,000 for the years ended June 30, 2006 and 2005, respectively. Future minimum rental payments at June 30, 2006 under non-cancelable operating leases are approximately as follows:

Year	Payments
2007	$ 1,550,414
2008	1,310,068
2009	945,863
2010	963,863
2011	639,575
Totals	$ 5,409,783

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. The Foundation is a consolidated part of the University and therefore an affiliated party. 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, 2006:

Amount paid to the Foundation	$ 932,948
Amount received from the Foundation for personal services and operating expenses	$ 74,544
Amount received from the Foundation from endowments	$ 1,679,509

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's financial statements.

16. SUBSEQUENT EVENT – ACQUISITION OF MINORITY FINANCING INTEREST IN FARMINGTON SURGERY CENTER

As of July 1, 2006, the Health Center and Health Resources International ("HRI") entered into an agreement whereby the Hospital, with the Finance Corporation acting on its behalf, would purchase the remaining interests of the Farmington Surgery Center (FSC) for $1.65 million in cash. The agreement was contingent upon approval by the State of Connecticut's Office of Health Care Access which waived its right to a Certificate of Need (CON) Determination process. The lump sum payment was made in October of 2006.

The FSC had been a public private partnership between the Hospital, HRI Incorporated, and several medical practitioners and was based primarily on the Hospital's book of business. The facility is on the Health Center campus and will remain open under the operation of Hospital management.

The Hospital will utilize operating cash to provide the Finance Corporation with sufficient funds to complete this transaction.

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SUPPLEMENTAL INFORMATION

UNIVERSITY OF CONNECTICUT HEALTH CENTER
CONSOLIDATING STATEMENT OF NET ASSETS
As of June 30, 2006

	2006			
	Primary Institution	John Dempsey Hospital	Eliminations	Total
ASSETS				
Current Assets				
Cash and cash equivalents	$ 32,105,788	$ 9,932,706	$ -	$ 42,038,494
Assets limited as to use	-	136,998	-	136,998
Patient receivables, net	7,711,184	29,459,771	-	37,170,955
Contract and other receivables	36,260,181	891,759	-	37,151,940
Due from Affiliates	22,270,879	-	-	22,270,879
Due from State of Connecticut	5,063,151	-	-	5,063,151
Due from Primary Institution	-	975,362	(975,362)	-
Due from Department of Correction	11,208,612	-	-	11,208,612
Inventories	1,651,989	4,703,084	-	6,355,073
Due from third party payors	-	1,518,871	-	1,518,871
Prepaid expenses	4,260,859	2,713,357	-	6,974,216
Total current assets	120,532,643	50,331,908	(975,362)	169,889,189
			.	
Noncurrent Assets				
Restricted cash and cash equivalents	80,755	17,814,691	-	17,895,446
Other assets	-	509,655	-	509,655
Assets limited as to use	-	1,785,773	(1,553,446)	232,327
Due from State of Connecticut	3,463,991	-	-	3,463,991
Capital assets, net	160,316,190	65,971,931	-	226,288,121
Total noncurrent assets	163,860,936	86,082,050	(1,553,446)	248,389,540
Total assets	$ 284,393,579	$ 136,413,958	$ (2,528,808)	$ 418,278,729
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	$ 13,954,347	$ 9,759,001	$ -	$ 23,713,348
Due to State of Connecticut	2,913,336	2,913,151	-	5,826,487
Accrued salaries	16,716,851	5,076,808	-	21,793,659
Compensated absences	8,619,612	4,190,410	-	12,810,022
Due to John Dempsey Hospital	2,528,808	-	(2,528,808)	-
Deferred revenue	8,997,969	15,606	-	9,013,575
Malpractice reserve	-	3,853,000	-	3,853,000
Long-term debt - current portion	1,086,522	3,541,212	-	4,627,734
Total current liabilities	54,817,445	29,349,188	(2,528,808)	81,637,825
				-
Noncurrent Liabilities				-
Malpractice reserve	-	17,783,000	-	17,783,000
Compensated absences	13,481,958	6,554,231	-	20,036,189
Minority financing interests - Farmington Surgery Center	-	1,019,904	-	1,019,904
Long-term debt	32,965,123	10,208,090	-	43,173,213
Total noncurrent liabilities	46,447,081	35,565,225	-	82,012,306
Total liabilities	101,264,526	64,914,413	(2,528,808)	163,650,131
				-
NET ASSETS				-
Invested in capital assets, net of related debt	126,264,545	52,757,929	-	179,022,474
Restricted for				
Nonexpendable				
Scholarships	60,451	-	-	60,451
Expendable				
Research	3,385,851	111,672	-	3,497,523
Loans	2,967,866	-	-	2,967,866
Capital projects	24,425,576	-	-	24,425,576
Unrestricted	26,024,764	18,629,944	-	44,654,708
Total net assets	$ 183,129,053	$ 71,499,545	$ -	$ 254,628,598

UNIVERSITY OF CONNECTICUT HEALTH CENTER
CONSOLIDATING STATEMENT OF NET ASSETS
As of June 30, 2005

	2005			
	Primary Institution	John Dempsey Hospital	Eliminations	Total
ASSETS				
Current Assets				
Cash and cash equivalents	$ 36,603,275	$ 22,414,304	$ -	$ 59,017,579
Assets limited as to use	-	147,246	-	147,246
Patient receivables, net	7,198,308	22,945,037	-	30,143,345
Contract and other receivables	35,984,818	647,662	-	36,632,480
Due from Affiliates	16,253,127	-	-	16,253,127
Due from State of Connecticut	4,360,924	-	-	4,360,924
Due from Primary Institution	-	968,783	(968,783)	-
Due from Department of Correction	13,372,269	-	-	13,372,269
Inventories	1,320,151	3,817,264	-	5,137,415
Prepaid expenses	2,608,523	1,612,404	-	4,220,927
Total current assets	117,701,395	52,552,700	(968,783)	169,285,312
Noncurrent Assets				
Restricted cash and cash equivalents	591,540	11,251,343	-	11,842,883
Other assets	-	586,000	-	586,000
Assets limited as to use	1,605,667	871,466	(507,346)	1,969,787
Due from State of Connecticut	5,043,324	-	-	5,043,324
Capital assets, net	157,143,461	55,405,031	-	212,548,492
Total noncurrent assets	164,383,992	68,113,840	(507,346)	231,990,486
Total assets	$ 282,085,387	$ 120,666,540	$ (1,476,129)	$ 401,275,798
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	$ 13,756,634	$ 9,131,593	$ -	$ 22,888,227
Due to State of Connecticut	2,038,566	3,661,959	-	5,700,525
Accrued salaries	14,599,369	4,409,364	-	19,008,733
Compensated absences	9,259,441	4,398,917	-	13,658,358
Due to John Dempsey Hospital	1,476,129	-	(1,476,129)	-
Due to third party payors	-	8,559,000	-	8,559,000
Deferred revenue	10,081,953	-	-	10,081,953
Malpractice reserve	-	2,634,000	-	2,634,000
Long-term debt - current portion	1,054,923	942,261	-	1,997,184
Total current liabilities	52,267,015	33,737,094	(1,476,129)	84,527,980
				-
Noncurrent Liabilities				-
Malpractice reserve	-	10,728,000	-	10,728,000
Compensated absences	14,482,715	6,880,357	-	21,363,072
Long-term debt	34,049,473	2,463,853	-	36,513,326
Total noncurrent liabilities	48,532,188	20,072,210	-	68,604,398
Total liabilities	100,799,203	53,809,304	(1,476,129)	153,132,378
				-
NET ASSETS				-
Invested in capital assets, net of related debt	123,051,422	51,998,917	-	175,050,339
Restricted for				
Nonexpendable				
Scholarships	58,451	-	-	58,451
Expendable				
Research	3,392,734	139,949	-	3,532,683
Loans	3,186,477	-	-	3,186,477
Capital projects	20,771,408	-	-	20,771,408
Unrestricted	30,825,692	14,718,370	-	45,544,062
Total net assets	$ 181,286,184	$ 66,857,236	$ -	$ 248,143,420

UNIVERSITY OF CONNECTICUT HEALTH CENTER
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2006

	2006				
	Primary Institution	John Dempsey Hospital	Total (Memo Only)	Eliminations	Consolidated
OPERATING REVENUES					
Student tuition and fees, net	$ 9,209,712	$ -	$ 9,209,712	$ -	$ 9,209,712
Patient services, net	154,983,283	224,239,947	379,223,230	(10,659,568)	368,563,662
Federal grants and contracts	66,921,657	-	66,921,657	-	66,921,657
Nongovernmental grants and contracts	24,343,306	-	24,343,306	-	24,343,306
Contract and other operating revenues	56,306,542	2,587,840	58,894,382	(10,444,321)	48,450,061
Total operating revenues	311,764,500	226,827,787	538,592,287	(21,103,889)	517,488,398
OPERATING EXPENSES					
Educational and General					
Instruction	108,921,217	-	108,921,217	(8,848,379)	100,072,838
Research	58,519,762	-	58,519,762	-	58,519,762
Patient services	184,028,898	213,090,526	397,119,424	(12,089,595)	385,029,829
Academic support	15,316,392	-	15,316,392	-	15,316,392
Institutional support	55,023,586	-	55,023,586	(161,070)	54,862,516
Operations and maintenance of plant	20,246,167	-	20,246,167	(4,845)	20,241,322
Depreciation	16,045,061	9,126,980	25,172,041	-	25,172,041
Loss on disposal	122,153	66,936	189,089	-	189,089
Student aid	543,726	-	543,726	-	543,726
Total operating expenses	458,766,962	222,284,442	681,051,404	(21,103,889)	659,947,515
Operating loss	(147,002,462)	4,543,345	(142,459,117)	-	(142,459,117)
NONOPERATING REVENUES (EXPENSES)					
State appropriations	130,527,835	-	130,527,835	-	130,527,835
Gifts	974,337	-	974,337	-	974,337
Investment income, net	4,794,687	590,435	5,385,122	-	5,385,122
Interest on capital asset - related debt	(2,371,953)	(491,471)	(2,863,424)	-	(2,863,424)
Net nonoperating revenues	133,924,906	98,964	134,023,870	-	134,023,870
(Loss) / income before other revenues, expenses, gains or losses	(13,077,556)	4,642,309	(8,435,247)	-	(8,435,247)
Capital appropriations	14,920,425	-	14,920,425	-	14,920,425
Total other revenues	14,920,425	-	14,920,425	-	14,920,425
Increase in net assets	1,842,869	4,642,309	6,485,178	-	6,485,178
NET ASSETS					
Net assets-beginning of year	181,286,184	66,857,236	248,143,420	-	248,143,420
Net assets-end of year	$ 183,129,053	$ 71,499,545	$ 254,628,598	$ -	$ 254,628,598

UNIVERSITY OF CONNECTICUT HEALTH CENTER
CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2005

	2005 Primary Institution	John Dempsey Hospital	Total (Memo Only)	Eliminations	Consolidated
OPERATING REVENUES					
Student tuition and fees, net	$ 8,321,010	$ -	$ 8,321,010	$ -	$ 8,321,010
Patient services, net	150,013,160	209,828,298	359,841,458	(11,042,139)	348,799,319
Federal grants and contracts	70,187,854	-	70,187,854	-	70,187,854
Nongovernmental grants and contracts	21,200,597	-	21,200,597	-	21,200,597
Contract and other operating revenues	56,127,891	1,330,869	57,458,760	(9,261,829)	48,196,931
Total operating revenues	305,850,512	211,159,167	517,009,679	(20,303,968)	496,705,711
OPERATING EXPENSES					
Educational and General					
Instruction	108,744,118	-	108,744,118	(8,551,432)	100,192,686
Research	60,469,782	-	60,469,782	-	60,469,782
Patient services	179,042,490	196,559,902	375,602,392	(11,730,098)	363,872,294
Academic support	15,169,210	-	15,169,210	-	15,169,210
Institutional support	42,519,506	-	42,519,506	(231)	42,519,275
Operations and maintenance of plant	18,961,521	-	18,961,521	(22,207)	18,939,314
Depreciation	14,390,599	6,523,998	20,914,597	-	20,914,597
Loss on disposal	89,042	38,987	128,029	-	128,029
Student aid	616,426	-	616,426	-	616,426
Total operating expenses	440,002,694	203,122,887	643,125,581	(20,303,968)	622,821,613
Operating (loss) income	(134,152,182)	8,036,280	(126,115,902)	-	(126,115,902)
State appropriations	124,580,676	-	124,580,676	-	124,580,676
Gifts	1,507,042	-	1,507,042	-	1,507,042
Investment income, net	2,085,114	254,274	2,339,388	-	2,339,388
Interest on capital asset - related debt	(1,471,036)	(155,758)	(1,626,794)	-	(1,626,794)
Net nonoperating revenues	126,701,796	98,516	126,800,312	-	126,800,312
Income before other revenues, expenses, gains or losses	(7,450,386)	8,134,796	684,410	-	684,410
Capital appropriations	16,890,000	-	16,890,000	-	16,890,000
Total other revenues	16,890,000	-	16,890,000	-	16,890,000
Increase in net assets	9,439,614	8,134,796	17,574,410	-	17,574,410
NET ASSETS					
Net assets-beginning of year	171,846,570	58,722,440	230,569,010	-	230,569,010
Net assets-end of year	$ 181,286,184	$ 66,857,236	$ 248,143,420	$ -	$ 248,143,420

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DIRECTORS AND FINANCIAL OFFICERS
June 30, 2006

BOARD OF DIRECTORS

Members at Large

* Bruce Chudwick	*Farmington*
Sanford Cloud Jr.	*Farmington*
* Aldrage B. Cooper	*Skillman, NJ*
A. Jon Goldberg	*W. Hartford*
Brian Hehir	*Port Washington, NY*
Robert J. Hennessey	*Cheshire*
Nancy J. Hutson	*Stonington*
* Gerard J. Lawrence, MD	*Lyme*
Claire R. Leonardi	*Long Lake, NY*
David P. Marks	*W. Hartford*
Robert T. Samuels	*W. Hartford*
Ann Slaughter	*Philadelphia, PA*

Appointed by the Governor

David B. Friend, MD	*Weston, MA*
Jay L. Haberland	*Simsbury*
John Bigos	*Hartford*

Members Ex Officio

Philip E. Austin	*Storrs*
J. Robert Galvin	*Hartford*
Anne Gnazzo	*Hartford*

Appointed by Chairperson, Board of Trustees

The Honorable James F. Abromaitis	*Unionville*
Lenworth M. Jacobs, MD	*W. Hartford*
Gerald N. Burrow, Chairperson	*Hamden*

* 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, Assistant Vice President, Finance

TRUSTEES AND FINANCIAL OFFICERS
As of June 30, 2006

BOARD OF TRUSTEES

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

UNIVERSITY OF CONNECTICUT HEALTH CENTER

APPENDIX I-B

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

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

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

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

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

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

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[1] Pursuant to the Thirteenth Supplemental Indenture, the 2007 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 $89,000,000 for the UConn Projects as set forth therein, plus the amount of the Costs of Issuance.

Pursuant to the Eighth Supplemental Indenture, the 2007 Refunding Series A Bonds are additionally secured by the State Debt Service Commitment and are thereby authorized to be issued under the Master Indenture and pursuant to the Act.

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

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

Except as may be limited by the purposes for which a Series is issued, amounts in the Construction Account shall be expended by the University only to payments for the financing of UConn 2000 Projects for the UConn Infrastructure Improvement Program, principal, redemption price, and interest, on Notes of the University, to the State, of monies paid or advanced by the State to and used by the University for the UConn 2000 Infrastructure Improvement Program, to the University, of monies paid or advanced by the University and used by the University for the UConn 2000 Infrastructure Improvement Program, to the extent that other monies are not available, of Principal Installments of and interest on Bonds when due, and to any other valid purpose of the University under the Act. There shall be paid into the Construction Account the amounts required to be so paid by the provisions of the Master Indenture or any Supplemental Indenture and the University may deposit any monies received by the University from any other sources, unless required to be otherwise applied. The University may establish within the Construction Account separate sub-accounts for UConn Phase I Projects, 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]

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

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

Amendments and Supplemental Indentures Effective With Consent of Bondholders. [Section 1002]. The provisions of the Master Indenture may also be modified or amended, at any time or from time to time, by a Supplemental Indenture, subject to the consent of Bondholders and State Bond

[2] Pursuant to the Thirteenth Supplemental Indenture, the University covenants that it will not take any action or fail to take any action that would cause the 2007 Series A Bonds to be "arbitrage bonds" within the meaning of the Code.

Pursuant to the Eighth Supplemental Indenture, the University covenants that it will not take any action or fail to take any action that would cause the 2007 Refunding Series A Bonds to be "arbitrage bonds" within the meaning of the Code.

Commission in accordance with and subject to the provisions of Article XI of the Master Indenture, such Supplemental Indenture to become effective upon the execution thereof by the University and the Trustee, and the filing with the Trustee of a copy thereof certified by an Authorized Officer of the University and by the Secretary of the State Bond Commission.

Powers of Amendment. [Section 1101]. Except as otherwise provided in Article X of the Master Indenture, any modification or amendment of the Master Indenture may be made by a Supplemental Indenture, with the written consent given of the Holders of not less than 66 2/3% in principal amount of the Outstanding Bonds of each Series affected provided, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section, and that no such modification or amendment shall permit (i) a change in the redemption or maturity of the principal or installment of interest of any Outstanding Bond or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond; or (ii) shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment.

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

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

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

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

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

Events of Default. [Section 1201].

An "event of default" shall exist if:

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

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

(3) the University shall (i) apply for or consent to the appointment of or the taking of possession by a receiver, liquidator, custodian or trustee of itself or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as such debts become due, (iii) make a general assignment for the benefit of its creditors, (iv) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), (v) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, (vi) fail to controvert in a timely or appropriate manner, or acquiesce in writing to, any petition filed against itself in an involuntary case under such Bankruptcy Code, or (vii) take any action for the purpose of effecting any of the foregoing; or

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

Remedies. [Section 1202].

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

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

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

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

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

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

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

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

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

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

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

APPENDIX I-C

FORM OF OPINIONS OF BOND COUNSEL AND CO-BOND COUNSEL

Upon the delivery of the 2007 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 $_________ General Obligation Bonds, 2007 Series A (the "2007 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 2007 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 Thirteenth Supplemental Indenture (the "Thirteenth Supplemental Indenture"). Together with the Master Indenture, the supplemental indentures thereto, including the Thirteenth 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 2007 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 2007 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 2007 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 2007 Series A Bonds in order that interest on the 2007 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 2007 Series A Bonds, which, in our opinion contain provisions under which such requirements can be met. The University has covenanted with respect to the 2007 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 2007 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 2007 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 2007 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 2007 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 2007 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 2007 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 2007 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 2007 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 2007 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 2007 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 2007 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 2007 Series A Bonds.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the 2007 Series A Bonds may be limited by bankruptcy, insolvency, and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

Very truly yours,

Upon the delivery of the 2007 Refunding 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 $___________ General Obligation Bonds, 2007 Refunding Series A (the "2007 Refunding Series A Bonds") of The University of Connecticut (the "University"), a body politic and corporate constituting a public instrumentality and agency of the State of Connecticut (the "State"), operating and existing under the Constitution and laws of the State.

The 2007 Refunding Series A Bonds are authorized to be issued pursuant to the University of Connecticut 2000 Act, constituting Sections 10a–109a to 10a-109y inclusive of the Connecticut General Statutes, as amended to the date hereof (the "Act"), the General Obligation Master Indenture of Trust (the "Master Indenture"), as amended and supplemented by certain supplemental indentures thereto, including the Eighth Supplemental Indenture (the "Eighth Supplemental Indenture"). Together with the Master Indenture, the supplemental indentures thereto, including the Eighth Supplemental Indenture, are referred to herein as the "Indentures." The Master Indenture was entered into as of November 1, 1995 by and between the University and Fleet National Bank of Connecticut, as original trustee (predecessor to U.S. Bank National Association) (the "Trustee").

The 2007 Refunding Series A Bonds are dated, will mature on the dates, will bear interest at the rates, and may be subject to redemption prior to maturity, all as set forth in or determined pursuant to the Indentures.

The University is authorized to issue bonds, in addition to the 2007 Refunding Series A Bonds, upon the terms, conditions and covenants set forth in the Act and the Master Indenture, and such bonds, when issued, shall, with the 2007 Refunding Series A Bonds and with all other such bonds theretofore issued under the Master Indenture, be entitled to the equal benefit, protection, and security of the provisions, covenants, and agreements of the Master Indenture, in accordance with its terms.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the delivery of the 2007 Refunding Series A Bonds in order that interest on the 2007 Refunding Series A Bonds not be included in gross income for federal income tax purposes. We have examined the Indentures and the procedural documents, including a tax regulatory certificate (the "Tax Regulatory Agreement") of the University and the State Treasurer with respect to the 2007 Refunding Series A Bonds, which, in our opinion contain provisions under which such requirements can be met. The University has covenanted with respect to the 2007 Refunding 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 2007 Refunding Series A Bonds, and to perform its obligations under the terms and conditions of the Indentures including provisions relating to the receipt of Assured Revenues, particularly annual amounts of the State Debt Service Commitment (each as defined in the Act and the Master Indenture) as covenanted in the Master Indenture.

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

3. The 2007 Refunding Series A Bonds have been duly authorized, executed and authenticated and are legal, valid and binding general obligations of the University in accordance with their terms for the payment of the Principal Installment of, interest on and Redemption Price of which, the full faith and credit of the University has been legally and validly pledged. The 2007 Refunding Series A Bonds are entitled to the equal benefit, protection, and security of provisions, covenants and remedies provided by the Act and the Indentures.

4. The 2007 Refunding Series A Bonds are additionally secured by a pledge of and lien on the State Debt Service Commitment in the manner and to the extent set forth in and created by the Indentures. The Indentures create the valid pledge of and lien upon the Trust Estate (as defined in the Master Indenture) and the annual amounts of the State Debt Service Commitment, which the Indentures purport to create, subject only to the provisions of the Indentures permitting the application thereof for or to the purposes and on the terms and conditions set forth in the Indentures.

5. Pursuant to the Act and as part of the contract of the State with the holders of the 2007 Refunding Series A Bonds, the State has validly appropriated all amounts of the State Debt Service Commitment (including the Principal Installments of, interest on and Redemption Price of the 2007 Refunding Series A Bonds) out of the resources of the general fund of the State and the Treasurer has the legal duty and is validly mandated and obligated to pay such amount to the Trustee, as paying agent on the 2007 Refunding Series A Bonds as the same arise and shall become due and payable. Such appropriation and mandate and obligation of payment do not require further legislative approval.

6. Pursuant to the Act, the 2007 Refunding Series A Bonds do not constitute a debt or liability of the State of Connecticut or any municipality or other political subdivision thereof or bonds issued or guaranteed by the State within the meaning of Section 3-21 of the General Statutes of Connecticut (except to the extent set forth in the Act), do not obligate the State or any municipality or political subdivision to levy or pledge any form of taxation and are payable solely

from the funds provided therefor pursuant to the Indentures and the Act. The University has no taxing power.

7. Under existing law, interest on the 2007 Refunding 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 2007 Refunding Series A Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts, and estates, and interest on the 2007 Refunding Series A Bonds is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

We express no opinion regarding other federal or state tax consequences of the ownership of or receipt or accrual of interest on the 2007 Refunding Series A Bonds.

In rendering this opinion, we are advising you that the enforceability of rights and remedies with respect to the 2007 Refunding Series A Bonds may be limited by bankruptcy, insolvency, and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

Very truly yours,

APPENDIX I-D

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FORM OF CONTINUING DISCLOSURE AGREEMENT

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

Continuing Disclosure Agreement

This Continuing Disclosure Agreement ("Agreement") is made as of the _____day of _________, 2007 by the State of Connecticut (the "State") acting by its undersigned officer, duly authorized, in connection with the issuance of $_________ University of Connecticut General Obligation Bonds, 2007 Series A, dated ________ (the "2007 Series A Bonds") and $___________ University of Connecticut General Obligation Bonds, 2007 Refunding Series A, dated ____________ (the "2007 Refunding Series A Bonds", and collectively with the 2007 Series A Bonds, 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 _________ 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
Phone: (609) 279-3225
Fax: (609) 279-5962
http://www.bloomberg.com/markets/rates/municontacts.html
Email: Munis@Bloomberg.com

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

FT Interactive Data
Attn: NRMSIR
100 William Street, 15th Floor
New York, NY 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
http://www.ftid.com
Email: NRMSIR@interactivedata.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street - 45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
http://www.disclosuredirectory.standardandpoors.com
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, 2007 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 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 Indebtedness - Principal Amount Outstanding (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.

(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 interpretative 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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APPENDIX I-E

DEFINITIONS OF CERTAIN TERMS OF THE INDENTURES

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

"2007 Series A Bonds" means the Bonds authorized by, and issued in one or more series, pursuant to Article II of the Thirteenth Supplemental Indenture.

"2007 Refunding Series A Bonds" means the Bonds authorized by, and issued in one or more series, pursuant to Article II of the Eighth Supplemental Indenture.

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

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

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

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

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

"Annual Financial Information" means,

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

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

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

(iv) data reflecting updating of certain tables of operating information relating to the University and included in the official statement of the University for the 2007 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 financial affairs committee of the Board of Trustees (acting by resolution and constituting the financial affairs committee of the Board of Trustees within the meaning of the Act), the President, the Vice President and Chief Financial Officer, the Vice President and Chief Operating Officer, the Manager of Treasury Services (for the purpose of making investments and disbursements only) and the Chief Financial Officer (for the purpose of making investments and 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.

"Eighth Supplemental Indenture" shall mean the Eighth Supplemental Indenture dated as of January 15, 2004, as amended, authorizing the University of Connecticut General Obligation 2007 Refunding Series A Bonds (secured by the State Debt Service Commitment).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) Principal and interest payment delinquencies;

(ii) Non-payment related defaults;

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

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

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

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

(vii) Modifications to rights of security holders;

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

(ix) Defeasance;

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

(xi) Rating changes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Preliminary Official Statement” shall mean the preliminary official statement of the University relating to the 2007 Series A Bonds and the 2007 Refunding Series A Bonds.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Trustee" means U. S. Bank National Association, as successor to 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.

"Thirteenth Supplemental Indenture" shall mean the Thirteenth Supplemental Indenture dated as of April 1, 2007, as amended, authorizing the University of Connecticut General Obligation 2007 Series A Bonds (secured by the State Debt Service Commitment).

"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, 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 2007 Series A Bonds and the 2007 Refunding Series A Bonds pursuant to a bond purchase agreement duly executed by the University, the Treasurer and such purchasers.

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

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

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

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PART II

INFORMATION SUPPLEMENT

OF THE STATE OF CONNECTICUT

March 29, 2007

The Annual Information Statement of the State of Connecticut (the "State"), dated February 28, 2007, appears in this Official Statement as **Part III** and contains information through February 28, 2007. 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 28, 2007 Annual Information Statement through March 29, 2007. 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 former Rowland administration regarding alleged improprieties with contract awards.

FINANCIAL PROCEDURES

Page III-10. The last paragraph under the caption ***Accounting Procedures*** is updated to add the following information:

There will be a delay of the State's submission to the U.S. Department of Health & Human Services of its Single Audit for the fiscal year ending June 30, 2006 pursuant to OMB Circular No. A-133. The State has received an extension until May 31, 2007.

STATE GENERAL FUND

Page III-25. The following information supplements the information under the heading **Fiscal Year 2006-2007 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 projected revenues and expenditures for the current fiscal year for use by the Comptroller in preparing the Comptroller's monthly report. In the monthly report of the Office of Policy and Management dated March 20, 2007, as of February 28, 2007 the Office of Policy and Management estimated that the General Fund revenues for the 2006-07 fiscal year would be $15,377.0 million, General Fund expenditures and miscellaneous adjustments were estimated to be $14,840.8 million and the General Fund balance was estimated to have a surplus of $536.2 million for the 2006-07 fiscal year. The next monthly report of the Office of Policy and Management is anticipated on April 20, 2007, and no assurances can be made that subsequent estimates will match these results or the results of the Comptroller.

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. In the Comptroller's monthly report dated March 1, 2007, as of the period ending January 31, 2007, the Comptroller estimated that the General Fund balance for the 2006-07 fiscal year would have a surplus of $560.0 million which was greater than the monthly estimates provided by the Office of Policy and Management on February 20, 2007. In the Comptroller's monthly report dated April 2, 2007, as of the period ending February 28, 2007, the Comptroller estimated that the General Fund balance for the 2006-07 fiscal year would have a surplus of $588.3 million which was greater than the estimate provided by the Office of Policy and Management on March 20, 2007. The next monthly report of the Comptroller is anticipated on May 1, 2007, and no assurances can be made that subsequent estimates will match these results or the results of the Office of Policy and Management.

The estimates of the Office of Policy and Management for the period ending December 31, 2006 have been outlined in **Appendix III-E** to this Annual Information Statement. The estimates of the Comptroller and the Office of Policy and Management for the periods ending January 31, 2007 and February 28, 2007 have ***not*** been outlined in **Appendix III-E** to this 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 and no assurances can be given that future events will materialize as estimated or that subsequent estimates, adjustments or audit or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2006-07 operations of the General Fund.

STATE DEBT AND PENSION AND RETIREMENT SYSTEMS

Page III-34; III-60. The following information is added as a new paragraph under the caption ***Types of Direct General Obligation Debt*** and under the heading **Teachers' Retirement Fund** following **Table 18**:

On February 5, 2007, the State Treasurer and the Speaker of the Connecticut House of Representatives called upon the General Assembly to authorize the issuance of up to $2 billion of pension obligation bonds, payable over 25 years, to fund in part the unfunded accrued liability in the Teachers' Retirement Fund. The proposal would also require the State while the bonds are outstanding to annually appropriate the actuarially-determined annual required contribution to the Teachers' Retirement Fund. As of the June 30, 2006 actuarial valuation, the Fund had an unfunded accrued liability of approximately $6.9 billion.

Page III-62. The following information is added to the end of the third paragraph under the caption **Social Security and Other Post-Employment Benefits**:

Both the Governor and the State Comptroller have submitted partial funding proposals to the legislature to begin addressing the OPEB liability issue for members of the State Employees' Retirement Fund this legislative session.

In an actuarial report dated March, 2007, the OPEB actuarial accrued liability for persons covered under the State Employees Retirement System and other State retirement systems, excluding the Teachers' Retirement System, was estimated as of April 1, 2006 to range from $11.4 billion to $21.7 billion. The amounts depend upon various assumptions including those with respect to medical cost inflation rates, the establishment of a trust to fund those liabilities, the amount of initial and annual amounts deposited in such a trust and discount rates. The report used discount rates ranging from 4.5% to 8.5%. The amount of the annual required contribution under these various assumptions ranges from $1.0 billion to $1.6 billion for the fiscal year ending June 30, 2007. Additional assumptions were also tested for sensitivity analysis which produced different results.

OTHER FUNDS, DEBT AND LIABILITIES

Page III-46. The second and third paragraphs under the heading **Transportation Fund and Debt** are deleted and replaced with the following:

The cost of the infrastructure program for State fiscal years 1985-2011, which is to be met from federal, State, and local funds, is currently estimated at $22.5 billion. During fiscal years 1985-2007, $18.4 billion of the total infrastructure program was approved. The remaining $4.1 billion is required for fiscal years 2008-2011. The $4.1 billion is comprised of $1.3 billion from the anticipated issuance of new special tax obligation bonds, $70.4 million in anticipated revenues, and $2.8 billion in anticipated federal funds. The State's share of the 1985-2011 infrastructure program costs, estimated at $9.0 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 $0.64 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 1985-2011 to be financed by STO bonds is estimated at $8.4 billion. The actual amount may exceed $8.4 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.

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PART III
ANNUAL INFORMATION STATEMENT
STATE OF CONNECTICUT

FEBRUARY 28, 2007

This Annual Information Statement of the State of Connecticut (the "State") contains information through February 28, 2007. For information about the State after February 28, 2007, 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	**Michael Fedele**
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 II**

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**

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* Denotes member of the State Bond Commission

PART III
February 28, 2007

ANNUAL INFORMATION STATEMENT OF THE STATE OF CONNECTICUT

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INTRODUCTION

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

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

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

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

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

State Debt describes the procedures for the authorization of the State to incur debt and the various 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 Annual Information Statement.

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

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

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

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

THE STATE OF CONNECTICUT

Governmental Organization and Services

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

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

Services provided by the State or financed through State appropriations are classified under one of ten major government function headings or are classified as "non-functional". The major function headings are: Human Services; Education, Libraries and Museums; Non-Functional (debt service and miscellaneous expenditures including fringe benefits); Health and Hospitals; Corrections; General Government; Judicial; Regulation and Protection; 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 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 among the highest in the nation, and gross state product (the market value of all final goods and services produced by labor and property located within the State), which demonstrated slower growth in the early 2000s, but expanded at a healthy pace in 2004, surpassing the New England and national growth rates. Employment has gained approximately 35,000 jobs by late 2005 since it bottomed out in September of 2003 and the unemployment rate has generally been lower than the national rate.

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

FINANCIAL PROCEDURES

The Budgetary Process

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

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

Biennium Budget. The State's fiscal year begins on July 1 and ends June 30. The General Statutes require that the budgetary process be on a biennium basis. The Governor is required to transmit a budget document 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 the Governor's 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.

Fiscal Accountability Report. Beginning November 2005, by November fifteenth annually, the Secretary of the Office of Policy and Management and the director of the legislative Office of Fiscal Analysis each submit the following to the joint standing committees of the General Assembly having cognizance of matters relating to appropriations and the budgets of State agencies and to finance, revenue and bonding: (1) An estimate of State revenues, expenditures and ending balance for each fund, for the current biennium and the next ensuing three fiscal years, and the assumptions on which such estimates are based; (2) the projected tax credits to be used in the current biennium and the next ensuing three fiscal years, and the assumptions on which such projections are based; (3) a summary of any estimated deficiencies in the current fiscal year, the reasons for such deficiencies, and the assumptions upon which such estimates are based; (4) the projected balance in the Budget Reserve Fund at the end of each uncompleted fiscal year of the current biennium and the next ensuing three fiscal years; (5) the projected bond authorizations, allocations and issuances in each of the next ensuing five fiscal years and their impact on the debt service of the major funds of the State; (6) an analysis of revenue and expenditure trends and of the major cost drivers affecting State spending, including identification of any areas of concern and efforts undertaken to address such areas, including efforts to obtain federal funds; and (7) an analysis of possible uses of surplus funds, including the Budget Reserve Fund, debt retirement and funding of pension liabilities.

By November 30, annually, the legislative committees then meet with the Secretary of the Office of Policy and Management and the Director of the legislative Office of Fiscal Analysis to consider the submitted reports.

In accordance with Section 2-36b of the Connecticut General Statutes, in advance of biennial budget preparations the Office of Policy and Management and the Legislative Office of Fiscal Analysis submitted reports to the General Assembly on November 15, 2006 regarding projections of revenues and expenditures for a five year period. The reports projected General Fund deficits for fiscal years ending June 30, 2008, 2009 and 2010 of up to approximately five percent of the General Fund expenditures for each such fiscal year. Those projections are preliminary and are based in part on budget requests from various state departments and agencies prior to preparation of the Governor's biennial budget proposal for the 2007-2009 biennium. The Office of Policy and Management refined such projections in preparing the Governor' s budget proposal which was submitted to the General Assembly in February 2007. The State has a balanced budget requirement and an expenditures cap as discussed at ***Page III-5*** under the heading **The Budgetary Process – *Balanced Budget Requirement***.

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, 2006, $666.1 million was deposited into the budget reserve fund, including a $302.2 million deposit at the end of fiscal year 2003-04 and a $363.9 million deposit at the end of fiscal year 2004-05. The financial statements for the period ending June 30, 2006 indicate a General Fund surplus of $446.5 million reserved for transfer to the budget reserve fund. If the entire surplus amount is deposited to the budget reserve fund, it would bring the projected balance in the Budget Reserve Fund to approximately $1.1 billion or 7.5% of General Fund expenditures. 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. 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 beginning July 1, 2006. Subsequent legislation has extended the implementation date to July 1, 2007 and the amortization date to July 1, 2008.

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 five business days after 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 five business days after 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 the Commissioner of Revenue Services no later than five business days after 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 the Commissioner of Revenue Services no later than five business days after 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 five business days after 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 no later than five business days after the last day of July immediately following the end of such fiscal year; (8) the accrual of nursing home provider tax received by the Commissioner of Revenue Services no later than five business days from the last day of July immediately following the end of such fiscal year; (9) 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; (10) the accrual of real estate conveyance tax revenue received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; and (11) 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 December 31 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. Asset management and inventory control applications, as well as contract and billing applications came online in fiscal year 2004-05. Additional financial enhancements relating to project management are expected to go online during fiscal year 2005-06 and future years.

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, OPM, 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 implementation problems with the CORE-CT financial management software system caused a delay in the preparation of financial statements and reports for fiscal years 2004-05 and 2005-06. The audited legal accounting basis (modified cash) financial statements for the fiscal year ending June 30, 2006 appear in **Part III-D**. The unaudited financial statements of the State prepared in accordance with generally accepted accounting principles (GAAP) for the fiscal year ending June 30, 2006 appear in **Part III-C**. It is anticipated that the audit of such financial statements will be delivered in the Spring of 2007.

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 December 31 annually to the Governor and the Investment Advisory Council as to the activities of the Office of the Treasurer for the preceding fiscal year.

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.

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. The Medium-Term Investment Fund was implemented in September 2006.

Other Funds. Up to $100 million of the state's operating cash may be invested in certificates of deposit of community banks and credit unions, pursuant to CGS 3-24k. In addition, investments are made in individual securities pursuant to CGS 3-31a. Allowable investments under CGS 3-31a include United States government and agency obligations, repurchase agreements collateralized by such obligations, certificates of deposit, commercial paper, savings accounts, and bank acceptances. The Treasurer has adopted guidelines for investments made under CGS 3-31a, which specify credit and diversification standards, and limit individual security maturities to three years and the total amount invested to $500 million.

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.

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 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.

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.

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, 2006 are included as **Appendix III-C** to this Annual Information Statement. The State gives no assurance that it will continue to prepare GAAP based financial statements in the future. Budgetary-basis financial statements for the General Fund audited for the fiscal years ending June 30, 2002 through June 30, 2006 are included in **Appendix III-D** to this Annual Information Statement. The revised adopted budgets for the fiscal years ending June 30, 2006 and June 30, 2007, the final budgetary-basis results for the fiscal year ending June 30, 2006 and the estimated (as of December 31, 2006) budget for the fiscal year ending June 30, 2007 are included as **Appendix III-E** to this Annual Information Statement. Unless otherwise stated, amounts set forth in the discussion which follows under this caption **STATE GENERAL FUND** refer to such amounts as calculated on the budgetary-basis of accounting.

General Fund Revenues

Forecasted, Adopted and Historical Revenues

Procedure For Forecasting Revenues. Revenue forecasting in Connecticut incorporates a blend of econometric modeling and economic advice obtained from an array of expert sources. Some of these major sources include: "Blue Chip Economic Indicators" which is a compilation of the consensus forecast for major national economic indicators from the top 50 economic and financial institutions; 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.

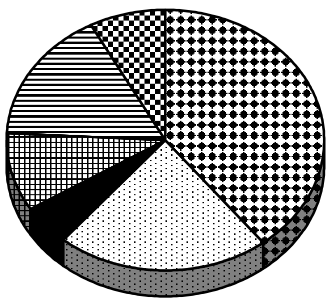
Fiscal Year 2005-2006 and 2006-2007 Adopted Revenues. General Fund revenues as forecasted at the adoption of the Midterm Budget Adjustments for the fiscal years ending June 30, 2006 and June 30, 2007 ("Adopted Revenues") are reflected in **Appendix III-E** to this Annual Information Statement. The State, as of the forecast date, expected to derive approximately 75 percent of its General Fund revenues from taxes during the 2005-06 fiscal year and the 2006-07 fiscal year. The final budgetary-basis results for the fiscal year ending June 30, 2006 and the estimated budgetary basis results (as of December 31, 2006) for the fiscal year ending June 30, 2007 are included as **Appendix III-E** to this Annual Information Statement.

General Fund revenues are derived primarily from the collection of State taxes, including the personal income tax, the sales and use tax and the corporation business tax. Miscellaneous fees, receipts, transfers and unrestricted Federal grants account for most of the other General Fund revenue. A summary of anticipated

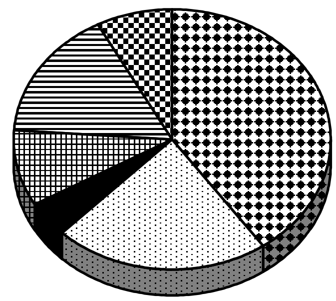
General Fund revenue sources based on the Adopted Revenues, for the fiscal years ending June 30, 2006 and June 30, 2007, are set forth below:

Adopted General Fund Revenues (In Millions)

Adopted Revenues 2005-2006
$14,743.8 [(a)]



Adopted Revenues 2006-2007
$14,998.0 [(a)]



2005-2006		
Personal Income Tax	$ 6,130.0	39.3%
Sales and Use Tax	3,383.8	21.7%
Corporate Business Tax	770.0	4.9%
Other Taxes[(b)]	1,555.6	10.0%
Unrestricted Federal Grants	2,554.0	16.4%
Other Non-Tax Revenues [(c)]	1,190.7	7.6%

2006-2007		
Personal Income Tax	$ 6,428.4	40.2%
Sales and Use Tax	3,534.0	22.1%
Corporate Business Tax	707.1	4.4%
Other Taxes[(b)]	1,481.2	9.3%
Unrestricted Federal Grants	2,573.3	16.1%
Other Non-Tax Revenues [(c)]	1,260.9	7.9%

Note: Totals may not add to 100% due to rounding.

(a) The pie charts reflect the total of the listed tax and revenue amounts of $15,584.1 million for fiscal year 2005-06 and $15,984.9 million for fiscal year 2006-07 and do not reflect tax refunds and transfers to other funds of $840.3 million for fiscal year 2005-06 and $986.9 million for fiscal year 2006-07. See **Appendix III-E** for anticipated adjustments to adopted tax revenues.

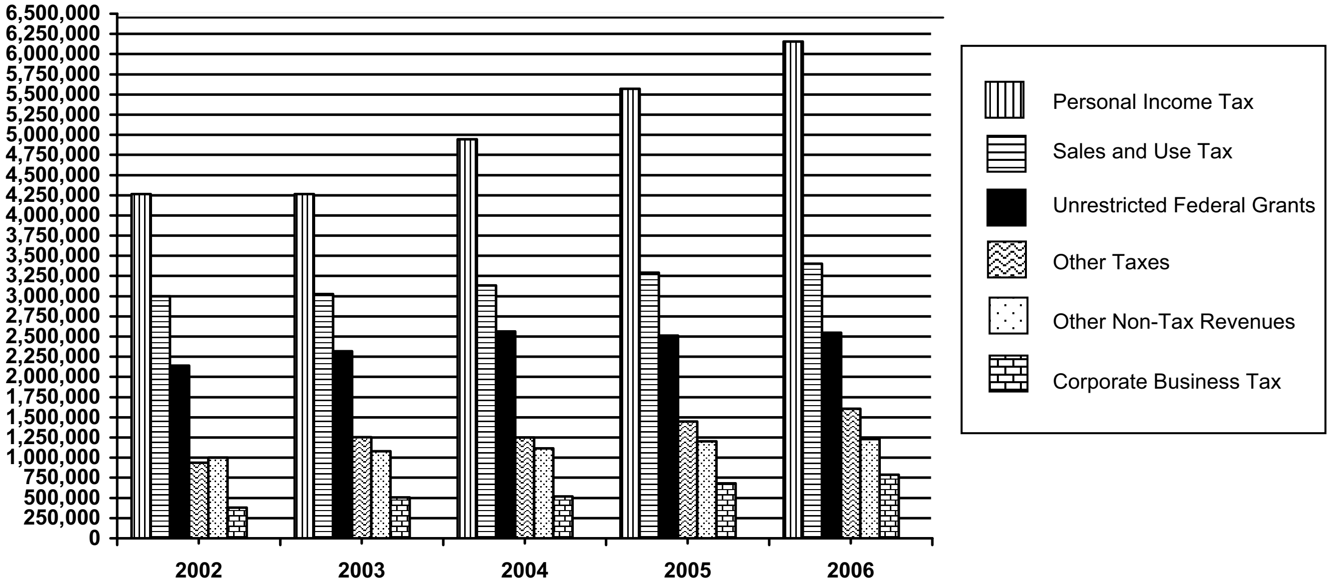
(b) Other taxes are comprised of inheritance and estate taxes, taxes on gross receipts of public service corporations, on net direct premiums of insurance companies, on oil companies, on cigarettes and alcoholic beverages, on real estate transfers, on admissions and dues, on nursing home providers and 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. 05-251 and Public Act No. 06-186.

Historical General Fund Revenues. Actual General Fund revenues for the fiscal years ending June 30, 2002 through 2006 are set forth in **Appendix III-D** to this Annual Information Statement. A summary of the composition of General Fund gross revenues for the last five fiscal years is illustrated below:

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



	2002	2003	2004	2005	2006
Taxes:					
Personal Income Tax	$ 4,265,912	$ 4,263,070	$ 4,943,430	$ 5,570,724	$ 6,156,373
Sales Tax	2,997,766	3,025,743	3,133,888	3,290,366	3,401,966
Corporate Business Tax	380,985	507,975	518,009	678,969	787,702
Other Taxes [(b)]	937,782	1,252,376	1,248,406	1,447,999	1,606,746
Subtotal..............................	8,582,445	9,049,164	9,843,733	10,988,058	11,952,787
R & D Credit Exchange……….	-	(11,148)	(10,378)	(8,850)	(6,694)
Refunds of Taxes	(851,491)	(808,209)	(650,800)	(681,279)	(730,850)
Total Net Taxes	$ 7,730,954	$ 8,229,807	$ 9,182,555	$ 10,297,929	$ 11,215,243
Other Revenue:					
Federal Grants (Unrestricted).........................	2,142,269	2,318,421	2,564,256	2,497,670	2,549,577
Other Non-Tax Revenues (Unrestricted)[(c)]......................	999,888	1,078,620	1,115,081	1,209,764	1,230,801
Transfers to Other Funds	(147,686)	(93,009)	(85,000)	(85,000)	(86,300)
Transfers from Other Funds......	120,000	489,486	346,883	142,500	89,400
Total Other Revenues	$ 3,114,471	$ 3,793,518	$ 3,941,220	$ 3,764,934	$ 3,783,478
Total Revenues	$ 10,845,425	$ 12,023,325	$13,123,775	$14,062,863	$14,998,721

(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 public service corporations, on net direct premiums of insurance companies, on oil companies, on cigarettes and alcoholic beverages, on real estate transfers, on admissions and dues, on nursing home providers 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: 2002, 2003, 2004 and 2005 Annual Reports of the State Comptroller; 2006 audited financial statements 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 2012 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 increased to $500 per filer for tax years beginning on or after January 1, 2006. 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 and domestic insurance companies are exempt from this tax. 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. In

2002 the State limited corporation credits from reducing tax liability by more than 70%. The State imposed a one time corporation business tax surcharge of 20% for income year 2003, 25% for income year 2004, 20% for income year 2006. There was no corporation business tax surcharge for income year 2005 and there is currently no corporation business tax surcharge for income year 2007.

A $250 charge is levied on LLCs, LLPs and S corporations. The tax extends to single-member LLCs that are not considered entities separate from their owners for federal tax purposes.

Other Taxes. Other tax revenues are derived from inheritance taxes, taxes on gross receipts of 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, taxes on nursing home providers beginning in fiscal year 2005-06 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 2005-06 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

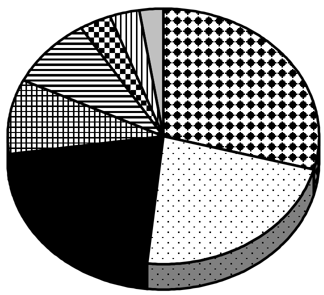
Appropriated and Historical Expenditures

Fiscal Year 2005-2006 and 2006-2007 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.

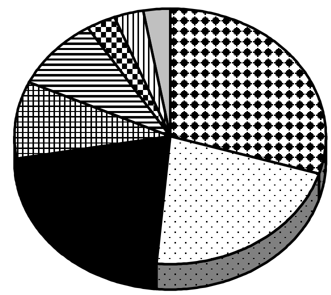
The revised adopted budgets for the fiscal years ending June 30, 2006 and June 30, 2007, the final budgetary-basis results for the fiscal year ending June 30, 2006 and the estimated (as of December 31, 2006) budgetary-basis results for the fiscal year ending June 30, 2007 are included as **Appendix III-E** to this Annual Information Statement. A summary of appropriated General Fund expenditures for the fiscal years ending June 30, 2006 and June 30, 2007 is set forth below.

Appropriated General Fund Expenditures (In Millions)

Appropriated Expenditures 2005-2006
$14,554.0[(a)]



Appropriated Expenditures 2006-2007
$14,837.1[(a)]



Human Services	$ 4,300.3	29.2%
Education, Libraries and Museums	3,312.1	22.5%
Non-Functional	3,122.2	21.2%
Health and Hospitals	1,384.4	9.4%
Corrections	1,316.8	8.9%
General Government	490.8	3.3%
Judicial	432.1	2.9%
Other Expenditures[(b)]	388.9	2.6%

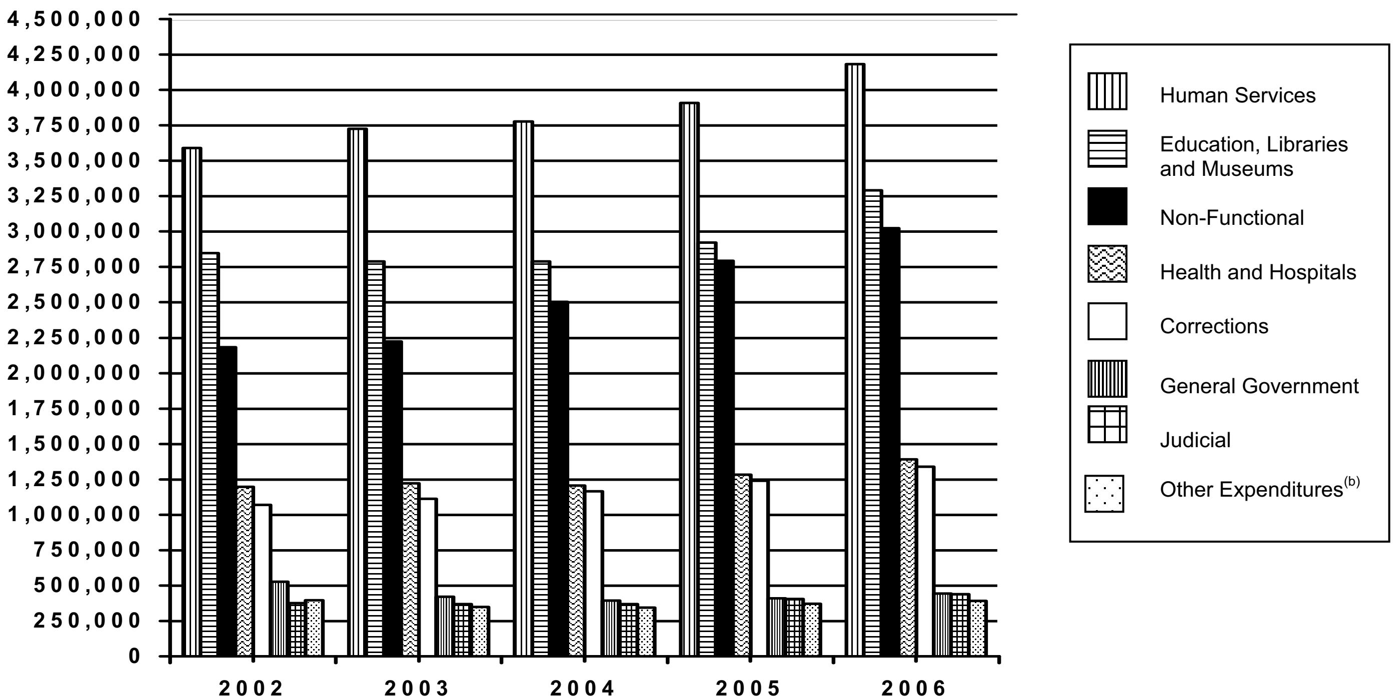
Human Services	$ 4,250.7	28.4%
Education, Libraries and Museums	3,191.5	21.3%
Non-Functional	3,256.5	21.8%
Health and Hospitals	1,463.7	9.8%
Corrections	1,416.6	9.5%
General Government	475.4	3.2%
Judicial	458.8	3.1%
Other Expenditures[(b)]	438.9	2.9%

(a) The pie charts reflect the total listed expenditures of $14,747.6 million for fiscal year 2005-06 and $14,952.1 million for fiscal year 2006-07, and do not reflect adjustments for unallocated lapses of $193.6 million for fiscal year 2005-06 and $114.9 million for fiscal year 2006-07. See **Appendix III-E** for anticipated adjustments to appropriated expenditures. Also, the totals and the pie charts do not include appropriations to be paid from revenues available from the 2004-05 fiscal year. See Page III-24 under the heading **Midterm Budget Adjustments for Fiscal Years 2005-2006 and 2006-2007** and **Appendix III-E** for further explanation.

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

SOURCE: Public Act No. 05-251 and Public Act No. 06-186.

Historical General Fund Expenditures. Actual General Fund expenditures for the fiscal years ending June 30, 2002 through 2006 are set forth in **Appendix III-D** to this Annual Information Statement. A summary of the composition of General Fund expenditures for the last five fiscal years is illustrated below:



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

	2002	2003	2004	2005	2006
Human Services	$ 3,589,653	$ 3,724,789	$ 3,776,415	$ 3,908,030	$ 4,181,893
Education, Libraries and Museums	2,847,540	2,789,051	2,789,367	2,922,543	3,290,626
Non-Functional	2,182,512	2,224,838	2,502,331	2,793,571	3,022,667
Health and Hospitals	1,198,335	1,222,978	1,206,942	1,283,235	1,392,263
Corrections	1,068,183	1,111,416	1,165,656	1,239,564	1,339,289
General Government	527,287	420,241	394,193	409,138	442,518
Judicial	376,813	368,143	368,326	405,818	438,123
Other Expenditures(b)	396,703	348,877	343,689	371,804	392,237
Totals	$ 12,187,026	$ 12,210,333	$ 12,546,919	$ 13,333,703	$ 14,499,616

(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: 2002, 2003, 2004 and 2005 Annual Reports of the State Comptroller; 2006 audited financial statements 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 revised adopted budget for the 2006-07 fiscal year, approximately 71% 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 29% 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 37% of all appropriations for Conservation and Development based upon the adopted budget for the 2006-07 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 60% of total General Fund appropriations under the adopted budget for the 2006-07 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 40% of all General Fund appropriations under the revised adopted budget for the 2006-07 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 1[1]
Fixed Charges - General Fund
Summarized by Function of Government and Expenditure Category
Including Major Expenditure Items
(In Thousands of Dollars)

	Fiscal Year 2004-05 (Actual)		Fiscal Year 2005-06 (Unaudited)		Fiscal Year 2006-07 (Appropriated)	
	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments
LEGISLATIVE						
Total – Legislative	268	0	287	0	325	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	50,730	50,730	52,824	52,824	46,730	46,730
Undesignated	31,447	16,100	35,191	18,044	38,442	20,446
Total – General Government	102,683	87,336	108,521	91,374	105,678	87,682

	Fiscal Year 2004-05 (Actual)		Fiscal Year 2005-06 (Unaudited)		Fiscal Year 2006-07 (Appropriated)	
	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments
REGULATION AND PROTECTION						
Total - Regulation and Protection.......	37	0	119	0	431	239
CONSERVATION AND DEVELOPMENT						
Total - Conservation and Development................................	29,495	20,072	28,889	19,279	28,373	15,600
HEALTH AND HOSPITALS						
Employment Opportunities and Day Services (Dept. of Mental Retardation)..................................	121,025	0	135,527	0	144,090	0
Community Residential Services (Dept. of Mental Retardation)	268,536	0	303,760	0	325,634	0
Grants for Substance Abuse Services.	21,462	0	23,089	0	22,781	0
Grants for Mental Health Services.....	74,712	0	76,537	0	75,745	0
Undesignated	44,790	10,842	46,789	11,968	50,753	12,224
Total - Health and Hospitals.......	530,525	10,842	585,702	11,968	619,003	12,224
HUMAN SERVICES						
Medicaid	2,922,403	0	3,140,689	0	3,198,510	0
Old Age Assistance...........................	29,300	0	29,565	0	30,489	0
Aid to the Disabled	54,377	0	53,273	0	55,495	0
Temporary Assistance to Families – TANF	127,855	0	120,001	0	120,434	0
Connecticut Pharmaceutical Assistance Contract to the Elderly .	60,517	0	64,280	0	54,017	0
Medicaid - Disproportionate Share - Mental Health................................	105,935	0	105,935	0	105,935	0
Connecticut Home Care Program	36,152	0	41,188	0	50,588	0
Child Care Services - TANF/CCDBG	59,588	0	73,205	0	71,220	0
Housing/Homeless Services..............	22,035	0	23,016	0	29,227	0
Disproportionate Share - Medical Emergency Assistance......... 63,725	63,725	0	67,180	0	53,725	0
DSH - Urban Hospitals in Distressed Municipalities................................	31,550	0	31,550	0	31,550	0
State Administered General Assistance......................................	131,953	0	146,342	0	154,020	0
Undesignated	48,230	5,110	65,123	5,198	69,585	6,588
Total - Human Services	3,693,620	5,110	3,961,347	5,198	4,024,795	6,588
EDUCATION, LIBRARIES AND MUSEUMS						
Charter Schools.................................	19,732	0	22,447	0	29,833	0
Transportation of School Children.....	42,696	42,696	47,964	47,964	47,964	47,964
Education Equalization Grants...........	1,563,014	1,563,014	1,619,662	1,619,662	1,595,156	1,595,156

	Fiscal Year 2004-05 (Actual)		Fiscal Year 2005-06 (Unaudited)		Fiscal Year 2006-07 (Appropriated)	
	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments
Priority School Districts	99,423	99,423	108,735	108,735	117,262	117,262
Excess Cost - Student Based	67,105	67,105	88,861	88,861	106,597	106,597
Magnet Schools	66,913	66,913	83,594	83,594	94,898	94,898
Teachers' Retirement Contributions	185,348	0	396,249	0	236,573	0
Undesignated	135,618	59,734	153,859	68,118	169,873	75,269
Total – Education	2,179,849	1,898,885	2,521,371	2,016,934	2,398,156	2,037,146
CORRECTIONS						
Community Support Services (Dept. of Correction)	21,067	0	28,227	0	30,789	0
Board and Care for Children – Adoption	51,562	0	59,132	0	62,897	0
Board and Care for Children – Foster	87,111	0	97,905	0	106,471	0
Board and Care for Children – Residential	150,960	0	158,347	0	183,189	0
Community KidCare	13,527	0	21,770	0	24,191	0
Undesignated	64,347	0	77,108	0	80,723	0
Total – Corrections	388,574	0	442,489	0	488,260	0
NON FUNCTIONAL						
Debt Service (Including UConn 2000 and CHEFA Day Care Security) [2]	1,259,138	0	1,306,090	0	1,370,901	0
Reimbursement to Towns for Loss of Taxes on State Property	69,959	69,959	75,311	75,311	73,019	73,019
Reimbursement to Towns for Loss of Taxes on Private Tax-exempt Property	105,932	105,932	111,232	111,232	115,432	115,432
Undesignated	817	0	734	0	1,063	0
Total - Non Functional	1,435,846	175,891	1,493,367	186,543	1,560,415	188,451
Total - Fixed Charges	8,360,897	2,198,136	9,142,092	2,331,296	9,225,436	2,347,930

[1] Table 1 includes actual fixed charge expenditures for fiscal year 2004-05, unaudited fixed charge expenditures for Fiscal Year 2005-06, and appropriated fixed charge expenditures for fiscal year 2006-07.

[2] Under the old coding system, Debt Service was considered a fixed charge – one of the Payments to Other Than Local Governments. Under the new coding system, Debt Service is coded as an Other Current Expense. Debt Service is included in this table for consistency with past presentation.

SOURCE: Office of Policy and Management

Fiscal Year 2004-2005 Operations:

The State ended the 2004-05 fiscal year with a surplus. The audited financial statements for the period ending June 30, 2005, indicated that General Fund revenues were $14,063.0 million, General Fund expenditures and net miscellaneous adjustments were $13,699.0 million and the General Fund surplus for the 2004-05 fiscal year was $363.9 million. The final resulting surplus balance was transferred to the Budget Reserve Fund. The surplus took into account the General Assembly's passage of the biennial budget for fiscal years 2005-06 and 2006-07, pursuant to which the legislature appropriated unanticipated additional revenues of approximately $623.9 million from the 2004-05 fiscal year for various purposes.

Appendix III-D shows the results for the 2004-05 fiscal year per the Comptroller's annual report.

Midterm Budget Adjustments for Fiscal Years 2005-2006 and 2006-2007

A number of Midterm Budget Adjustments were made to both the fiscal year 2005-06 budget and the fiscal year 2006-07 budget. The General Assembly passed and the Governor signed the Midterm Budget Adjustments contained in Public Act No. 06-186. At the time the Midterm Budget Adjustments were adopted, the General Assembly was projecting a fiscal year 2005-06 gross surplus of $701.3 million. Of this amount, Public Act No. 06-186 increased appropriations by $420.5 million in fiscal year 2005-06, of which $26.0 million was for fiscal year 2005-06 deficiencies and $394.5 million was for appropriations to fund primarily one-time expenditures over the biennium. This act also increased the original fiscal year 2006-07 General Fund appropriation for state agencies and accounts enacted last year by $92.0 million to $14,837.2 million. The Governor declared the existence of extraordinary circumstances for certain expenditures so they would not be subject to the spending cap and so that the revised fiscal year 2006-07 budget was approximately $4.0 million under the spending cap. It was expected to result in a surplus of $160.8 million based on the estimates of the General Assembly.

Public Act No. 06-186, utilized the then estimated $701.3 million fiscal year 2005-06 surplus as follows: (1) $26.0 million for fiscal year 2005-06 deficiencies; (2) $85.5 million to pay off the remaining Economic Recovery Note payments due in fiscal year 2007-08 and fiscal year 2008-09; (3) $245.6 million for the Teachers' Retirement Fund, which, when combined with existing funding, fully funded the actuarial required contributions for fiscal year 2005-06 and fiscal year 2006-07; (4) $91.0 million of expected fiscal year 2005-06 lapses would be carried forward for expenditures in fiscal year 2006-07; and (5) $63.4 million for miscellaneous purposes. These changes reduced the General Assembly's projected fiscal year 2005-06 surplus to $189.8 million. Any final surplus amount, which is now determined to be $446.5 million pursuant to the Comptroller's financial statements issued on February 28, 2007 discussed more fully below, was be added to the State's Budget Reserve Fund.

The noteworthy tax cuts contained in Public Act No. 06-186, included the repeal of the 15% corporation tax surcharge and various minor sales and admissions tax exemptions. In addition to these tax cuts, various tax credits were approved to assist in retaining and attracting businesses to the State. New credits included the formation of a film industry tax credit, a jobs creation tax credit, and a displaced worker tax credit. The act also increased the maximum property tax credit against the state personal income tax from $400 to $500 starting with tax years beginning on or after January 1, 2006. To fund new transportation initiatives, Public Act No. 06-136 increased the current transfer of General Fund petroleum gross receipts tax revenue to the Special Transportation Fund by $80 million. Total revenue policy changes were expected to result in a General Fund revenue loss of $251.0 million in fiscal year 2006-07. These policy adjustments together with the revised revenue estimates were expected to result in a net revenue increase of $249.5 million over the original fiscal year 2006-07 adopted revenue estimates.

On the expenditure side, Public Act No. 06-186 provided $92 million in additional fiscal year 2006-07 General Fund appropriations. Significant changes included an increase of $60 million for settled collective bargaining contracts and an additional $30 million for increased energy costs. Other notable changes included a total increase of $51.8 million for priority school districts, school readiness and charter schools and $10 million for the 21st century jobs initiative.

The Midterm Budget Adjustments for the 2005-06 and 2006-07 fiscal years have been reflected in **Appendix III-E** to this Annual Information Statement.

Fiscal Year 2005-2006 Operations

In the audited financial report provided by the Comptroller on February 28, 2007 for the fiscal year ending June 30, 2006 the Comptroller indicated that General Fund revenues for the 2005-06 fiscal year were $14,999.5 million, that General Fund expenditures and miscellaneous adjustments for the 2005-06 fiscal year were $14,553 million, which includes $41.0 million reserved for the 2006-07 fiscal year, and that the General Fund balance for the 2005-06 fiscal year would have a surplus of $446.5 million. No assurances can be given that subsequent adjustments or audit will not indicate changes in the final result of the fiscal year 2005-06 operations of the General Fund.

The operating results of the Comptroller for the period ending June 30, 2006 have been outlined in **Appendix III-E** to this Annual Information Statement.

Per Section 4-30a of the Connecticut General Statutes, any unappropriated surplus, up to ten percent of General Fund expenditures, must be deposited into the Budget Reserve Fund. Therefore, pursuant to the Comptroller's operating results, the entire $446.5 million is available to transfer to the Budget Reserve Fund.

Fiscal Year 2006-2007 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 report of the Office of Policy and Management dated January 22, 2007, as of December 31, 2006 the Office of Policy and Management projected that the General Fund revenues for the 2006-07 fiscal year were $15,357.0 million, General Fund expenditures and miscellaneous adjustments were estimated at $14,849.2 million and the General Fund balance was estimated to have a surplus of $507.8 million for the 2006-07 fiscal year. In the monthly report of the Office of Policy and Management dated February 20, 2007, as of January 31, 2007 the Office of Policy and Management projected that the General Fund revenues for the 2006-07 fiscal year were $15,357.0 million, General Fund expenditures and miscellaneous adjustments were estimated at $14,849.1 million and the General Fund balance was estimated to have a surplus of $507.9 million for the 2006-07 fiscal year.

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. In the Comptroller's monthly report dated February 1, 2007, as of the period ending December 31, 2006, the Comptroller estimated that the General Fund balance for the 2006-07 fiscal year would have a surplus of $542.2 million which was greater than the monthly estimates provided by the Office of Policy and Management on January 22, 2007. The next monthly report of the Comptroller is anticipated on March 1, 2007, and no assurances can be made that subsequent estimates will match these results or the results of the Office of Policy and Management.

The estimates of the Office of Policy and Management for the period ending December 31, 2006 have been outlined in **Appendix III-E** to this Annual Information Statement. The estimates of the Office of Policy and Management for the period ending January 31, 2007 have ***not*** been outlined in **Appendix III-E** to this 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 and no assurances can be given that future events will materialize as estimated or that subsequent estimates, adjustments or audit or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2006-07 operations of the General Fund.

Governor's Recommended Budget for Fiscal Years 2007-2008 and 2008-2009.

The Governor presented her budget proposal for fiscal years 2007-08 and 2008-09 to the General Assembly on February 7, 2007.

The Governor's General Fund budget proposal for fiscal year 2007-08 assumes revenues of $16,180.9 million and appropriations of $16,178.2 million, resulting in a projected surplus of $2.7 million. For fiscal year 2008-09, the Governor's General Fund budget proposal assumes revenues of $16,997.6 million and appropriations of $16,994.4 million, resulting in a projected surplus of $3.2 million.

The Governor's budget proposal includes $508.5 million in net revenue changes in fiscal year 2007-08 and $699.5 million in net revenue changes in fiscal year 2008-09. Recommended tax increases total $724.9 million in fiscal year 2007-08 and $753.8 million in fiscal year 2008-09 while tax cuts total $62.0 million in fiscal year 2007-08 and $74.9 million in fiscal year 2008-09. The more significant tax increases include: (i) increasing the 5% income tax rate to 5.25% for income year 2007 and to 5.5% for income year 2008, raising $617.5 million in fiscal year 2007-08 and $650.0 million in fiscal year 2008-09, (ii) increasing the State's cigarette tax from $1.51 per pack to $2.00 per pack, raising $86.4 million and $82.8 million, respectively, in each year of the biennium, and (iii) reforming and redefining the Film Industry Tax Credit to limit the State's potential exposure, saving the general fund $21.0 million in each year of the biennium. The more significant tax cuts include the elimination of the sales tax on electricity for commercial businesses, costing the State $30.8 million in fiscal year 2007-08 and $31.5 million in fiscal year 2008-09 and the elimination of the estate tax cliff with a phase out of the tax over the next five years, costing the State $21.3 million and $31.9 million, respectively in each year of the biennium, rising to approximately $170 million when fully phased-out.

In addition, the Governor is once again recommending the elimination of the personal property tax on automobiles. Her phased-in proposal reduces the assessed value on vehicles by an increasing amount beginning with the July 2007 tax bill. To fund this proposal, Casino Gaming funds usually deposited into the General Fund will be redirected and deposited into a newly created Casino Assistance Revenue (CAR) Fund which will reimburse towns for foregone property taxes on privately owned passenger vehicles. In order to partially offset the revenue loss to the General Fund, the Property Tax Credit on the Income Tax, now at $500 for income year 2006, will be phased out for those aged 64 and younger in the following manner: reduced to $350 for income year 2007, $225 for income year 2008, and $100 for income year 2009. In income year 2010, the Property Tax Credit will be eliminated. For those aged 65 or older the Property Tax Credit on the Income Tax will remain at $500 per income year.

As of January 22, 2007, the Office of Policy and Management estimated the surplus for the current 2006-07 fiscal year to be $507.8 million. In an effort to mitigate spending cuts and tax increases the Governor is proposing to use the surplus in the following manner: (i) depositing $151.2 million in the budget reserve fund, bringing the total balance to $1,263.5 million, (ii) funding $50 million for school textbook acquisition and deferred maintenance costs, (iii) establishing an Other Post Employment Benefits (OPEB) account with $21 million, (iv) appropriating $30 million to establish an Energy Conservation Account, (v) $150.0 million to prefund a portion of the Teachers' Retirement Board pension fund contribution in fiscal year 2008-09, and (vi) using the remaining $106.0 million for one-time expenses in fiscal year 2007-08 or as a carryforward to offset certain fiscal year 2007-08 expenditures including Medicaid, State employees health services costs and debt service.

The Governor's budget proposal assumes $400.4 million in expenditure reductions from current services in fiscal year 2007-08 and $588.0 million in expenditure reductions from current services in fiscal 2008-09. Major components of reduction are in generic areas experienced by most agencies to remove or limit expenditure growth and eliminate new or expanded programs. Others are specific items including the removal of rate increases for nursing homes and the reduction in assumptions in the Managed Care Organization

(MCO) rate in the Department of Social Services. Even with these significant reductions from current services, the Governor's budget proposal does contain an expenditure increase of 6.9% in fiscal year 2007-08 versus estimated expenditures in fiscal year 2006-07. Expenditures in the second year of the biennium also rise by 5.0%. Some significant expenditure changes include: (i) increased education appropriations related to the Governor's education initiatives totaling $246.9 million in fiscal year 2007-08 with an additional $177.0 million in fiscal year 2008-09, (ii) Medicaid up $187.1 million in the first year of the biennium and $173.2 million in the second year of the biennium, (iii) debt service up $48.1 million in fiscal year 2007-08 and $128.3 million in fiscal year 2008-09, (iv) state employee retirement contributions and health benefits, totaling $26.6 million in fiscal year 2007-08 and $86.0 million in fiscal year 2008-09, (v) Department of Mental Retardation, up $50.4 million and $32.9 million, respectively, in each year of the biennium, (vi) Department of Children and Families, up $75.2 million and $35.1 million, respectively, in each year of the biennium, and (vii) the new Charter Oak Health Plan at $16.7 million in each year of the biennium.

The Governor is also proposing to fully fund the Teachers' Retirement Board (TRB) pension fund at the actuarially required contribution amount of $518.6 million in fiscal year 2007-08 and $539.3 million in fiscal year 2008-09. This contribution level is up from $396.2 million in fiscal year 2005-06 and $412.1 million in fiscal year 2006-07. The fiscal year 2005-06 and fiscal year 2006-07 figures are inclusive of a total of $345.6 million in fiscal year 2004-05 and fiscal year 2005-06 surplus appropriations. Likewise, $150.0 million of the fiscal year 2006-07 surplus is recommended to fund a portion of the fiscal year 2008-09 proposed TRB contribution. In addition to the $150.0 million use of fiscal year 2006-07 surplus for the TRB contribution, $90.0 million of fiscal year 2007-08 resources is proposed to be transferred for General Fund use in fiscal year 2008-09. The Governor's budget proposal also includes funding for pay increases for employees covered by settled and unsettled collective bargaining contracts and for employees not covered by collective bargaining.

The Governor also proposes to fund the State Employees Retirement System (SERS) at the full actuarial determined required contribution amounts of $716.9 million in fiscal year 2007-08 and $753.7 million in fiscal year 2008-09. The General Fund portion of the contribution amount is $481.8 million in fiscal year 2007-08 and $504.4 million in fiscal year 2008-09. The Governor's budget proposal includes funding for pay increases for employees covered by settled and unsettled collective bargaining contracts and for employees not covered by collective bargaining.

Article XXVIII of the Amendments to the Constitution of the State of Connecticut and Section 2-33a of the Connecticut General Statues codify the language on the State's expenditure cap. As mentioned above, the Governor's budget proposal includes major reforms in the area of education funding, responsible growth initiatives, and lowering the property tax burden on tax payers. Moving forward with these fiscal reform initiatives would not be possible within the 3.31% permitted expenditure cap growth rate. Therefore, the proposed budget is above the expenditure cap in fiscal year 2007-08 by approximately $521 million. 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 undertake the reforms associated with her budget proposal. This declaration would have to be ratified by a three-fifths vote of each house of the General Assembly. The Governor's proposed fiscal year 2008-09 budget does not exceed the spending cap assuming the declaration for fiscal year 2007-08.

The Governor's proposed budget also includes general obligation bond authorizations of $1,356.0 million to take effect in fiscal year 2007-08 and $1,238.7 million to take effect in fiscal year 2008-09. The Governor's recommendations also include $175 million in additional clean water revenue bond authorizations to take effect in each year of the biennium and special transportation obligation bond authorizations of $369.7 million to take effect in fiscal year 2007-08 and $232.3 million in fiscal year 2008-09. For the University of Connecticut, the Governor is recommending a $5 million reduction in fiscal year 2007-08 and $15 million reduction in fiscal year 2008-09 in the University's annual authorization leaving the University with a $115 million authorization effective in fiscal year 2007-08 and a $140 million in fiscal year 2008-09.

Deliberations on the Governor's budget recommendations are expected to continue throughout the legislative session with an expected adjournment date of June 6, 2007.

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 2002 through 2006 are set forth in **Appendix III-D** to this Annual Information Statement.

TABLE 2

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

(In Millions)

Fiscal Years Ending June 30

	2002	2003	2004	2005	2006
Total General Fund Revenues[(a)]	$10,845.4	$ 12,023.3	$ 13,123.8	$ 14,062.9	$14,998.7
Net Appropriations/Expenditures[(b)]	11,662.5	12,119.9	12,821.6	13,699.0	14,552.2
Operating Surplus/(Deficit)	$ (817.1)[(c)]	$ (96.6)[(d)]	$ 302.2[(e)]	$ 363.9[(f)]	$ 446.5[(g)]

(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) $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.

(d) 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.

(e) The entire surplus balance of $302.2 million was reserved for transfer to the Budget Reserve Fund.

(f) The entire surplus balance is reserved for transfer to the Budget Reserve Fund.

(g) The entire surplus balance is reserved for transfer to the Budget Reserve Fund after all adjustments and the audit have been completed.

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. Unaudited GAAP based financial statements for fiscal year 2006 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

	2002	2003	2004	2005	2006 (unaudited)
Modified Cash Basis Operating Surplus/(Deficit)....	$ (817.1)	$ (96.6)	$ 302.2	$ 363.9	$ 446.5
Adjustments:					
Increases (decreases) in revenue accruals:					
Governmental Receivables...............................	37.0	(3.9)	94.2	(98.2)	10.5
Other Receivables	9.0	(75.0)	22.6	(33.5)	25.7
(Increases) decreases in expenditure accruals:					
Accounts Payable and Other Liabilities	69.4	59.6	(165.6)	(60.3)	(37.7)
Salaries and Fringe Benefits Payable	(15.6)	8.7	(97.2)	61.0	(22.3)
Increase (decrease) in Continuing Appropriations	(543.8)	(82.0)	126.2	481.6	8.4
Reclassification of equity adjustments	--	--	132.3	15.8	41.0
Proceeds of Recovery Notes......................................	--	222.4	96.6	--	--
Transfer of restricted resources	--	--	(304.4)	--	--
Transfer of prior year surplus	--	--	--	(150.4)	(15.8)
GAAP Based Operating Surplus/(Deficit)................	$(1,261.1)	$ 33.2	$ 206.9	$ 579.9	$ 456.3

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

	2002	2003	2004	2005	2006
Operating Surplus/Deficit	$ (817.1)	$ (96.6)	$ 302.2	$ 363.9	$446.5
Fund Transfers and Reserves					
Transfers to Budget Reserve Fund.........................	--	--	302.2	363.9	446.5
Transfers from Budget Reserve Fund…………….	594.7		--	--	--
Economic Recovery Note Debt Retirement	--	--	--	--	--
Reserve for Transfers to Budget Reserve Fund......	--	--	--	--	--
Reserve for Debt Service Appropriation................	--	--	--	--	--
Reserve for Debt Avoidance	--	--	--	--	--
Total Transfers/Reserves	594.7	0	302.2	363.9	446.5
Unreserved Fund Balance					
Surplus/(deficit)...	$ (222.4)	$ (96.6)	$ 0.0	$ 0.0	$ 0.0

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

	2002	2003	2004	2005	2006 (unaudited)
Unreserved Fund Balance (Deficit)					
Modified Cash Basis	$ (222.4)	$ (96.6)	$ 0.0	$ 0.0	$ 0.0
GAAP Based Adjustments					
Continuing Appropriations Available for GAAP Liabilities	-	-	-	-	-
Additional Assets					
Taxes Receivable					
Income Tax Accrual Reduction	(221.8)	(268.2)	(233.5)	(300.3)	(282.1)
Eliminate Corporation Accrual	(16.9)	(19.0)	(12.9)	(14.7)	(12.4)
Additional Taxes Receivable	9.3	15.2	6.4	6.4	8.0
Net Increase (Decrease) Taxes	(229.4)	(272.0)	(240.0)	(308.6)	(286.5)
Net Accounts Receivable	57.3	87.3	155.0	167.6	152.6
Federal and Other Grants Receivable[(a)]	582.0	478.2	589.7	491.4	501.9
Due From Other Funds	13.1	13.0	23.8	19.7	22.2
Total Additional Assets	$ 423.0	$ 306.5	$ 528.5	$ 370.1	$ 390.2
Additional Liabilities					
Salaries and Fringe Payable	(189.3)	(180.6)	(233.8)	(172.7)	(195.0)
Accounts Payable—Department of Social Services	(704.8)	(631.3)	(723.0)	(707.0)	(718.4)
Accounts Payable—Trade & Other	(180.7)	(162.4)	(335.1)	(362.9)	(372.9)
Payable to Local Governments	-	-	-	-	-
Payable to Federal Government	(62.0)	(49.5)	(120.9)	(71.0)	(61.0)
Due to Other Funds	(7.8)	(28.4)	(15.9)	(94.2)	(101.7)
Total Additional Liabilities	$(1,144.6)	$(1,052.2)	$(1,428.7)	$(1,407.8)	$(1,449.0)
Unreserved Fund Balance (Deficit)					
GAAP Basis	$ (944.0)	$ (842.3)	$ (900.2)	$ (1,037.7)	$ (1,058.8)

(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

	2002	2003	2004	2005	2006 (unaudited)
Reserved:					
Petty Cash	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$ 1.0
Budget Reserve	-	-	302.2	666.0	1,112.5
Loans & Advances to Other Funds	5.9	6.7	16.8	23.3	20.6
Restricted Purposes	283.2	249.3	150.3	15.9	41.0
Inventories	41.9	42.1	37.5	34.0	39.3
Continuing Appropriations	167.8	86.6	212.8	694.4	702.9
Debt Service	9.3	55.1	-	-	-
Total	509.1	440.8	720.6	1,434.6	1,917.3
Unreserved:	(944.0)	(842.3)	(900.2)	(1,037.7)	(1,058.8)
Total Fund Balance	$ (434.9)	$ (401.5)	$ (179.6)	$ 396.9	$ 858.5

SOURCE: Comptroller's Office

STATE DEBT

Constitutional Provisions

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

Types of State Debt

Pursuant to various public and special acts the State has authorized a variety of types of debt. These types fall generally into the following categories: direct general obligation debt, which is payable from the State's General Fund; special tax obligation debt, which is payable from specified taxes and other funds which are maintained outside the State's General Fund; and special obligation and revenue debt, which is payable from specified revenues or other funds which are maintained outside the State's General Fund. In addition, the State has a number of programs under which the State provides annual appropriation support for, or 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, the amount of authorized but unissued debt for the UConn 2000 program 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, 2006 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 February 1, 2007, is described in the following table.

TABLE 7
Statutory Debt Limit
as of February 1, 2007

Total General Fund Tax Receipts	$11,250,700,000.00	
Multiplier	1.60	
Debt Limit		$18,001,120,000.00
Outstanding Debt[(a)]	$9,685,107,242.54	
Guaranteed Debt[(b)]	$781,780,146.50	
Authorized Debt[(c)]	$3,055,279,148.45	
Total Subject to Debt Limit		$13,522,166,537.49
Less Debt Retirement Funds[(d)]	$40,564,702.18	
Aggregate Net Debt		$13,481,601,835.31
Debt Incurring Margin		$4,519,518,164.69

(a) 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. The amount outstanding does not include $10 million 2006 Series A Taxable Bond Anticipation Notes and that amount has not been deducted from authorized and unissued amounts.

(b) 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.

(c) Includes guarantee for UConn 2000 Bonds authorized but unissued under cap for 2006-07 fiscal year.

(d) 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 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 to be financed over a 10-year period. In 2002 the General Assembly extended the existing UConn 2000 financing program for an additional 10 years from July 1, 2005 through June 30, 2015 and increased the total estimated project costs to $2,598 million. The act authorized the University to borrow money to finance the UConn 2000 projects 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 $2,262 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 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, 2008.

Supportive Housing Financing. In 2005 the General Assembly directed the Connecticut Housing Finance Authority ("CHFA") in conjunction with other state agencies to develop a collaborative plan to create affordable housing and support services for specified eligible persons and families up to a specified number of units. The program is to be funded in part through mortgages, tax credits and grants from CHFA and the Department of Economic and Community Development. CHFA is authorized to issue bonds in support of the program and the State Bond Commission has authorized the Treasurer and OPM to enter into a contract to provide State assistance and pay debt service on the bonds in the form of payments of principal, interest, interest swap payments, liquidity fees, letter of credit fees, trustee fees and other similar bond-related expenses. Bonds supported by such state assistance shall not exceed $70 million in the aggregate. Any provision in the contract providing for the payments of annual debt service will constitute a full faith and credit obligation of the State, and any bonds for which the State provides assistance will be excluded from the State's debt limit.

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.

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 semiannually 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 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.

The State has entered into swap agreements in connection with various bond issues. The swap agreements typically provide for early termination in certain events, and such "termination events" could result in the State being required to make unanticipated termination payments. Such payments, if any are due, may be substantial. In some cases the State has up to 270 days to make any such termination payments. The amounts payable to each swap provider under the respective swap agreement, including any termination payments, will be general obligations of the State. The State is obligated to make debt service payments on its bonds regardless of the performance of the swap provider of its obligations under the swap agreement. Listed below is a summary of the various swap agreements the State has entered into in connection with its general obligation bonds. See also **Appendix C, Note 17 – Interest Rate Swaps**.

Swap Agreements

Bond Issue	Notional Amount	Termination Date	Fixed Rate Paid by State
2001 Series B	$ 20,000,000	June 15, 2012	4.33%
2005 Series A	$140,000,000	March 1, 2023*	3.392
2005 Series A	$140,000,000	March 1, 2023*	3.401
2005 Series B	$ 15,620,000	June 1, 2016	3.99
2005 Series B	$ 20,000,000	June 1, 2017	5.07
2005 Series B	$ 20,000,000	June 1, 2020	5.20

*Starting in 2015 the State has the option to terminate the then remaining portion of these swap agreements without making a termination payment.

Debt Statement

The following table shows all direct general obligation indebtedness (including the accreted value of capital appreciation bonds as of February 1, 2007) 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 February 1, 2007
(In Thousands)

General Obligation Bonds	$9,649,262
UConn 2000 Bonds	789,245
Lease Financings	35,845
Tax Increment Financings	35,665
Long Term General Obligation Debt Total	10,510,017
Short Term General Obligation Debt Total	
Gross Direct General Obligation Debt	10,510,017
Deduct:	
University Auxiliary Services [(b)]	40,565
Net Direct General Obligation Debt	$10,469,452

(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)

	2002	2003	2004	2005	2006
Gross Direct Debt[(a)]	$8,619,092	$9,289,485	$9,935,339	$10,161,489	$10,377,526
Net Direct Debt[(a)]	$8,492,234	$9,239,987	$9,890,111	$10,114,517	$10,324,910
Ratio of Debt to Personal Income [(b)]					
Gross Direct Debt	5.86%	6.24%	6.25%	6.09%	6.22%
Net Direct Debt	5.78%	6.20%	6.22%	6.06%	6.19%
Ratio of Debt to Estimated Full Value[(c)]					
Gross Direct Debt	2.39%	2.37%	2.24%	2.07%	1.85%
Net Direct Debt	2.36%	2.36%	2.23%	2.06%	1.84%
Per Capita Debt[(d)]					
Gross Direct Debt	$2,493	$2,668	$2,844	$2,902	$2,961
Net Direct Debt	$2,456	$2,654	$2,831	$2,889	$2,946

(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: 2002—$146,998 million; 2003 — $148,976 million; 2004 — $158,896 million; and 2005—$166,807 million. The 2006 ratio uses 2005 data.
(c) Full value estimated by OPM. Uses final equalized net grand lists: 2000—$360 billion; 2001—$392 billion; 2002 — $444 billion; and 2003 — $490 billion; and 2004 — $560 billion. Property is assessed as of October 1 in each year for the tax levy effective the following July 1. The 2002 ratio uses 2000 data; 2003 ratio uses 2001 data; 2004 ratio uses 2002 data; 2005 ratio uses 2003 data; and 2006 ratio used 2004 data.
(d) See **Appendix III-B, Table B-1**. State population 2002—3,458,000; 2003—3,482,000; 2004—3,494,000; 2005 — 3,501,000; and 2006 — 3,505,000.

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 February 1, 2007. 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 February 1, 2007

Fiscal Year	Principal Payments (b)	Interest Payments (b)-(c)	Total Debt Service
2007	$ 407,162,581.88	$ 244,438,662.60	$ 651,601,244
2008	854,867,791.07	537,895,920.18	1,392,763,711
2009	801,514,554.28	541,616,588.04	1,343,131,142
2010	803,559,243.08	497,710,549.16	1,301.269,792
2011	789,219,705.96	400,934,306.65	1,190,154,013
2012	728,821,696.29	342,933,233.93	1,071,754,930
2013	659,684,369.11	289,142,662,93	948,827,032
2014	612,340,000.40	243,116,233.30	855,456,234
2015	594,811,365.00	204,411,185.20	799,222,550
2016	546,650,061.00	175,377,996.92	722,028,058
2017	523,094,988.00	150,661,822.33	673,756,810
2018	488,220,569.00	126,908,761.51	615,129,331
2019-2031	2,285,798,503.00	359,333,595.64	2,645,132,099
Totals	$10,095,745,428.07	$4,114,481,518.39	$14,210,226,946

(a) Includes long-term general obligation debt as outlined in **Table 8**. The future principal payments ($10,095,745,428), plus accreted interest ($414,271,622), total the amount of such long-term debt ($10,510,017,050) 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. Capital appreciation bonds mature in fiscal years 2007-2014.

(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:

Year Issued	Amount Issued	Amount Outstanding	Maturities	Interest Rate
1997	$ 100,000,000	$ 80,000,000	2007-2014	3.75%
2001	100,000,000	100,000,000	2018-2021	3.75
2001*	20,000,000	20,000,000	2012	4.33
2002	100,000,000	75,000,000	2007-2012	4.25
2003	77,700,000	53,700,000	2007-2013	4.25
2005*	300,000,000	290,000,000	2007-2023	3.95
2005*	15,620,000	15,620,000	2016	3.99
2005*	20,000,000	20,000,000	2017	5.07
2005*	20,000,000	20,000,000	2020	5.20

* Assumed average interest rate based on interest rate swap agreement(s).

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, 2006-In Thousands)

Fiscal Year	Gross Debt	Net Debt	Fiscal Year	Gross Debt	Net Debt
1992	$ 5,235,879 [a]	$ 5,118,368 [a]	2000	$7,432,891	$7,315,945
1993	5,594,715 [b]	5,479,474 [b]	2001	7,920,531	7,795,785
1994	5,962,250 [c]	5,845,233 [c]	2002	8,619,092	8,492,234
1995	6,186,518 [d]	6,051,141 [d]	2003	9,289,485 [h]	9,239,987 [h]
1996	6,573,810 [e]	6,428,391 [e]	2004	9,935,339 [i]	9,890,111 [i]
1997	6,826,826 [f]	6,678,398 [a]	2005	10,161,489 [j]	10,114,517 [j]
1998	6,981,212 [g]	6,865,905 [g]	2006	10,377,526 [k]	10,324,910 [k]
1999	7,176,905	7,067,276			

(a) Includes $915,710,000 Economic Recovery Notes.
(b) Includes $705,610,000 Economic Recovery Notes.
(c) Includes $555,610,000 Economic Recovery Notes.
(d) Includes $315,710,000 Economic Recovery Notes.
(e) Includes $236,055,000 Economic Recovery Notes.
(f) Includes $157,055,000 Economic Recovery Notes.
(g) Includes $78,055,000 Economic Recovery Notes.
(h) Includes $219,235,000 Economic Recovery Notes.
(i) Includes $273,215,000 Economic Recovery Notes.
(j) Includes $209,560,000 Economic Recovery Notes.
(k) Includes $148,090,000 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 February 1, 2007, 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, 2006.

TABLE 12

Authorized but Unissued Direct General Obligation Debt
as of February 1, 2007
(In Thousands)

	State Direct Debt	UCONN 2000[(a)]	Tax Increment[(b)]	Total
Bond Acts in Effect	$20,190,698	$1,176,737	$52,750	$21,420,185
Amount Authorized	18,877,961	1,176,737	52,750	20,107,448
Amount Issued	17,224,419	1,087,737	49,155	18,361,311
Authorized but Unissued	1,653,542	89,000	3,595	1,746,137
Available for Authorization	1,312,737			1,312,737

(a) Includes bonds which may be issued under the cap in effect on the date of the table. The amount available for authorization does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest. Amount issued has been adjusted to reflect increases due to closing costs and decreases due to premiums.
(b) The amount of tax increment bonds authorized is based on the amount authorized by the State Bond Commission as of February 1, 2007 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

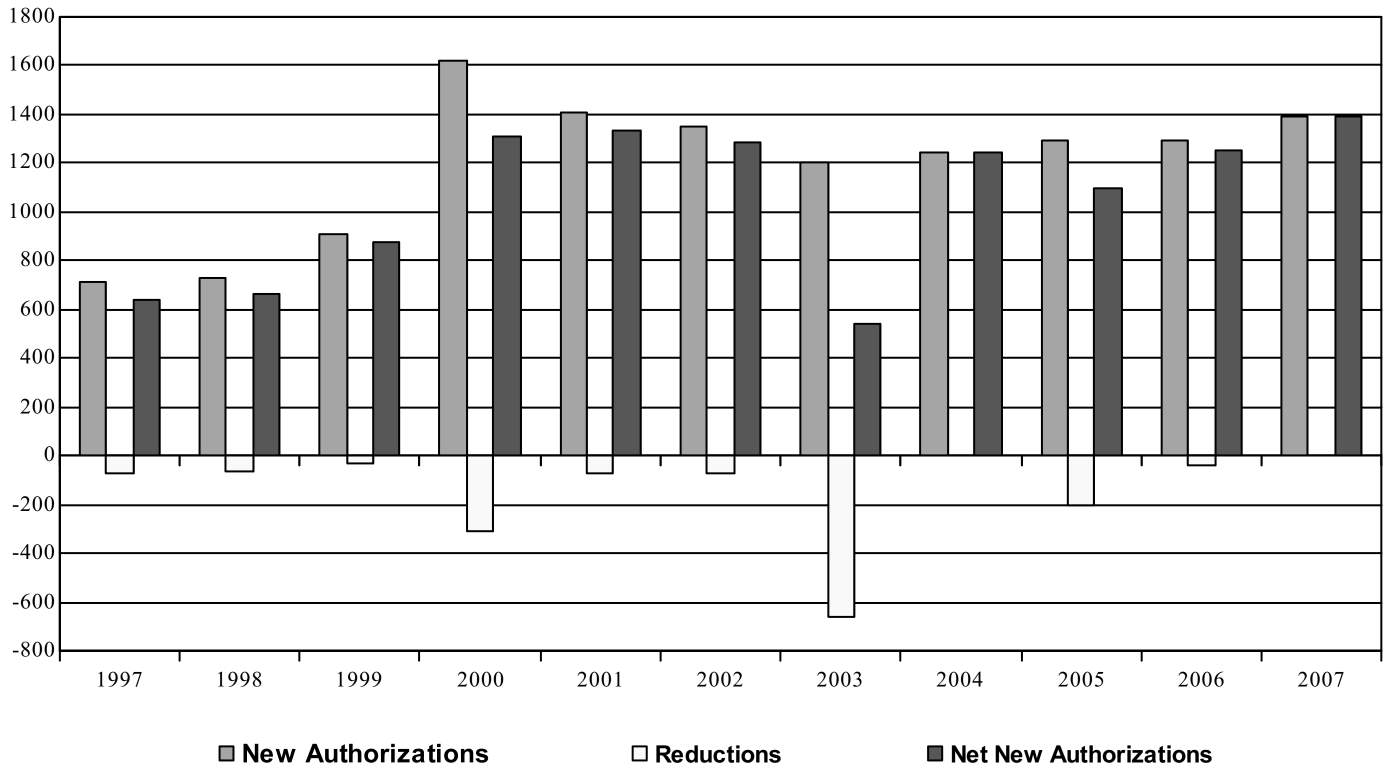
Statutory General Obligation Bond Authorizations and Reductions[(a)]
(In Millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
New Authorizations	$710.1	$729.8	$908.8	$ 1,621.6	$1,407.9	$1,351.6	$1,201.0	$1,246.1	$1,296.5	$1,290.4	$1,388.7
Reductions	(74.3)	(66.0)	(31.7)	(308.4)	(70.1)	(69.9)	(663.6)	0.0	(200.3)	(41.3)	0.0
Net New Authorizations	$635.8	$663.8	$877.1	$1,313.2	$1,337.8	$1,281.7	$ 537.4	$1,246.1	$1,096.2	$1,249.1	$1,388.7

(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 any authorizations which take effect after 2007.

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	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Policy & Management	$ 228,600	$ 210,600	$ 165,000	$ 131,800	$ 167,399	$ 143,549
Revenue Services	0	0	20,100	20,100	11,300	0
Comptroller	50,000	0	34,000	8,800	17,288	968
Administrative Services	53,000	0	0	0	0	0
Information Technology	4,500	0	5,000	10,000	5,000	4,800
Veterans Affairs	0	0	0	15,232	2,628	900
Public Works	52,900	15,000	35,400	19,000	12,500	12,500
Public Safety (POST)	10,000	0	0	10,250	6,375	4,655
Motor Vehicles	0	0	1,000	0	10,000	0
Military	0	0	0	500	2,013	2,900
Agriculture	3,000	3,000	0	2,500	9,750	11,000
Environmental Protection	191,000	106,250	69,000	5,500	70,330	77,527
Economic and Community Development:						
Housing	10,000	10,000	0	20,500	21,000	15,000
Housing Trust Fund[(a)]	0	0	0	0	20,000	20,000
Economic Development	110,900	51,000	17,000	0	5,000	5,000
Other	0	0	0	13,500	35,105	26,125
Ct Innovations Inc.	10,000	10,000	5,000	0	0	0
Public Health	12,500	1,000	0	55,000	8,000	8,250
Mental Retardation	2,500	1,500	0	2,000	6,600	2,000
Mental Health and Addiction Services	6,000	6,000	0	5,000	6,000	1,000
Social Services	3,500	0	0	6,000	21,044	12,785
Education	191,800	488,100	495,000	660,397	630,000	694,400
State Library	2,500	2,500	0	3,500	4,300	5,425
Culture & Tourism	1,300	1,300	0	4,600	7,080	4,600
Charter Oak State College	0	0	0	0	50	0
Regional Community-Technical Colleges	69,070	66,162	120,180	90,430	62,214	99,898
State University	88,550	95,658	126,485	80,708	44,211	131,219
Legislative Management	0	0	0	0	300	0
Children & Families	15,000	3,000	0	4,000	19,225	10,180
Judicial	56,500	27,500	32,888	17,200	5,650	5,000
CPTV	2,500	2,500	1,000	2,000	1,000	0
Corrections	50,000	0	10,000	0	0	0
UConn	0	0	0	8,000	0	0
UConn Health	0	0	2,000	0	0	0
UConn 2000 [(b)]	100,000	100,000	100,000	100,000	79,000	89,000
Hartford Econ Dev Projects	26,000	0	7,000	0	0	0
Totals	$1,351,620	$1,201,070	$1,246,053	$1,296,517	$1,290,362	$1,388,681

(a) Does not include $60 million of authorizations for the Housing Trust Fund which take effect from fiscal years 2007-08 through 2009-10.

(b) 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 $1,171 million of authorizations for UConn 2000 which take effect from fiscal years 2007-08 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.

As of January 31, 2006, the cost of the infrastructure program for State fiscal years 1985-2010, which was to be met from federal, State, and local funds, was estimated at $19.4 billion. During fiscal years 1985-2006, $16.2 billion of the total infrastructure program was approved. The remaining $3.2 billion of such estimate is required for fiscal years 2007-2010. As of January 31, 2006, the $3.2 billion was comprised of $1.19 billion from the anticipated issuance of new special tax obligation bonds, $51.2 million in anticipated revenues, and $1.97 billion in anticipated federal funds. The State's share of the 1985-2010 infrastructure program costs, estimated at $7.2 billion as of January 31, 2006, 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 was estimated at $0.6 billion as of January 31, 2006 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. As of January 31, 2006, such expenses included 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 1985-2010 to be financed by STO bonds was estimated at $6.6 billion as of January 31, 2006. The actual amount may exceed such $6.6 billion estimate 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 February 1, 2007. 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 February 1, 2007
(In Millions)

	New Money	Refundings[(a)]	Total
Amount Authorized	$7,732	n/a	$7,732
Amount Issued	5,647	2,828	8,475
Amount Outstanding	1,485	1,331	2,816

(a) Refunding Bonds do not require legislative approval.

SOURCE: State Treasurer's Office

In addition to STO Bonds, the State has issued direct general obligation bonds for transportation purposes and the debt service on these bonds 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, 2006 the Special Transportation Fund paid $3.1 million of State direct general obligation transportation debt service payments. The amount budgeted by the Special Transportation Fund for State direct general obligation transportation debt service payments for fiscal year 2006-07 is $3.5 million.

During the past several years the Fund's revenues and expenses have undergone a variety of legislative changes. In 2003, one act provided for a one-time transfer of $52 million from the Fund to the State's General Fund. In 2004, legislation increased the tax on gasohol and raised various motor vehicle fees resulting in an $18.6 million benefit to the Fund. In 2005, one act increased the scheduled transfers to the Fund from the State's General Fund from Oil Companies Tax revenue by $22.5 million in fiscal year 2006, $30 million in fiscal year 2007, $53 million in fiscal year 2008, $79.9 million in fiscal years 2009-2013, and $98 million thereafter. In 2006, legislation again increased the scheduled transfers to the Fund from the State's General Fund from Oil Companies Tax revenue by $80 million in fiscal years 2007 - 2010 and by $100 million in fiscal year 2011 and thereafter.

In addition, the fifteen member Transportation Strategy Board ("TSB") was established in 2001 to propose a transportation strategy, an implementation cost estimate and funding approaches to the Governor and General Assembly. 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. The TSB presented the initial transportation strategy to the Governor and General Assembly on January 6, 2003. In January 2007, as required in Public Act No. 06-136, the TSB again presented "Connecticut's Transportation Strategy" to the Governor and General Assembly.

In 2003 legislation was passed authorizing the issuance of approximately $265 million in bonding for a ten-year period to implement the strategy-related projects submitted by TSB. Legislation passed later in 2005 repealed the 2003 bond authorization and established fixed transfers from the Special Transportation Fund to the TSB project accounts in the amounts of $25.3 million in fiscal year 2005-06, $20.3 million in fiscal year 2006-07, $15.3 million in fiscal years 2007-08 through 2014-15 and $.3 million in fiscal year 2015-16 and thereafter. Public Act No. 05-04 and Public Act No. 06-136 together authorize the issuance of more than $2.1 billion of special tax obligation bonds for the ten-year period from 2005 to 2014 for transportation system improvements, many of which are TSB recommended projects. As of February 1, 2007, $1.89 billion of the amount authorized is effective with $270 million becoming effective in in fiscal years 2008-10 and is included in **Table 15**.

Public Act No. 06-136 also authorizes the possible issuance of $1.3 billion in bonds in anticipation of future federal transportation funds.

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 February 1, 2007, there were $217.9 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 February 1, 2007 $47.7 million of such bonds are outstanding.

The board of directors of Bradley Airport and the State Bond Commission approved a transaction authorizing the State Treasurer to refund Bradley International Airport General Airport Revenue Bonds, Series 2001A (AMT) for expected delivery in 2011 or thereafter and to enter into a forward starting interest rate swap transaction for the purpose of locking in current market savings. Pursuant to such authorization the State entered into certain swap agreements in April 2006.

Clean Water Fund

The General Assembly has authorized the issue of up to $1,338.4 million revenue bonds, of which $1,013.1 million have been issued, 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 primarily 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 February 1, 2007 $607.3 million revenue bonds were outstanding (including refunding bonds).

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 established the Second Injury Fund in 1945 to encourage the hiring of persons with pre-existing physical impairments, such as veterans and provide 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. In 1995 and 1996, the State enacted legislation to close the Second Injury Fund to future second injury claims. Those laws 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 paying past claims. No bonds are currently outstanding. 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 to sustain funding of the conservation and load management and the renewable energy investment programs established under the general statutes. The State issued $205.3 million Special Obligation Rate Reduction Bonds (2004 Series A) in June 2004. As of February 1, 2007, $139.4 million remain outstanding. The bonds are secured by certain revenues collected through a non-bypassable charge imposed upon each customer of the electric utilities within the State. Such revenues are property of the State and are pledged towards payment of debt service on the bonds and related costs, which pledge is a first priority lien on such revenues. The net proceeds of the bonds were deposited in the General Fund.

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, the Connecticut Resources Recovery Authority and the Capital City Economic Development 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, or other contractual arrangement, 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 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 sum of the amounts available in the Insurance Fund plus the amount of any unpaid grants authorized to be made by the Department of Economic and Community Development from bonds authorized to be issued. As of February 1, 2007, the Insurance Fund (i) had no funds available and (ii) had $20.45 million of State bonds which have been authorized but remain unissued. As of February 1, 2007, loans insured by the Insurance Fund totaled $6.5 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 The Bank of New York, as successor trustee, 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 February 1, 2007, $10.675 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, or for clinical services projects for The University of Connecticut Health Center, and up to $100.0 million 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 with $14.83 million bonds remaining outstanding and a minimum special capital reserve requirement of $1.55 million because of a nursing home's failure to make monthly debt service payments. A receiver for the facility was appointed by the State Superior Court on November 3, 2005, upon application of the Office of the State Attorney General. On September 29, 2006 the State Treasurer advanced from the State's General Fund Debt Service Account $5,225,000 towards the redemption on November 1, 2006 of all such outstanding bonds.

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 and certain student parking fees as a source of funds for the payment of debt service on the bonds. The types of facilities of the System financed through CHEFA were financed in the past 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.

Although CHEFA is authorized to issue bonds secured by a special capital reserve fund to finance equipment acquisitions by hospitals and clinical services projects for The University of Connecticut Health Center, these programs have not yet been implemented.

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 $1 billion. 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, as well as other mortgages specifically pledged. 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.

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, including bonds for group homes, assisted living facilities, supportive housing and residential care homes, which bonds are and will be 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.

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 February 1, 2007, 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 project in Hartford. The bonds are to be backed by State contractual assistance equal to annual debt service. In 2004 a public act 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 bonds and other borrowings and in December 2004 approved an increase in the authorized amount to $122.5 million. CCEDA has issued $87.5 million of its revenue bonds backed by the State's contract assistance agreement equal to annual debt service on the revenue bonds, consisting of $72.5 million issued in July 2004 and $15 million issued in August 2005. The State's obligation under the contract assistance agreement is limited to $6.7 million per year, and the Authority's debt obligations are structured not to exceed this amount. An additional $12.5 million of borrowing, not backed by the contract assistance agreement, has been incurred in the form of a credit agreement, but has not yet been drawn upon. The remaining $22.5 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. Debt service on the revenue bonds is payable from debt service appropriations in the General Fund and CCEDA reimburses the State for such contract assistance payments from parking and energy fee revenues after payment of operating expenses. Under the agreement between CCEDA and the State, after completion of the convention center project 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**.

The convention center portion of the project opened in June 2005. Other elements of the project include an adjacent parking structure which opened later in 2005, an adjacent parking structure underlying the Connecticut Science Center currently under construction, and a retail and entertainment district which has not yet started construction. The full convention center project is not expected to be completed or placed in service before 2010. In the fiscal year ending June 30, 2006, the first full year of operations of the convention center, the delay in these additional elements, higher than anticipated operating expenses and startup expenses resulted in insufficient parking revenues, after operating expenses, to fully reimburse the State for debt service payments in June 2006. This situation continues in the fiscal year ending June 30, 2007, and as scheduled principal payments come due is expected to result in significant shortfalls in excess revenues to fund the reimbursement obligation. This is expected to continue until operational efficiencies are achieved and the other elements of the project are completed. As debt service on CCEDA's revenue bonds continues to be paid under the contract assistance agreement, CCEDA's reimbursement obligation will increase, and this reimbursement obligation will need to be satisfied before excess parking revenues are available to fund the operations of the convention center, which itself is partially funded by General Fund appropriations from the State to CCEDA.

The Board of Directors of CCEDA is comprised of seven members appointed jointly by the Governor, the speaker of the House of Representatives, the majority leader of the House of Representatives, the minority leader of the House of Representatives, the president pro tempore of the Senate, the majority leader of the Senate and the minority leader of the Senate, and includes members who have expertise in the fields of commercial and residential real estate construction or development and financial matters.

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 authorized the City, subject to approval of the Board and the State Treasurer, to issue bonds for the purpose of funding the City's past 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 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. On January 23, 2007, the Board determined that the City had met all of its requirements under the Act and by resolution discontinued its existence and its exercise of its powers, duties and functions.

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. The Southeastern Connecticut Water Authority issued $598,000 Working Capital and Organizational Fund Notes due March 9, 2007 which are guaranteed by the State. The Authority intends to issue $1,530,000 bonds in March 2007 that will be guaranteed by State.

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 As of 2/1/07	Outstanding SCRF or Guaranteed Debt As of 2/1/07	Minimum Capital Reserve Requirement As of 2/1/07
INDEBTEDNESS SECURED BY SPECIAL CAPITAL RESERVE FUNDS			
Connecticut Development Authority			
Umbrella Bond Program	$300.0	$0.4	$0.1
General Obligation Bond Program	30.6	10.7	2.3
Connecticut Health and Educational Facilities Authority			
Nursing Home Program	(a)	22.5	1.7
Connecticut State University System	(a)	302.1	27.6
Hospital Equipment Program	100.0	0.0	0.0
UCONN Health Center Program	(a)	0.0	0.0
Connecticut Higher Education Supplemental Loan Authority	170.0	134.8	9.8
Connecticut Housing Finance Authority			
Housing Mortgage Finance Program	(a)	3,365.9	250.6
Special Needs Housing Mortgage Finance Program	(a)	54.0	3.9
Connecticut Resources Recovery Authority	725.0	71.0	12.3
University of Connecticut Student Fee Revenue Bonds	(a)	27.6	2.1
City of Waterbury Special Capital Reserve Fund Bonds	100.0	82.4	9.4
INDEBTEDNESS GUARANTEED BY STATE			
Southeastern Connecticut Water Authority[(b)]	15.0	0.6	N.A.

(a) No statutory limit.

(b) Southeastern Connecticut Water Authority plans to issue $1,530,000 in bonds in March 2007.

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, 2006 the Commissioner of Education estimates that current grant obligations under this program are approximately $3.1 billion, which includes approximately $5.7 billion in grants approved to date less payments already made of $2.6 billion.

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, 2006 the State is obligated to various cities, towns and regional districts for approximately $550 million in aggregate principal installment payments and $120 million in aggregate interest subsidies, for a total of $670 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. As of February 1, 2007 CHEFA has approximately $54.8 million bonds outstanding under this program with annual debt service of approximately $4.2 million, of which the Department of Social Services is committed to pay approximately $3.5 million. The remaining portion of debt service is to be 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, 2006 the current and long term liabilities of the Corporation total $353 million.

PENSION AND RETIREMENT SYSTEMS

State Employees' Retirement Fund

The State Employees' Retirement Fund is one of the systems maintained by the State with approximately 50,605 active members, 1,732 inactive (vested) members and 36,964 retired members as of June 30, 2006. Generally, employees hired before July 1, 1984 participate in the Tier I plan, which includes employee contributions. As of July 1, 2006 approximately 15.7% 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, 2006, approximately 47.3% 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, 2006, approximately 37% of the total work force was covered under the Tier IIA Plan.

Since fiscal year 1978-79, payments into the fund and investment income in each fiscal year, with the exception of fiscal year 2003-04, have been sufficient to meet benefits paid from the fund in such year. 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. State contributions to the Fund are made monthly on the basis of transfers submitted by the Office of the State Comptroller. For fiscal year 2005-06 the State's actuarially-determined annual required contribution to the fund is $623,062,748 and $623,062,732 was contributed to the fund from General and Transportation Funds appropriations, and grant reimbursements from Federal and other funds for such purpose. The actuarial valuation discussed below indicates that as of June 30, 2006 the State Employees' Retirement Fund had a funded ratio of 53% on a projected basis.

Actuarial valuations are performed as of June 30th of each even-numbered year. The most recent actuarial valuation of November 2006 indicated that, as of June 30, 2005, the State Employees' Retirement Fund had assets with an actuarial value of $8,517.7 million and as of June 30, 2006, the State Employees' Retirement Fund had assets with an actuarial value of $8,951.4 million. The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 8.45% on investment assets in the State Employees' Retirement Fund over the past ten years (fiscal year 1996-97 through fiscal year 2005-06) and an annualized net return of 6.01% over the past five years (fiscal year 2001-02 through fiscal year 2005-06). As of June 30, 2006 the market value of the fund's investment assets, as reported in the actuarial valuation, was $8,789,643,845. The State Auditors subsequently restated that value to $8,774,085,838.

The actuarial valuation determined the following employer contribution requirements: (i) $663.9 million for fiscal year 2006-07, (ii) $716.9 million for fiscal year 2007-08, and (iii) $753.7 million for fiscal year 2008-09. These annual contribution requirements do not include any amounts which would be required if retirement payments for State employees were to be based on unused vacation time at the time of retirement as described in the case of ***Longley v. State Employees Retirement Commission*** under **LITIGATION**. In its petition to the Supreme Court to hear the case the State estimated that any additional annual cost could be from $62 to $107 million. It is anticipated that the employer contribution requirement of $663.9 million for fiscal year 2006-07 will be fully met from the budgeted State contribution amount and Federal funding. The State General Fund budget for fiscal years 2007-08 and 2008-09 has not yet been adopted.

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, 2002, June 30, 2004 and June 30, 2006.

TABLE 17

State Employees' Retirement Fund

	Year Ending June 30				
	2002	2003	2004	2005	2006
General Fund Contributions.................	$ 284,527,059	$ 285,694,490	$ 321,866,112	$ 354,400,568	$ 447,209,748
Transportation Fund Contributions.................	36,676,000	40,214,000	44,864,000	48,916,000	60,055,000
Federal and other Reimbursements............	94,289,540	95,543,241	103,602,832	115,447,400	115,797,984
Employee Contributions....	49,577,375	50,953,367	47,632,219	51,721,944	55,234,913
Total Contributions	$ 465,069,974	$ 472,405,098	$ 517,965,163	$ 570,485,912	$ 678,297,645
Investment Income[(a)]	$ 271,253,981	$ 319,223,363	$ 312,386,363	$ 329,385,117	$ 310,506,921
Net Realized Gains (Losses)	$ 1,341,884	$ 9,032,166	$ 49,503,590	$ 1,948,216	$ 14,036,602
Benefits Paid	$ 651,201,069	$ 702,878,746	$ 868,165,140	$ 882,375,233	$ 913,030,578
Actuarial Accrued Liabilities	$12,806,115,474	N/A	$15,128,502,117	N/A	$16,830,349,168
Actuarial Values Of Assets	7,893,683,977	N/A	8,238,250,287	N/A	8,951,392,914
Unfunded Accrued Liabilities	$ 4,912,431,497	N/A	$ 6,890,251,830	N/A	$ 7,879,019,254

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

Teachers' 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, 2006, there were approximately 60,904 active and former employees with accrued and accruing benefits and approximately 25,221 retired members.

Since fiscal year 1978-79, payments into the fund and investment income in each fiscal year, with the exception of fiscal years 2003-04 and 2004-05, have been sufficient to meet benefits paid from the fund in such year. 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. For fiscal year 2005-06 the State's actuarially-determined annual required contribution to the fund was $396,248,625 and $396,248,844 was contributed for such purpose. The actuarial valuation discussed below indicates that as of June 30, 2006 the Teachers' Retirement Fund had a funded ratio of 59.5% on a projected basis.

Actuarial valuations are performed as of June 30th of each even-numbered year. The most recent actuarial valuation dated November 29, 2006 indicated that, as of June 30, 2006, the State Teachers' Retirement Fund had assets, inclusive of the cost-of-living adjustment reserve account, with an actuarial value of $11,781,338,002. The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 8.57% on investment assets in the Teachers' Retirement Fund over the past ten years (fiscal year 1996-97 through fiscal year 2005-06) and an annualized net return of 6.13% over the past five years (fiscal year 2001-02 through fiscal year 2005-06). As of June 30, 2006, the market value of the fund's investment assets, as reported in the actuarial valuation, was $12,227,994,598. The State Auditors subsequently restated that value to $12,189,855,336.

The actuarial valuation determined the following employer contribution requirements: (i) $425.3 million for fiscal year 2006-07, (ii) $518.6 million for fiscal year 2007-08, and (iii) $539.3 million for fiscal year 2008-09. The budgeted State contribution of $412.1 million for fiscal year 2006-07 is less than the actuarial valuation amount of $425.3 million. The State General Fund budget for fiscal years 2007-08 and 2008-09 has not yet been adopted.

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, 2002, June 30, 2004 and June 30, 2006.

TABLE 18

Teachers' Retirement Fund

	Year Ending June 30				
	2002	**2003**	**2004**	**2005**	**2006**
General Fund Contributions................	$ 204,511,460	$179,823,603	$ 185,348,144	$ 185,348,143	$ 396,248,844
Employee Contributions[(a)]............	187,095,618	204,659,700	237,705,201	259,408,422	293,530,283
Total Contributions	$ 391,607,078	$384,483,303	$ 423,053,345	$ 444,756,565	$ 689,779,127
Investment Income[(b)].......	$ 388,785,006	$453,002,988	$ 440,180,533	$ 460,613,365	$ 372,811,689
Net Realized Gains (Losses)	$ 1,584,432	$ 11,694,321	$ 66,792,223	$ 2,275,332	$ 48,019,990
Benefits Paid	$ 754,655,476	$811,028,527	$ 874,593,010	$ 964,597,731	$1,050,132,506
Actuarial Accrued Liabilities	$15,253,882,989	N/A	$16,530,678,148	N/A	$18,703,792,895
Actuarial Values Of Assets[(c)]	11,961,346,260	N/A	11,306,878,529	N/A	11,781,338,002
Unfunded Accrued Liabilities	$ 3,292,536,729	N/A	$ 5,223,799,619	N/A	6,922,454,893

(a) Includes municipal contributions under early retirement incentive programs ($3,324,208 during fiscal year 2001-02, $4,651,928 during fiscal year 2002-03, $1,495,353 during fiscal year 2003-04, $2,456,776 during fiscal year 2004-05 and $2,802,639 during fiscal year 2005-06); does not include employee contributions to the Teachers' Retirement Health Insurance Fund ($25,903,003 during fiscal year 2001-02, $27,933,646 during fiscal year 2002-03, $24,242,639 during fiscal year 2003-04, $43,830,845 during fiscal year 2004-05 and $39,144,621 during fiscal year 2005-06).

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

(c) Includes cost-of-living adjustment reserve 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, 2006, there were approximately 224 active members of these plans and approximately 241 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, 2006, approximately 63,200 State employees were entitled to Social Security coverage. The amount expended by the State for Social Security coverage for fiscal year 2005-06 was $205 million. Of this amount, $192.1 million was paid from the General Fund and $12.9 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 fiscal year 2006-07 $436.4 million was appropriated. Implementation of Governmental Accounting Standards Board ("GASB") Statement No. 45 regarding accounting and financial reporting for postemployment benefits other than pensions will require the State to obtain an analysis of the unfunded actuarial accrued liability of such post-retirement health care and life insurance benefits and to recognize the annual required contribution to fund that actuarial liability in its financial statements commencing with those for fiscal year 2007-08. The Office of the State Comptroller, Office of the State Treasurer and the Office of Policy and Management are in the early planning stages with respect to the implementation of GASB Statement No. 45.

The State has received an initial estimate of the State's liability with respect to post-retirement health care benefits for members of the State Employees' Retirement Fund. The initial estimate with respect to post-retirement health care benefits indicates an actuarial accrued liability range of $8.4 billion on an advance funded basis to $21.1 billion on an unfunded basis based upon certain stated assumptions. At the time the preliminary estimate was calculated, decisions on a funding approach, assumed discount rate, amortization method, health care cost trends, plan design and cost method were not yet finalized. The initial $21.1 billion estimate assumed a 3% discount rate in calculating the unfunded liability. The unfunded liability projection would change by approximately 10% for each 1% change in discount rate. The preliminary estimate contains only an estimated projection and no assurances can be given that subsequent projections or the final actuarial report will not result in a higher or lower estimate. The State has engaged a consultant to conduct a more comprehensive study to detail the estimated costs associated with respect to both health care and life insurance benefits which will be reported in accordance with GASB Statement No. 45. The detailed study is expected to be completed by March 2007. It is anticipated that the study will reflect a higher actuarial accrued liability due to the State's continued pay-as-you-go basis of financing such benefits and an increase in the number of former State employees shown as eligible for benefits as a result of refinements in the population studies.

Set forth below for each of the past five fiscal years 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.

TABLE 19

State Employee Retirees Health Care And Life Insurance Benefits

	Year Ending June 30				
	2002	**2003**	**2004**	**2005**	**2006**
Retirees Eligible to Receive Benefits	32,602	37,233	38,078	39,737	38,065
Retirees Receiving Health Care Benefits................	31,276	35,280	35,581	36,815	36,911
Retirees Receiving Life Insurance Benefits........	22,997	23,734	25,871	25,827	25,943
General Fund Expenditures on Retiree Health Care and Life Insurance Benefits (millions)......................	$204.8	$242.2	$320.8	$377.0	$365.0

The State makes a General Fund appropriation to the Teachers' Retirement Fund to cover one-third of retiree health insurance costs plus any portion of the balance of such costs which is not funded from the amounts available in the Teachers' Retirement Health Insurance Fund. The amount of $23,120,000 has been appropriated for such purpose for fiscal year 2006-07. Fund assets do not constitute plan assets for purposes of GASB Statements Nos. 43 and 45 and for actuarial valuation purposes fund assets are not treated as valuation assets available to offset the accrued liability of the plan. It is anticipated that significant General Fund appropriations will be required for each fiscal year to meet retiree health insurance costs. 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 2006-07, $8,400,000 is attributable to this legislation. Since July 1, 1994, retiree health benefits have been self-insured. Implementation of GASB Statement No. 45 will require the State to obtain an analysis of the unfunded actuarial accrued liability of such retiree health insurance benefits and to recognize the annual required contribution to fund that actuarial liability in its financial statements commencing with those for fiscal year 2007-08. The State Teachers' Retirement Board is in the early planning stages with respect to the implementation of GASB Statement No. 45.

The State Teachers' Retirement Board has received an actuarial valuation of the State's liability with respect to post-retirement health care benefits for members of the Teachers' Retirement Fund. The report indicates an actuarial accrued liability as of June 30, 2006 of $2.2 billion on an unfunded basis, based upon certain stated assumptions including a 4.5% earnings assumption and a 30 year amortization period. The actuarial valuation determined a $111.7 million employer contribution requirement for fiscal year 2006-07. The valuation noted that if the plan were prefunded the actuarial accrued liability as of June 30, 2006 would be reduced to $1.3 billion based on a 8.5% earnings assumption, which would result in a $60.4 million employer contribution requirement for fiscal year 2006-07.

Set forth below for each of the past five fiscal years are State contributions to the Teachers' Retirement Fund to cover retiree health insurance costs 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.

TABLE 20

Teachers' Retirement Health Insurance Fund

	Year Ending June 30				
	2002	**2003**	**2004**	**2005**	**2006**
General Fund Contributions................	$10,485,936	$11,367,016	$12,206,066	$12,857,769	$17,662,849
Portions Attributable To Non-Board Health Insurance Cost Subsidy	$4,751,670	$5,051,970	$5,333,743	$5,715,000	$7,765,203

Additional Information

The June 30, 2006 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 and its officers and employees are parties to numerous legal proceedings, many of which normally occur in government operations. The final outcomes of most of these legal proceedings are not, in the opinion of the Attorney General, either individually or in the aggregate 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, either individually or in the aggregate may require the State to make material future expenditures or may impair revenue sources. It is not possible to determine the impact that the outcomes of these proceedings, either individually or in the aggregate, could have on the State's financial position. Among these proceedings, an adverse judgment in the matters described below, in the opinion of the Attorney General, individually could have a fiscal impact on the State of $15 million or more.

Sheff v. O'Neill is a Superior Court action originally brought in 1989, on behalf of school children in the Hartford school district. In 1996, the State Supreme Court reversed a judgment the Superior Court had entered for the State, 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 December 2000 the plaintiffs filed a motion seeking to have the Superior Court assess the State's compliance with the State Supreme Court's 1996 decision. Before the Court ruled upon that motion the parties reached an agreement, which 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 was obligated, over a four year period 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 at the time of the settlement, for expenditures, exclusive of school renovation/construction costs, were 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 had materially breached the judicially and legislatively approved settlement. That motion remains pending, but the parties ultimately informed the Court that they were not presently in need of a ruling on the issues raised. The current agreement expires in June of 2007.

On August 23, 2006, the City of Hartford moved to intervene in the case, and on January 4, 2007, the Court granted that motion.

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 filed cross-summary judgment motions. In a ruling on those motions, the Court determined that a trial was necessary to resolve questions of fact on certain of the issues. No trial date has been set.

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 moved to dismiss the action based on absolute immunity, and that motion was denied on January 18, 2005. The defendants have appealed this decision to the U.S. Court of Appeals. The same purported class has brought related state law claims in State Court under the caption ***Conboy v. State of Connecticut***.

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 that subsequently agreed to participate in the MSA, Commonwealth Brands, Inc., King Maker Marketing, Inc., and Sherman 1400 Broadway N.Y.C. Inc., 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. The State argued that this dispute was not subject to arbitration. In a ruling dated August 3, 2005, the Court ordered that the parties' dispute was in fact subject to arbitration. The State appealed the ruling and the Connecticut Supreme Court ruled against the State and affirmed the trial court's ruling. If 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. The State also recently filed a motion for a declaratory or enforcement order that the State has diligently enforced its escrow statute (Conn. Gen. Stat. Section 4-28h et seq.), and, therefore, Connecticut's MSA payment received in 2004 is not subject to being reduced retroactively by the Non-Participating Manufacturer Adjustment ("NPM Adjustment") for 2003. The State filed this motion because the other condition precedent to the potential operation of the NPM Adjustment occurred on March 27, 2006, when an economic firm issued a determination that the MSA was a significant factor contributing to participating manufacturers' market share loss in 2003. The State is seeking an order regarding diligent enforcement to prevent participating manufacturers from asserting that the State failed to diligently enforce its escrow statute in 2003 and that the NPM Adjustment should be applied to reduce or eliminate the State's 2004 MSA payment. Subsequent to that filing, several tobacco manufacturers filed a demand for arbitration under the MSA of their payment liabilities as affected by the NPM adjustment for 2003. The State has refused the demand for arbitration, asserting that the matters in question are not arbitrable under the MSA. Certain manufacturers have moved in the Superior Court to compel arbitration of that issue, and that motion is pending before the court. If such claims are ultimately 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, such a determination also could impact the amount of payments due to the State under the MSA. If the claims are not determined to be arbitrable, it is possible that the manufacturers would pursue the same claims in court.

In ***Connecticut Coalition for Justice in Education Funding et al. v. Rell, et al.***, brought in Hartford Superior Court, the plaintiffs are a non-profit coalition comprised of parents, teachers, school administrators and educational advocates, as well as several parents on behalf of their minor children who reside in selected rural, suburban and urban municipalities in the State. Purporting to represent a class of similarly situated students in selected school districts, plaintiffs claim the students' State constitutional rights to a free public education under Article VIII, Section 1, equality of rights under Article I, Section 1 and equal protection of the laws under Article I, Section 20 are being violated by the alleged inequitable and inadequate financing of their schools by the State. In particular, plaintiffs claim for a variety of reasons that the State's primary statutory mechanism for the distribution of State aid for public schools currently fails to ensure both substantially equal educational opportunities and a suitable education for these students, as purportedly reflected by both the educational challenges they face and their poor performance on state standardized measures. The action seeks a declaratory judgment from the Court, an injunction against the operation of the current system, an order that a new system be devised, the appointment of a special master to oversee such activities, continuing Court jurisdiction and attorney fees and costs under 42 United States Code Section 1983, on the grounds that minority students have been disproportionately impacted. The court recently ruled that the Coalition, as opposed to the other plaintiffs, lacks legal standing to pursue the claims. The plaintiffs have sought to replead to overcome the impact of this ruling. The defendants have moved to strike the plaintiffs' claims for "suitable" education under the State Constitution, and that motion remains pending.

In ***Longley v. State Employees Retirement Commission***, two recently retired state employees have contended that payments upon retirement for unused vacation time and longevity payments, should be counted as additions to "base salary" for purposes of calculating their retirement incomes. The Retirement Commission, adhering to its consistent construction of the applicable statutes, rejected the two plaintiffs' position. The plaintiffs filed an administrative appeal of the Retirement Commission's decision to the Superior Court, which upheld the Commission. The two plaintiffs further appealed to the Appellate Court and on December 27, 2005, that Court reversed the Superior Court, agreeing with the plaintiffs' interpretation. The Retirement Commission petitioned for certification to the Supreme Court, which that Court granted. That certified appeal remains pending. Although the litigation involves only two retired state employees, the Retirement Commission might be subject to further litigation and/or might undertake to consider whether and how to apply the ruling to other state employees. During 2006, several retired state employees appealed to Superior Court from the Retirement Commission's refusal to apply the Appellate Court's decision to their pensions. Those cases are being held in abeyance pending the Supreme Court's decision in ***Longley***.

Since 1991, the State Department of Children and Families has been operating under the provisions of a federal court-ordered consent decree in ***Juan F. v. Weicker*** 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. In 2005, the Court entered orders that ended the Transition Task Force and revised the monitoring order, but left in place the open-ended 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 filed an appeal with the United States Secretary of Interior, and that appeal was dismissed on March 18, 2005. On November 30, 2006, the federal district court dismissed the Golden Hill Paugussett's land claims. The Golden Hill Paugussett appealed the dismissal to the U.S. Court of Appeals for the Second Circuit, and the appeal is pending. An additional suit was 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 appealed that decision to the Federal Department of Interior Board of Appeals, which on May 13, 2005 vacated the determination and remanded the matter to the Federal

Bureau of Indian Affairs for reconsideration. On October 12, 2005 the Federal Bureau of Indian Affairs declined to acknowledge the Schaghticoke Indian Tribe, and the alleged Tribe has appealed that decision to the United States District Court. The land claims have been stayed pending the resolution of the federal recognition matter. In June 2002, the Federal Bureau of Indian Affairs issued a final determination granting federal recognition to the Historic Eastern Pequot tribe. The State appealed the decision to the Federal Department of the Interior Board of Appeals, which on May 13, 2005 vacated the determination and remanded the matter to the Federal Bureau of Indian Affairs for reconsideration. On October 12, 2005, the Federal Bureau of Indian Affairs declined to acknowledge this group as an Indian tribe. It is possible that other land claims could be brought by other Indian groups, who have petitioned the Federal Government for Federal recognition. In any of the land claims 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.

The ***White Oak Corp.*** has brought demands for arbitration against the State of Connecticut, Department of Transportation ("DOT"), pursuant to State statute, alleging breaches of contract in connection with both the Tomlinson Bridge construction project in New Haven and a separate construction project in Bridgeport. In December of 2005, the American Arbitration Association ruled against White Oak in the Tomlinson Bridge construction project, rejecting their claim for $90 million and instead awarded DOT damages in the amount of $1.6 million. The Superior Court confirmed the panel's decision, but White Oak thereafter filed a new demand for arbitration seeking $110 million for delay damages in connection with the same Tomlinson Bridge project. The State sought an injunction on this second demand in light of the rulings in the first demand for arbitration. The court denied that injunction and the State is appealing that decision, which appeal remains pending. The Court also lifted an earlier issued stay on the arbitration, and the State has also appealed that decision. The Bridgeport project claim for arbitration is ongoing and in that proceeding White Oak claims damages of $50 million. Any arbitration awards or judgments in these matters are generally payable from the Special Transportation Fund, subject to the prior lien granted under the Act and the Indenture for bonds payable from the Special Transportation Fund. If the Special Transportation Fund lacked sufficient funds to cover any such judgment, a claimant could enforce a judgment and obtain payment from the General Fund.

State of Connecticut Office of Protection and Advocacy for Persons with Disabilities v. The State of Connecticut, et al., is an action in Federal District Court brought in February of 2006, on behalf of individuals with mental illness in nursing facilities in the State. The plaintiffs claim that the State has violated the Americans with Disabilities Act by failing to provide services for the identified group in the most integrated setting appropriate to the needs of the qualified individuals. The case is in the early pleading stage.

Raymond v. Rowland and Wilson-Coker, is a class action in Federal District Court that seeks prospective declaratory and injunctive relief, challenging the manner in which the Department of Social Services (DSS) administers its public assistance benefit programs for the disabled. DSS administers a variety of public assistance programs, including Temporary Family Assistance (formerly AFDC), Title 19 Medicaid, food stamps, State Administered General Assistance (SAGA), SAGA Medical, and State Supplement. The lawsuit initially targeted the closing of four DSS Regional offices as a result of staffing cutbacks related to budget difficulties. The suit claimed that the office closures would disproportionately impact the ability of disabled individuals to obtain and maintain eligibility due to the lack of suitable transportation to more remote offices. The Court denied preliminary relief as to the office closings. The plaintiffs subsequently amended their complaint to also include more global claims that DSS does not do enough to accommodate the disabled throughout the state, including areas unaffected by office closings. The plaintiffs seek relief that would require the agency to affirmatively screen for disabilities (including undisclosed disabilities) and to affirmatively offer assistance in obtaining and maintaining eligibility, even where accommodations are not requested. The plaintiffs further claim that the agency does not effectively accommodate the disabled as a result of a lack of staff. The case is predicated upon Section 504 of the Rehabilitation Act and Title II of the ADA, which deals with discrimination against the disabled in the provision of public services, including by failing to affirmatively offer accommodations where necessary to participate in the program. The parties have negotiated a tentative settlement that must be approved by the General Assembly pursuant to Section 3-125 of the Connecticut General Statutes, and by the District Court after a fairness hearing. If consummated, the agreement would provide, among other things, for modifications to the DSS Uniform Policy Manual, additional staff training, additional notification of available accommodations and complaint procedures, mechanisms to minimize disability as a barrier in the eligibility process, agency operational and environmental improvements.

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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.

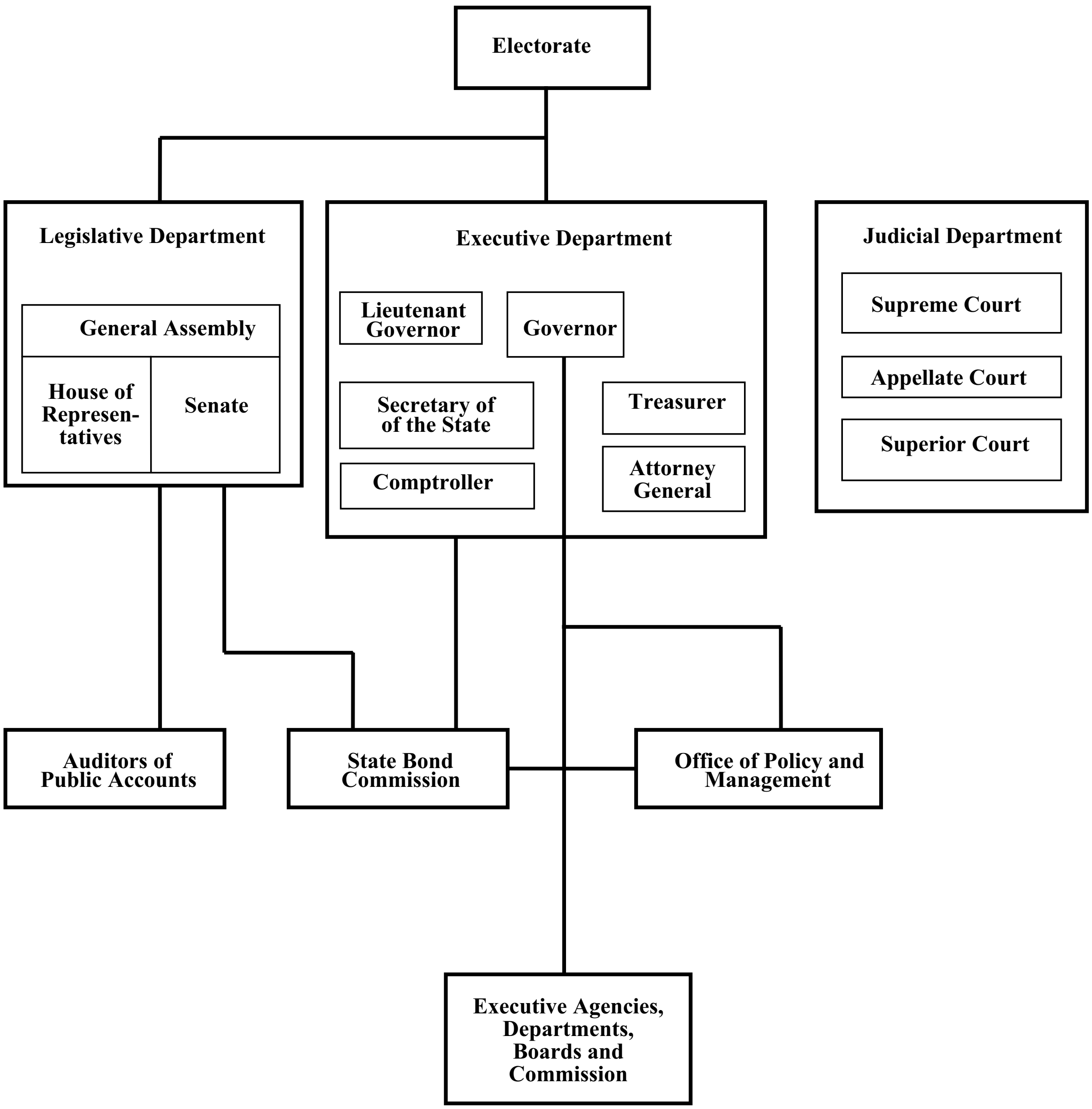
Under Connecticut law, all municipal governmental bodies have only the powers specifically granted to them by the State and the ancillary powers that are necessarily implied by powers explicitly granted. Municipalities which have the power to tax and to issue debt are explicitly denied the power by statute 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 2006, and the new members took office in January 2007.

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 2006 for terms beginning in January 2007. Elections for all of these offices are held every four years. The Governor and Lieutenant Governor are elected as a unit.

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 176 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

Function Headings[(b)]	2002	2003	2004	2005	2006
Legislative	509	502	550	586	575
General Government	3,801	3,162	3,376	3,429	3,428
Regulation and Protection	4,620	3,950	4,071	4,211	4,279
Conservation and Development	1,440	1,205	1,275	1,358	1,267
Health and Hospitals	8,710	7,330	7,389	7,593	7,665
Transportation	3,631	2,918	2,863	3,150	3,035
Human Services	2,315	1,847	1,804	1,827	1,883
Education	15,331	14,384	14,540	15,077	15,446
Corrections	10,168	9,485	9,537	9,573	9,551
Judicial	3,369	3,769	4,185	4,386	4,322
Total	53,894	48,552	49,590	51,190	51,451

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

SOURCE: Office of Policy and Management

TABLE A-3
State Employees as of June 30, 2006[(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	573				2		575
General Government	2,907	5	7	437	10	62	3,428
Regulation and Protection	2,305	617	518	179	657	3	4,279
Conservation and Development	600		7	404	244	12	1,267
Health and Hospitals	7,290			21	353	1	7,665
Transportation		2,921		114			3,035
Human Services	1,579		13		266	25	1,883
Education	9,837			5,404	201	4	15,446
Corrections	9,440			83	28		9,551
Judicial	4,282			24	14	2	4,322
Total	38,813	3,543	545	6,666	1,775	109	51,451

(a) Table shows approximate filled full-time positions.

(b) Breakdown for 2006 reflects the funding breakdown on Core-CT chart of accounts coding. Some positions which in years prior to 2005 were designated as being paid out of private contributions are now coded as being paid out of special funds – non appropriated in order to properly reflect how they are coded on Core-CT.

SOURCE: Office of Policy and Management

Collective Bargaining Units and Process. The General Statutes guarantee 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. Subject to certain parameters set forth in the General Statutes, if the State and the bargaining unit are unable to reach an agreement, one or both parties may initiate arbitration. The award of the arbitrator shall be final and binding upon the parties unless rejected by the legislature. An arbitration award may be rejected in whole by a two-thirds vote of either house of the General Assembly upon a determination that there are insufficient funds for full implementation of the award.

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

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

TABLE A-4

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

Bargaining Unit/Status Group	Percentage of State Employees Represented[a]	Contract Status, if any
Covered by Collective Bargaining		
Correction Officers	9.23%	Contract in place through 6/30/2008
Administrative Clerical	8.44%	Contract in place through 6/30/2009
Maintenance and Service	7.68%	Contract in place through 6/30/2008
Health Care Non-Professionals	7.28%	Contract in place through 6/30/2009
Social and Human Services	7.15%	Contract in place through 6/30/2009
Administrative and Residual	5.81%	Contract in place through 6/30/2007
Health Care Professionals	5.73%	Contract in place through 6/30/2009
Engineering, Scientific and Technical	4.65%	Contract in place through 6/30/2009
University Health Professionals (University of Connecticut Health Center)	3.31%	Contract in place through 6/30/2010
University of Connecticut Professional Employee Association	3.00%	Contract in place through 6/30/2007[b]
University of Connecticut Faculty	2.93%	Contract in place through 6/30/2007
Judicial Employees	2.65%	Contract in place through 6/30/2009
Connecticut State University Faculty	2.54%	Contract in place through 8/24/2007[b]
Vocational Technical School Teachers	2.32%	Contract in place through 8/28/2007
Congress of Connecticut Community Colleges	2.24%	Contract in place through 6/30/2007
State Police	2.24%	Contract in place through 6/30/2007
Judicial Professionals	2.13%	Contract in place through 6/30/2009
Protective Services	1.63%	Contract in place through 6/30/2008
Education Professionals (Institutions)	1.56%	Contract in place through 6/30/2009
Other Bargaining Units (13 units)	5.50%	Varies by Unit
Total Covered by Collective Bargaining	88.02%	
Not Covered by Collective Bargaining		
Auditors of Public Accounts	0.20%	Not Applicable
Other Employees	11.78%	Not Applicable
Total Not Covered by Collective Bargaining	11.98%	
Total Full-Time Work Force	100.00%	

(a) Percentage expressed reflects approximately 51,451 filled full-time positions as of June 30, 2006.

(b) A successor agreement is awaiting legislative approval.

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 Aging
Commission on the Status of Women
Commission on Children
Latino and Puerto Rican Affairs Commission
African-American Affairs Commission

General Government
Governor's Office
Lieutenant Governor's Office
Secretary of the State
Elections Enforcement Commission
Office of State Ethics
Freedom of Information Commission
Judicial Selection Commission
State Properties Review Board
Contracting Standards 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
Board of Accountancy
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
Department of Emergency Management and Homeland Security
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
Department of Insurance
Office of Consumer Counsel
Department of Public Utility Control
Office of the Health Care Advocate
Department of Consumer Protection
Department of Labor
Office of the Victim Advocate
Commission on Human Rights and Opportunities
Office of Protection and Advocacy for Persons with Disabilities
Office of the Child Advocate
Workers' Compensation Commission

Conservation and Development
Department of Agriculture
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, 2006.

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.

Department of Emergency Management and Homeland Security. The Department of Emergency Management and Homeland Security was established beginning January 1, 2005 to provide a coordinated and integrated program for statewide emergency management and homeland security. The Department's functions were previously part of the Military Department and the Department of Public Safety. One of the Department's functions includes the administration and management of federal grant funds. Among its other tasks, the Department has devised plans for evacuation and mass shelter in the event of a catastrophic disaster and has initiated an emergency management assessment process. For planning purposes with respect to events requiring mass evacuations and sheltering in the State, the Department has given priority for preparedness to the following potential scenarios: (i) a Category 3 hurricane hitting the State coast and all of New England, (ii) a Millstone Power Plant release of contamination, and (iii) a large scale terrorist attack in New York City. The State has been divided into five regions to coordinate planning, training and response.

During 2005 the Department conducted a terrorist chemical attack exercise, three hurricane exercises, an ice storm exercise, and a radiological exercise to test the State's preparedness and response capabilities; it also purchased and distributed more than 1100 portable radios to fire chiefs, police chiefs and directors of local emergency management service organizations to ensure interagency communications in the event of a disaster which disrupts normal telephone and cell phone communications. In 2006 the Department updated the State's plans for handling natural disasters and human-made disasters. Over forty-five exercises were conducted in 2006 to test State and local plans. The Department also created a single center in the State to collect and disseminate intelligence information and conducted two public information campaigns that promoted: (i) heightened public vigilance, including the use of the toll free TIPS line and (ii) the importance of family emergency preparedness.

Planning for such disasters and others is ongoing. Pursuant to the General Statutes, the Department is required to file an annual report each January to the joint standing committee of the General Assembly having cognizance of matters relating to public safety which report specifies and evaluates state-wide emergency management and homeland security activities during the preceding calendar year.

[INTENTIONALLY BLANK]

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 from 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 and 13.2% for the nation. The mid-2006 population in Connecticut was estimated at 3,504,809, up 0.1% from a year ago, compared to increases of 0.1% and 1.0% for New England and the United States, respectively. From 2000 to 2006, within New England, only Maine and New Hampshire experienced growth higher than Connecticut.

TABLE B-1

Population
(In Thousands)

	Connecticut		New England		United States	
Calendar Year	Total	% Change	Total	% Change	Total	% Change
1940 Census	1,709		8,437		132,165	
1950 Census	2,007	17.4%	9,314	10.4%	151,326	14.5%
1960 Census	2,535	26.3	10,509	12.8	179,323	18.5
1970 Census	3,032	19.6	11,847	12.7	203,302	13.4
1980 Census	3,108	2.5	12,349	4.2	226,542	11.4
1990 Census	3,287	5.8	13,207	6.9	248,710	9.8
2000 Census	3,406	3.6	13,923	5.4	281,422	13.2
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	13,954	0.8	282,217	1.1
2001….	3,433	0.6	14,056	0.7	285,226	1.1
2002….	3,458	0.7	14,145	0.6	288,126	1.0
2003….	3,482	0.7	14,208	0.4	290,796	0.9
2004….	3,494	0.3	14,241	0.2	293,638	1.0
2005….	3,501	0.2	14,255	0.1	296,507	1.0
2006….	3,505	0.1	14,270	0.1	299,398	1.0

Note: 1940-2000, April 1 Census. Figures are for census comparison purposes.
1996-2006, Mid-year estimates.

SOURCE: United States Department of Commerce, Bureau of the Census; Information prior to 1999 – Economy.com

The State is highly urbanized with a 2006 population density of 723 persons per square mile, as compared with 85 for the United States as a whole and 227 for the New England region. Of the 8 counties in the State, according to the 2000 census, 75.3% of the population resides within Fairfield (25.9%), Hartford (25.2%), and New Haven (24.2%) 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, Massachusetts and Rhode Island. 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, the Regional Transmission Organization (RTO) for New England. 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. Since 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 utilities' 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.

As of January 2007, standard service and supplier of last resort (SOLR) prices will begin to be established on a periodic basis. These services are meant to encourage customers to find alternative suppliers to meet their particular needs. Several suppliers have entered the market in Connecticut to serve commercial and industrial customers.

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 was 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 AT&T in 2005, and Verizon New York, Inc. Connecticut also has approximately 130 CLECs certified to provide local exchange services including Comcast Phone of Connecticut, Inc., 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.

Although Connecticut is heavily dependent upon petroleum, the State is ranked the most efficient for energy consumption. According to the most recent available data from the Energy Information Administration, an independent agency within the U.S. Department of Energy that collects and analyzes energy data, Connecticut consumed 5,220 million British Thermal Units (MBTU) per dollar of Gross State Product in 2003, 43% less than the national average of 9,114 MBTU. When compared to the national per person average, Connecticut residents use a moderate amount of energy. Connecticut consumed 254.9 MBTU of energy per person in 2003, ranking it 42nd among the 50 states and 25% less than the national average of 339.0 MBTU.

In 2006 energy prices, including crude oil, gasoline, natural gas and heating oil, stayed above the previous year's levels due to the sharp increase in world energy demand and a fear of regional war in the Middle East as well as a potential supply disruption in the Gulf of Mexico. Higher energy prices may impact consumer and investment spending and economic growth.

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 1995 to 2005 and compares Connecticut per capita personal income as a percentage of both New England and the United States.

TABLE B-2

Connecticut Personal Income by Place of Residence

Calendar Year	Connecticut		Connecticut Per Capita as Percent of	
	Total (Millions of Dollars)	Per Capita (Dollars)	New England	United States
1995	$ 103,199	$ 31,045	115.7%	134.5%
1996	108,189	32,424	115.0	134.1
1997	115,134	34,375	115.8	135.7
1998	123,918	36,822	116.2	137.0
1999	129,807	38,332	115.7	137.2
2000	141,570	41,485	114.9	139.0
2001	147,356	42,921	115.0	140.4
2002	146,998	42,510	113.9	138.0
2003	148,976	42,780	112.7	135.9
2004	158,896	45,478	113.7	137.4
2005	166,807	47,650	114.2	138.2

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

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

TABLE B-3

Annual Growth Rates in Personal Income By Place of Residence

Calendar Year	Conn. (Current)	New England (Current)	U.S. (Current)	Conn. (Constant)	New England (Constant)	U.S. (Constant)
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	4.1	3.5	1.6	1.6	1.1
2002	(0.2)	0.7	1.8	(2.0)	(1.0)	0.0
2003	1.3	2.1	3.1	(0.8)	0.0	1.0
2004	6.7	5.7	6.2	3.7	2.8	3.3
2005	5.0	4.4	5.2	1.9	1.4	2.1

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 Connecticut and the United States in 2005.

TABLE B-4

Sources of Personal Income By Place of Residence
Calendar Year 2005
(In Millions)

	Conn.	Percent of Total	U.S.	Percent of Total
Wages in Non-manufacturing	$82,205	49.28%	$4,953,605	48.45%
Property Income (Div., Rents & Int.)	26,664	15.98	1,591,151	15.56
Wages in Manufacturing	13,012	7.80	704,526	6.89
Transfer Payments less Social Insurance Paid	5,663	3.39	647,584	6.33
Other Labor Income	21,090	12.64	1,357,048	13.27
Proprietor's Income	18,174	10.90	970,847	9.50
Personal Income—Total	$166,807	100.00%	$10,224,761	100.00%

Note—Columns may not add due to rounding.

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

Gross State Product. The State's and the region's economic vitality are evidenced in the rate of growth of their respective Gross State Products. The State's Gross State Product is the current market value of all final goods and services produced by labor and property located within the State.

In 2005, the State produced $193.7 billion worth of goods and services and $172.3 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)

	Connecticut		New England[(a)]		United States[(b)]	
Year	$	Percent Growth	$	Percent Growth	$	Percent Growth
1997	137,698	--	470,640	--	8,237,994	--
1998	145,373	5.6%	497,756	5.8%	8,679,657	5.4%
1999	150,303	3.4	524,123	5.3	9,201,138	6.0
2000	160,436	6.7	565,835	8.0	9,749,103	6.0
2001	165,025	2.9	580,920	2.7	10,058,168	3.2
2002	166,073	0.6	591,733	1.9	10,398,402	3.4
2003	170,235	2.5	614,590	3.9	10,896,356	4.8
2004	182,468	7.2	654,346	6.5	11,655,335	7.0
2005	193,745	6.2	686,547	4.9	12,409,555	6.5

(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.

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*)

	Connecticut		New England		United States	
Year	$	Percent Growth	$	Percent Growth	$	Percent Growth
1997	144,921	--	487,671	--	8,620,955	--
1998	150,823	4.1%	511,374	4.9%	9,004,670	4.5%
1999	153,298	1.6	531,902	4.0	9,404,251	4.4
2000	160,436	4.7	565,835	6.4	9,749,103	3.7
2001	161,197	0.5	570,313	0.8	9,836,576	0.9
2002	158,628	(1.6)	568,750	(0.3)	9,981,850	1.5
2003	159,751	0.7	581,648	2.3	10,237,201	2.6
2004	166,850	4.4	605,270	4.1	10,662,196	4.2
2005	172,259	3.2	619,138	2.3	11,041,471	3.6

* 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.

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 2005 Connecticut's production was concentrated in three areas: finance, insurance and real estate (FIRE), services and manufacturing. Production in these three industries accounted for 68.7% of total production in Connecticut compared to 58.6% for the nation and was little changed from 68.6% in 1997. This demonstrates that Connecticut's economy is more heavily concentrated in a few industries than the nation as a whole and that 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 from 14.6% in 1997 to 11.3% in 2005 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 excludes industries in agriculture and construction, but includes industries in information, professional and technical services, health care and education, FIRE, and other services, have increased to 76.0% of the total GSP in 2005 from 73.6% in 1997. 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)

Sector	1998	1999	2000	2001	2002	2003	2004	2005
Manufacturing	$ 21,457	$ 20,525	$ 20,963	$ 21,405	$ 20,870	$ 19,396	$ 20,958	$ 21,973
Construction[(a)]	4,473	4,770	5,119	5,484	5,613	5,856	6,646	7,035
Agriculture[(b)]	313	322	358	327	286	311	353	340
Utilities[(c)]	10,617	11,321	11,606	11,936	11,699	12,266	13,684	14,079
Wholesale Trade	8,556	8,737	8,726	9,062	9,001	9,125	9,879	10,449
Retail Trade	8,885	9,441	10,367	10,152	10,415	10,734	11,146	11,458
Finance[(d)]	40,478	42,136	47,349	48,123	48,151	50,904	54,362	59,247
Services[(e)]	38,176	40,242	42,246	44,007	44,719	46,036	48,940	51,920
Government	12,417	12,810	13,702	14,528	15,318	15,609	16,499	17,244
Total GSP	$145,372	$150,304	$160,436	$165,024	$166,072	$170,237	$182,467	$193,745

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, education, health care and personal services.

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

Employment

Non-agricultural employment includes all persons employed except federal military personnel, the self-employed, proprietors, unpaid workers, and farm and household domestic workers. The following table compares non-agricultural establishment employment for Connecticut, New England, and the United States between 1995 and 2005. Connecticut's nonagricultural employment reached its recent high in the third quarter of 2000 with 1,698,300 persons employed, but began declining with the onset of the recession in the early 2000s. It was not until the fourth quarter of 2003 that the State's economy started to gain momentum, adding tens of thousands of new workers. Total nonagricultural employment reached a recent low of 1,640,730 jobs in the third quarter of 2003, and rebounded to 1,671,470 jobs by the second quarter of 2006.

TABLE B-8

Non-agricultural Employment[(a)]
(In Thousands)

Calendar Year	Connecticut Employment	Connecticut Percent Growth	New England Employment	New England Percent Growth	United States Employment	United States Percent Growth
1995	1,561.6	1.16%	6,326.6	2.04%	117,306.3	2.65%
1996	1,583.6	1.41	6,431.8	1.66	119,698.6	2.04
1997	1,612.5	1.82	6,575.2	2.23	122,766.6	2.56
1998	1,643.5	1.92	6,723.5	2.25	125,923.6	2.57
1999	1,669.2	1.56	6,855.1	1.96	128,991.8	2.44
2000	1,693.2	1.44	7,016.4	2.35	131,791.9	2.17
2001	1,681.1	(0.72)	7,024.1	0.11	131,831.8	0.03
2002	1,664.8	(0.97)	6,914.6	(1.56)	130,342.3	(1.13)
2003	1,644.4	(1.22)	6,837.3	(1.12)	129,993.3	(0.27)
2004	1,649.8	0.32	6,861.0	0.35	131,423.8	1.10
2005	1,663.3	0.82	6,902.2	0.60	133,458.8	1.55

(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 2005. 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, 2005
(In Thousands)

	Connecticut Total	Connecticut Percent	United States Total	United States Percent
Services[(a)]	664.9	40.0%	52,403.6	39.3%
Trade[(b)]	311.6	18.7	25,905.8	19.4
Manufacturing	195.4	11.7	14,234.0	10.7
Government	244.1	14.7	21,805.7	16.3
Finance[(c)]	142.3	8.6	8,141.9	6.1
Information[(d)]	38.2	2.3	3,065.2	2.3
Construction[(e)]	66.9	4.0	7,902.7	5.9
Total[(f)]	1,663.3	100.0%	133,458.8	100.0%

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

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 year 2005 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)

Year	Manufacturing	Trade[a]	Services[b]	Government	Finance[c]	Information[d]	Construction[e]	Total Non-agricultural Employment[f]
1995	248.51	294.78	572.42	220.84	132.38	41.49	51.17	1,561.59
1996	245.33	299.09	591.35	222.80	128.58	43.27	53.20	1,583.62
1997	245.38	302.47	607.79	225.72	130.12	44.49	56.53	1,612.52
1998	247.87	308.55	618.64	227.83	136.98	44.28	59.32	1,643.47
1999	240.24	312.12	634.55	235.14	140.82	44.67	61.64	1,669.18
2000	235.71	317.49	643.37	241.89	143.02	46.41	65.34	1,693.23
2001	226.68	312.18	644.08	244.45	142.94	44.69	66.08	1,681.11
2002	211.16	309.21	647.36	249.28	142.62	41.03	64.16	1,664.81
2003	200.02	305.53	648.01	245.98	142.68	39.57	62.67	1,644.43
2004	197.18	307.87	655.82	242.82	140.65	38.99	66.42	1,649.75
2005	195.37	311.56	664.86	244.11	142.35	38.18	66.92	1,663.34

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

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 ranked twenty-first in the nation for its dependency on manufacturing wages in fiscal year 2006. 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 manufacturing 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 year 2005 approximately 11.7% of the State's workforce, versus 10.7% 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 Number	Connecticut Percent Growth	New England Number	New England Percent Growth	United States Number	United States Percent Growth
1995	248.5	(1.94)%	967.8	(0.49)%	17,244	1.29%
1996	245.3	(1.28)	961.4	(0.67)	17,236	(0.05)
1997	245.4	0.02	965.0	0.38	17,418	1.05
1998	247.9	1.02	970.2	0.53	17,560	0.82
1999	240.2	(3.08)	944.8	(2.61)	17,323	(1.35)
2000	235.7	(1.89)	943.2	(0.17)	17,266	(0.33)
2001	226.7	(3.83)	900.6	(4.51)	16,442	(4.77)
2002	211.2	(6.85)	815.8	(9.42)	15,257	(7.21)
2003	200.0	(5.28)	764.9	(6.23)	14,507	(4.91)
2004	197.2	(1.42)	747.0	(2.34)	14,315	(1.32)
2005	195.4	(0.92)	733.9	(1.76)	14,234	(0.56)

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 2005.

TABLE B-12

Manufacturing Employment
By Industry
(In Thousands)

Calendar Year	Transportation Equipment	Fabricated Metals	Computer & Electronics	Machinery	Other[(a)]	Total Manufacturing Employment
1995	55.50	50.91	35.95	24.84	81.31	248.51
1996	53.66	51.57	35.82	24.70	79.58	245.32
1997	51.49	51.45	37.20	25.46	79.79	245.38
1998	52.27	52.34	37.62	25.42	80.23	247.88
1999	49.86	50.45	35.34	23.98	80.61	240.24
2000	46.92	49.95	35.41	23.71	79.70	235.71
2001	46.87	46.98	33.68	22.41	76.73	226.68
2002	45.33	43.18	29.25	20.27	73.12	211.16
2003	43.35	40.86	26.47	18.92	70.42	200.02
2004	43.17	41.12	25.80	18.48	68.61	197.18
2005	43.43	41.07	25.57	18.12	67.19	195.38

(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 1996 at 245,320 workers. Since that year, employment in manufacturing continued 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 195,380 in 2005. The total number of manufacturing jobs dropped 49,950, or 20.4%, for the ten year period since 1996.

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 $9.69 billion in 2005, accounting for 5.0% of Gross State Product. From 2001 to 2005, the State's export of goods grew at an average annual rate of 4.9%. The following table shows the growth in exports of manufacturing products.

TABLE B-13

Exports Originating in Connecticut
(In Millions)

	2001	2002	2003	2004	2005	Percent of 2005 Total	Average Percent Growth 2001-2005
A. Manufacturing Products							
Transportation Equipment	$3,988.3	$4,098.7	$3,298.1	$3,177.8	$3,937.0	40.6%	0.9%
Computer & Electronics	804.4	760.0	789.5	803.6	885.4	9.1	2.6
Machinery, Except Electronics	898.0	669.8	784.4	1,106.8	1,129.2	11.7	8.7
Fabricated Metal Production	391.5	427.4	440.5	406.5	408.2	4.2	1.2
Chemicals	567.3	499.9	749.0	608.2	590.4	6.1	4.1
Misc. Manufacturing	430.3	393.6	486.4	606.2	562.1	5.8	8.1
Electrical Equipment	259.8	316.3	336.1	469.7	433.0	4.5	15.0
Plastics & Rubber	152.0	141.2	137.6	179.6	178.4	1.8	5.0
Paper	139.5	174.9	188.6	165.8	219.8	2.3	13.4
Primary Metal Mfg.	210.1	167.6	203.1	275.7	325.9	3.4	13.7
Others	769.1	664.0	723.0	759.3	1,017.9	10.5	8.6
Total	$8,610.4	$8,313.4	$8,136.4	$8,559.2	$9,687.3	100.0%	3.2%
% Growth	7.0%	(3.4%)	(2.1%)	5.2%	13.2%		
B. Gross State Product[(a)]	$165,030	$166,070	$170,230	$182,470	$193,740		
Mfg Exports as a % of GSP	5.2%	5.0%	4.7%	4.6%	5.0%		

(a) In millions.

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 had witnessed a marked reduction in the amount of federal spending earmarked for defense related industries in the State, however, these amounts have been climbing since federal fiscal year 2001. In federal fiscal year 2005, Connecticut received $8.75 billion of prime contract awards. These total awards accounted for 3.7% of national total awards and ranked 7th in total defense dollars awarded and 3rd in per capita dollars awarded among the 50 states. In fiscal year 2005, Connecticut had $2,494 in per capita defense awards, compared to the national average of $800. 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 4.4% of Gross State Product in fiscal year 2005, up from 2.1% of Gross State Product in fiscal year 1996. 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

Federal Fiscal Year	Connecticut Total Contract Award (Thousands)	Connecticut Rank Among States Total Awards	Percent Change from Prior Year: Connecticut	Percent Change from Prior Year: U.S.
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	8,064,794	5th	43.0	20.5
2003-04	8,959,424	5th	11.1	6.4
2004-05	8,753,063	7th	(2.3)	16.5

SOURCE: United States Department of Defense

On May 13, 2005 the U.S. Department of Defense announced its preliminary list of bases recommended for closure or realignment, which included for closure the U.S. Naval Submarine Base New London in Groton, Connecticut. On August 24, 2005, the Base Realignment and Closure ("BRAC") Commission recommended to take the U.S. Naval Submarine Base New London off of the list of bases recommended for closure and realignment. The President of the United States and Congress accepted the BRAC Commission's recommendation and the base was not closed in that round of closings.

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 88.3% by 2005. This trend has decreased the State's dependence on manufacturing. Over the course of the last ten years, there were more than 129,000 jobs created in this sector, an increase of 9.7%. Moreover, this sector has more than compensated for the loss in manufacturing jobs, fueling the recovery in nonagricultural employment since 2001.

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)

	Connecticut		**New England**		**United States**	
Calendar Year	Number	Percent Growth	Number	Percent Growth	Number	Percent Growth
1995	1,313.1	1.77%	5,358.8	2.51%	100,062.1	2.88%
1996	1,338.3	1.92	5,470.4	2.08	102,462.2	2.40
1997	1,367.1	2.15	5,610.2	2.55	105,348.9	2.82
1998	1,395.6	2.08	5,753.3	2.55	108,363.4	2.86
1999	1,428.9	2.39	5,910.3	2.73	111,668.5	3.05
2000	1,457.5	2.00	6,073.3	2.76	114,526.3	2.56
2001	1,454.5	(0.21)	6,123.5	0.83	115,390.3	0.75
2002	1,453.6	(0.05)	6,098.8	(0.40)	115,085.4	(0.26)
2003	1,444.4	(0.64)	6,072.4	(0.43)	115,486.3	0.35
2004	1,452.6	0.56	6,114.0	0.69	117,109.0	1.41
2005	1,468.0	1.06	6,168.4	0.89	119,224.8	1.81

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 1995, 2003, 2004 and 2005 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 1995 and 2005 service industry employment expanded by 73,510 workers, adding more than one out of every two jobs statewide, which registered an increase of 129,670 jobs. State and local governments expanded by 24,960 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 20,000 employees working at the State's two tribal casinos.

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

Industry	Calendar Year 1995	Calendar Year 2003	Calendar Year 2004	Calendar Year 2005	Percent Change 2004-05	Percent Change 1995-05
Construction[(a)]	53.20	62.67	66.42	66.92	0.75%	25.78%
Information	43.27	39.57	38.99	38.18	(2.09)	(11.79)
Trade[(b)]	299.09	305.53	307.87	311.56	1.20	4.17
Finance, Insurance & Real Estate	128.58	142.68	140.65	142.35	1.21	10.71
Services[(c)]	591.35	648.01	665.82	664.86	1.38	12.43
Federal Government	23.51	20.82	20.12	19.85	(1.31)	(15.54)
State and Local Government	199.29	225.16	222.70	224.25	0.70	12.53
Total Non-manufacturing Employment[(d)]	1,313.08	1,444.42	1,452.57	1,467.97	1.06	9.69

(a) Includes natural resources and mining.
(b) Covers a considerable variety of activities, including professional, business, education, health care and personal services.
(c) Includes wholesale & retail trade, transportation, and utilities
(d) Totals may not agree with detail due to rounding and seasonal statistical data adjustments.

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 North American Industry Classification System (NAICS) code as well as the State's retail trade history for the past two fiscal years. Retail sales have been demonstrating the fluctuating pattern of economic health in Connecticut. Connecticut retail trade in fiscal year 2005 totaled $43.1 billion, an increase of 4.3% from fiscal year 2004. This increase reflects the marked sales improvement in those industries such as gasoline stations, electronics and appliance stores, and nonstore retailers. Nonstore retailers include electronic shopping and mail-order houses that have been performing well in the past decade.

TABLE B-17

Retail Trade In Connecticut[(a)]
(In Millions)

NAIC		Fiscal Year 2004	Percent of Fiscal Year 2004 Total	Fiscal Year 2005	Percent of Fiscal Year 2005 Total	Average Percent Growth Fiscal Year 2004-2005
441	Motor Vehicle and Parts Dealers	$ 8,685	21.00 %	$ 8,744	20.30 %	0.70 %
442	Furniture and Home Furnishings Stores	2,539	6.10	2,665	6.20	4.90
443	Electronics and Appliance Stores	1,281	3.10	1,510	3.50	17.90
444	Building Material and Garden Supply Stores	3,168	7.70	3,436	8.00	8.40
445	Food and Beverage Stores	5,664	13.70	5,701	13.20	0.70
446	Health and Personal Care Stores	3,515	8.50	3,459	8.00	(1.60)
447	Gasoline Stations	2,182	5.30	2,666	6.20	22.20
448	Clothing and Clothing Accessories Stores	2,618	6.30	2,679	6.20	2.30
451	Sporting Goods, Hobby, Book and Music Stores	1,087	2.60	1,080	2.50	(0.70)
452	General Merchandise Stores	4,471	10.80	4,844	11.20	8.40
453	Miscellaneous Store Retailers	3,681	8.90	3,505	8.10	(4.80)
454	Nonstore Retailers	2,513	6.10	2,836	6.60	12.90
	Total[(a)]	$41,405	100.00%	$43,126	100.00%	4.20%
Durables (NAIC 441, 442, 443, 444)		$15,673	37.90%	$16,354	37.90%	4.30%
Non Durables (all other NAIC)		$25,732	62.10%	$26,772	62.10%	4.00%

(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 late 1990s, Connecticut, as well as the rest of the Northeast and the Nation, experienced an economic slowdown during the recession of the early 2000s. The unemployment rate in the State reached its low of 2.3% in 2000, compared to New England's average of 2.8% and the national average of 4.0%. After climbing to its recent high of 5.5% in 2003, Connecticut's unemployment rate declined to 4.3% for the first six months of 2006, lower than the New England average of 4.5% and the national average of 4.7% for the same period.

The following table compares the unemployment rate averages of Connecticut, New England, and the United States between 1995 and the first half of 2006.

TABLE B-18

Unemployment Rate

Year	Unemployment Rate		
	Connecticut	New England	United States
1995	5.3%	5.3%	5.6%
1996	5.3	4.8	5.4
1997	4.8	4.4	4.9
1998	3.2	3.5	4.5
1999	2.7	3.2	4.2
2000	2.3	2.8	4.0
2001	3.1	3.6	4.7
2002	4.4	4.8	5.8
2003	5.5	5.4	6.0
2004	4.9	4.9	5.5
2005	4.9	4.7	5.1
2006[(a)]	4.3	4.5	4.7

(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

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STATE OF CONNECTICUT

NANCY WYMAN
COMPTROLLER

MARK E. OJAKIAN
DEPUTY COMPTROLLER

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

February 23 2007

The Honorable Denise L. Nappier
State Treasurer
55 Elm Street
Hartford, CT 06106

Dear Ms. Nappier

I have reviewed the accompanying general purpose financial statements of the State of Connecticut for the Fiscal Year ended June 30, 2006. The statements are prepared in accordance with generally accepted accounting principles.

Sincerely,

Nancy Wyman

Nancy Wyman
State Comptroller

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Financial Section

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:
As of June 30, 2006, the State had a total net asset deficit of $0.8 billion, an improvement in net assets of $551 million occurring this fiscal year. This improvement resulted from increases of $259 million and $292 million in the net assets of governmental activities and business-type activities, respectively.

During the year, revenues of governmental activities exceeded expenses by $971 million. However, this excess was reduced by transfers of $712 million, resulting in an increase of net asset of $259 million.

For business-type activities, expenses exceeded revenues by $420 million. However, this deficiency was offset by transfers of $712 million, resulting in an increase in net assets of $292 million.

Fund Level:
The governmental funds had a total fund balance of $3.1 billion at year end. Of this amount, $3.2 billion was reserved for various purposes, resulting in a total unreserved fund balance deficit of $0.1 billion. The portion of the total unreserved fund balance deficit that pertains to the General Fund was a $1.0 billion deficit. The General Fund had an actual budget surplus of $487 million this year.

The Enterprise Funds had total net assets of $4.3 billion, substantially all of which was invested in capital assets or restricted for various purposes.

Debt Issued and Outstanding:
Total long-term debt was $18.4 billion for governmental activities, of which $13.6 billion was bonded debt.

Total long-term debt was $2.2 billion for business-type activities, of which $1.6 billion was bonded debt.

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 occurs, 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 is required to report four categories of fund statements – governmental, proprietary, and fiduciary funds, to the extent that State's activities meet the criteria for using these funds, and "combining statements" for its component units. 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 State's chief operating fund. 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 fuel taxes, vehicle registration and driver license fees, and other revenue 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's 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.

Budgetary Reporting - The State adopts a biannual budget for the General fund, the Transportation fund, and other Special Revenue funds. A budgetary comparison statement, using original and final budgets, is presented for the General and Transportation funds to demonstrate compliance with the current fiscal year budgets.

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 distinguishes current assets and liabilities from non-current assets and liabilities.

- Three classifications are used to classify equity for proprietary funds. 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, an investment trust fund, a private-purpose trust fund, and agency funds. These fund types are 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.

Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's operations and programs. The accounting used for fiduciary funds is much like that for proprietary funds.

Component Unit Combining Statements:

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

Connecticut Housing Finance Authority - Classified as a major component unit, CHFA 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.

Connecticut Health and Educational Facilities Authority - Classified as a major component unit, CHEFA was created to provide resources for financing major projects for health and educational institutions.

Connecticut Development Authority - CDA was created to stimulate commercial development in the State.

Connecticut Resources Recovery Authority - CRRA was created to implement the State Solid Waste Management Plan.

Connecticut Higher Education Supplemental Loan Authority - CHESLA was created to provide resources for student loans.

Connecticut Innovations, Incorporated - CII was created to stimulate and promote technological innovation and application of new technology within the State.

Capital City Economic Development Authority - CCEDA was created to stimulate economic development in the city of Hartford.

University of Connecticut Foundation, Inc - The Foundation was created to solicit, receive, and administer gifts and financial resources from private sources for the benefit of the University of Connecticut.

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 State's 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, these statements are presented as other supplementary information in this report.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

NET ASSETS

The following condensed financial information was derived from the government-wide Statement of Net Assets and reflects the financial position of the State at the end of the fiscal year 2006, compared to the prior year.

State Of Connecticut's Net Assets
(Expressed in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005*	2006	2005	2006	2005*
ASSETS:						
Current and Other Assets	$ 5,110	$ 4,459	$ 3,733	$ 3,715	$ 8,843	$ 8,174
Capital Assets	9,755	9,640	3,225	3,075	12,980	12,715
Total Assets	14,865	14,099	6,958	6,790	21,823	20,889
LIABILITIES:						
Current Liabilities	2,835	2,777	683	730	3,518	3,507
Long-term Liabilities	17,143	16,694	1,984	2,061	19,127	18,755
Total Liabilities	19,978	19,471	2,667	2,791	22,645	22,262
NET ASSETS:						
Invested in Capital Assets, Net of Related Debt	3,469	3,295	2,407	2,314	5,876	5,609
Restricted	1,460	1,343	1,705	1,570	3,165	2,913
Unrestricted	(10,042)	(10,010)	179	115	(9,863)	(9,895)
Total Net Assets	$ (5,113)	$ (5,372)	$ 4,291	$ 3,999	$ (822)	$ (1,373)

* Restated for comparative purposes. See Note 21.

The State had a total net asset deficit of $0.8 billion at year end, an improvement in net assets of $551 million occurring in this fiscal year. This improvement resulted from increases of $259 million and $292 million in the net assets of governmental activities and business-type activities, respectively.

Governmental activities had a total net asset deficit of $5.1 billion at year end, an improvement in net assets of $0.3 billion occurring in this fiscal year. Of this amount, $4.9 billion was invested in capital assets (buildings, roads, bridges, etc.) or was restricted for various purposes, resulting in an unrestricted net asset deficit of $10.0 billion. This deficit does not mean that the State will not be able to pay its bills next year. Rather, it is the result of having long-term obligations that are greater than currently available resources. Specifically, the State had the following outstanding long-term obligations which contributed to the deficit: a) general obligation bonds in the amount of $3.8 billion which were issued to finance various grant programs of the State, such as school construction and other municipal aid programs; and b) other long-term obligations in the amount of $4.8 billion which the State has partially funded (net pension obligation) or not funded (compensated absences obligation).

Although the net assets of the business-type activities increased by $0.3 billion, these resources cannot be used to make up for the net asset deficit in governmental activities. The State can only use these net assets to finance the ongoing operations of its Enterprise funds, such as the University of Connecticut, Bradley International Airport, Employment Security, etc.

CHANGE IN NET ASSETS

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 during the fiscal year 2006, compared to the prior year,

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005*	2006	2005	2006	2005*
REVENUES						
Program Revenues						
Charges for Services	$ 1,379	$ 1,317	$ 2,900	$ 2,863	$ 4,279	$ 4,180
Operating Grants and Contributions	4,035	3,810	277	262	4,312	4,072
Capital Grants and Contributions	542	335	80	87	622	422
General Revenues						
Taxes	11,855	10,840	-	-	11,855	10,840
Casino Gaming Payments	428	418	-	-	428	418
Other	213	188	113	94	326	282
Total Revenues	18,452	16,908	3,370	3,306	21,822	20,214
EXPENSES						
Legislative	97	91	-	-	97	91
General Government	1,356	1,288	-	-	1,356	1,288
Regulation and Protection	713	633	-	-	713	633
Conservation and Development	397	424	-	-	397	424
Health and Hospitals	1,927	1,801	-	-	1,927	1,801
Transportation	1,092	1,184	-	-	1,092	1,184
Human Services	4,953	4,537	-	-	4,953	4,537
Education, Libraries and Museums	3,898	3,408	-	-	3,898	3,408
Corrections	1,772	1,676	-	-	1,772	1,676
Judicial	656	650	-	-	656	650
Interest and Fiscal Charges	620	612	-	-	620	612
University of Connecticut & Health Center	-	-	1,464	1,386	1,464	1,386
State Universities	-	-	536	507	536	507
Bradley International Airport	-	-	63	62	63	62
CT Lottery Corporation	-	-	709	691	709	691
Employment Security	-	-	573	580	573	580
Clean Water	-	-	26	28	26	28
Other	-	-	419	406	419	406
Total Expenses	17,481	16,304	3,790	3,660	21,271	19,964
Excess (Deficiency) Before Transfers, Special and Extraordinary Items	971	604	(420)	(354)	551	250
Transfers	(712)	(693)	712	499	-	(194)
Special Items	-	(150)	-	-	-	(150)
Increase (Decrease) in Net Assets	259	(239)	292	145	551	(94)
Net Assets (Deficit) - Beginning (Restated)	(5,372)	(5,133)	3,999	3,854	(1,373)	(1,279)
Net Assets (Deficit) - Ending	$ (5,113)	$ (5,372)	$ 4,291	$ 3,999	$ (822)	$ (1,373)

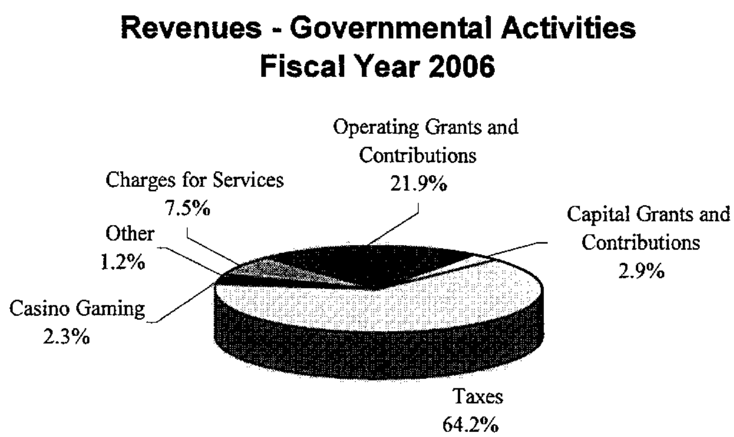
* Restated for comparative purposes. See Note 21.

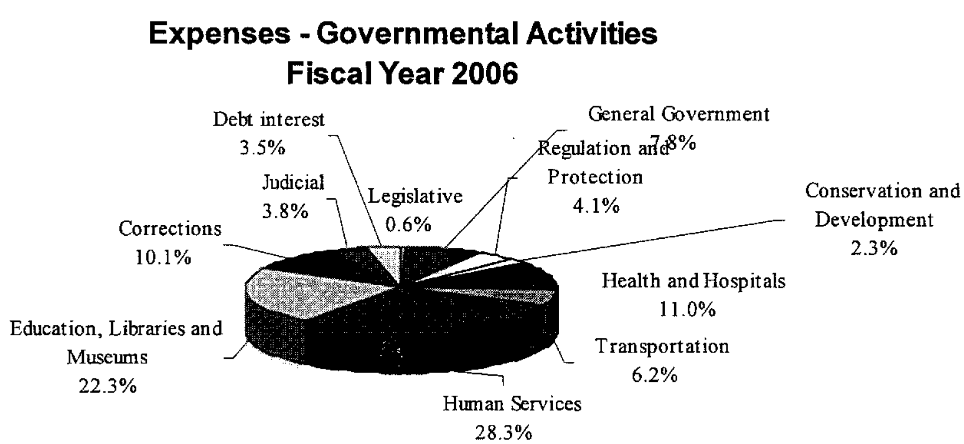
Special Items are significant transactions or other activity within management's control that are either unusual in nature or infrequent in occurrence.

Total revenues of the State increased by $1.6 billion to $21.9 billion. More than half of this increase was due to an increase in tax revenues. Total expenses increased by $1.3 billion to $21.2 billion. This increase can be attributed mainly to an increase of $1.2 billion in governmental activities' expenditures. Total net assets of the State increased by $551 million during the fiscal year.

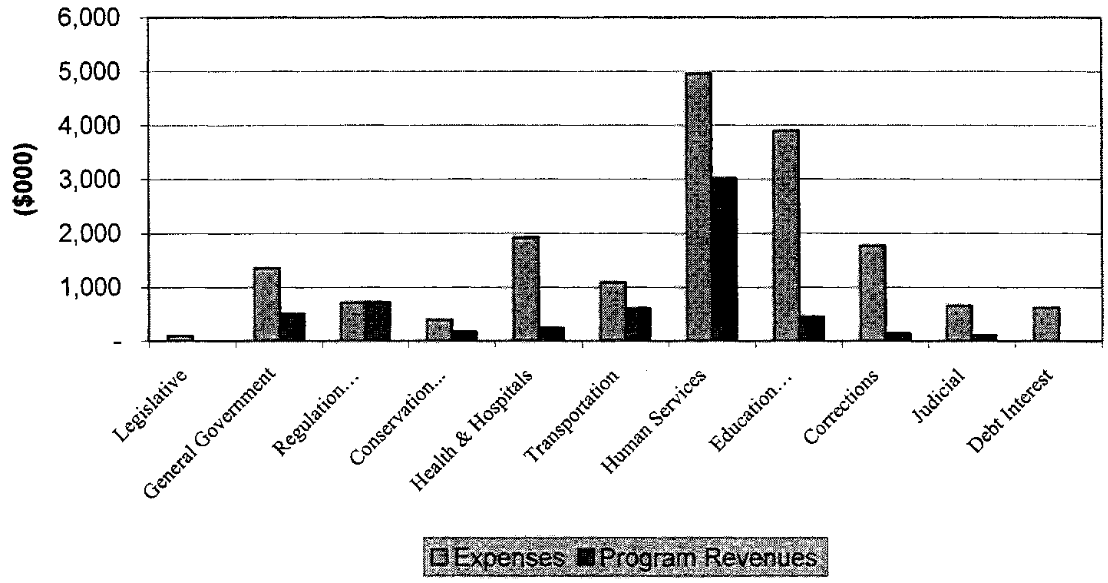
GOVERNMENTAL ACTIVITIES

The following charts depict the distribution of revenues and expenses for Fiscal Year 2006.





Expenses and Program Revenues - Governmental Activities
Fiscal Year 2006



Total revenues for the governmental activities increased by $1.5 billion to $18.4 billion. This increase was due mainly to an increase in tax revenue of $1.0 billion, reflecting a growing economy. Total expenses increased by $1.2 billion to $17.5 billion. This increase can be attributed mainly to increases in health and hospital, human services, and education expenses of $1.0 billion. Even though total revenues exceeded total expenses by $971 million, this excess was reduced by transfers of $712 million, resulting in an increase of net assets of $259 million.

As noted above, total revenues increased by 9 percent during the fiscal year because of a strong economy. Nationally, real Gross Domestic Product (GDP) grew a solid 5.6 percent in the third quarter of the fiscal year, after growing 1.7 percent during the second quarter of the fiscal year. However, the GDP showed growth slowing to 2.9 percent during the fourth quarter of the fiscal year. During the fiscal year, the State added 7,100 payroll jobs, which was about half of last year's job growth. The State's unemployment rate is 4.1 percent, compared to a national unemployment rate of 4.6 percent. Corporate profits grew at a rate of 14.4 percent and 11.9 percent during the second and third quarter of the fiscal year, respectively, after showing disappointing results during the first quarter of the year. During the last quarter of the fiscal year, advanced retail sales showed growth of 6.8 percent over the same quarter a year ago. Existing home sales in the State began to show signs of weakening, and permits to build have also been on a decline recently. The major stock indexes continue to show modest gains for the year.

Total revenues and expenses of business-type activities were virtually unchanged between fiscal years 2006 and 2005. Although, total expenses exceeded total revenues by $420 million, this deficiency was offset by transfers of $712 million, resulting in an increase in net assets of $292 million.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The State completed fiscal year 2006 with a balance of $3.1 billion in its governmental funds. However, the General fund reported a deficit of $1.0 billion in unreserved fund balance. Although governmental fund expenditures exceeded fund revenues by $92 million, this deficiency was offset by other financing sources of $699 million, resulting in an increase in fund balance of $607 million in governmental funds in fiscal year 2006.

General Fund

The General fund is the chief operating fund of the State. At the end of fiscal year 2006, the General fund had a fund balance of $0.9 billion. Of this amount, $1.9 billion was reserved for various purposes, leaving a deficit of $1.0 billion in unreserved fund balance. Although, total fund revenues exceeded total fund expenditures by $1,017 million, this excess was reduced by other financing uses of $561 million, resulting in an increase in fund balance of $456 million for the fiscal year.

Budgetary Highlights-General Fund

Early in the fiscal year, the General fund surplus was estimated to be $18 million. By the end of the fiscal year, fund revenues had greatly increased because of a strong economy, causing the surplus estimate to grow to$940 million. However, most of the estimated surplus was eventually appropriated by the State legislature for various expenditure programs, resulting in a final estimated surplus of $455 million.

Although actual fund revenues exceeded expenditures by $499 million, this excess was reduced by other financing uses of $12 million, resulting in an actual surplus of $487 million. A portion of the 2005 surplus in the amount of $15 million was appropriated during the current fiscal year for various expenditure programs. This amount was reported in the budgetary statement as other financing source.

During the year, actual revenues exceeded original budget revenues by $865 million. A tax revenue variance of $760 million accounts for much of the total variance. Some of the tax revenues that exceeded original estimates were: personal income, $370 million; corporations, $141 million; and oil companies, $80 million.

During the year, final appropriations exceeded original appropriations by $450 million. Some of the major adjustments to initial appropriations that occurred during the year were: $86 million to pre-pay debt service on economic recovery notes; $246 million for deposit to the Teachers' Retirement Fund; and $33 million for property tax relief.

Other Funds

The Debt Service fund had a fund balance of $675 million at year end, all of which was reserved. Fund balance decreased by $3 million during the fiscal year.

The Transportation fund had a fund balance of $183 million at year end, of which $129 million was unreserved. Fund balance increased by $7 million during the fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets.

As of June 30, 2006 the State had an investment in total capital assets (net of accumulated depreciation) of $13.0 billion. During the fiscal year, capital assets of governmental activities and business-type activities increased by $115 million and $150 million, respectively. Depreciation charges for the fiscal year totaled $0.9 billion.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Land	$ 1,295	$ 1,264	$ 59	$ 64	$ 1,354	$ 1,328
Buildings	1,138	1,046	2,330	2,098	3,468	3,144
Improvements Other than Buildings	192	197	296	258	488	455
Equipment	391	389	365	352	756	741
Infrastructure	5,080	5,363	-	-	5,080	5,363
Construction in Progress	1,659	1,381	175	303	1,834	1,684
Total	$ 9,755	$ 9,640	$ 3,225	$ 3,075	$ 12,980	$ 12,715

Additional information on the State's capital assets can be found in Note 10 of this report.

Long-term Debt

Bonded 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 specific revenues of enterprise funds.

State of Connecticut's Bonded Debt (in millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	$ 10,211	$ 9,905	$ -	$ -	$ 10,211	$ 9,905
Transportation Related Bonds	3,094	3,114	-	-	3,094	3,114
Revenue Bonds			1,523	1,620	1,523	1,620
Premiums and deferred amounts	267	229	52	34	319	263
Total	$ 13,572	$ 13,248	$ 1,575	$ 1,654	$ 15,147	$ 14,902

In fiscal year 2006 the State increased outstanding bonds by $245 million. Bonds of governmental activities increased by $324 million while bonds of business-type activities decreased by $79 million. 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 Aaa, AAA, AAA 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. As of October, 2006, the State had a debt incurring margin of $4.2 billion.

Other Long-Term Debt

State of Connecticut's Other Long - Term Debt (in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Net Pension Obligation	$ 3,737	$ 3,636	$ -	$ -	$ 3,737	$ 3,636
Compensated Absences	508	415	124	102	632	517
Workers Compensation	344	299	-	-	344	299
Lottery Prizes	-	-	302	337	302	337
Other*	227	298	168	166	395	464
Total	$ 4,816	$ 4,648	$ 594	$ 605	$ 5,410	$ 5,253

* Includes Economic Recovery Notes of $146 million and $209 million in 2006 and 2005, repectively

The State's other long-term obligations increased by $157 million during the year. An increase of $101 million in the net pension obligation of governmental activities accounted for most of the change.

Additional information on the State's long-term debt can be found in Note 16 of this report.

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, 2006

(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 2,154,451	$ 492,520	$ 2,646,971	$ 191,847
Deposits with U.S. Treasury	-	632,318	632,318	-
Investments	134,477	98,480	232,957	345,240
Receivables, (Net of Allowances)	2,033,355	621,357	2,654,712	56,186
Due from Component Units	2,619	-	2,619	-
Due from Primary Government	-	-	-	12,778
Inventories	58,572	10,087	68,659	3,509
Restricted Assets	-	82,546	82,546	1,260,718
Internal Balances	(210,633)	210,633	-	-
Other Current Assets	13,603	15,025	28,628	3,071
Total Current Assets	4,186,444	2,162,966	6,349,410	1,873,349
Noncurrent Assets:				
Cash and Cash Equivalents	-	217,435	217,435	-
Due From Component Units	13,320	-	13,320	-
Investments	-	312,567	312,567	53,800
Receivables, (Net of Allowances)	177,988	489,445	667,433	123,798
Restricted Assets	675,323	490,598	1,165,921	3,603,376
Capital Assets, (Net of Accumulated Depreciation)	9,754,593	3,225,193	12,979,786	462,640
Other Noncurrent Assets	57,042	59,352	116,394	14,184
Total Noncurrent Assets	10,678,266	4,794,590	15,472,856	4,257,798
Total Assets	14,864,710	6,957,556	21,822,266	6,131,147
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	644,854	257,253	902,107	66,280
Due to Component Units	12,778	-	12,778	-
Due to Primary Government	-	-	-	2,619
Due to Other Governments	63,789	167	63,956	-
Current Portion of Long-Term Obligations	1,248,067	186,597	1,434,664	153,263
Amount Held for Institutions	-	-	-	471,585
Deferred Revenue	8,519	155,717	164,236	-
Medicaid Liability	569,613	-	569,613	-
Liability for Escheated Property	104,719	-	104,719	-
Other Current Liabilities	182,776	83,166	265,942	28,227
Total Current Liabilities	2,835,115	682,900	3,518,015	721,974
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	17,142,741	1,983,518	19,126,259	3,679,250
Total Noncurrent Liabilities	17,142,741	1,983,518	19,126,259	3,679,250
Total Liabilities	19,977,856	2,666,418	22,644,274	4,401,224
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,469,145	2,407,382	5,876,527	284,295
Restricted For:				
Transportation	102,767	-	102,767	-
Debt Service	640,540	72,547	713,087	31,866
Capital Projects	234,846	110,952	345,798	-
Unemployment Compensation	-	762,997	762,997	-
Clean Water and Drinking Water Projects	-	566,438	566,438	-
Bond Indenture Requirements	-	3,248	3,248	724,815
Loans	-	6,318	6,318	-
Permanent Investments or Endowments:				
Expendable	3,241	-	3,241	109,346
Nonexpendable	89,619	14,010	103,629	220,481
Other Purposes	388,536	168,075	556,611	50,400
Unrestricted (Deficit)	(10,041,840)	179,171	(9,862,669)	308,720
Total Net Assets (Deficit)	$ (5,113,146)	$ 4,291,138	$ (822,008)	$ 1,729,923

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

Statement of Activities

For The Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services, Fees, Fines, and Other	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental Activities:				
Legislative	$ 96,834	$ 2,300	$ 90	$ -
General Government	1,356,004	459,602	43,687	-
Regulation and Protection	713,646	527,391	192,124	-
Conservation and Development	397,182	92,788	79,974	-
Health and Hospitals	1,926,944	54,205	183,126	-
Transportation	1,091,976	61,982	-	541,875
Human Services	4,952,713	47,126	2,970,922	-
Education, Libraries, and Museums	3,897,508	28,460	424,456	-
Corrections	1,772,346	11,434	130,040	-
Judicial	656,392	93,773	10,254	-
Interest and Fiscal Charges	619,730	-	-	-
Total Governmental Activities	17,481,275	1,379,061	4,034,673	541,875
Business-Type Activities:				
University of Connecticut & Health Center	1,464,055	798,041	166,259	9,966
State Universities	536,026	264,413	42,982	68,077
Bradley International Airport	62,625	54,193	-	2,039
Connecticut Lottery Corporation	709,591	970,568	-	-
Employment Security	572,602	585,375	-	-
Clean Water	26,076	14,156	19,764	-
Other	419,074	213,359	48,352	-
Total Business-Type Activities	3,790,049	2,900,105	277,357	80,082
Total Primary Government	$ 21,271,324	$ 4,279,166	$ 4,312,030	$ 621,957
Component Units				
Connecticut Housing Finance Authority (12-31-05)	$ 183,431	$ 160,753	$ -	$ -
Connecticut Health and Educational Facilities Authority	6,055	4,655	-	-
Other	282,552	270,169	6,212	31,054
Total Component Units	$ 472,038	$ 435,577	$ 6,212	$ 31,054

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 Item-Statutory Payment to State
Transfers-Internal Activities
Total General Revenues, Contributions, Special Item, and Transfers
Change in Net Assets
Net Assets (Deficit)- Beginning (as restated)
Net Assets (Deficit)- Ending

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
$ (94,444)	$ -	$ (94,444)	$ -
(852,715)	-	(852,715)	-
5,869	-	5,869	-
(224,420)	-	(224,420)	-
(1,689,613)	-	(1,689,613)	-
(488,119)	-	(488,119)	-
(1,934,665)	-	(1,934,665)	-
(3,444,592)	-	(3,444,592)	-
(1,630,872)	-	(1,630,872)	-
(552,365)	-	(552,365)	-
(619,730)	-	(619,730)	-
(11,525,666)	-	(11,525,666)	-
-	(489,789)	(489,789)	-
-	(160,554)	(160,554)	-
-	(6,393)	(6,393)	-
-	260,977	260,977	-
-	12,773	12,773	-
-	7,844	7,844	-
-	(157,363)	(157,363)	-
-	(532,505)	(532,505)	-
(11,525,666)	(532,505)	(12,058,171)	-
-	-	-	(22,678)
-	-	-	(1,400)
-	-	-	24,883
-	-	-	805
5,625,882	-	5,625,882	-
655,607	-	655,607	-
3,382,118	-	3,382,118	-
1,608,235	-	1,608,235	-
515,013	-	515,013	-
68,418		68,418	-
427,527	-	427,527	-
108,619	-	108,619	-
104,911	113,387	218,298	58,182
-	-	-	33,520
-	-	-	(5,000)
(711,657)	711,657	-	-
11,784,673	825,044	12,609,717	86,702
259,007	292,539	551,546	87,507
(5,372,153)	3,998,599	(1,373,554)	1,642,416
$ (5,113,146)	$ 4,291,138	$ (822,008)	$ 1,729,923

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Governmental Fund Financial Statements

Major Funds

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

Debt Service Fund:
This fund is used to account for the accumulation of resources for and the payment of, principal and interest on general long-term bonds.

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

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

Balance Sheet
Governmental Funds
June 30, 2006
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	$ 887,481	$ -	$ 125,947	$ 1,124,119	$ 2,137,547
Investments	-	-	-	134,477	134,477
Securities Lending Collateral	-	-	-	13,562	13,562
Receivables:					
Taxes, Net of Allowances	960,095	-	42,721	-	1,002,816
Accounts, Net of Allowances	182,949	-	12,557	39,717	235,223
Loans, Net of Allowances	-	-	-	177,988	177,988
From Other Governments	509,964	-	-	256,021	765,985
Interest	-	6,634	992	-	7,626
Other	-	-	-	6,321	6,321
Due from Other Funds	22,195	202	18,714	99,178	140,289
Advances to Other Funds	4,700	-	-	-	4,700
Due from Component Units	15,939	-	-	-	15,939
Inventories	39,347	-	15,730	-	55,077
Restricted Assets		674,428		895	675,323
Other Assets	-	-	-	5	5
Total Assets	$ 2,622,670	$ 681,264	$ 216,661	$ 1,852,283	$ 5,372,878
Liabilities and Fund Balances					
Liabilities					
Accounts Payable and Accrued Liabilities	$ 311,083	$ -	$ 27,599	$ 193,844	$ 532,526
Due to Other Funds	115,112	6,634	-	159,397	281,143
Due to Component Units	-	-	-	12,778	12,778
Due to Other Governments	61,385	-	-	2,404	63,789
Deferred Revenue	433,275	-	5,503	77,483	516,261
Medicaid Liability	569,613	-	-	-	569,613
Liability For Escheated Property	104,719	-	-	-	104,719
Securities Lending Obligation		-	-	13,562	13,562
Other Liabilities	168,937	-	-	277	169,214
Total Liabilities	1,764,124	6,634	33,102	459,745	2,263,605
Fund Balances					
Reserved For:					
Petty Cash	912	-	-	-	912
Inventories	39,347	-	15,730	-	55,077
Loans	20,639	-	-	177,988	198,627
Continuing Appropriations	702,854	-	39,067	1,140	743,061
Debt Service	-	674,630	-	-	674,630
Restricted Purposes	-	-	-	415,040	415,040
Surplus Transfer to FY 07	41,000	-	-	-	41,000
Budget Reserve Fund	1,112,508	-	-	-	1,112,508
Unreserved Reported In:					
General Fund	(1,058,714)	-	-	-	(1,058,714)
Transportation Fund	-	-	128,762	-	128,762
Special Revenue Funds	-	-	-	533,857	533,857
Capital Project Funds	-	-	-	264,513	264,513
Total Fund Balances	858,546	674,630	183,559	1,392,538	3,109,273
Total Liabilities and Fund Balances	$ 2,622,670	$ 681,264	$ 216,661	$ 1,852,283	$ 5,372,878

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, 2006
(Expressed in Thousands)

Total Fund Balance - Governmental Funds		$	3,109,273
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	2,766,854		
Equipment	1,175,497		
Infrastructure	12,481,408		
Other Capital Assets	999,639		
Accumulated Depreciation	(7,719,130)		9,704,268
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.			55,785
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.			507,871
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.			(8,831)
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	(3,737,136)		
Worker's Compensation	(344,274)		
Capital Leases	(60,491)		
Compensated Absences	(502,865)		
Claims and Judgments	(18,418)		(4,663,184)
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	(146,090)		
Bonds Payable	(13,305,494)		
Unamortized Premiums	(516,109)		
Less: Deferred Loss on Refundings	248,934		
Accrued Interest Payable	(99,569)		(13,818,328)
Net Assets of Governmental Activities		$	(5,113,146)

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, 2006
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Revenues					
Taxes	$ 11,225,489	$ -	$ 583,896	$ 27,424	$ 11,836,809
Assessments	-	-	-	21,555	21,555
Licenses, Permits and Fees	156,954	-	315,544	63,970	536,468
Tobacco Settlement	-	-	-	108,619	108,619
Federal Grants and Aid	2,817,844	-	-	1,760,537	4,578,381
Charges for Services	34,788	-	64,961	9,048	108,797
Fines, Forfeits and Rents	74,936	-	30,012	2,167	107,115
Casino Gaming Payments	427,527	-	-	-	427,527
Investment Earnings	53,629	14,642	11,789	22,634	102,694
Miscellaneous	150,034	-	8,457	435,138	593,629
Total Revenues	14,941,201	14,642	1,014,659	2,451,092	18,421,594
Expenditures					
Current:					
Legislative	89,454	-	-	2,279	91,733
General Government	916,747	-	2,947	385,877	1,305,571
Regulation and Protection	324,225	-	79,721	282,801	686,747
Conservation and Development	123,531	-	-	260,532	384,063
Health and Hospitals	1,707,536	-	-	181,706	1,889,242
Transportation	1,874	-	522,451	124,303	648,628
Human Services	4,487,762	-	-	389,849	4,877,611
Education, Libraries, and Museums	2,668,013	-	-	1,145,536	3,813,549
Corrections	1,686,200	-	-	37,391	1,723,591
Judicial	618,311	-	-	29,963	648,274
Capital Projects	-	-	-	671,124	671,124
Debt Service:					
Principal Retirement	831,719	270,420	631	-	1,102,770
Interest and Fiscal Charges	468,750	144,802	5,798	51,035	670,385
Total Expenditures	13,924,122	415,222	611,548	3,562,396	18,513,288
Excess (Deficiency) of Revenues Over Expenditures	1,017,079	(400,580)	403,111	(1,111,304)	(91,694)
Other Financing Sources (Uses)					
Bonds Issued	-	-	-	1,362,145	1,362,145
Premiums on Bonds Issued	-	4,453	-	50,791	55,244
Transfers In	377,484	426,814	53,398	178,958	1,036,654
Transfers Out	(938,233)	(29,159)	(449,306)	(333,841)	(1,750,539)
Refunding Bonds Issued	-	61,020	-	-	61,020
Payment to Refunded Bond Escrow Agent	-	(65,473)	-	-	(65,473)
Total Other Financing Sources (Uses)	(560,749)	397,655	(395,908)	1,258,053	699,051
Net Change in Fund Balances	456,330	(2,925)	7,203	146,749	607,357
Fund Balances - Beginning (as restated)	396,893	677,555	172,837	1,245,789	2,493,074
Changes in Reserves for Inventories	5,323	-	3,519	-	8,842
Fund Balances - Ending	$ 858,546	$ 674,630	$ 183,559	$ 1,392,538	$ 3,109,273

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, 2006

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 607,357
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	(1,362,145)	
Refunding Bonds Issued	(61,020)	
Premium on Bonds Issued	(55,244)	(1,478,409)
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	1,102,770	
Payments to Refunded Bond Escrow Agent	65,473	
Capital Lease Payments	16,464	1,184,707
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 and other reductions were as follows:		
Capital Outlays	794,362	
Depreciation Expense	(655,424)	
Retirements	(35,532)	103,406
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 purchases exceeded consumption of inventories.		8,842
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:		
Increase in Accrued Interest	(3,911)	
Decrease in Interest Accreted on Capital Appreciation Debt	35,813	
Amortization of Bond Premium	41,794	
Amortization of Loss on Debt Refundings	(28,461)	
Increase in Compensated Absences Liability	(93,499)	
Increase in Workers Compensation Liability	(45,718)	
Increase in Claims and Judgments Liability	(11,809)	
Increase in Net Pension Obligation	(100,832)	(206,623)
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.		30,345
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.		3,962
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	9,718	
Amortization of Debt Issue Costs	(4,298)	5,420
Change in Net Assets of Governmental Activities		$ 259,007

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, 2006

(Expressed in Thousands)

	General Fund			
	Budget			Variance with Final Budget positive
Revenues	Original	Final	Actual	(negative)
Budgeted:				
Taxes, Net of Refunds	$ 10,455,400	$ 11,243,500	$ 11,215,243	$ (28,257)
Operating Transfers In	374,500	379,300	379,346	46
Casino Gaming Payments	430,000	427,500	427,527	27
Licenses, Permits, and Fees	147,300	158,300	157,400	(900)
Other	253,000	339,400	356,366	16,966
Federal Grants	2,601,400	2,552,100	2,549,577	(2,523)
Transfer to the Resources of the General Fund	(41,000)	(41,000)	-	41,000
Refunds of Payments	(600)	(400)	(438)	(38)
Operating Transfers Out	(86,300)	(86,300)	(86,300)	-
Transfer Out - Transportation Strategy Board	-	-	-	-
Total Revenues	14,133,700	14,972,400	14,998,721	26,321
Expenditures				
Budgeted:				
Legislative	69,986	70,159	62,159	8,000
General Government	506,145	546,161	442,517	103,644
Regulation and Protection	238,829	253,681	237,380	16,301
Conservation and Development	96,038	98,833	90,887	7,946
Health and Hospitals	1,385,899	1,408,990	1,392,263	16,727
Transportation	20,600	12,600	1,810	10,790
Human Services	4,314,610	4,344,908	4,181,893	163,015
Education, Libraries, and Museums	3,264,755	3,521,654	3,290,626	231,028
Corrections	1,337,239	1,352,868	1,339,289	13,579
Judicial	436,474	441,006	438,124	2,882
Non Functional	3,260,909	3,330,433	3,022,668	307,765
Total Expenditures	14,931,484	15,381,293	14,499,616	881,677
Appropriations Lapsed	105,400	174,200	-	(174,200)
Excess (Deficiency) of Revenues Over Expenditures	(692,384)	(234,693)	499,105	733,798
Other Financing Sources (Uses)				
Prior Year Appropriations Carried Forward	694,422	694,422	694,422	-
Appropriations Continued to Fiscal Year 2007	-	-	(702,854)	(702,854)
Transfer of 2005 Surplus	15,851	15,851	15,851	-
Miscellaneous Adjustments	-	(20,500)	(19,035)	1,465
Total Other Financing Sources (Uses)	710,273	689,773	(11,616)	(701,389)
Net Change in Fund Balance	$ 17,889	$ 455,080	487,489	$ 32,409
Budgetary Fund Balances (deficit) - July 1			1,075,107	
Changes in Reserves			(371,340)	
Budgetary Fund Balances - June 30			$ 1,191,256	

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

Transportation Fund

Budget Original	Budget Final	Actual	Variance with Final Budget positive (negative)
$ 595,900	$ 585,000	$ 583,934	$ (1,066)
-	-	-	-
-	-	-	-
393,000	387,700	387,703	3
29,000	40,200	40,125	(75)
-	-	-	-
-	-	-	-
(2,800)	(2,700)	(2,666)	34
(3,600)	(4,600)	(4,600)	-
(25,300)	(25,300)	(25,300)	-
986,200	980,300	979,196	(1,104)
-	-	-	-
2,635	2,635	1,749	886
73,348	73,348	55,297	18,051
-	-	-	-
-	-	-	-
412,663	425,982	410,316	15,666
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
542,410	551,354	531,648	19,706
1,031,056	1,053,319	999,010	54,309
11,000	15,750	-	(15,750)
(33,856)	(57,269)	(19,814)	37,455
37,418	37,418	37,418	-
-	-	(39,067)	(39,067)
-	-	-	-
-	21,451	21,775	324
37,418	58,869	20,126	(38,743)
$ 3,562	$ 1,600	312	$ (1,288)
		170,485	
		1,649	
		$ 172,446	

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Proprietary Fund Financial Statements

Major Funds

University of Connecticut and Health Center:
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, 2006
(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	University of Connecticut & Health Center	State Universities	Bradley International Airport	Connecticut Lottery Corporation
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 214,352	$ 93,818	$ 33,239	$ 23,651
Deposits with U.S. Treasury	-	-	-	-
Investments	6,854	48,228	-	43,398
Receivables:				
Accounts, Net of Allowances	101,939	104,749	5,935	11,932
Loans, Net of Allowances	2,535	2,143	-	-
Interest	-	-	-	10,640
From Other Governments	-	2,091	1,841	-
Due from Other Funds	52,763	47,192	-	-
Inventories	8,938	-	-	-
Restricted Assets	71,314	-	11,232	-
Other Current Assets	9,437	1,707	726	2,555
Total Current Assets	468,132	299,928	52,973	92,176
Noncurrent Assets:				
Cash and Cash Equivalents	1,454	120,951	-	-
Investments	13,495	-	-	256,712
Receivables:				
Accounts, Net of Allowances	-	-	-	-
Loans, Net of Allowances	9,577	7,857	-	-
Restricted Assets	18,129	-	113,818	-
Capital Assets, Net of Accumulated Depreciation	1,749,594	837,535	303,499	1,924
Other Noncurrent Assets	9,891	4,294	6,195	5,091
Total Noncurrent Assets	1,802,140	970,637	423,512	263,727
Total Assets	2,270,272	1,270,565	476,485	355,903
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	116,786	53,927	10,068	18,302
Due to Other Funds	15,064	2,300	1,274	-
Due to Other Governments	-	-	-	-
Current Portion of Long-Term Obligations	44,780	23,645	8,430	45,765
Deferred Revenue	32,788	117,906	1,394	751
Other Current Liabilities	42,873	5,481	-	31,196
Total Current Liabilities	252,291	203,259	21,166	96,014
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	377,803	376,295	217,720	256,712
Total Noncurrent Liabilities	377,803	376,295	217,720	256,712
Total Liabilities	630,094	579,554	238,886	352,726
Net Assets (Deficit)				
Invested in Capital Assets, Net of Related Debt	1,406,160	616,346	101,858	1,924
Restricted For:				
Debt Service	11,299	-	26,305	-
Unemployment Compensation	-	-	-	-
Clean and Drinking Water Projects	-	-	-	-
Capital Projects	45,788	-	65,164	-
Nonexpendable Purposes	13,507	483	-	-
Bond Indentures	-	-	3,248	-
Loans	6,318	-	-	-
Other Purposes	15,349	28,467	-	3,177
Unrestricted	141,757	45,715	41,024	(1,924)
Total Net Assets	$ 1,640,178	$ 691,011	$ 237,599	$ 3,177

The accompanying notes are an integral part of the financial statements

Business-Type Activities				Governmental
Enterprise Funds				Activities
Employment Security	Clean Water	Other Funds	Total	Internal Service Funds
$ -	$ 5,573	$ 121,887	$ 492,520	$ 16,904
632,318	-	-	632,318	-
-	-	-	98,480	-
132,039	-	21,309	377,903	3,808
-	207,335	5,273	217,286	-
-	5,317	1,213	17,170	-
3,474	455	1,137	8,998	-
517	-	133,983	234,455	11,091
-	-	1,149	10,087	3,495
-	-	-	82,546	-
-	-	600	15,025	36
768,348	218,680	286,551	2,186,788	35,334
-	71,497	23,533	217,435	-
-	29,360	13,000	312,567	-
-	-	2,013	2,013	-
-	427,003	42,995	487,432	-
-	297,509	61,142	490,598	-
-	-	332,641	3,225,193	50,325
-	31,167	2,714	59,352	1,257
-	856,536	478,038	4,794,590	51,582
768,348	1,075,216	764,589	6,981,378	86,916
-	5,398	52,772	257,253	8,901
5,184	-	-	23,822	73,152
167	-	-	167	-
-	31,546	32,431	186,597	256
-	-	2,878	155,717	129
-	1,306	2,310	83,166	-
5,351	38,250	90,391	706,722	82,438
-	473,909	281,079	1,983,518	13,309
-	473,909	281,079	1,983,518	13,309
5,351	512,159	371,470	2,690,240	95,747
-	-	281,094	2,407,382	49,968
-	-	34,943	72,547	-
762,997	-	-	762,997	-
-	514,176	52,262	566,438	-
-	-	-	110,952	-
-	-	20	14,010	-
-	-	-	3,248	-
-	-	-	6,318	-
-	-	121,082	168,075	-
-	48,881	(96,282)	179,171	(58,799)
$ 762,997	$ 563,057	$ 393,119	$ 4,291,138	$ (8,831)

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

For The Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	University of Connecticut & Health Center	State Universities	Bradley International Airport	Connecticut Lottery Corporation
Operating Revenues				
Charges for Sales and Services	$ 689,693	$ 246,976	$ 39,535	$ 970,327
Assessments	-	-	-	-
Federal Grants, Contracts and Other Aid	146,526	29,530	-	-
State Grants, Contracts and Other Aid	17,306	10,337		
Private Gifts and Grants	34,642	3,115	-	-
Interest on Loans	-	-	-	-
Other	53,930	14,374	-	236
Total Operating Revenues	942,097	304,332	39,535	970,563
Operating Expenses				
Salaries, Wages and Administrative	1,230,130	474,854	33,871	92,904
Lottery Prize Awards	-	-	-	587,388
Unemployment Compensation	-	-	-	-
Claims Paid	-	-	-	-
Depreciation and Amortization	110,278	39,103	17,603	623
Other	110,615	22,069	-	6,288
Total Operating Expenses	1,451,023	536,026	51,474	687,203
Operating Income (Loss)	(508,926)	(231,694)	(11,939)	283,360
Nonoperating Revenue (Expenses)				
Interest and Investment Income	15,031	12,504	6,547	23,834
Interest and Fiscal Charges	(13,032)	-	(11,151)	(22,388)
Other	22,203	3,063	14,658	5
Total Nonoperating Revenues (Expenses)	24,202	15,567	10,054	1,451
Income (Loss) Before Capital Contributions, Grants, and Transfers	(484,724)	(216,127)	(1,885)	284,811
Capital Contributions	9,966	68,077	2,039	-
Federal Capitalization Grants	-	-	-	-
Transfers In	496,727	229,901	9,064	-
Transfers Out	-	-	-	(284,865)
Change in Net Assets	21,969	81,851	9,218	(54)
Total Net Assets - Beginning	1,618,209	609,160	228,381	3,231
Total Net Assets - Ending	$ 1,640,178	$ 691,011	$ 237,599	$ 3,177

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

Business-Type Activities				Governmental
Enterprise Funds				Activities
Employment Security	Clean Water	Other Funds	Totals	Internal Service Funds
$ -	$ -	$ 137,761	$ 2,084,292	$ 86,190
569,387	-	59,073	628,460	-
6,189	-	31,391	213,636	-
5,564		9,435	42,642	-
-	-	990	38,747	-
-	12,443	1,311	13,754	-
4,235	-	11,397	84,172	762
585,375	12,443	251,358	3,105,703	86,952
-	856	335,144	2,167,759	64,170
-	-	-	587,388	-
572,602	-	-	572,602	-
-	-	38,752	38,752	-
-	-	15,546	183,153	18,911
-	-	15,437	154,409	-
572,602	856	404,879	3,704,063	83,081
12,773	11,587	(153,521)	(598,360)	3,871
26,964	20,575	7,932	113,387	176
-	(25,220)	(14,195)	(85,986)	(85)
-	1,713	3,817	45,459	-
26,964	(2,932)	(2,446)	72,860	91
39,737	8,655	(155,967)	(525,500)	3,962
-	-	-	80,082	-
-	19,764	6,536	26,300	-
-	5,497	270,215	1,011,404	-
(3,390)	(1,902)	(9,590)	(299,747)	-
36,347	32,014	111,194	292,539	3,962
726,650	531,043	281,925	3,998,599	(12,793)
$ 762,997	$ 563,057	$ 393,119	$ 4,291,138	$ (8,831)

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	University of Connecticut & Health Center	State Universities	Bradley International Airport	Connecticut Lottery Corporation
Cash Flows from Operating Activities				
Receipts from Customers	$ 686,015	$ 266,586	$ 39,368	$ 968,922
Payments to Suppliers	(417,981)	(4,751)	(21,417)	(35,607)
Payments to Employees	(869,093)	(328,794)	(13,218)	(12,641)
Other Receipts (Payments)	261,263	(111,486)	-	(639,738)
Net Cash Provided by (Used in) Operating Activities	(339,796)	(178,445)	4,733	280,936
Cash Flows from Noncapital Financing Activities				
Proceeds from Sale of Bonds	-	-	-	16,948
Retirement of Bonds and Annuities Payable	-	-	-	(48,437)
Interest on Bonds and Annuities Payable	-	-	-	(24,221)
Transfers In	356,395	209,514	9,064	-
Transfers Out	-	-	-	(284,865)
Other Receipts (Payments)	16,397	5,048	(1,283)	-
Net Cash Flows from Noncapital Financing Activities	372,792	214,562	7,781	(340,575)
Cash Flows from Capital and Related Financing Activities				
Additions to Property, Plant and Equipment	(106,569)	(79,065)	(11,999)	(305)
Proceeds from Capital Debt	81,666	62,944	-	-
Principal Paid on Capital Debt	(61,964)	(16,294)	(10,140)	-
Interest Paid on Capital Debt	(47,061)	-	(11,359)	-
Transfer In	96,999	-	-	-
Federal Grant	-	-	-	-
Capital Contributions	-	20,415	1,153	-
Other Receipts (Payments)	8,963	-	14,712	-
Net Cash Flows from Capital and Related Financing Activities	(27,966)	(12,000)	(17,633)	(305)
Cash Flows from Investing Activities				
Proceeds from Sales and Maturities of Investments	631	-	-	48,109
Purchase of Investment Securities	-	(55)	-	(16,948)
Interest on Investments	13,503	11,879	6,323	25,667
(Increase) Decrease in Restricted Assets	-	-	-	-
Other Receipts (Payments)	(942)	-	-	-
Net Cash Flows from Investing Activities	13,192	11,824	6,323	56,828
Net Increase (Decrease) in Cash and Cash Equivalents	18,222	35,941	1,204	(3,116)
Cash and Cash Equivalents -Beginning of Year	286,656	178,828	109,169	26,767
Cash and Cash Equivalents -End of Year	$ 304,878	$ 214,769	$ 110,373	$ 23,651
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities				
Operating Income (Loss)	$ (508,926)	$ (231,694)	$ (11,939)	$ 283,360
Adjustments not Affecting Cash:				
Depreciation and Amortization	110,278	39,103	17,603	623
Other	55,984	(34)	-	57
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables, Net	(17,782)	(2,264)	(166)	36,933
(Increase) Decrease in Due from Other Funds	5,183	-	-	-
(Increase) Decrease in Inventories and Other Assets	(4,217)	1,282	-	(222)
Increase (Decrease) in Accounts Payables & Accrued Liabilities	19,558	15,162	(765)	(39,815)
Increase (Decrease) in Due to Other Funds	126	-	-	-
Total Adjustments	169,130	53,249	16,672	(2,424)
Net Cash Provided by (Used In) Operating Activities	$ (339,796)	$ (178,445)	$ 4,733	$ 280,936
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets				
Cash and Cash Equivalents - Current	$ 214,352	$ 93,818	$ 33,239	
Cash and Cash Equivalents - Noncurrent	1,454	120,951	-	
Cash and Cash Equivalents - Restricted	89,072	-	77,134	
	$ 304,878	$ 214,769	$ 110,373	

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

Business-Type Activities Enterprise Funds				Governmental Activities
Employment Security	Clean Water	Other	Totals	Internal Service Funds
$ 593,741	$ 54,901	$ 204,367	$ 2,813,900	$ 85,570
-	-	(56,271)	(536,027)	(19,989)
-	(795)	(271,047)	(1,495,588)	(36,179)
(617,316)	(58,959)	(41,853)	(1,208,089)	(2,326)
(23,575)	(4,853)	(164,804)	(425,804)	27,076
-	-	-	16,948	-
-	(34,386)	(27,984)	(110,807)	-
-	(21,988)	(10,745)	(56,954)	-
-	3,595	196,199	774,767	-
(3,390)	-	(9,818)	(298,073)	-
-	(821)	5,410	24,751	-
(3,390)	(53,600)	153,062	350,632	-
-	-	(7,991)	(205,929)	(29,775)
-	-	-	144,610	-
-	-	-	(88,398)	-
-	-	(3,099)	(61,519)	-
-	-	71,339	168,338	-
-	19,730	6,637	26,367	-
-	-	-	21,568	-
-	-	(20,438)	3,237	(85)
-	19,730	46,448	8,274	(29,860)
-	-	-	48,740	-
-	-	-	(17,003)	-
26,965	20,219	7,779	112,335	176
-	-	(752)	(752)	-
-	19,717	(2,983)	15,792	-
26,965	39,936	4,044	159,112	176
-	1,213	38,750	92,214	(2,608)
-	4,360	83,137	688,917	19,512
$ -	$ 5,573	$ 121,887	$ 781,131	$ 16,904
$ 12,773	$ 11,587	$ (153,521)	$ (598,360)	$ 3,871
-	-	15,546	183,153	18,911
-	-	(3,879)	52,128	-
23,997	(16,440)	(27,415)	(3,137)	(3,600)
357	-	-	5,540	2,980
(59,529)	-	819	(61,867)	1,076
-	-	3,646	(2,214)	3,838
(1,173)	-	-	(1,047)	-
(36,348)	(16,440)	(11,283)	172,556	23,205
$ (23,575)	$ (4,853)	$ (164,804)	$ (425,804)	$ 27,076

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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, 2006

(Expressed in Thousands)

	Pension & Other Employee Benefit Trust Funds	Investment Trust Fund External Investment Pool	Private-Purpose Trust Fund Escheat Securities	Agency Funds	Total
Assets					
Cash and Cash Equivalents	$ 24,243	$ -	$ -	$ 124,863	$ 149,106
Receivables:					
Accounts, Net of Allowances	13,586	-	-	4,183	17,769
From Other Governments	2,274	-	-	-	2,274
From Other Funds	1,577	-	-	3,525	5,102
Interest	783	1,673	-	317	2,773
Investments	22,726,546	914,516	-	-	23,641,062
Inventories	-	-	-	607	607
Securities Lending Collateral	2,801,502	-	-	-	2,801,502
Other Assets	5,474	6	58,801	355,390	419,671
Total Assets	25,575,985	916,195	58,801	$ 488,885	27,039,866
Liabilities					
Accounts Payable and Accrued Liabilities	36	3,745	-	$ 1,526	5,307
Securities Lending Obligation	2,801,502	-	-	-	2,801,502
Due to Other Funds	12,820	-	-	-	12,820
Other Liabilities	-	2	-	3,744	3,746
Funds Held for Others	-	-	-	483,615	483,615
Total Liabilities	2,814,358	3,747	-	$ 488,885	3,306,990
Net Assets					
Held in Trust For:					
Employees' Pension Benefits (Note 13)	22,714,728	-	-		22,714,728
Other Employee Benefits	46,899	-	-		46,899
Individuals, Organizations, and Other Governments	-	912,448	58,801		971,249
Total Net Assets	$ 22,761,627	$ 912,448	$ 58,801		$ 23,732,876

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, 2006
(Expressed in Thousands)

	Pension & Other Employee Benefit Trust Funds	Investment Trust Fund External Investment Pool	Private-Purpose Trust Fund Escheat Securities	Total
Additions				
Contributions:				
Plan Members	$ 376,483	$ -	$ -	$ 376,483
State	1,048,705	-	-	1,048,705
Municipalities	32,844	-	-	32,844
Total Contributions	1,458,032	-	-	1,458,032
Investment Income	2,406,498	56,828	-	2,463,326
Less: Investment Expense	(180,828)	(347)	-	(181,175)
Net Investment Income	2,225,670	56,481	-	2,282,151
Escheat Securities Received	-	-	33,563	33,563
Pool's Share Transactions	-	180,893	-	180,893
Transfers In	2,228	-	-	2,228
Other	5,180	-	3,604	8,784
Total Additions	3,691,110	237,374	37,167	3,965,651
Deductions				
Administrative Expense	2,266	-	-	2,266
Benefit Payments and Refunds	2,134,966	-	-	2,134,966
Escheat Securities Returned or Sold	-	-	22,050	22,050
Distributions to Pool Participants	-	56,480	-	56,480
Other	2,240	-	-	2,240
Total Deductions	2,139,472	56,480	22,050	2,218,002
Change in Net Assets Held In Trust For:				
Pension and Other Employee Benefits	1,551,638	-	-	1,551,638
Individuals, Organizations, and Other Governments	-	180,894	15,117	196,011
Net Assets - Beginning	21,209,989	731,554	43,684	21,985,227
Net Assets - Ending	$ 22,761,627	$ 912,448	$ 58,801	$ 23,732,876

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 134.

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Statement of Net Assets
Component Units

June 30, 2006

(Expressed in Thousands)

Assets	Connecticut Housing Finance Authority (12-31-05)	Connecticut Health and Educational Facilities Authority	Other Component Units	Total
Current Assets:				
Cash and Cash Equivalents	$ -	$ 20,526	$ 171,321	$ 191,847
Investments	-	-	345,240	345,240
Receivables:				
Accounts, Net of Allowances	-	252	30,585	30,837
Loans, Net of Allowances	-	-	24,326	24,326
Other	-	-	1,023	1,023
Due from Primary Government	-	-	12,778	12,778
Restricted Assets	736,184	471,613	52,921	1,260,718
Inventories	-	-	3,509	3,509
Other Current Assets	-	120	2,951	3,071
Total Current Assets	736,184	492,511	644,654	1,873,349
Noncurrent Assets:				
Investments	-	-	53,800	53,800
Accounts, Net of Allowances	-	-	14,406	14,406
Loans, Net of Allowances	-	-	109,392	109,392
Restricted Assets	3,494,741	2,247	106,388	3,603,376
Capital Assets, Net of Accumulated Depreciation	3,282	275	459,083	462,640
Other Noncurrent Assets	-	-	14,184	14,184
Total Noncurrent Assets	3,498,023	2,522	757,253	4,257,798
Total Assets	4,234,207	495,033	1,401,907	6,131,147
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	24,790	2,230	39,260	66,280
Current Portion of Long-Term Obligations	137,012	-	16,251	153,263
Amount Held for Institutions	-	471,585	-	471,585
Due to Primary Government	-	-	2,619	2,619
Other Liabilities	27,648	-	579	28,227
Total Current Liabilities	189,450	473,815	58,709	721,974
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	3,316,660	2,247	360,343	3,679,250
Total Noncurrent Liabilities	3,316,660	2,247	360,343	3,679,250
Total Liabilities	3,506,110	476,062	419,052	4,401,224
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,282	275	280,738	284,295
Restricted:				
Debt Service	-	-	31,866	31,866
Bond Indentures	724,815	-	-	724,815
Expendable Endowments	-	-	109,346	109,346
Nonexpendable Endowments	-	-	220,481	220,481
Other Purposes	-	-	50,400	50,400
Unrestricted	-	18,696	290,024	308,720
Total Net Assets	$ 728,097	$ 18,971	$ 982,855	$ 1,729,923

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

Statement of Activities
Component Units

For The Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Connecticut Housing Finance Authority (12/31/05)	$ 183,431	$ 160,753	$ -	$ -
Connecticut Health and Educational Facilities Authority	6,055	4,655	-	-
Other Component Units	282,552	270,169	6,212	31,054
Total Component Units	$ 472,038	$ 435,577	$ 6,212	$ 31,054

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
Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets			
Connecticut Housing Finance Authority (12-31-05)	**Connecticut Health & Educational Facilities Authority**	**Other Component Units**	**Totals**
$ (22,678)	$ -	$ -	$ (22,678)
-	(1,400)	-	(1,400)
-	-	24,883	24,883
(22,678)	(1,400)	24,883	805
39,802	844	17,536	58,182
-	-	33,520	33,520
(5,000)	-	-	(5,000)
34,802	844	51,056	86,702
12,124	(556)	75,939	87,507
715,973	19,527	906,916	1,642,416
$ 728,097	$ 18,971	$ 982,855	$ 1,729,923

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Notes to the Financial Statements
June 30, 2006

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, 2005.

Connecticut Resources Recovery Authority
The Authority is a public instrumentality and political subdivision of the State. It is responsible for implementing the State Solid Waste Management Plan by determining the location of and constructing solid waste management projects; owning, operating, and maintaining waste management projects; or making provisions for operation and maintenance by contracting with private industry.

Connecticut Higher Education Supplemental Loan Authority
The Authority is a public instrumentality and political subdivision of the State. It was created to assist students, their parents, and institutions of higher education to finance the cost of higher education through its Bond funds.

Connecticut Health and Educational Facilities Authority
The Authority is a public instrumentality and political subdivision of the State. The purpose of the Authority is to assist certain health care institutions, institutions of higher education, and qualified for-profit and not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to programs for these institutions.

Connecticut Innovations, Incorporated
The Authority is a public instrumentality and political subdivision of the State. It was established to stimulate and promote technological innovation and application of technology within Connecticut and encourage the development of new products, innovations, and inventions or markets in Connecticut by providing financial and technical assistance.

Capital City Economic Development Authority
The Authority is a public instrumentality and political subdivision of the State. It was established in 1998 to stimulate new investment in Connecticut; to attract and service large conventions, tradeshows, exhibitions, conferences, and local consumer shows, exhibitions and events; to encourage the diversification of the state economy; to strengthen Hartford's role as the region's major business and industry employment center and seat of government; to encourage residential housing development in downtown Hartford; and to construct, operate, maintain and market a convention center project in Hartford.

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 and Health Center, 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 fuel taxes, vehicle registration and driver license fees, and other revenue 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 & Health Center – 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 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 unrestricted resources first, and then restricted 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 2006 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 judgments, annuities payable, and the net pension obligation.

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

Capital Appreciation Bonds
Capital appreciation (deep-discount) bonds issued by the State, unlike most bonds, which pay interest semi-annually, do not pay interest until the maturity of the bonds. An investor who purchases a capital appreciation bond at its discounted price and holds it until maturity will receive an amount which equals the initial price plus an amount which has accrued over the life of the bond on a semiannual compounding basis. The net value of the bonds is accreted (the discount reduced), based on this semiannual compounding, over the life of the bonds. This deep-discount debt is reported in the government-wide statement of net assets at its net or accreted value rather than at face value.

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

Vacation and sick policy is as follows: Employees hired on or before June 30, 1977, and managers regardless of date hired can accumulate up to a maximum of 120 vacation days. Employees hired after that date can accumulate up to a maximum of 60 days. Upon termination or death, the employee is entitled to be paid for the full amount of vacation days owed. No limit is placed on the number of sick days that an employee can accumulate. However, the employee is entitled to payment for accumulated sick time only upon retirement, or after ten years of service upon death, for an amount equal to one-fourth of his/her accrued sick leave up to a maximum payment equivalent to sixty days.

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

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

h. Interest Rate Swap Agreements
The State has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements (see Note 17).

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

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

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

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

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

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

k. External Investment Pool
Assets and liabilities of the Short-Term Investment Fund are allocated ratably to the External Investment Pool Fund based on its investment in the Short-Term Investment Fund (see Note 4). Pool income is determined based on distributions made to the pool's participants.

l. Use of Estimates
The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Note 2 Budgetary vs. GAAP Basis of Accounting
The following is a reconciliation of the net change in fund balances as reported in the budgetary and GAAP basis of accounting statements of revenues, expenditures, and changes in fund balances (amounts in thousands):

	General Fund	Transportation Fund
Net change in fund balances (budgetary basis)	$ 487,489	$ 312
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	36,236	4,722
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	(37,676)	1,388
Salaries and Fringe Benefits Payable	(22,300)	(1,514)
Increase in Continuing Appropriations	8,432	1,649
Transfer of 2005 Surplus	(15,851)	-
Fund Reclassification-Bus Operations	-	646
Net change in fund balances (GAAP basis)	$ 456,330	$ 7,203

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 fund/net assets balances at June 30, 2006, none of which constitutes a violation of statutory provisions (amounts in thousands).

Capital Projects	
State Facilities	$ 27,148
Enterprise	
Bradley Parking Garage	$ 5,686
Rate Reduction Bond Operations	$ 143,476
Internal Service	
Administrative Services	$ 30,495

Note 4 Cash Deposits and Investments
According to GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*", the State needs to make certain disclosures about deposit and investment risks that have the potential to result in losses. Thus, the following deposit and investment risks are discussed in this note:

Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment.
Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligations.
Concentration of Credit Risk - the risk of loss attributed to the magnitude of an investment in a single issuer.
Custodial Credit Risk (deposits) - the risk that, in the event of a bank failure, the State's deposits may not be recovered.

Custodial Credit Risk (investments) - the risk that, in the event of a failure of the counterparty, the State will not be able to recover the value of investments or collateral securities that are in the possession of an outside party.

Foreign Currency Risk - the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

Primary Government

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 and seven Combined Investment Funds, including one international investment fund.

Short-Term Investment Fund (STIF)

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.

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.

As of June 30, 2006, STIF had the following investments and maturities (amounts in thousands):

Short-Term Investment Fund

		Investment Maturities (in years)	
Investment Type	Amortized Cost	Less Than 1	1-5
Commercial Paper	$ 249,880	$ 249,880	$ -
Asset Backed Commercial Paper	2,971,822	2,971,822	-
Federal Agency Securities	35,000	25,000	10,000
Floating Rate Bonds	445,773	445,773	-
Repurchase Agreements	100,000	100,000	-
Total Investments	$ 3,802,475	$ 3,792,475	$ 10,000

Interest Rate Risk

The STIF's policy for managing interest rate risk is to limit investment to a very short weighted average maturity, not to exceed 90 days, and to comply with Standard and Poor's requirement that the weighted average maturity not to exceed 60 days. As of June 30, 2006, the weighted average maturity of the STIF was 39 days. Additionally, STIF is allowed by policy to invest in floating-rate securities, and investments in such securities with maturities greater than two years is limited to no more than 20 percent of the overall portfolio. For purposes of the weighted average maturity calculation, variable-rate securities are calculated using their rate reset date. Because these securities reprice frequently to prevailing market rates, interest rate risk is substantially reduced. As of June 30, 2006, the amount of STIF's investments in variable-rate securities was $470.8 million.

Credit Risk

The STIF's policy for managing credit risk is to invest in debt securities that fall within the highest short-term or long-term rating categories by nationally recognized rating organizations. As of June 30, 2006, STIF's investments were rated by Standard and Poor's as follows (amounts in thousands):

Short-Term Investment Fund

		Quality Ratings		
Investment Type	Amortized Cost	AAA	AA	A-1
Commercial Paper	$ 249,880	$ -	$ -	$ 249,880
Asset Backed Commercial Paper	2,971,822	-	-	2,971,822
Federal Agency Securities	35,000	35,000	-	-
Floating Rate Bonds	445,773	257,948	187,825	-
Repurchase Agreements	100,000	100,000	-	-
Total	$3,802,475	$392,948	$ 187,825	$3,221,702

Concentration of Credit Risk

STIF reduces its exposure to this risk by requiring that not more than 10 percent of its portfolio be invested in securities of a single bank or corporation. Policy limits are also set for industry concentration, floating rate investment concentration and sector concentration. As of June 30, 2006, STIF's investments in any one single issuer that represents more than 5 percent of total investments were as follows (amounts in thousands):

Investment Issuer	Amortized Cost
Albis Capital Corporation	$ 249,035
Altius Funding	$ 235,000
Hardwood Street	$ 199,165
Ocala Funding	$ 356,498
Tasman Funding	$ 344,242
Von Karman Funding	$ 249,817

Custodial Credit Risk-Bank Deposits-Nonnegotiable Certificate of Deposits (amounts in thousands):

The STIF follows policy parameters that limit deposits in any one entity to a maximum of ten percent of assets. Further, the certificate of deposits must be issued from commercial banks whose short-term debt is rated at least A-1 by Standard and Poor's and F-1 by Fitch and whose long-term debt is rated at least A and its issuer rating is at least "C". As of June 30, 2006, $1,639,400 of the bank balance of STIF's deposits of $1,640,000 was exposed to custodial credit risk as follows

Uninsured and uncollateralized	$ 1,479,400
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	160,000
Total	$ 1,639,400

Combined Investment Funds (CIFS)

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 a broad range of fixed income and equity securities, as well as real estate properties, mortgages, and private equity. CIFS' investments are reported at fair value in each fund's statement of net assets.

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. As of June 30, 2006, the amount of equity in the CIFS reported as investments in the financial statements was as follows (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Fiduciary Funds
Equity in CIFS	$ 89,619	$ 607	$22,726,546
Other Investments	44,858	97,873	914,516
Total Investments-Current	$ 134,477	$ 98,480	$23,641,062

As of June 30, 2006, the CIFS had the following investments and maturities (amounts in thousands):

Combined Investment Funds

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
Cash Equivalents	$ 820,780	$ 784,780	$ 36,000	$ -	$ -
Asset Backed Securities	434,063	684	406,306	26,192	881
Government Securities	1,664,157	186,767	545,636	401,957	529,797
Government Agency Securities	1,536,773	18	33,493	70,773	1,432,489
Mortgage Backed Securities	970,810	-	21,997	60,746	888,067
Corporate Debt	1,940,538	166,369	633,638	698,039	442,492
Convertible Debt	45,229	5,096	27,004	10,129	3,000
Mutual Fund	222,823	-	-	-	222,823
Total Debt Instruments	7,635,173	$ 1,143,714	$ 1,704,074	$ 1,267,836	$ 3,519,549
Common Stock	13,888,792				
Preferred Stock	100,927				
Real Estate Investment Trust	113,099				
Mutual Fund	137,433				
Limited Liability Corporation	10,770				
Trusts	53,199				
Limited Partnerships	1,543,268				
Annuities	238				
Total Investments	$ 23,482,899				

Interest Rate Risk

CIFS' investment managers are given full discretion to manage their portion of CIFS' assets within their respective guidelines and constraints. The guidelines and constraints require each manager to maintain a diversified portfolio at all times. In addition, each core manager is required to maintain a target duration that is similar to its respective benchmark which is typically the Lehman Brother Aggregate-an intermediate duration index.

Credit Risk

The CIFS minimizes exposure to this risk in accordance with a comprehensive investment policy statement, as developed by the Office of the Treasurer and the State's Investment Advisory Council, which provides policy guidelines for the CIFS and includes an asset allocation plan. The asset allocation plan's main objective is to maximize investment returns over the long term at an acceptable level of risk. As of June 30, 2006, CIFS' debt investments were rated by Moody's as follows (amounts in thousands):

Combined Investment Funds

Quality Ratings	Fair Value	Cash Equivalents	Asset Backed Securities	Government Securities	Government Agency Securities	Mortgage Baked Securities	Corporate Debt	Convertible Debt	Mutual Fund
Aaa	$ 4,302,772	$ 4,197	$ 427,140	$ 1,441,029	$ 1,518,933	$ 744,052	$ 167,421	$ -	-
Aa	389,776		-	23,299	-	1,261	364,625	591	-
A	278,870	4,808	236	11,165	-	1,746	260,184	731	-
Baa	466,882	-	5,224	68,603	-	10,735	382,242	78	-
Ba	296,542	-	-	42,606	-	3,966	244,832	5,138	-
B	406,203	-	-	29,797	-	7,254	367,490	1,662	-
Caa	66,296	-	-	-	-	7,432	54,605	4,259	-
Ca	6,129	-	-	-	-	110	383	5,636	-
C	922	-	-	-	-	922	-	-	-
Prime-1	125,948	125,948	-	-	-	-	-	-	-
Not Rated	1,294,833	685,827	1,463	47,658	17,840	193,332	98,756	27,134	222,823
Total	$ 7,635,173	$ 820,780	$ 434,063	$ 1,664,157	$ 1,536,773	$ 970,810	$ 1,940,538	$ 45,229	$ 222,823

Foreign Currency Risk

The CIFS manage exposure to this risk by utilizing a strategic hedge ratio of 50 percent for the developed market portion of the International Stock Fund (a Combined Investment Fund). This strategic hedge ratio represents the neutral stance or desired long-term exposure to currency for the ISF. To implement this policy, currency specialists actively manage the currency portfolio as an overlay strategy to the equity investment managers. These specialists may manage the portfolio passively or actively depending on opportunities in the market place. While managers within the fixed income portion of the portfolio are allowed to invest in non-U.S. denominated securities; managers are required to limit that investment to a portion of their respective portfolios. As of June 30, 2006, CIFS' foreign deposits and investments were as follows (amounts in thousands):

Combined Investment Funds

			Fixed Income Securities			Equities		
Foreign Currency	**Total**	**Cash**	**Government Securities**	**Corporate Debt**	**Convertible Securities**	**Common Stock**	**Preferred Stock**	**Real Estate Investment Trust**
Argentine Peso	$ 2,765	$ 20	$ 2,440	$ -	$ -	$ 305	$ -	$ -
Australian Dollar	151,647	410	-	-	-	151,237	-	-
Brazilian Real	66,525	204	-	4,256	-	16,923	45,142	-
Canadian Dollar	22,986	23	-	1,049	-	21,914	-	-
Chilean Peso	4,071	28	-	-	-	3,214	829	-
Czech Koruna	1,866	-	-	-	-	1,866	-	-
Danish Krone	35,363	147	-	-	-	35,216	-	-
Egyptian Pound	-	-	-	-	-	-	-	-
Euro Currency	1,396,310	9,274	14,537	-	936	1,352,516	19,047	-
Honk Kong Dollar	173,347	409	-	-	-	172,493	-	445
Hungarian Fornit	3,189	-	-	-	-	3,189	-	-
Indonesian Rupiah	10,709	3	-	693	-	10,013	-	-
Israeli Shekel	6,926	-	-	-	-	6,926	-	-
Japanese Yen	1,106,010	22,837	-	-	1,420	1,081,276	-	477
Malaysian Ringgit	21,577	32	-	-	-	21,545	-	-
Mexican Peso	34,655	951	13,122	-	-	20,582	-	-
New Taiwan Dollar	79,648	60	-	-	-	79,588	-	-
New Turkish Dollar	9,701	-	-	-	-	9,701	-	-
New Zealand Dollar	20,322	517	708	5,775	-	13,322	-	-
Norwegian Krone	42,497	2,670	-	-	-	39,827	-	-
Pakistan Rupee	408	-	-	-	-	408	-	-
Peruvian Nouveau Sol	120	-	-	-	-	120	-	-
Philippine Peso	4,087	1	-	-	-	4,086	-	-
Polish Zloty	6,489	58	-	-	-	6,431	-	-
Pound Sterling	940,214	2,028	-	10,618	-	927,568	-	-
Singapore Dollar	61,985	373	7,697	7,299	-	45,871	-	745
South African Rand	89,084	-	-	-	-	88,843	241	-
South Korean Won	338,345	702	-	1,882	-	304,942	30,819	-
Swedish Krona	71,511	479	-	-	-	71,032	-	-
Swiss Franc	305,789	478	-	-	-	303,699	1,612	-
Thailand Baht	29,025	(1)	-	11,370	-	17,656	-	-
Total	$ 5,037,171	$ 41,703	$ 38,504	$ 42,942	$ 2,356	$ 4,812,309	$ 97,690	$ 1,667

Custodial Credit Risk-Bank Deposits

The CIFS minimize this risk by maintaining certain restrictions set forth in the Investment Policy Statement. The CIFS use a Cash Reserve Account which is a cash management pool investing in highly liquid money market securities. As of June 30, 2006, the CIFS had deposits with a bank balance of $53.7 million which was uninsured and uncollateralized.

Complete financial information about the STIF and the CIFS can be obtained from financial statements issued by the Office of the State Treasurer.

Other Investments

As of June 30, 2006, the State had other investments and maturities as follows (amounts in thousands):

Other Investments

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**
Repurchase Agreements	$ 45,497	$ 45,497	$ -	$ -	$ -
State/Municipal Bonds	68,559	1,004	6,813	9,554	51,188
U.S. Government Securities	42,177	25,808	232	-	16,137
U.S. Agency Securities	399,436	31,579	-	367,857	-
Guaranteed Investment Contracts	468,955	614	95,087	192,586	180,668
Tax Exempt Proceeds Fund	57,611	57,611	-	-	-
Money Market Funds	7,743	7,743	-	-	-
Mortgage-Backed Securities	6,420	-	-	3,386	3,034
Corporate Bonds	6	2	4	-	-
Total Debt Investments	1,096,404	$ 169,858	$ 102,136	$ 573,383	$ 251,027
Annuity Contracts	300,110				
Endowment Pool	12,047				
Total Investments	$ 1,408,561				

Credit Risk

As of June 30, 2006, other investments were rated by Standard and Poor's as follows (amounts in thousands):

Other Investments

Investment Type	Fair Value	Quality Ratings AAA	AA	A	Unrated
Repurchase Agreements	$ 45,497	$ 39,848	$ -	$ 5,649	$ -
State/Municipal Bonds	68,559	1,004	67,555	-	-
U.S. Agency Securities	399,436	367,857	-	31,579	-
Guaranteed Investment Contracts	468,955	391,980	76,975	-	-
Tax Exempt Proceeds Fund	57,611				57,611
Money Market Funds	7,743	7,011	-	-	732
Mortgage-Backed Securities	6,420	6,420	-	-	-
Corporate Bonds	6	-	-	-	6
Total	$1,054,227	$814,120	$144,530	$ 37,228	$ 58,349

Custodial Credit Risk-Bank Deposits

(amounts in thousands):

The State maintains its deposits at qualified financial institutions located in the state to reduce its exposure to this risk. These institutions are required to 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. 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. As of June 30, 2006, $67,793 of the bank balance of the Primary Government of $69,152 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 61,381
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	6,412
Total	$ 67,793

Component Units

As of June 30, 2006, the major component units had the following investments and maturities (amounts in thousands):

Major Component Units

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1-5	6-10	More Than 10
Collateralized Mortgage Obligations	$ 3,693	$ -	$ -	$ -	$ 3,693
Corporate Finance Bonds	7,980	-	2,250	5,730	-
Corporate Notes	8,189	-	6,745	-	1,444
Federated Funds	60,504	60,504	-	-	-
Fidelity Tax Exempt Fund	8,255	8,255	-	-	-
GNMA Program Assets	712,634	-	-	-	712,634
Guaranteed Investment Contracts	307,543	-	306,406	1,137	-
Investment Agreements	1,575	-	-	1,575	-
Mortgage Backed Securities	5,255	-	84	1,793	3,378
Repurchase Agreements	14,096	-	-	-	14,096
U.S. Government Securities	793	-	-	-	793
Structured Securities	461	-	-	-	461
Money Market Funds	389,704	389,704	-	-	-
Municipal Bonds	1,856	-	-	-	1,856
Total	$ 1,522,538	$ 458,463	$ 315,485	$ 10,235	$ 738,355

The Connecticut Housing Finance Authority (CHFA) and the Connecticut Health and Education Facilities Authority (CHEFA) own 71.9 percent and 28.1 percent of the above investments, respectively. GNMA Program Assets represent securitized home mortgage loans of CHFA which are guaranteed by the Government National Mortgage Association.

Interest Rate Risk

CHFA

Exposure to declines in fair value is substantially limited to GNMA Program Assets. The Authority's investment policy requires diversification of its investment portfolio to eliminate the risk of loss resulting from, among other things, an over-concentration of assets in a specific maturity.

CHEFA

The Authority manages its exposure to this risk by designing its portfolio of unrestricted investments with the objective of regularly exceeding the average return of 90 day U.S. Treasury Bills. This is considered to be a benchmark for riskless investment transactions and therefore represents a minimum standard for the portfolio's rate of return. The Authority's policy as it relates to restricted investments provides that all restricted accounts be invested in strict accordance with the bond issue trust indentures, with the above policy and with applicable Connecticut State Law.

Credit Risk

CHFA

The Authority's investments are limited by state statues to United States Government obligations, including its agencies or instrumentalities, investments guaranteed by the state, investments in the CIFS, and other obligations which are legal investments for savings banks in the state. Repurchase agreements, investment agreements, and the Federated Funds are fully collateralized by obligations issued by the United States Government or its agencies. Mortgage Backed Securities and Collateralized Mortgage Obligations are fully collateralized by the Federal National Mortgage Association or the United States Department of Housing and Urban Development mortgage pools.

CHEFA

The Authority has an investment policy that would further limit its investment choices beyond those limited by state statutes for both unrestricted and restricted investments. For example, investments that may be purchased by the Authority with the written approval of an officer, provided that the investment has a maturity of one year or less, are obligations issued or guaranteed by the U.S. Government, the State's Short-Term Investment Fund (STIF), etc.

As of June 30, 2006, major component units' investments were rated by Standard and Poor's as follows (amounts in thousands):

Component Units

Investment Type	Fair Value	Quality Ratings AAA	AA	A	BBB	C	Unrated
Collateralized Mortgage Obligations	$ 3,693	$ 539	$ 3,154	$ -	$ -	$ -	$ -
Corporate Finance Bonds	7,980	-	-	2,250	5,730	-	-
Corporate Notes	8,189	-	-	6,625	1,564	-	-
Federated Funds	60,504	-	-	-	-	-	60,504
Fidelity Tax Exempt Fund	8,255	-	-	-	-	-	8,255
GNMA Assets	712,634	-	-	-	-	-	712,634
Guaranteed Investment Contracts	307,543	270,147	37,396	-	-	-	-
Investment Agreements	1,575	-	-	-	-	-	1,575
Mortgage Backed Securities	5,255	473	-	-	-	-	4,782
Repurchase Agreements	14,096	-	-	-	-	-	14,096
Structured Securities	461	-	-	-	-	461	-
Money Market Funds	389,704	389,704	-	-	-	-	-
Municipal Bonds	1,856	1,856	-	-	-	-	-
Total	$ 1,521,745	$ 662,719	$ 40,550	$ 8,875	$ 7,294	$ 461	$ 801,846

Concentration of Credit Risk

CHFA

The Authority's investment policy requires diversification of its investment portfolio to eliminate the risk of loss resulting from, among other things, an over-concentration of assets with a specific issuer. The Guaranteed Investment Contract with Rabobank International represents 16.4 percent of the Authority's portfolio at year end. If Rabobank's ratings fall below AA (S&P's) or Aa2 (Moody's), this Agreement requires Rabobank to collateralize it with direct obligations issued by the United States Government or its agencies, or assign it to an entity that has the required ratings.

CHEFA

For unrestricted investments, the Authority places limits on the amount of investment in any one issuer. No issuer other than the United States Treasury or the State's Short-Term Investment Fund shall constitute greater than 5 percent of unrestricted investments, except for qualified money market or mutual bond funds, none of which shall constitute greater than 50 percent of general fund investments. At year end, the Authority was in compliance with this policy. The Authority places no limit on the amount of investments in any one issuer for restricted investments. At year end, the Authority's guaranteed investment contracts with AIG exceeded 5 percent of the Authority's portfolio.

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. As of June 30, 2006, the funds had no credit exposure to the borrowers, because the value of collateral held and the market value securities on loan were $2,879.7 million and $2,825.3 million, respectively.

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 47 days; the average duration of the loans was unknown, although it is assumed to remain at one day.

Note 5 Receivables-Current

As of June 30, 2006, current receivables consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	$ 1,096,849	$ -	$ -
Accounts	1,121,711	464,881	31,603
Loans-Current Portion	-	217,286	26,396
Other Governments	765,985	8,998	-
Interest	7,626	17,170	1,023
Other (1)	17,896	-	-
Total Receivables	3,010,067	708,335	59,022
Allowance for Uncollectibles	(976,712)	(86,978)	(2,836)
Receivables, net	$ 2,033,355	$ 621,357	$ 56,186

(1) Includes a reconciling amount of $11,576 from fund financial statements to government-wide financial statements.

Note 6 Taxes Receivable

Taxes receivable consisted of the following as of June 30, 2006 (amounts in thousands):

	Governmental Activities		
	General Fund	Transportation Fund	Total
Sales and Use	$ 487,321	$ -	$ 487,321
Income Taxes	261,510	-	261,510
Corporations	74,121	-	74,121
Gasoline and Special Fuel	-	43,139	43,139
Various Other	230,759	-	230,759
Total Taxes Receivable	1,053,711	43,139	1,096,850
Allowance for Uncollectibles	(93,616)	(418)	(94,034)
Taxes Receivable, net	$ 960,095	$ 42,721	$ 1,002,816

Note 7 Receivables-Noncurrent

Noncurrent receivables for the primary government and its component units, as of June 30, 2006, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Accounts	$ -	$ 2,013	$ 14,406
Loans	187,532	490,285	119,361
Total Receivables	187,532	492,298	133,767
Allowance for Uncollectibles	(9,544)	(2,853)	(9,969)
Receivables, Net	$ 177,988	$ 489,445	$ 123,798

The Clean Water fund (business-type activities) 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. At year end, the noncurrent portion of loans receivable was $427 million.

The Connecticut Development Authority (a component unit) loans funds 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 proceeds of the related loans and have originating terms of 1 to 25 years and earn interest at rates ranging from 3 percent to 11.15 percent. As of June 30, 2006, the noncurrent portion of loans receivable was $47 million. In addition, loans in the amount of $6.9 million (including loans of $6.1 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 $(296) thousand at year-end. Thus, the State is contingently liable in the event of any defaulted loans that could not be paid out of the assets of the insurance fund.

Note 8 Restricted Assets

Restricted assets are defined as resources that are restricted by legal or contractual requirements. As of June 30, 2006, 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	$ 172,277	$ 502,151	$ -	$ -	$ 674,428
Environmental	-	879	-	-	879
Other	16	-	-	-	16
Total-Governmental Activities	$ 172,293	$ 503,030	$ -	$ -	$ 675,323
Business-Type Activities:					
Bradley International Airport	$ 77,134	$ 45,094	$ -	$ 2,822	$ 125,050
UConn/Health Center	89,072	371	-	-	89,443
Clean Water	-	297,509	-	-	297,509
Other Proprietary	11,493	49,649	-	-	61,142
Total-Business-Type Activities	$ 177,699	$ 392,623	$ -	$ 2,822	$ 573,144
Component Units:					
CHFA	$ 2,683	$ 1,643,228	$ 2,469,955	$ 115,059	$ 4,230,925
CHEFA	129	473,672	-	59	473,860
Other Component Units	119,251	39,441	-	617	159,309
Total-Component Units	$ 122,063	$ 2,156,341	$ 2,469,955	$ 115,735	$ 4,864,094

Note 9 Accounts Payable and Accrued Liabilities

As of June 30, 2006, accounts payable and accrued liabilities consisted of the following (amounts in thousands):

	Vendors	Salaries and Benefits	Interest	Other	Total Payables & Accrued Liabilities
Governmental Activities:					
General	$ 116,063	$ 195,020	$ -	$ -	$ 311,083
Transportation	16,856	10,743	-	-	27,599
Other Governmental	173,226	18,855	-	1,763	193,844
Internal Service	233	2,752	-	5,916	8,901
Reconciling amount from fund financial statements to government-wide financial statements	-	-	99,569	3,858	103,427
Total-Governmental Activities	$ 306,378	$ 227,370	$ 99,569	$ 11,537	$ 644,854
Business-Type Activities:					
UConn/Health Center	$ 42,533	$ 63,263	$ -	$ 10,990	$ 116,786
State Universities	12,883	34,589	2,366	4,089	53,927
Other Proprietary	18,126	24,764	20,789	22,861	86,540
Total-Business-Type Activities	$ 73,542	$ 122,616	$ 23,155	$ 37,940	$ 257,253

Note 10 Capital Assets

Capital asset activity for the year was as follows (amounts in thousands):

	Beginning Balance	Additions		Retirements	Ending Balance
Governmental Activities					
Capital Assets not being Depreciated:					
Land	$ 1,263,767	$ 45,453		$ 14,604	$ 1,294,616
Construction in Progress	1,381,117	639,933		362,355	1,658,695
Total Capital Assets not being Depreciated	2,644,884	685,386		376,959	2,953,311
Other Capital Assets:					
Buildings	2,793,557	162,240		187,333	2,768,464
Improvements Other than Buildings	489,328	17,370		56,899	449,799
Equipment	1,322,242	151,648		88,339	1,385,551
Infrastructure	9,929,096	148,924		-	10,078,020
Total Other Capital Assets at Historical Cost	14,534,223	480,182		332,571	14,681,834
Less: Accumulated Depreciation For:					
Buildings	1,747,643	69,211		187,333	1,629,521
Improvements Other than Buildings	292,059	22,502		56,899	257,662
Equipment	933,301	150,180		88,339	995,142
Infrastructure	4,565,785	432,442		-	4,998,227
Total Accumulated Depreciation	7,538,788	674,335	*	332,571	7,880,552
Other Capital Assets, Net	6,995,435	(194,153)		-	6,801,282
Governmental Activities, Capital Assets, Net	$ 9,640,319	$ 491,233		$ 376,959	$ 9,754,593

* Depreciation expense was charged to functions as follows:

Governmental Activities:	
Legislative	$ 4,839
General Government	36,424
Regulation and Protection	22,537
Conservation and Development	10,186
Health and Hospitals	12,118
Transportation	488,272
Human Services	2,289
Education, Libraries and Museums	34,156
Corrections	30,569
Judicial	14,034
Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets	18,911
Total Depreciation Expense	$ 674,335

	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities				
Capital Assets not being Depreciated:				
Land	$ 63,852	$ -	$ 4,538	$ 59,314
Construction in Progress	303,000	107,949	235,500	175,449
Total Capital Assets not being Depreciated	366,852	107,949	240,038	234,763
Capital Assets being Depreciated:				
Buildings	2,958,232	333,657	2,947	3,288,942
Improvements Other Than Buildings	423,438	59,207	32	482,613
Equipment	791,484	76,234	26,553	841,165
Infrastructure	281	-	281	-
Total Other Capital Assets at Historical Cost	4,173,435	469,098	29,813	4,612,720
Less: Accumulated Depreciation For:				
Buildings	860,709	102,381	3,502	959,588
Improvements Other Than Buildings	165,330	21,032	-	186,362
Equipment	439,619	59,086	22,365	476,340
Total Accumulated Depreciation	1,465,658	182,499	25,867	1,622,290
Other Capital Assets, Net	2,707,777	286,599	3,946	2,990,430
Business-Type Activities, Capital Assets, Net	$ 3,074,629	$ 394,548	$ 243,984	$ 3,225,193

Component Units

Capital assets of the component units consisted of the following as of June 30, 2006 (amounts in thousands):

Land	$ 28,625
Buildings	466,058
Improvements other than Buildings	2,703
Machinery and Equipment	251,343
Construction in Progress	121
Total Capital Assets	748,850
Accumulated Depreciation	(286,210)
Capital Assets, net	$ 462,640

Note 11 State Retirement Systems

The State sponsors three major public employee retirement systems: the State Employees' Retirement System (SERS)- consisting of Tier I (contributory), Tier II (noncontributory) and Tier IIA (contributory), the Teachers' Retirement System (TRS), and the Judicial Retirement System (JRS).

The State Comptroller's Retirement Division under the direction of the Connecticut State Employees Retirement Division administers SERS and JRS. The Teachers' Retirement Board administers TRS. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for SERS, TRS, and JRS are presented in Note No. 13.

Plan Descriptions, Funding Policy, and Annual Pension Cost and Net Pension Obligation

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

	SERS 6/30/2006	TRS 6/30/2006	JRS 6/30/2006
Retirees and beneficiaries receiving benefits	36,964	26,695	220
Terminated plan members entitled to but not yet receiving benefits	1,732	1,341	2
Active plan members	50,605	51,015	217
Total	89,301	79,051	439

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. Administrative costs of the plan are funded by the State.

Judicial Retirement System
Plan Description

JRS is a single-employer defined-benefit pension plan covering any appointed judge or compensation commissioner in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 51-49 to 51-51 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

Annual Pension Cost, Net Pension Obligation, and Related Information

The State's annual pension cost and net pension obligation to SERS, TRS, and JRS for the current year were as follows (amounts in thousands):

	SERS	TRS	JRS
Annual required contribution	$ 623,063	$ 396,249	$ 11,730
Interest on net pension obligation	187,751	121,331	4
Adjustment to annual required contribution	(125,341)	(82,910)	(3)
Annual pension cost	685,473	434,670	11,731
Contributions made	623,063	396,249	11,730
Increase (decrease) in net pension obligation	62,410	38,421	1
Net pension obligation beginning of year	2,208,839	1,427,420	45
Net pension obligation end of year	$ 2,271,249	$ 1,465,841	$ 46

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

	Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
SERS	2004	534,191	88.0%	2,145,521
	2005	582,082	89.1%	2,208,839
	2006	685,473	90.9%	2,271,249
TRS	2004	305,243	60.7%	1,294,790
	2005	317,978	58.3%	1,427,420
	2006	434,670	91.2%	1,465,841
JRS	2004	11,600	100%	43
	2005	12,238	100%	45
	2006	11,731	100%	46

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:

	CMERS 6/30/2004	CPJERS 12/31/2004
Retirees and beneficiaries receiving benefits	4,876	255
Terminated plan members entitled to but not receiving benefits	550	29
Active plan members	8,403	383
Total	13,829	667
Number of participating employers	164	1

Connecticut Municipal Employees' Retirement System

Plan Description

CMERS is a cost-sharing multiple-employer defined benefit pension plan that covers fire, police, and other personnel (except teachers) of participating municipalities in the State. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and participating municipalities, and other plan provisions are described in Chapters 7-425 to 7-451 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions

Plan members are required to contribute 2.25 percent to 5.0 percent of their annual salary. Participating municipalities are required to contribute at an actuarial determined rate. The participating municipalities fund administrative costs of the plan.

Connecticut Probate Judges and Employees' Retirement System

Plan Description

CPJERS is a single-employer defined benefit pension plan that covers judges and employees of probate courts in the State. Plan benefits, cost-of-living adjustments, required contributions of plan members and the probate court system, and other plan provisions are described in Chapters 45a-34 to 45a-56 of the General statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions

Plan members are required to contribute 1.0 percent to 3.75 percent of their annual salary. The probate court system is required to contribute at an actuarial determined rate. Administrative costs of the plan are funded by the probate court system.

Note 13 Pension Trust Funds Financial Statements

The financial statements of the pension trust funds are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. State contributions are recognized in the period in which the contributions are appropriated. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investment income and related expenses of the Combined Investment Funds are allocated ratably to the pension trust funds based on each fund's equity in the Combined Investment Funds. (see Note No. 4) (amounts in thousands):

Statement of Fiduciary Net Assets (000's)

	State Employees	State Teachers	Judicial	Connecticut Municipal Employees	Probate Judges	Other	Total
Assets							
Cash and Cash Equivalents	$ -	$ 3,594	$ 3	$ -	$ 8	$ 92	$ 3,697
Receivables:							
Accounts, Net of Allowances	2,077	7,317	8	4,180	4	-	13,586
From Other Governments		2,274	-	-	-	-	2,274
From Other Funds	-	333	-	-	-	-	333
Interest	204	523	5	47	3	-	782
Investments	8,774,086	12,189,855	163,758	1,501,120	77,321	771	22,706,911
Securities Lending Collateral	1,096,939	1,482,754	21,082	188,013	10,015	106	2,798,909
Total Assets	9,873,306	13,686,650	184,856	1,693,360	87,351	969	25,526,492
Liabilities							
Accounts Payable and Accrued Liabilities	36	-	-	-	-	-	36
Securities Lending Obligation	1,096,939	1,482,754	21,082	188,013	10,015	106	2,798,909
Due to Other Funds	11,180	1,244	-	395	-	-	12,819
Total Liabilities	1,108,155	1,483,998	21,082	188,408	10,015	106	2,811,764
Net Assets							
Held in Trust For Employee Pension Benefits	8,765,151	12,202,652	163,774	1,504,952	77,336	863	22,714,728
Total Net Assets	$ 8,765,151	$ 12,202,652	$ 163,774	$ 1,504,952	$ 77,336	$ 863	$ 22,714,728

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	$ 55,235	$ 252,998	$ 1,491	$ 12,928	$ 266	$ 28	$ 322,946
State	623,063	396,249	11,730	-	-	-	1,031,042
Municipalities	-	4,104	-	28,717	-	-	32,821
Total Contributions	678,298	653,351	13,221	41,645	266	28	1,386,809
Investment Income	926,756	1,306,723	14,972	148,259	8,240	28	2,404,978
Less: Investment Expenses	(69,665)	(98,194)	(1,125)	(11,145)	(620)	(2)	(180,751)
Net Investment Income	857,091	1,208,529	13,847	137,114	7,620	26	2,224,227
Transfers In	-	-	-	-	2,228	-	2,228
Other	-	4,515	-	652	3	10	5,180
Total Additions	1,535,389	1,866,395	27,068	179,411	10,117	64	3,618,444
Deductions							
Administrative Expense	431	-	8	-	-	-	439
Benefit Payments and Refunds	918,914	1,060,956	16,028	74,460	2,643	3	2,073,004
Other	-	-	-	-	2,228	-	2,228
Total Deductions	919,345	1,060,956	16,036	74,460	4,871	3	2,075,671
Changes in Net Assets	616,044	805,439	11,032	104,951	5,246	61	1,542,773
Net Assets Held in Trust For Employee Pension Benefits:							
Beginning of Year	8,149,107	11,397,213	152,742	1,400,001	72,090	802	21,171,955
End of Year	$ 8,765,151	$ 12,202,652	$ 163,774	$ 1,504,952	$ 77,336	$ 863	$ 22,714,728

Note 14 Postemployment Benefits

In addition to the pension benefits described in Note 11, the State provides postretirement health care and life insurance benefits, in accordance with State statues, Sections 5-257(d) and 5-259(a), to all employees who retire from the State.

As of June 30, 2006, 35,725 retirees of the State Employees Retirement System meet those eligibility requirements. When employees retire, the State may pay up to 100 percent of their health care insurance premium cost (including dependent's coverage) based on the plan chosen by the employee. In addition, the State pays 100 percent of the premium cost for a portion of the employees' life insurance, continued after retirement. The amount of life insurance, continued at no cost to the retiree, is determined based on the number of years of service that the retiree had with the State at time of retirement as follows: (a) if the retiree had 25 years or more of service, the amount of insurance will be one-half of the amount of insurance for which the retiree was insured immediately prior to retirement, but the reduced amount cannot be less than $7,500 (b) if the retiree had less than 25 years of service, the amount of insurance will be the proportionate amount that such years of service is to 25, rounded to the nearest $100. The State finances the cost of postretirement health care and life insurance benefits on a pay-as-you-go basis through an appropriation in the General Fund. During the year ended June 30, 2006, $393.4 million was paid in postretirement benefits.

Note 15 Capital and Operating Leases

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):

2007	$	42,145
2008		39,234
2009		35,903
2010		30,103
2011		30,281
Thereafter		19,364
Total	$	197,030

Contingent revenues for the year ended June 30, 2006, were $2.7 million.

State as Lessee

Obligations under capital and operating leases as of June 30, 2006, were as follows (amounts in thousands):

		Noncancelable Operating Leases		Capital Leases
2007	$	46,727	$	7,962
2008		37,134		7,576
2009		31,669		7,480
2010		27,664		7,486
2011		14,933		7,429
2012-2016		16,964		24,419
2017-2021		522		12,856
2022-2026		92		6,132
2027-2031		-		6,090
2032-2036		-		-
Total minimum lease payments	$	175,705		87,430
Less: Amount representing interest costs				26,939
Present value of minimum lease payments			$	60,491

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, 2006, totaled $34.2 million.

Lease/Lease Back Transaction

On September 30, 2003 the State executed a U.S. Lease-to-Service Contract of Rolling Stock Agreement (Agreement) whereby the state entered into a head lease of certain rolling stock consisting of rail coaches and locomotives to statutory trusts established for the benefit of three equity investors. Simultaneously, the State executed sublease agreements to lease back the rolling stock in order to allow the State to have continued use of the property. The terms of the head leases are for periods ranging from 40 years to 67 years, expiring through March 2071, while the subleases have terms ranging from 18 years to 28 years, expiring through January 2032. At the end of the respective sublease terms, the State will have the option to purchase the statutory trusts' interest in the rolling stock for an aggregate fixed price.

Proceeds from the prepayment of the head lease rents were paid to debt payment undertakers and custodians in amounts sufficient, together with investment earning thereon, to provide for all future obligations of the State under the sublease agreements and the end of lease term purchase options. Although it is remote that the State will be required to make any additional payments under the sublease, the State is and shall remain liable for all of its obligations under the subleases. The aggregate remaining commitment under the subleases totaled approximately $333 million at June 30, 2006.

The State is obligated to insure and maintain the rolling stock. In addition, if an equity investor suffers a loss of tax deductions or incurs additional taxable income as a result of certain circumstances, as defined in the Agreement, then the State must indemnify the equity investor for the additional tax incurred, including interest and penalties thereon. The State has the right to terminate the sublease early under certain circumstances and upon payment of a termination value to the equity investors. If the State chooses early termination, then the termination value would be paid from funds available from the debt payment undertakers and the custodians, and if such amounts are insufficient, then the State would be required to pay the difference.

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, 2006, (amounts in thousands):

Governmental Activities	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts due within one year
Bonds:					
General Obligation	$ 9,905,242	$ 1,173,165	$ 866,914	$ 10,211,493	$ 817,088
Transportation	3,113,875	251,076	270,950	3,094,001	266,573
	13,019,117	1,424,241	1,137,864	13,305,494	1,083,661
Plus/(Less) premiums and deferred amounts	229,068	51,483	13,376	267,175	-
Total Bonds	13,248,185	1,475,724	1,151,240	13,572,669	1,083,661
Economic Recovery Notes	209,560	-	63,470	146,090	63,270
Other Liabilities:					
Net Pension Obligation	3,636,304	1,131,874	1,031,042	3,737,136	-
Compensated Absences	415,169	123,151	30,083	508,237	16,886
Workers' Compensation	298,556	122,998	77,280	344,274	75,599
Capital Leases	76,955	-	16,464	60,491	4,098
Claims and Judgments	6,609	14,876	3,067	18,418	4,553
Contracts Payable & Other	4,816	3,493	4,816	3,493	-
Total Other Liabilities	4,438,409	1,396,392	1,162,752	4,672,049	101,136
Governmental Activities Long-Term Liabilities	$ 17,896,154	$ 2,872,116	$ 2,377,462	$ 18,390,808	$ 1,248,067
In prior years, the General and Transportation funds have been used to liquidate other liabilities.					
Business-Type Activities					
Revenue Bonds	$ 1,619,658	$ -	$ 96,528	$ 1,523,130	$ 95,612
Plus/(Less) premiums, discounts and deferred amounts	33,883	25,648	7,137	52,394	484
Total Revenue Bonds	1,653,541	25,648	103,665	1,575,524	96,096
Lottery Prizes	337,002	16,948	51,473	302,477	45,765
Compensated Absences	102,148	39,359	17,247	124,260	33,027
Other	165,869	49,434	47,449	167,854	11,709
Total Other Liabilities	605,019	105,741	116,169	594,591	90,501
Business-Type Long-Term Liabilities	$ 2,258,560	$ 131,389	$ 219,834	$ 2,170,115	$ 186,597

b) As of June 30, 2006, long-term debt of component units consisted of the following (amounts in thousands):

Long-Term Debt	Balance June 30, 2006	Amounts due within year
Bonds Payable	$ 3,638,671	$ 110,519
Escrow Deposits	140,575	40,383
Closure of Landfills	27,439	1,420
State Loan	15,939	2,619
Deferred Revenue	5,636	824
Other	6,872	117
Total	$ 3,835,132	$ 155,882

Note 17 Long-Term Notes and Bonded Debt

a. Economic Recovery Notes

As of June 30 2006, the amount of Economic Recovery Notes outstanding was $146.1 million. These notes, which were used to fund the 2002 and 2003 fiscal year deficits, mature on various dates through 2009 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, 2006, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2007	63,270	4,470	67,740
2008	63,270	2,063	65,333
2009	19,550	684	20,234
Total	$ 146,090	$ 7,217	$ 153,307

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, 2006, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital Improvements	2005-2025	2-8%	$ 2,176,916	$ 350,342
School Construction	2005-2025	2-7 282%	2,302,319	154,571
Municipal & Other Grants & Loans	2005-2023	2-7.51%	1,501,472	560,231
Elderly Housing	2005-2011	7-7.5%	55,800	10,000
Elimination of Water Pollution	2005-2023	3-7.525%	245,601	489,692
General Obligation Refunding	2005-2020	2-6.14%	3,399,915	-
Miscellaneous	2005-2031	2 5-6 75%	76,257	5,080
			9,758,280	$ 1,569,916
Accretion-Various Capital Appreciation Bonds			453,213	
		Total	$ 10,211,493	

Future amounts needed to pay principal and interest on general obligation bonds outstanding at June 30, 2006, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2007	$ 817,088	$ 528,825	$ 1,345,913
2008	805,895	501,914	1,307,809
2009	762,284	507,367	1,269,651
2010	765,225	465,940	1,231,165
2011	731,743	371,607	1,103,350
2012-2016	2,911,079	1,146,779	4,057,858
2017-2021	2,101,641	466,855	2,568,496
2022-2026	854,490	86,295	940,785
2027-2031	8,595	1,031	9,626
2032-2036	240	6	246
Total	$ 9,758,280	$ 4,076,619	$ 13,834,899

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, 2006, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Specific Highways	2017	4.25-5.50%	$ 1,593	$ 4,065
Infrastructure				
Improvements	2005-2024	2-8.0%	3,081,098	672,786
General Obligation				
Other	2008	7.513-7.525%	343	-
			3,083,034	$ 676,851
Accretion-Various Capital Appreciation Bonds			10,967	
		Total	$ 3,094,001	

Future amounts required to pay principal and interest on transportation related bonds outstanding at June 30, 2006, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2007	$ 266,573	$ 148,955	$ 415,528
2008	276,393	135,965	412,358
2009	274,998	117,332	392,330
2010	268,515	102,662	371,177
2011	238,390	88,750	327,140
2012-2016	990,370	279,075	1,269,445
2017-2021	530,635	115,373	646,008
2022-2026	237,160	22,943	260,103
	$ 3,083,034	$ 1,011,055	$ 4,094,089

Variable-Rate Demand Bonds

As of June 30, 2006, variable-rate demand bonds included in bonded debt were as follows (amounts in thousands).

Bond Type	Outstanding Principal	Issuance Year	Maturity Year
Special Tax Obligation	$ 97,900	1990	2010
General Obligation	80,000	1997	2014
Special Tax Obligation	100,000	2000	2020
General Obligation	100,000	2001	2021
Special Tax Obligation	412,900	2003	2022
General Obligation	290,000	2005	2023
Total	$ 1,080,800		

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

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

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

The Standby Bond Purchase agreements expire as follows:

1990 STO expires in the year 2010,
1997 GO expires in the year 2014,
2000 STO expires in the year 2014 and could be extended for another seven years,
2001 GO expires in the year 2008,
2003 STO expires in the year 2008 and could be extended for another five years, and
2005 GO expenses in the year 2015.

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 into eleven 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, three were executed in January 2003, and five were executed in March and April of 2005.

Terms, fair values, and credit risk

The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2006, 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 CPI swaps, contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated debt. For the CPI swaps, the swap agreements and associated debt are non-amortizing and mature on the same date.

Associated Bond Issue	Notional Amounts (000's)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values (000's)	SWAP Termination Date	Counterparty Credit Rating
1990 STO	$ 58,800	12/19/1990	5.746%	65% of LIBOR (1)	$ (2,900)	12/1/2010	Aa2/AA/AA
1990 STO	39,100	12/19/1990	5.709%	65% of LIBOR (1)	(1,901)	12/1/2010	A/A/A-
2001 GO	20,000	6/28/2001	4.330%	CPI (3) plus 1.43%	121	6/15/2012	Aa3/A+/AA-
2003 STO	117,730	1/23/2003	3.293%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	2,512	2/1/2022	Aa1/AA/AA-
2003 STO	97,865	1/23/2003	3.288%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp after 1/31/07	2,094	2/1/2022	Aa1/AA/AA+
2003 STO	197,305	1/23/2003	3.284%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	4,353	2/1/2022	Aa2/AA+/AA+
2005 GO	140,000	3/24/2005	3.392%	60% of LIBOR (1) plus 30bp thereafter	4,912	3/1/2023	Aa1/AA/AA-
2005 GO	140,000	3/24/2005	3.401%	60% of LIBOR (1) plus 30bp thereafter	4,904	3/1/2023	AA/Aa1/AA-
2005 GO	15,620	4/27/2005	3.990%	CPI (3) plus .65%	(440)	6/1/2016	Aa3/A+/AA-
2005 GO	20,000	4/27/2005	5.070%	CPI (3) plus 1.73%	(625)	6/1/2017	Aa3/A+/AA-
2005 GO	20,000	4/27/2005	5.200%	CPI (3) plus 1.79%	(591)	6/1/2020	Aaa/AAA/AAA
Total	$ 866,420				$ 12,439		

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

Fair value
As of June 30, 2006, the swaps dated in 2001, 2003 and March 2005 had positive fair values because interest rates have increased since the time when these swaps were undertaken; the 1990 and April 2005 swaps had negative fair values because interest rates had similarly declined. 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, 2006, the State had credit risk exposure relating to the relationship between the variable interest rate on the bonds and the rate that it receives under the swap agreements undertaken in 2001, 2003 and March 2005. The State had no credit risk exposure on the swaps undertaken in 1990 and April 2005 because the swaps had negative fair value. 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. The 2003 and 2005 swap agreements 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 collateral provisions. No collateral was required to be posted for any of the swaps at June 30, 2006. The State is not required to post collateral for any of the swaps.

Master netting arrangements do not apply to these transactions because the state has only one derivative transaction with each counterparty.

Approximately 23 percent of the notional amount of swaps outstanding is held with one counterparty, rated Aa2/AA+. One of the December 1990 swaps, approximately 5% of the notional amount of swaps outstanding, is held with the lowest rated counterparty, rated A/A-. All other swaps are held with separate counterparties who are rated Aa3/A+ or better.

Basis Risk
The State's variable-rate bond coupon payments are equivalent to the BMA index rate, or the CPI floating rate. 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, 2006, the BMA rate was 3.97 percent, whereas 65 percent and 60 percent plus 30bp of LIBOR were 3.46 and 3.50 percent, respectively. The State recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal year 2006, the budgeted amount for basis risk was $1,500,000.

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 and 2005 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, 2006, 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 Principal	Variable-Rate Bonds Interest	Interest Rate SWAP, Net	Total
2007	20,350	34,902	289	55,541
2008	21,665	33,786	185	55,636
2009	22,985	32,887	(231)	55,641
2010	24,410	31,942	(685)	55,667
2011	25,940	30,939	(1,169)	55,710
2012-2016	251,225	133,054	(7,298)	376,981
2017-2021	423,310	55,996	(2,852)	476,454
2022-2026	76,535	3,722	(110)	80,147
Total	$ 866,420	$ 357,228	$ (11,871)	$ 1,211,777

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, 2006, were as follows (amounts in thousands):

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
Higher Education	2007-2036	2.1-7%	$ 544,970
Bradley International Airport	2007-2032	2.5-8%	226,375
Clean Water	2007-2026	2-10%	487,582
Bradley Parking Garage	2007-2024	6.1-8%	49,875
Drinking Water	2007-2026	4-5.9%	47,733
Rate Reduction Bonds	2007-2011	2.5-5%	166,595
Total Revenue Bonds			1,523,130
Plus/(Less) premiums, discounts and deferred amounts:			
Higher Education			22,094
Bradley International Airport			(225)
Clean Water			17,872
Other			12,653
Revenue Bonds, net			$ 1,575,524

Bradley Airport has issued various revenue bonds to finance costs of improvements to the airport. As of June 30, 2006, the following bonds were outstanding:

a) 2004 Airport Revenue Refunding Bonds in the amount of $24.6 million. These bonds were issued in July, 2004, to redeem the 1992 Airport Revenue Refunding 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) 2001 Bradley International Airport Revenue Bonds in the amount of $183.6 million and 2001 Bradley International Airport Refunding Bonds in the amount of $18.2 million. Both bond series are secured by and payable solely from the gross operating revenues generated by the state from the operation of the airport and other receipts, funds or monies pledged in the bond indenture.

In 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.

In 2000, Bradley Parking Garage bonds were issued 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 needed to pay principal and interest on revenue bonds outstanding at June 30, 2006, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2007	$ 98,450	$ 65,449	$ 163,899
2008	108,974	61,327	170,301
2009	103,253	55,682	158,935
2010	122,504	60,945	183,449
2011	103,991	45,248	149,239
2012-2016	325,674	177,184	502,858
2017-2021	286,128	112,083	398,211
2022-2026	209,600	62,110	271,710
2027-2031	126,775	24,493	151,268
2032-2036	37,781	2,467	40,248
Total	$ 1,523,130	$ 666,988	$ 2,190,118

d. Component Units

Component units' revenue bonds outstanding at June 30, 2006, were as follows (amounts in thousands):

Component Unit	Final Maturity Date	Interest Rates	Amount Outstanding (000's)
CT Development Authority	2007-2019	2.35-6%	$ 33,500
CT Housing Finance Authority	2006-2045	1.25-9.36%	3,313,097
CT Resources Recovery Authority	2007-2016	3.9-7.7%	83,700
CT Higher Education Supplemental Loan Authority	2007-2024	1.7-6%	115,815
Capital City Economics Development Authority	2007-2034	2.5-5%	86,800
UConn Foundation	2007-2029	3.6-5.375%	7,195
Total Revenue Bonds			3,640,107
Plus/(Less) premiums, discounts, and deferred amounts:			
CDA			20
CRRA			(1,272)
CCEDA			173
CHESLA			(357)
Revenue Bonds, net			$ 3,638,671

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, 2006 were $1.2 million. Assets totaling $2.3 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 $32.3 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, 2005, bonds outstanding under the bond resolution and the indenture were $2,939.0 million and $374.0 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 ($234.0 million at 12/31/05) on all outstanding bonds. As of December 31, 2005, the Authority has entered into interest rate swap agreements for $867.1 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 $76.1 million.

The Capital City Economic Development Authority revenue bonds are issued to provide sufficient funds for carrying out its purposes. The bonds are not debt of the State of Connecticut. However, the Authority and the State have entered into a contract for financial assistance, pursuant to which the State will be obligated to pay principal and interest on the bonds in an amount not to exceed $6.7 million in any calendar year. The bonds are secured by energy fees from the central utility plant and by parking fees subject to the Travelers Indemnity Company parking agreement.

Future amounts needed to pay principal and interest on revenue bonds outstanding at June 30, 2006, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2007	$ 102,652	$ 157,728	$ 260,380
2008	114,015	153,965	267,980
2009	431,984	147,477	579,461
2010	217,793	277,061	494,854
2011	562,687	535,055	1,097,742
2012-2016	654,838	437,229	1,092,067
2017-2021	587,498	295,176	882,674
2022-2026	521,720	164,027	685,747
2027-2031	403,900	55,657	459,557
2032-2036	33,900	6,290	40,190
2037-2041	9,120	911	10,031
Total	$ 3,640,107	$ 2,230,576	$ 5,870,683

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, 2006 were $891.5 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, 2006 were $157.5 million. Of this amount, $53.7 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, 2006, were $5,183.7 million, of which $377.5 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.

e. Debt Refundings

During the year, the State issued $61.0 million of general obligation bonds with an average interest rate of 4.88% to advance refund $61.7 million of general obligation and special tax obligation refunding bonds with an average interest rate of 5.07%. 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 $3.8 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 fourteen years by $1.96 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of $.41 million. As of June 30, 2006, $3,041.3 million of outstanding general obligation, special tax obligation, and revenue bonds are considered defeased.

Note 18 Risk Management

The risk financing and insurance program of the State is managed by the State Insurance and Risk Management Board. The Board is responsible mainly for determining the method by which the State shall insure itself against losses by the purchase of insurance to obtain the broadest coverage at the most reasonable cost, determining whether deductible provisions should be included in the insurance contract, and whenever appropriate determining whether the State shall act as self-insurer. The schedule below lists the risks of loss to which the State is exposed and the ways in which the State finances those risks.

	Risk Financed by	
Risk of Loss	Purchase of Commercial Insurance	Self-Insurance
Liability (Torts):		
-General (State buildings, parks, or grounds)		X
-Other	X	
Theft of, damage to, or destruction of assets	X	
Business interruptions	X	
Errors or omissions:		
-Professional liability	X	
-Medical malpractice (John Dempsey Hospital)		X
Injuries to employees		X
Natural disasters	X	

For the general liability risk, the State is self-insured because it has sovereign immunity. This means that the State cannot be sued for liability without its permission. For other liability risks, the State purchases commercial insurance only if the State can be held liable under a particular statute (e.g. per statue the State can be held liable for injuries suffered by a person on a defective State highway), or if it is required by a contract.

For the risk of theft, of damage to, or destruction of assets (particularly in the automobile fleet), the State insures only leased cars and vehicles valued at more than $100 thousand. When purchasing commercial insurance the State may retain some of the risk by assuming a deductible or self-insured retention amount in the insurance policy. This amount varies greatly because the State carries a large number of insurance policies covering various risks. The highest deductible or self-insured retention amount assumed by the State is $25 million, which is carried in a railroad liability policy.

The State records its risk management activities related to the medical malpractice risk 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 6-30-04	$ 276,681	$ 10,340
Incurred claims	96,245	4,937
Paid claims	(74,370)	(1,915)
Balance 6-30-05	298,556	13,362
Incurred claims	122,998	11,777
Paid claims	(77,280)	(3,503)
Balance 6-30-06	$ 344,274	$ 21,636

Note 19 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2006, 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	$ -	$ 10,875	$ 2,254	$ 46,064	$ 21,997	$ 18,456	$ 517	$ 11,091	$ 3,858	$ -	$ 115,112
Other Governmental	4,466	7,839	6,305	6,699	25,195	115,527	-	-	-	12,778	178,809
UConn	15,064	-	-	-	-	-	-	-	-	-	15,064
State Universities	2,300	-	-	-	-	-	-	-	-	-	2,300
Employment Security	-	-	5,184	-	-	-	-	-	-	-	5,184
Other Proprietary	365	-	909	-	-	-	-	-	-	-	1,274
Internal Services	4,700	-	73,152	-	-	-	-	-	-	-	77,852
Fiduciary	-	-	11,576	-	-	-	-	-	1,244	-	12,820
Component Units	15,939	-	-	-	-	-	-	-	-	-	15,939
Total	$ 42,834	$ 18,714	$ 99,380	$ 52,763	$ 47,192	$ 133,983	$ 517	$ 11,091	$ 5,102	$ 12,778	$ 424,354

Interfund receivables and payables arose because of interfund loans and other interfund balances outstanding at year end.

Note 20 Interfund Transfer

Interfund transfers for the fiscal year ended June 30, 2006, consisted of the following (amounts in thousands):

Amount transferred from fund(s)	Amount transferred to fund(s): General	Debt Service	Transportation	Other Governmental	UConn	State Universities	Other Proprietary	Fiduciary	Total
General	$ -	$ -	$ 19,166	$ 86,300	$ 416,204	$ 212,900	$ 203,663	$ -	$ 938,233
Debt Service	-	-	29,159	-	-	-	-	-	29,159
Transportation	-	419,406	-	29,900	-	-	-	-	449,306
Other Governmental	92,619	7,408	5,073	57,955	80,523	17,001	71,034	2,228	333,841
Connecticut Lottery	284,865	-	-	-	-	-	-	-	284,865
Other Proprietary	-	-	-	4,803	-	-	10,079	-	14,882
Total	$ 377,484	$ 426,814	$ 53,398	$ 178,958	$ 496,727	$ 229,901	$ 284,776	$ 2,228	$ 2,050,286

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, 2006, the beginning net assets/fund balances for the following funds and activities were restated as follows (amounts in thousands):

	Balance 6-30-05 Previously Reported	Correction of Reported Assets/ Liabilities	Balance 6-30-05 as Restated
Governmental Activities			
Non-Major Funds:			
Restricted Grants & Accounts	$ 232,510	$ 18,470	$ 250,980
Total Governmental Funds	$ 2,474,604	$ 18,470	$ 2,493,074
Net Assets of Governmental Activities	$ (5,390,623)	$ 18,470	$ (5,372,153)

During the year, the state adjusted the beginning fund balance of the Restricted Grants and Accounts fund, a special revenue fund, to correct an understatement of federal revenue reported in prior years.

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

Primary Government

Commitments are defined as "existing arrangements to enter into future transactions or events, such as long-term contractual obligations with suppliers for future purchases at specified prices and sometimes at specified quantities." As of June 30, 2006, the Departments of Transportation and Public Works had contractual commitments of approximately $1,288 million for infrastructure and other construction projects. Additionally, other commitments were approximately as follows:

School construction and alteration grant program $3,770 million.
Clean and drinking water loan programs $198 million.
Economic and community development grant/loan programs $128 million.
Various programs and services $705 million.
All commitments are expected to be funded by federal grants, bond proceeds, and other resources.

In addition, the State has authorized a loan to the Connecticut Resources Recovery Authority (a component unit) of up to $115 million to support the repayment of the Authority's debt for one of its facilities and to minimize the amount of tipping fee increases chargeable to the towns which use the facility. As of June 30, 2006, the Authority had drawn $21.5 million on these funds.

Component Units

As of December 31, 2005, the Connecticut Housing Finance Authority had mortgage loan commitments of approximately $109 million.

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.

Amounts received or receivable by the State from grant agencies are subject to audit and adjustment by grantor agencies, mainly the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the federal government cannot be determined at this time, although the State expects such amounts, if any, to be immaterial, except as discussed next.

As a result of a recent federal audit of the Medicaid program, the federal government is claiming that it had over paid the State $32.8 million for its share of Medicaid costs paid by State. The State paid back $7.5 million of the amount in question and is contending that no additional funds should be paid back to the federal government. As of June 30, 2006, the State now believes that there is a reasonable possibility that it will be required to pay back an additional $7.6 million to the federal government as a result of the audit.

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 Items

Special items are significant transactions or other events within management's control that are either unusual in nature or infrequent in occurrence. As of June 30, 2006, the State reported a transfer of $5 million from the Connecticut Housing Finance Authority, a component unit, to the General fund as a special item.

Note 25 Subsequent Events

In July 2006, the State issued $180 million of Clean Water fund general revenue bonds and general revenue refunding bonds. The bonds will mature in years 2007 through 2027 and bear interest rates ranging from 3.75% to 5.0%.

In October 2006, $608.4 million of general obligation bonds and general obligation refunding bonds. The bonds will mature in years 2007 through 2026 and bear interest rates ranging from 4.0% to 5.0%.

In December 2006, the State issued $400 million of general obligation bonds. The bonds will mature in years 2007 through 2021 and bear interest rates ranging from 3.5% to 5.07%.

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Required PERS Supplementary Information

Required Supplementary Information
Schedules of Funding Progress
(Expressed in Millions)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
SERS						
6/30/1998	$5,669.9	$9,592.4	$3,922.5	59.1%	$2,338.9	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%
6/30/2005	$8,517.7	$15,987.5	$7,469.8	53.3%	$2,980.1	250.7%
6/30/2006	$8,951.4	$16,830.3	$7,878.9	53.2%	$3,107.9	253.5%
*No actuarial valuations were performed.						
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%
6/30/2005 *	-	-	-	-	-	-
6/30/2006	$10,190.3	$17,112.8	$6,922.5	59.5%	3,137.70	220.6%
*No actuarial valuations were performed.						
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	$68.9	68.7%	28.90	238.4%
6/30/2005	$160.3	$235.0	$74.7	68.2%	30.15	247.8%
6/30/2006	$169.7	$246.9	$77.2	68.7%	31.80	242.8%
*No actuarial valuation was performed.						
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)%
7/1/2004	$1,434.3	$1,393.4	$(40.9)	102.9%	$332.6	(12.3)%

PJRS

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

Required Supplementary Information
Schedules of Employer Contributions

(Expressed in Millions)

	SERS		TRS		JRS		MERS		PJRS	
Fiscal Year	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
1998	$567.6	59.0%	$211.0	85.0%	$9.3	100.0%	$18.8	100.0%	$0.25	100.0%
1999	$315.6	100.0%	$221.6	85.0%	$9.3	100.0%	$18.1	100.0%	$0.32	100.0%
2000	$342.8	100.0%	$240.5	85.0%	$9.3	100.0%	$32.0	100.0%	$-	-
2001	$375.6	100.0%	$252.5	85.0%	$9.8	100.0%	$15.5	100.0%	$-	-
2002	$415.5	100.0%	$210.7	97.1%	$9.6	100.0%	$15.3	100.0%	$-	-
2003	$421.5	100.0%	$221.2	81.3%	$10.1	100.0%	$16.0	100.0%	$-	-
2004	$470.3	100.0%	$270.5	68.5%	$11.6	100.0%	$16.3	100.0%	$-	-
2005	$518.8	100.0%	$281.4	65.8%	$12.2	100.0%	$21.8	100.0%	$-	-
2006	$623.1	100.0%	$396.2	100.0%	$11.7	100.0%	$26.0	100.0%	$-	-

Note: During the years 2000 thru 2006 the only contributions to the Probate Judges Retirement System were the required member contributions.

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

	SERS	TRS	JRS	MERS	PJRS
Valuation date	6/30/2006	6/30/2006	6/30/2006	7/1/2004	12/31/2004
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	26 Years	6-25 Years	25 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%	4-7.5%	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%	2.6-4.0%	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 23 2007

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, 2002-2006. 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, 2002-2006.

The statements have been prepared on a modified cash basis of accounting for appropriated funds and on a cash basis of accounting for all other funds. These methods of accounting have been applied consistently and in accordance with the governing statutory requirements for all periods shown.

Sincerely,

Nancy Wyman

Nancy Wyman
State Comptroller

STATE OF CONNECTICUT

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

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT
CERTIFICATE OF AUDIT

We have audited the accompanying balance sheet of the General Fund of the State of Connecticut as of June 30, 2002, 2003, 2004, 2005 and 2006 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, 2002, 2003, 2004, 2005 and 2006, and the results of its operations for the years then ended, in conformity with the basis of accounting described in Note (a) to Appendix III-D-4.

As discussed in the litigation section of the accompanying Official Statement, the State of Connecticut is a defendant in certain legal proceedings. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements. However, as indicated in that section, an adverse judgement in any one of these cases could have a material fiscal impact on the State.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

February 28, 2007
State Capitol
Hartford, Connecticut

GENERAL FUND[a]

Balance Sheet
As of June 30
(In Thousands)

	2002	2003	2004	2005	2006
Assets					
Cash and Short-Term Investments	$ --	$ --	$ --	$ 102,329	$ 208,659
Accrued Taxes Receivable	731,462	759,320	811,239	923,537	949,567
Accrued Accounts Receivable	31,726	35,139	33,592	33,815	35,289
Federal and Other Grants Receivable and Unexpended Balances	839,676	886,205	12,090	--	--
Investments	40,813	--	--	--	--
Due from Other Funds	594,698	--	1,000	1,200	--
Loans Receivable	--	--	--	18,559	15,939
Total Assets	$ 2,238,375	$ 1,680,664	$ 857,921	$ 1,079,440	$ 1,209,454
Liabilities, Reserves and Surplus					
Liabilities					
Deficiency in Cash and Short-Term Investments	$ 1,071,882	$ 553,657	$ 190,190	--	--
Accounts Payable[b]	85,032	--	72	--	--
Deferred Restricted Accounts and Federal and Other Grant Revenue	320,716	333,324	--	--	--
Due to Other Funds	16,656	1,029	1,346	4,332	18,198
Total Liabilities	$ 1,494,286	$ 888,010	$ 191,608	$ 4,332	$ 18,198
Reserves					
Petty Cash Funds	$ 1,031	$ 991	$ 996	$ 971	$ 912
Statutory Surplus Reserves	--	--	452,455	379,715	446,490
Appropriations Continued to Following Year	965,446	888,278	212,862	694,422	702,854
Reserved FY 06 Surplus for FY 07 Operations	--	--	--	--	41,000
Total Reserves	$ 966,477	$ 889,269	$ 666,313	$ 1,075,108	$ 1,191,256
Unappropriated Surplus (Deficit)	(222,388)	(96,615)	0	0	0
Total Liabilities, Reserves and Surplus	$ 2,238,375	$ 1,680,664	$ 857,921	$ 1,079,440	$ 1,209,454

(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. Certain accrual dates for various revenues have been extended and may not reflect the same accrual date through the years reflected herein.

(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)

	2002	2003	2004	2005	2006
Unappropriated Surplus (Deficit), July 1	$ -0-	$ (222,388)	$ (96,615)	$ -0-	$ -0-
Resources from Reserve for Debt Avoidance/ERN	-0-	222,388	96,615	--	--
Total Revenues (per Appendix III-D-6)	11,943,683[a]	13,278,035[d]	13,123,775[g]	14,062,863[g]	14,998,721[g]
Total Expenditures (per Appendix III-D-7)	13,285,284[b]	13,465,043[e]	12,546,919[h]	13,333,703[i]	14,499,616[j]
Operating Balance	(1,341,601)	(187,008)	576,856	729,160	499,105
Reserved for Prior Year Appropriations Less Appropriations Carried Forward	543,806	81,977	(126,216)	(481,561)	(8,432)
Transferred (Out) or Reserved for:					
Budget Reserve Fund	-0-	-0-	(302,155)	(363,863)	(446,490)
Reserve for Debt Retirement/Avoidance	-0-	-0-	(150,300)	(15,851)	(41,000)
Other Adjustments	(19,291)	8,416	1,815	(18,185)	(19,035)
Reserved from Fiscal Year 2004	-0-	-0-	-0-	150,300	15,852
Subtotal	(817,086)	(96,615)	-0-	-0-	-0-
Transferred from Budget Reserve Fund	594,698	-0-	--	--	--
Unappropriated Surplus (Deficit), June 30	$(222,388)[c]	$(96,615)[f]	$ -0-	$ -0-	$ -0-

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

(b) 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.

(c) Under the provisions of Special Act No. 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).

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

(e) 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 $81,977.

(f) Under the provisions of Public Act No. 03-1, Section 1, September 8, 2003 Special Session, the deficit of $96,615 million is financed through the issuance of economic recovery notes (ERN).

(g) As of Fiscal Year ending June 30, 2004, 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.

(h) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of ($126,216).

(i) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of ($481,561).

(j) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of ($8,432).

GENERAL FUND

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

	2002	2003	2004	2005	2006
Taxes:					
Personal Income	$ 4,265,912	$ 4,263,070	$ 4,943,430	$ 5,570,724	$ 6,156,373
Sales and Use	2,997,766	3,025,743	3,133,888	3,290,366	3,401,966
Corporations	380,985	507,975	518,009	678,970	787,702
Insurance Companies	217,371	239,358	233,412	257,152	269,902
Inheritance and Estate	153,092	184,320	147,614	253,907	196,258
Alcoholic Beverages	41,619	42,490	44,044	44,235	45,998
Cigarettes	160,904	256,052	279,572	273,979	272,230
Admissions, Dues, Cabaret	26,905	31,696	31,662	31,699	35,367
Oil Companies	24,309	117,451	106,894	143,548	212,091
Public Service Corporations	166,597	197,959	193,643	196,819	225,263
Real Estate Conveyance	120,717	149,317	176,743	207,631	207,457
Hospital Gross Receipts	--	--	--	--	--
Miscellaneous	26,267	33,731	34,822	39,028	142,180
Refunds of Taxes	(829,558)	(808,209)	(650,800)	(681,279)	(730,849)
R&D Credit Exchange	(21,933)	(11,148)	(10,378)	(8,850)	(6,694)
Other Revenue:					
Licenses, Permits, Fees	137,518	125,179	154,593	143,250	157,400
Sales of Commodities and Services	30,479	32,869	40,991	35,148	34,612
Transfer – Special Revenue	277,589	262,776	286,699	273,894	289,946
Investment Income	23,828	7,083	1,779	15,294	53,702
Transfers — To Other Funds	(147,685)	(93,009)[a]	(85,000)	(85,000)	(86,300)
Fines, Escheats and Rents	47,620	81,490	117,719	170,732	91,456
Miscellaneous	114,273	182,364	111,255	153,982	176,595
Refunds of Payments	(373)	(397)	(574)	(374)	(438)
Federal Grants	2,142,269	2,318,421	2,564,105	2,497,670	2,549,577
Indian Gaming Payments	368,954	387,256	402,733	417,838	427,527
Statutory Transfers From Other Funds	120,000[b]	489,486	346,883	142,500	89,400
Total Unrestricted Revenue	10,845,425	12,023,326	13,123,738	14,062,863	14,998,721
Restricted Accounts and Federal and Other Grants	1,098,258	1,254,709	0[d]	0[d]	0[d]
Total Revenues[c]	$ 11,943,683	$ 13,278,035	$ 13,123,738	$ 14,062,863	$ 14,998,721

(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 ending June 30, 2004, 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)

	2002	2003	2004	2005	2006
Legislative	$ 58,095	$ 57,340	$ 57,221	$ 63,220	$ 62,159
General Government					
Executive	9,569	8,650	9,286	9,558	9,821
Financial Administration	451,738	346,282	321,723	332,330	361,310
Legal	65,980	65,309	63,184	67,250	71,387
Total General Government	527,287	420,241	394,193	409,138	442,518
Regulation and Protection of Persons and Property					
Public Safety	141,830	138,450	129,845	138,586	150,624
Regulative	80,660	73,881	69,100	75,311	86,756
Total Regulation and Protection	222,490	212,331	198,945	213,897	237,380
Conservation and Development					
Agriculture	11,015	10,521	9,435	10,283	10,765
Environment	42,716	40,837	34,648	35,244	35,215
Historical Sites, Commerce and Industry	24,733	22,117	37,497	47,958	44,907
Total Conservation and Development	78,464	73,475	81,580	93,485	90,887
Health and Hospitals					
Public Health	85,058	80,171	67,878	77,482	84,149
Mental Retardation	701,343	719,964	718,858	752,463	820,250
Mental Health	411,934	422,843	420,206	453,290	487,864
Total Health and Hospitals	1,198,335	1,222,978	1,206,942	1,283,235	1,392,263
Transportation	37,653	5,731	5,931	1,203	1,810
Human Services	3,589,653	3,724,789	3,776,416	3,908,030	4,181,893
Education, Libraries and Museums					
Department of Education	1,995,545	1,989,531	1,999,613	2,091,313	2,232,795
Education of the Blind and Deaf	15,978	14,864	14,887	14,195	14,339
University of Connecticut	265,854	265,450	263,748	270,278	205,807
Higher Education and the Arts	66,425	47,511	42,180	71,207	126,706
Libraries	17,439	13,126	10,204	10,155	11,188
Teachers Retirement	217,762	193,780	199,394	199,993	418,469
Community—Technical Colleges	129,262	126,664	123,302	126,921	135,802
State University	139,276	138,125	136,039	138,481	145,520
Total Education, Libraries and Museums	2,847,541	2,789,051	2,789,367	2,922,543	3,290,626
Corrections	1,068,183	1,111,416	1,165,656	1,239,564	1,339,289
Judicial	376,813	368,143	368,326	405,818	438,123
Non-Functional					
Debt Service	992,071	986,130	1,125,095	1,256,859	1,306,091
Miscellaneous	1,190,441	1,238,708	1,377,257	1,536,711	1,716,576
Total Non-Functional	2,182,512	2,224,838	2,502,342	2,793,570	3,022,667
Totals	12,187,026	12,210,333	12,546,919	13,333,703	14,499,615
Restricted Accounts and Federal and Other Grants	1,098,258	1,254,709	0[b]	0[b]	0[b]
Total Expenditures[a]	$13,285,284	$13,465,043	$12,546,919	$13,333,703	$14,499,615

(a) See Operating Balance on **Appendix III-D-5** for surplus or deficit for each fiscal year.

(b) As of Fiscal Year ending June 30, 2004 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 YEAR 2005-06
FINAL BUDGET FOR FISCAL YEAR 2005-06
REVISED ADOPTED BUDGET FOR FISCAL YEAR 2006-07
ESTIMATED BUDGET FOR FISCAL YEAR 2006-07

(In Millions)

	Revised Adopted Budget 2005-06[h]	Final Budget 2005-06[n]	Revised Adopted Budget 2006-07[p]	Estimated Budget 2006-07[r]
Revenues				
Taxes				
Personal Income Tax[a]	$ 6,130.0	$ 6,156.4	$ 6,428.4	$ 6,625.0
Sales & Use	3,383.8	3,402.0	3,534.0	3,487.2
Corporation[b]	770.0	787.7	707.1	787.0
Public Service	230.0	225.3	232.0	225.9
Inheritance & Estate[c]	155.0	196.2	158.8	164.8
Insurance Companies	264.9	270.0	270.2	274.6
Cigarettes	274.0	272.2	269.9	272.0
Real Estate Conveyance	208.0	207.5	197.6	170.0
Oil Companies	207.5	212.1	135.0[q]	135.0[q]
Alcoholic Beverages	44.2	46.0	44.2	46.5
Admissions and Dues	34.0	35.4	34.1	33.6
Miscellaneous	138.0[i]	142.1[i]	139.4[i]	142.0[i]
Total Taxes	$ 11,839.4	$ 11,952.8	$ 12,150.7	$ 12,363.6
Less Refunds of Taxes	(746.0)	(730.8)	(890.0)	(876.0)
Less R&D Credit Exchange	(8.0)	(6.7)	(10.0)	(7.5)
Net Taxes	$ 11,085.4	$ 11,215.3	$ 11,250.7	$ 11,480.1
Other Revenues				
Indian Gaming Payments	428.0	427.5	438.7	436.7
Transfers- Special Revenues	277.5	289.9	280.0	278.6
Licenses, Permits, Fees	148.4	157.4	140.2	144.7
Sales of Commodities & Services	33.0	34.6	33.0	38.0
Rents, Fines & Escheats	53.0	91.5[j]	43.0[j]	46.0[j]
Investment Income	43.0	53.7	47.0	100.0
Miscellaneous	160.0	176.5	138.0	187.3
Total Other Revenue	$ 1,141.7	$ 1,231.1	$ 1,119.9	$ 1,231.3
Less Refunds of Payments	(0.6)	(0.4)	(0.6)	(0.6)
Net Other Revenue	$ 1,142.3	$ 1,230.7	$ 1,119.3	$ 1,230.7
Other Sources				
Federal Grants	2,554.0[k]	2,549.6[k]	2,573.3[k]	2,591.5[k]
Transfers to the Resources of the G.F. [d]	(41.0)	0.00	41.0	41.0
Transfers from Tobacco Settlement Funds	89.4	89.4	100.0	100.0
Transfers to Other Funds[e]	(86.3)	(86.3)	(86.3)	(86.3)
Total Other Sources	$ 2,516.1	$ 2,552.7	$ 2,628.0	$ 2,646.2
Total Budgeted Revenue[f]	$ 14,743.8	$ 14,998.7	$ 14,998.0	$ 15,357.0

	Revised Adopted Budget 2005-06[h]	Final Budget 2005-06[n]	Revised Adopted Budget 2006-07[p]	Estimated Budget 2006-07[r]
Appropriations/Expenditures				
Legislative	$ 69.7	$ 62.2	$ 74.3	$ 74.3
General Government	490.8	442.5	475.4	475.9
Regulation & Protection	232.9	237.4	269.0	269.0
Conservation & Development	86.3	90.9	95.6	95.6
Health & Hospitals	1,384.4	1,392.3	1,463.7	1,471.1
Human Services	4,300.3	4,181.9	4,250.7	4,250.7
Education, Libraries & Museums	3,312.1[l]	3,290.6	3,191.4	3,191.4
Corrections	1,316.8	1,339.3	1,416.6	1,433.3
Judicial	432.1	438.1	458.9	459.4
Non- Functional				
Debt Service	1,358.8[m]	1,306.1 [m]	1,370.9 [m]	1,370.9 [m]
Miscellaneous	1,763.4	1,718.4	1,885.6	1,885.6
Subtotal	14,747.6	$ 14,499.7	$ 14,952.1	$ 14,977.1
Unallocated Lapse	(193.6)	-	(115.0)	(146.0)
Net Appropriations/Expenditures[f]	$ 14,554.0	$ 14,499.7	$ 14,837.2	$ 14,831.1
Surplus (or Deficit) from Operations	189.8	499.1	160.8	525.9
Miscellaneous Adjustments	-	(19.0)	-	(18.1)
Transfers from Previous Year Surplus	-	15.9[o]	-	-
Transferred or Reserved for Debt Retirement or Other Purposes or for Prior Year Appropriations less Net Appropriations Carried Forward	--	(49.4)	--	--
Balance[g]	$ 189.8	$ 446.5	$ 160.8	$ 507.8

NOTE: Columns may not add due to rounding.

(a) Public Act No. 05-251 (i) increased the property tax credit from $350 to $400 instead of the scheduled $500, (ii) delayed increase in the singles exemption for 2 years, (iii) exempted 50% of military pensions, and (iv) enhanced DRS audit capabilities. It was estimated to bring in an additional $124 million in fiscal year 2005-06 and $115 million in fiscal year 2006-07. Public Act No. 06-186 increased the property tax credit to $500 from the scheduled $400. It was estimated to reduce revenues by $70 million in each year beginning fiscal year 2006-07.

(b) Public Act No. 05-251 imposed a 20% surcharge on corporate entities for income year 2006 and a 15% surcharge for income year 2007. It was expected to yield $43.4 million in fiscal year 2005-06 and $50.8 million in fiscal year 2006-07. Public Act No. 06-186 repealed the 15% surcharge and allows for tax credits for the film industry. It was expected to reduce revenues by $78.0 million in fiscal year 2006-07.

(c) 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 have raised $55 million in fiscal year 2004-05 since the State failed to receive extraordinary federal assistance similar to that contained in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003. Per Public Act No. 05-251, the imposition of a unified gift and estate tax with a $2 million exemption and the repeal of the succession tax on Class B & C were expected to yield $32.3 million in fiscal year 2005-06 and $86.2 million in fiscal year 2006-07.

(d) Public Act No. 05-251 included a transfer of $12 million from the Energy Conservation & Load Fund for fiscal year 2006-07, but Public Act No. 06-186 eliminated this transfer. Per Public Act No. 05-251, the Comptroller was required to transfer $41 million of fiscal year 2005-06 General Fund revenues for use in fiscal year 2006-07.

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

(f) Does not include revenues or expenditures with respect to Restricted Accounts and Federal & Other Grants, which are not included in this Appendix. 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 Public Act No. 05-251 for the fiscal year ending June 30, 2006 as amended by Public Act No. 06-186.

(i) Per Public Act No. 05-251, repealing the gift tax was expected to reduce revenue by $15.4 million in fiscal year 2005-06 and $14.5 million in fiscal year 2006-07. Per Public Act No. 05-251, the imposition of a nursing home providers tax was expected to yield $134.7 million in both fiscal year 2005-06 and fiscal year 2006-07.

(j) Per Public Act No. 05-5 of the October 25 Special Session, a portion of abandoned property receipts shall be deposited in the Citizen's Election Fund for campaign finance reform. In fiscal year 2005-06 $17 million was diverted, in fiscal year 2006-07 $16 million will be diverted, and in subsequent fiscal years such amount will be adjusted per the U.S. Consumer Price Index.

(k) Per Public Act No. 05-251, instituting a 6% nursing home provider tax was expected to garner $105.7 million in additional federal funds in each year of the biennium.

(l) Per Section 8 of Public Act No. 06-186, $245.65 million was appropriated from the 2005-06 fiscal year surplus to the Teachers' Retirement Board for retirement contributions.

(m) Per Public Act No. 05-251, the cost of the Economic Recovery Notes during the 2005-07 biennium will be paid from fiscal year 2004-05 appropriations and is reflected in debt service for 2004-05. 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. Per Public Act No. 06-186, the cost of the remaining Economic Recovery Notes will be paid from fiscal year 2005-06 appropriations and is reflected in debt service for fiscal year 2005-06. The amount pre-funded for fiscal year 2007-08 is $65.3 million and the amount pre-funded for fiscal year 2008-09 is $20.2 million.

(n) Per the Comptroller's financial report provided on February 28, 2007 for the fiscal year ending June 30, 2006.

(o) Per Section 50 of Public Act No. 05-251, a contingency appropriation of $15.9 million in fiscal year 2004-05 surplus shall be deemed to be appropriated for private provider increases during fiscal year 2005-06, resulting in an initial budget surplus for fiscal year 2005-06 of $17.9 million.

(p) Per Public Act No. 06-186. Public Act No. 06-186 increased appropriations in fiscal year 2005-06 to spend surplus amounts. See discussion beginning on **Page III-24** of this **Annual Information Statement** under the caption ***Midterm Budget Adjustments for Fiscal Years 2005-06 and 2006-07***.

(q) Public Act No. 06-186 increased the transfer by $80 million to the Special Transportation Fund in fiscal year 2006-07.

(r) Per the Office of Policy and Management's monthly report dated January 22, 2007 for the fiscal year ending June 30, 2006, as of the period ending December 31, 2006. The Comptroller's monthly report dated February 1, 2007 indicated a surplus balance in the General Fund in the amount of $542.2 million for this same period.

NOTE: The information in **Appendix III-E** of this **Annual Information Statement** contains only projections and no assurances can be given that subsequent projections or adjustments 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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