NEW ISSUE (See **RATINGS** herein)

$235,000,000
State of Connecticut
General Obligation Bonds (2006 Series C)

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

The Bonds will be general obligations of the State of Connecticut (the "State") and the full faith and credit of the State will be pledged for the payment of the principal of and interest on the Bonds as the same become due. See **THE BONDS - Nature of Obligation** herein. Interest on the Bonds will be payable on December 1, 2006 and semiannually thereafter on June 1 and December 1 in each year until maturity or earlier redemption. Interest is calculated on the basis of a 360-day year of twelve 30-day months at the annual rates set forth on the inside front cover. **The Bonds are subject to redemption prior to maturity as more fully described herein.**

The Bonds are issuable only as fully registered bonds, without interest coupons, in denominations of $5,000 or any integral multiple thereof. When issued, the Bonds 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 Bonds. Purchases of the Bonds will be made in book-entry form. Purchasers will not receive certificates representing their interest in the Bonds. So long as Cede & Co. is the registered owner, as nominee of DTC, reference herein to the Bondowner or owner shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. See **THE BONDS – Book-Entry-Only System** herein. Principal of and interest on the Bonds will be paid directly to DTC by U.S. Bank National Association, as Paying Agent, at its corporate trust office in Hartford, Connecticut, so long as DTC or its nominee, Cede & Co., is the Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

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

In the opinion of Bond Counsel, rendered in reliance upon and assuming the accuracy of and continuing compliance by the State with its representations and covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended, under existing law, interest on the 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 opinion of Bond Counsel, under existing statutes, interest on the 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 Bonds are offered when, as and if issued and received by the Underwriters, subject to approval as to legality by Bond Counsel and certain other conditions. Certain legal matters will be passed upon for the State by its Disclosure Counsel. Certain legal matters will be passed upon for the State by its Tax Counsel. Certain legal matters will be passed upon for the Underwriters by Underwriters' Counsel. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about June 27, 2006.

Treasurer of the State of Connecticut

M◆R◆Beal & Company

Banc of America Securities LLC **JPMorgan** **Loop Capital Markets, LLC**

A.G. Edwards
Raymond James & Associates, Inc.
Wachovia Bank, National Association

Belle Haven Investments, L.P.
Roosevelt & Cross, Inc.

Merrill Lynch & Co.
UBS Investment Bank
William Blair & Co., LLC

Dated: June 15, 2006

$235,000,000
State of Connecticut
General Obligation Bonds (2006 Series C)

June 1,	Amount	Interest Rate	Yield	CUSIP
2007	$11,750,000	4.25%	3.49%	20772GRP5
2008	11,750,000	3.50	3.65	20772GRQ3
2009	1,585,000	3.55	3.70	20772GRR1
2009	10,165,000	4.50	3.70	20772GRS9
2010	865,000	3.55	3.78	20772GRT7
2010	10,885,000	5.00	3.78	20772GRU4
2011	1,045,000	3.60	3.80	20772GRV2
2011	10,705,000	4.50	3.80	20772GRW0
2012	2,110,000	3.70	3.90	20772GRX8
2012	2,000,000	4.00	3.90	20772GSU3
2012	7,640,000	4.75	3.90	20772GRY6
2013	3,400,000	3.75	3.95	20772GRZ3
2013	8,350,000	5.00	3.95	20772GSA7
2014	2,985,000	3.85	4.02	20772GSB5
2014	8,765,000	5.00	4.02	20772GSC3
2015	11,750,000*	5.00	4.05	20772GSD1
2016	4,980,000*	4.00	4.11	20772GSE9
2016	6,770,000	5.00	4.11	20772GSF6
2017	11,750,000*	5.00**	4.16	20772GSG4
2018	11,750,000*	5.00**	4.21	20772GSH2
2019	11,750,000*	5.00**	4.26	20772GSJ8
2020	11,750,000*	4.50**	4.44	20772GSK5
2021	11,750,000*	4.625**	4.46	20772GSL3
2022	9,000,000*	4.625**	4.50	20772GSN9
2022	2,750,000*	5.00**	4.35	20772GSM1
2023	11,750,000*	5.00**	4.36	20772GSP4
2024	11,750,000*	5.00**	4.37	20772GSQ2
2025	11,750,000*	5.00**	4.38	20772GSR0
2026	6,750,000*	4.75**	4.55	20772GSS8
2026	5,000,000*	5.00**	4.39	20772GST6

(plus accrued interest)

* The scheduled payment of principal and interest on the Bonds maturing June 1 in the years 2015 through 2026, except the $6,770,000 bonds with an interest rate of 5.00% maturing on June 1, 2016, when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC. See "Bond Insurance" and Appendix I-D herein.

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

** Priced at the stated yield to the June 1, 2016 optional redemption date at a redemption price of 100%; however, any such redemption is at the optional election of the Treasurer. See **THE BONDS AND THE NOTES – Optional Redemption of the Bonds** herein.

This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State since the date hereof. Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. All quotations from and summaries and explanations of provisions of laws of the State contained in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof. All references to the Bonds and the resolutions and proceedings of the State Bond Commission relating thereto are qualified in their entirety by reference to the definitive forms of the Bonds and such resolutions. This Official Statement is submitted only in connection with the sale of the Bonds by the State and may not be reproduced or used in whole or in part for any other purpose, except as specifically authorized by the State. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT
STATE OF CONNECTICUT
$235,000,000 General Obligation Bonds (2006 Series C)

INTRODUCTION

This Official Statement, including the cover and inside cover pages, this Introduction, Part I, Part II and Part III and the Appendices thereto, of the State of Connecticut (the "State") is provided for the purpose of presenting certain information relating to the State in connection with the sale of $235,000,000 aggregate principal amount of its General Obligation Bonds (2006 Series C) (the "Bonds").

Part I of this Official Statement, including the cover and inside front cover pages and the Appendices thereto, contains information relating to the Bonds. Part II of this Official Statement contains information which supplements, as of its date, certain information contained in the most recent Annual Information Statement of the State. Part III of this Official Statement, including the Appendices thereto, is the most recent Annual Information Statement of the State and contains certain information about the State as of its date. The cover page, inside cover page, this Introduction, and Parts I, II and III and the Appendices thereto should be read collectively and in their entirety.

PART I
INFORMATION CONCERNING THE BONDS

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PART I

INFORMATION CONCERNING THE BONDS

STATE OF CONNECTICUT

$235,000,000 General Obligation Bonds (2006 Series C)

THE BONDS

Description of the Bonds

The State of Connecticut (the "State") is issuing $235,000,000 General Obligation Bonds (2006 Series C) (the "Bonds") comprised of the following issues:

$143,500,000 General Obligation Bonds (2006 Series C-1)
$ 40,500,000 General Obligation Bonds (2006 Series C-2)
$ 22,585,000 General Obligation Bonds (2006 Series C-3)
$ 28,415,000 General Obligation Bonds (2006 Series C-4)

The Bonds will be dated the date of delivery, and will bear interest payable on December 1, 2006 and semiannually thereafter on June 1 and December 1 in each year, until maturity or earlier redemption, at the rate or rates indicated on the inside front cover page of this Official Statement.

Interest will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable to the registered owner as of the close of business on the fifteenth day of May and November in each year or the preceding business day if such fifteenth day is not a business day. The Bonds are issuable only as fully registered bonds, without interest coupons, in denominations of $5,000 or any integral multiple thereof.

The Bonds will be general obligation bonds of the State and the full faith and credit of the State will be pledged for the payment of the principal of and interest on the Bonds as the same become due. The Bonds will be issued pursuant to the State general obligation bond procedure act (Section 3-20 of the General Statutes of Connecticut, as amended), resolutions adopted by the State Bond Commission, and other proceedings related thereto, including a Certificate of Determination of the Treasurer. See **Nature of Obligation** herein.

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

The Bonds are being issued for various projects and purposes and are authorized by the bond acts listed in **Appendix I-A**. Bonds of each series will mature in the years and in the principal amounts set forth in the following table:

$235,000,000 Bonds

	Series				Total
Maturity June 1,	**2006 C-1**	**2006 C-2**	**2006 C-3**	**2006 C-4**	**2006 Series C**
2007…		**$11,750,000**			**$11,750,000**
2008…		**11,750,000**			**11,750,000**
2009…		**11,750,000**			**11,750,000**
2010…		**5,250,000**	**$ 6,500,000**		**11,750,000**
2011…			**11,750,000**		**11,750,000**
2012…			**4,335,000**	**$ 7,415,000**	**11,750,000**
2013…				**11,750,000**	**11,750,000**
2014…	**$ 2,500,000**			**9,250,000**	**11,750,000**
2015…	**11,750,000**				**11,750,000**
2016…	**11,750,000**				**11,750,000**
2017…	**11,750,000**				**11,750,000**
2018…	**11,750,000**				**11,750,000**
2019…	**11,750,000**				**11,750,000**
2020…	**11,750,000**				**11,750,000**
2021…	**11,750,000**				**11,750,000**
2022…	**11,750,000**				**11,750,000**
2023…	**11,750,000**				**11,750,000**
2024…	**11,750,000**				**11,750,000**
2025…	**11,750,000**				**11,750,000**
2026…	**11,750,000**				**11,750,000**
TOTAL	**$143,500,000**	**$40,500,000**	**$22,585,000**	**$28,415,000**	**$235,000,000**

Optional Redemption

The Bonds maturing after June 1, 2016 will be subject to redemption, at the election of the Treasurer, on or after June 1, 2016 at any time, in whole or in part prior to maturity. The redeemed Bonds may be in such amounts and in such order of maturity and in such Series and bear such interest rate or rates (but by lot among bonds bearing the same interest rate within a maturity of a Series) as the Treasurer may determine. The respective redemption prices (expressed as percentages of the principal amounts of bonds to be redeemed) are set forth in the following table, to which will be added interest accrued and unpaid to the redemption date:

Redemption Date	Redemption Price
From June 1, 2016 and thereafter	100%

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 to the registered owner of such Bond at such Bondowner's address as

it appears on the registration books of the State. So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, all notices of redemption will be sent only to DTC.

Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The 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 or more fully-registered Bond certificates will be issued for each maturity of the Bonds 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 issues, 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, Government Securities Clearing Corporation, Fixed Income Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com** and **www.dtc.org**.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each 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 confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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 an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on, and redemption premium, if any, with respect to the 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 State or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest, and redemption premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been provided by DTC. The State takes no responsibility for the accuracy thereof.

Nature of Obligation

Each Bond when duly issued and paid for will constitute a contract between the State and the owner thereof.

The State general obligation bond procedure act pursuant to which the Bonds are issued provides that the Bonds shall be general obligations of the State and that the full faith and credit of the State are pledged for the payment of the principal of and interest on said Bonds as the same become due. Such act further provides that, as part of the contract of the State with the owners of said 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.

The doctrine of governmental immunity (the right of a state not to be sued without its consent) applies to the State but legislation gives jurisdiction to the Connecticut courts to enter judgment against the State founded

upon any express contract between the State and the purchasers and subsequent owners and transferees of bonds and notes issued by the State, including the Bonds, reserving to the State all legal defenses except governmental immunity.

In the opinion of Bond Counsel, the above provisions impose a clear legal duty on the Treasurer to pay principal of and interest on the Bonds when due and, in the event of failure by the State to make such payment when due, a bondowner may sue the Treasurer to compel such payment from any monies available.

For the payment of principal of or interest on the Bonds, the State, acting through the General Assembly, has the power to levy ad valorem taxes on all taxable property in the State without limitation as to rate or amount. The State does not presently levy such a tax.

The State has never defaulted in the punctual payment of principal or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments.

Sources and Uses of Bond Proceeds

Proceeds of the Bonds are to be applied as follows:

Sources:	
Par Amount of Bonds	$235,000,000.00
Plus: Original Issue Premium	8,493,485.45
Total Sources	$243,493,485.45
Uses:	
Money Available to State	$235,000,000.00
Underwriters' Discount	1,224,954.68
Costs of Issuance and Bond Insurance Premium	764,745.20
Other Money Available to State	6,503,785.57
Total Uses	$243,493,485.45

BOND INSURANCE

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. will issue its Municipal Bond Insurance Policy for certain maturities of the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal and interest on the Bonds due June 1 in the years 2015 through 2026, except the $6,770,000 bonds with an interest rate of 5.00% maturing on June 1, 2016 (the "Insured Bonds"), as set forth in the form of the policy included as **Appendix I-D** hereto.

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

See **Appendix I-D** for additional information on Financial Security Assurance Inc.

LEGALITY FOR INVESTMENT

Under existing State law, the Bonds are legal investments for the State and for municipalities, regional school districts, fire districts, and any municipal corporation or authority authorized to issue bonds, notes or other obligations, State chartered or organized insurance companies, bank and trust companies, savings banks, savings and loan associations and credit unions, as well as executors, administrators, trustees and certain other fiduciaries. Subject to any contrary provisions in any agreement with noteholders or bondholders or other contract, the Bonds also are legal investments for virtually all public authorities in the State.

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

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's Rating Services (a division of the McGraw-Hill Companies, Inc.) ("S&P") and Fitch Ratings ("Fitch") have assigned their municipal bond ratings of Aa3, AA and AA, respectively, to the Bonds. Upon the issuance of the Insured Bonds (see **BOND INSURANCE**) the State anticipates that ratings of "Aaa", "AAA" and "AAA" will be assigned by Moody's, S&P and Fitch, respectively, to the Insured Bonds based on the bond insurance to be provided by Financial Security Assurance Inc. simultaneously with the delivery of the Insured Bonds.

Each such rating reflects only the views of the respective rating agency, and an explanation of the significance of such rating may be obtained from such rating agency. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by such rating agency if in the judgment of such rating agency circumstances so warrant. A downward revision or withdrawal of any such rating may have an adverse effect on the market prices of the Bonds.

TAX EXEMPTION

Opinion of Bond Counsel and Tax Counsel - Federal Tax Exemption

In the opinion of Bond Counsel and Tax Counsel, under existing law, interest on the 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 the federal alternative minimum tax.

Bond Counsel's and Tax Counsel's opinions with respect to the Bonds will be rendered in reliance upon and assuming the accuracy of and continuing compliance by the State with its representations and covenants relating to certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"). The Code establishes certain requirements which must be met at and subsequent to the issuance of the Bonds in order that interest on the Bonds be and remain excluded from gross income of the owners thereof for federal income tax purposes. Failure to comply with the continuing requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of their issuance irrespective of the date on which such noncompliance occurs. In the Tax Compliance Agreement and the Tax Certificate, which will be delivered concurrently with the issuance of the Bonds, the State will covenant to comply with certain provisions of the Code and will make certain representations designed to assure compliance with such requirements of the Code.

Pursuant to Section 3-20 of the General Statutes of the State, as amended, the State covenants that it will at all times comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to ensure that interest on the Bonds shall not be included in the gross income of the owners thereof for federal income tax purposes, including covenants regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds.

No other opinion is expressed by Bond Counsel or Tax Counsel regarding the federal tax consequences of the ownership of, or the receipt or accrual of interest on, the Bonds.

Original Issue Discount

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

Under the Code, for purposes of determining an owner's adjusted basis in an OID Bond, OID treated as having accrued while the owner holds the OID Bond will be added to the owner's basis. OID will accrue on a constant-yield-to-maturity method based on regular compounding. The owner's adjusted basis will be used to determine taxable gain or loss upon the sale or other disposition (including redemption or payment at maturity) of an OID Bond. For certain corporations (as defined for federal income tax purposes) a portion of the 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 the Bonds of certain maturities (the "OIP Bonds") are more than their stated principal amounts. An owner who purchases 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 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 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 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 Bonds will not have an adverse effect upon the tax-exempt status or the market price of the Bonds.

State Taxes

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

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

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

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

General

The opinions of Bond Counsel and Tax Counsel are rendered as of their date and Bond Counsel and Tax Counsel assume no obligation to update or supplement their opinions to reflect any facts or circumstances that may come to their attention or any changes in law 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 Bond. Prospective owners of the 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 Bonds.

CONTINUING DISCLOSURE AGREEMENT

The General Statutes of Connecticut give the State the specific authority to enter into continuing disclosure agreements in accordance with the requirements of Securities and Exchange Commission Rule 15c2-12 (the "Rule").

The State 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 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, 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. Such audited financial statements and operating data for the fiscal year ending June 30, 2004 are included in **Part III**. On or prior to February 28, 2006, the State filed with the NRMSIRs the preliminary estimated financial statements contained in **Part II**, 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.

The State will file with the NRMSIRs its audited financial statements and certain other operating data for the fiscal year ending June 30, 2005 promptly after they become available.

The State will enter into a Continuing Disclosure Agreement with respect to the Bonds for the benefit of the beneficial owners of the Bonds, substantially in the form attached as **Appendix I-C** to this Official Statement (the "Continuing Disclosure Agreement"), pursuant to which the State will agree to provide or cause to be provided, in accordance with the requirements of the Rule: (i) certain annual financial information and operating data, (ii) timely notice of the occurrence of certain material events with respect to the Bonds, and (iii) timely notice of a failure by the State to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement. The Underwriters' obligation to purchase the Bonds shall be conditioned upon their receiving, at or prior to the delivery of the Bonds, an executed copy of the Continuing Disclosure Agreement.

DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS

State Treasurer's Certificate

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

Absence of Litigation

Upon delivery of the Bonds, the State shall furnish a certificate of the Attorney General of the State, dated the date of delivery of the Bonds, to the effect that there is no controversy or litigation of any nature pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale thereof or the application of monies to the payment of the Bonds. In addition, such certificate 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.

Approving Opinions of Bond Counsel, Opinions of Disclosure Counsel, Tax Counsel and Underwriters' Counsel

The State Treasurer, with the approval of the Attorney General of the State of Connecticut, has appointed the following firms to serve as Bond Counsel with respect to the Bonds, and delivery of the Bonds will be subject to the approving opinions of Bond Counsel as follows:

(a) Lewis & Munday, A Professional Corporation with respect to the $143,500,000 General Obligation Bonds (2006 Series C-1);
(b) Pullman & Comley, LLC with respect to the $40,500,000 General Obligation Bonds (2006 Series C-2);
(c) Robinson & Cole LLP with respect to the $22,585,000 General Obligation Bonds (2006 Series C-3);

(d) Shipman & Goodwin LLP with respect to the $28,415,000 General Obligation Bonds (2006 Series C-4);

The opinion of each Bond Counsel with respect to the series of the Bonds indicated above will be substantially in the form included as **Appendix I-B** to this Official Statement. Certain Bond Counsel have served as underwriters' counsel in connection with other State bond issues.

Certain legal matters will be passed upon for the State by its Disclosure Counsel, Day, Berry & Howard LLP of Hartford, Connecticut.

Certain legal matters will be passed upon for the State by its Tax Counsel, Hunton & Williams LLP.

Certain legal matters will be passed upon for the Underwriters by their co-counsel, Updike, Kelly & Spellacy, P.C. of Hartford, Connecticut, and Harrell & Chambliss LLP of Richmond, Virginia. Updike, Kelly & Spellacy, P.C. serves as bond counsel to the State in connection with other State bond issues (not including general obligation bond issues).

FINANCIAL ADVISOR

The State has appointed P.G. Corbin & Company, Inc. to serve as financial advisor to assist the State in the issuance of the Bonds.

UNDERWRITING

The aggregate initial offering price of the Bonds to the public is $243,493,485.45 plus accrued interest, if any. The Underwriters have jointly and severally agreed, subject to certain conditions precedent to closing, to purchase the Bonds from the State at an aggregate purchase price of $242,268,530.77. The Underwriters will be obligated to purchase all the Bonds, if any such Bonds are purchased. The Bonds may be offered and sold to certain dealers (including unit investment trusts and other affiliated portfolios of certain underwriters and other dealers depositing the Bonds into investment trusts) at prices lower than such initial public offering prices, and such initial public offering prices may be changed, from time to time, by the Underwriters.

ADDITIONAL INFORMATION

It is the present policy of the State to make available, upon request to the Office of the State Treasurer, copies of this Official Statement or parts hereof and subsequent official statements or parts thereof relating to the issuance of its general obligation bonds.

Additional information may be obtained upon request to the Office of the State Treasurer, Denise L. Nappier, Attn: Sarah K. Sanders, Principal Debt Management Specialist, 55 Elm Street, Hartford, Connecticut 06106, (860) 702-3288.

STATE OF CONNECTICUT

Dated at Hartford, Connecticut
this 15th day of June, 2006

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

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Appendix I-A

TABLE OF STATUTORY AUTHORIZATIONS

Each series of Bonds includes the following authorizations which have been consolidated for purposes of sale:

A. $ 143,500,000.00 General Obligation Bonds (2006 Series C-1)

1. $ 143,500,000.00 School Construction Bonds (Series TTT) authorized by Chapter 173 of the General Statutes of the State of Connecticut, as amended.

B. $ 40,500,000.00 General Obligation Bonds (2006 Series C-2)

1. $ 2,000,000.00 Economic Development and Manufacturing Assistance Bonds (1990 Act, Section 33, Series Y) authorized by Section 33 of Public Act No. 90-270 of the General Assembly of the State of Connecticut, as amended.

2. $ 8,500,000.00 State Equipment Purchase Bonds (1987 Act, Section 2, Series S) authorized by Section 2 of Public Act No. 87-361 of the General Assembly of the State of Connecticut, as amended.

3. $ 3,000,000.00 Agricultural Land Use Bonds (1978 Act, Series R) authorized by Public Act No. 78-232 of the General Assembly of the State of Connecticut, as amended.

4. $ 27,000,000.00 Community Conservation Development Bonds (1979 Act, Section 21(a), Series CC) authorized by Section 21(a) of Public Act No. 79-607 of the General Assembly of the State of Connecticut, as amended.

C. $ 22,585,000.00 General Obligation Bonds (2006 Series C-3)

1. $ 8,315,000.00 General State Purposes Bonds (2001 Act, Sections 2(a) through 2(h) and 2(k) through 2(n), Series H) authorized by Sections 2(a) through 2(h) and 2(k) through 2(n) of Special Act No. 01-2 of the General Assembly of the State of Connecticut, June 2001 Special Session, as amended.

2. $ 872,024.00 General State Purposes Bonds (2004 Special Session Act, Sections 2(a) through 2(h) and 2(l) through 2(p), Series B) authorized by Sections 2(a) through 2(h) and 2(l) through 2(p) of Special Act No. 04-2 of the General Assembly of the State of Connecticut, May 2004 Special Session, as amended.

3. $ 13,397,976.00 General State Purposes Bonds (2005 Act, Sections 2(a) through 2(1) and 2(q) through 2(s), Series B) authorized by Sections 2(a) through 2(1) and 2(q) through 2(s) of Special Act No. 05-1 of the General Assembly of the State of Connecticut, June 2005 Special Session, as amended.

D. $ 28,415,000.00 General Obligation Bonds (2006 Series C-4)

1. $ 3,685,000.00 General State Purposes Bonds (2001 Special Session Act, Section 2(i), Series C) authorized by Section 2(i) of Special Act No. 01-2 of

			the General Assembly of the State of Connecticut, June 2001 Special Session, as amended.
2.	$	8,951,833.00	General State Purposes Bonds (2004 Act, Section 2(b), Series C) authorized by Section 2(b) of Public Act No. 04-3 of the General Assembly of the State of Connecticut, February 2004 Session, as amended.
3.	$	48,167.00	General State Purposes Bonds (2004 Act, Section 2(c), Series D) authorized by Section 2(c) of Public Act No. 04-3 of the General Assembly of the State of Connecticut, February 2004 Session, as amended.
4.	$	5,000,000.00	General State Purposes Bonds (2001 Special Session Act, Section 17(g), Series F) authorized by Section 17(g) of Special Act No. 01-2 of the General Assembly of the State of Connecticut, June 2001 Special Session, as amended.
5.	$	8,227,258.00	General State Purposes Bonds (2004 Special Session Act, Section 2(j), Series A) authorized by Section 2(j) of Special Act No. 04-2 of the General Assembly of the State of Connecticut, May 2004 Special Session, as amended.
6.	$	1,900,718.00	General State Purposes Bonds (2004 Special Session Act, Section 2(k), Series C) authorized by Section 2(k) of Special Act No. 04-2 of the General Assembly of the State of Connecticut, May 2004 Special Session, as amended.
7.	$	602,024.00	General State Purposes Bonds (2005 Act, Section 2(p), Series A) authorized by Section 2(p) of Special Act No. 05-1 of the General Assembly of the State of Connecticut, June 2005 Special Session.

Appendix I-B

FORM OF BOND COUNSEL OPINION

The opinion of each Bond Counsel with respect to the series of the Bonds for which such firm has been appointed to serve as Bond Counsel will be dated the date of original issuance of the Bonds and will be substantially in the following form:

Honorable Denise L. Nappier
Treasurer, State of Connecticut
Hartford, Connecticut

We have examined a record of proceedings relative to the issuance of $_____ General Obligation Bonds (2006 Series C-) of the State of Connecticut (the "Bonds"). The Bonds are issued contemporaneously with other general obligation bonds of the State of Connecticut in the aggregate principal amount of $235,000,000.

The Bonds are dated as of the date of delivery, mature on June 1 in the years, in the principal amounts and bear interest from their dated date, payable on December 1, 2006 and semiannually thereafter on June 1 and December 1 in each year until maturity [or earlier redemption], at the rate or rates per annum, as follows:

Year	Principal Amount	Interest Rate

The Bonds are payable as to principal and redemption price, if any, at the office of U.S. Bank National Association, in Hartford, Connecticut. Interest on the Bonds is payable to the person in whose name such bond is registered as of the close of business on the fifteenth day of May and November in each year or the preceding business day if such fifteenth day is not a business day, by check mailed to such registered owner at such owner's address as shown on the registration books kept by the State or its designated agent.

[The Bonds are subject to redemption prior to maturity as therein provided.]

The Bonds are comprised of the following issue[s] of bonds which were authorized by the following statutory provision[s and have been consolidated as a single issue]:

[HERE LIST COMPONENT BOND ISSUES WITH STATUTORY AUTHORIZATIONS]

The Bonds are issued under and pursuant to proceedings taken in accordance with Section 3-20 of the General Statutes of Connecticut, Revision of 1958, as amended, resolutions adopted by the State Bond Commission including a resolution adopted on March 31, 2006 and proceedings taken in conformity therewith, including a Certificate of Determination executed by the State Treasurer and filed with the Secretary of the State Bond Commission and a Tax Certificate and a Tax Compliance Agreement.

The Bonds are issuable in the form of registered bonds without coupons in denominations of $5,000 or any integral multiple of $5,000, not exceeding the aggregate principal amount of Bonds maturing in any year. The Bonds are originally registered in the name of Cede & Co., as nominee of

The Depository Trust Company, for the purpose of effecting a book-entry system for the ownership and transfer of the Bonds.

As to questions of fact material to our opinion we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement and certain matters which are the subject of a supplemental opinion provided by us to the State).

We are of the opinion that the Bonds, when duly certified by U.S. Bank National Association, will be valid and legally binding general obligations of the State of Connecticut for the payment of the principal of and interest on which the full faith and credit of the State are pledged, and that the State, acting through the General Assembly, has the power to levy ad valorem taxes upon all taxable property within the State without limitation as to rate or amount to pay the principal and interest thereof. We are further of the opinion that the Tax Compliance Agreement is a valid and binding agreement of the State and that the Tax Certificate and the Tax Compliance Agreement were duly authorized by the State.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be excluded from gross income for federal income tax purposes. In the Tax Compliance Agreement and the Tax Certificate the State has made covenants and representations designed to assure compliance with such requirements of the Code. The State has covenanted in the Tax Compliance Agreement that it will at all times comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to ensure that interest on the Bonds shall not be included in the gross income of the owners thereof for federal income tax purposes, retroactively to the date of issue or otherwise, including covenants regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds.

We are of the opinion that, under existing law, interest on the 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.

In rendering the foregoing opinions regarding the federal income tax treatment of interest on the Bonds, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Certificate and the Tax Compliance Agreement, and (ii) continuing compliance by the State with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that the interest thereon be, or continues to be, excluded from gross income for federal income tax purposes, as provided in the covenants set forth in the Tax Compliance Agreement as to such matters. We also have relied upon the approving opinions of bond counsel with respect to the other general obligation bonds of the State of Connecticut issued contemporaneously with the Bonds in the aggregate principal amount of $235,000,000 as to the validity and legality of such bonds and as to the exclusion of the interest thereon from gross income of the owners thereof for federal income tax purposes.

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

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

Respectfully yours,

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Appendix I-C

FORM OF CONTINUING DISCLOSURE AGREEMENT

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

Continuing Disclosure Agreement

This Continuing Disclosure Agreement ("Agreement") is made as of the ___ day of June, 2006 by the State of Connecticut (the "State") acting by its undersigned officer, duly authorized, in connection with the issuance of $235,000,000 General Obligation Bonds (2006 Series C) dated as of the date hereof (the "Bonds"), 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 the official statement of the State dated June 15, 2006 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
www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
Email: nrmsir_repository@sandp.com

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

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

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

Section 2. Annual Financial Information.

(a) The State agrees to provide or cause to be provided to each NRMSIR and any SID, in accordance with the provisions of the Rule and of this Agreement, annual financial information and operating data (commencing with information and data for the fiscal year ending June 30, 2005) 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. The State's fiscal year currently ends on June 30. The State has experienced delays in preparing its financial statements for the 2004-2005 fiscal year due to the implementation of a new financial management software system. Consequently, the State anticipates that its audited financial statements for the 2004-2005 fiscal year will be provided promptly after the appropriate audits have been completed.

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

(d) The State reserves the right (i) to provide financial statements which are not audited if no longer required by law, (ii) to modify from time to time the format of the presentation of such information or data, and (iii) to modify the accounting principles it follows to the extent required by law, by changes in generally accepted accounting principles, or by changes in mandated state statutory principles as in effect from

time to time; provided that the State agrees that the exercise of any such right will be done in a manner consistent with the Rule.

Section 3. Material Events.

The State agrees to provide or cause to be provided, in a timely manner, to (i) each NRMSIR or the MSRB and (ii) any SID, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(a) principal and interest payment delinquencies;
(b) non-payment related defaults;
(c) unscheduled draws on debt service reserves reflecting financial difficulties;
(d) unscheduled draws on credit enhancements reflecting financial difficulties;
(e) substitution of credit or liquidity providers, or their failure to perform;
(f) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
(g) modifications to rights of holders of the Bonds;
(h) Bond calls;
(i) Bond defeasances;
(j) release, substitution, or sale of property securing repayment of the Bonds; and
(k) rating changes.

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

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

Section 5. Use of Agents.

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

Section 6. Termination.

The obligations of the State under this Agreement shall terminate upon the earlier of (i) payment or legal defeasance, at maturity or otherwise, of all of the 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 Sections 3 and 4 of this Agreement) from the time the State's Assistant Treasurer for Debt Management, or a successor, receives written notice from any beneficial owner of the 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.

Section 8. Miscellaneous.

(a) The State shall have no obligation to provide any information, data or notices other than as set forth in this Agreement; provided however, nothing in this Agreement shall be construed as prohibiting the State from providing such additional information, data or notices from time to time as it deems appropriate in connection with the 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 60% of the aggregate principal amount of the Bonds then outstanding. A copy of any such amendment or waiver will be filed in a timely manner with (i) each NRMSIR or the MSRB and (ii) any SID. The annual financial information provided on the first date following adoption of any such amendment or waiver will explain, in narrative form, the reasons for the amendment or waiver.

(d) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but such counterparts shall together constitute but one and the same instrument.

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

STATE OF CONNECTICUT

By _____
Denise L. Nappier
Treasurer

Signature Page to Continuing Disclosure Agreement

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INFORMATION CONCERNING BOND INSURANCE AND SPECIMEN POLICY

The information contained in this **Appendix I-D** with respect to the Bonds which mature June 1 in the years 2015 through 2026, except the $6,770,000 bonds with an interest rate of 5.00% maturing on June 1, 2016 (the "Insured Bonds"), has been furnished by Financial Security Assurance Inc. ("Financial Security") for use in this Official Statement. The State takes no responsibility for the accuracy thereof.

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. will issue its Municipal Bond Insurance Policy for the Insured Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal and interest on the Insured Bonds as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

Financial Security Assurance Inc.

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

At March 31, 2006, Financial Security's combined policyholders' surplus and contingency reserves were approximately $2,459,829,000 and its total net unearned premium reserve was approximately $1,858,167,000 in accordance with statutory accounting principles. At March 31, 2006, Financial Security's consolidated shareholder's equity was approximately $2,856,995,000 and its total net unearned premium reserve was approximately $1,504,103,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

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

SPECIMEN INSURANCE POLICY

A specimen bond insurance policy for Financial Security follows:

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium: $

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

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

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

SPECIMEN

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

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

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

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

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

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)

SPECIMEN

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PART II

INFORMATION SUPPLEMENT

OF THE STATE OF CONNECTICUT

June 15, 2006

The Annual Information Statement of the State of Connecticut (the "State"), dated January 31, 2006, appears in this Official Statement as **Part III** and contains information through January 31, 2006. 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 January 31, 2006 Annual Information Statement through June 15, 2006. 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. In connection with that investigation, federal authorities are also reviewing gifts given to the former Governor. On December 23, 2004, former Governor John G. Rowland pleaded guilty to one federal charge of conspiracy to commit honest services mail fraud and tax fraud.

FINANCIAL PROCEDURES

Page III-10. The last sentence of the last paragraph under the caption ***Accounting Procedures*** is deleted and the following information is added:

Work on the 2004-05 fiscal year financial statements commenced late due to the delay in completing the 2003-04 financial statements and thus the final audited financial statements for the 2004-05 fiscal year are not anticipated before September 1, 2006. The State was granted an extension until September 1, 2006 by the U.S. Department of Health & Human Services to submit its Single Audit for the fiscal year ending June 30, 2005 pursuant to OMB Circular No. A-133.

STATE GENERAL FUND

Page III-25. The following information is added to the information under the caption **Fiscal Year 2005-2006 Operations:**

Pursuant to section 4-66 of the Connecticut General Statutes, the Office of Policy and Management provides estimates of revenues and expenditures for the current fiscal year by the twentieth day of each month to the Comptroller for use by the Comptroller in preparing the Comptroller's monthly report. In the monthly estimates provided by the Office of Policy and Management on May 22, 2006, as of April 30, 2006 General Fund revenues were estimated at $14,856.7 million, General Fund expenditures and miscellaneous adjustments were estimated at $14,066.2 million and the General Fund balance for the 2005-06 fiscal year was estimated to have a surplus of $790.5 million. This estimate is based on estimates which do not reflect the Midterm Budget Adjustments discussed below. After taking into account the Midterm Budget Adjustments, the Office of Policy and Management projects that the General Fund balance for the 2005-06 fiscal year will have a $305.1 million surplus.

Per Section 3-115 of the Connecticut General Statutes, the State's fiscal position is reported monthly by the Comptroller. This report compares the revenues already received and the expenditures already made to estimated revenues to be collected and estimated expenditures to be made during the balance of the fiscal year. In the monthly report of the Comptroller dated June 1, 2006, as of April 30, 2006 the Comptroller estimated that the General Fund balance will have a surplus of $304.3 million for the 2005-06 fiscal year after taking the Midterm Budget Adjustments into account. The Comptroller's estimate is $0.8 million lower than the Office of Policy and Management's projected General Fund surplus of $305.1 million.

The estimates of the Office of Policy and Management and the Comptroller for the period ending April 30, 2006 have ***not*** been outlined in **Appendix III-E** to the **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 or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2005-06 operations of the General Fund.

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. In connection with the Midterm Budget Adjustments, more fully discussed below, $394.5 million of the estimated surplus is appropriated for fiscal years 2005-06 and 2006-07 and $91.0 million will be carried forward to fiscal year 2006-07. Any remaining surplus, if realized would be deposited into the Budget Reserve Fund.

Midterm Budget Adjustments for Fiscal Years 2005-06 and 2006-07

A number of Midterm Budget Adjustments have been 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 House Bill 5845 as amended by House Amendments A, B, C, and E. 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, House Bill 5845, as amended, increased appropriations by $420.5 million in fiscal year 2005-06, of which $26.0 million is for fiscal year 2005-06 deficiencies and $394.5 million is for appropriations to fund primarily one-time expenditures over the biennium. This bill also increases 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 is approximately $4.0 million under the spending cap. It is expected to result in a surplus of $160.8 million based on the estimates of the General Assembly.

House Bill 5845, as amended, utilizes the 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, will fully fund 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 will be carried forward for expenditures in fiscal year 2006-07; and (5) $63.4 million for miscellaneous purposes. These changes reduce the General Assembly's projected fiscal year 2005-06 surplus to $189.8 million. Any final surplus amount would be added to the State's Budget Reserve Fund. If this projected surplus amount is realized it would bring the projected balance in the Budget Reserve Fund to approximately $855.8 million.

The noteworthy tax cuts contained in House Bill 5845, as amended, include 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 include the formation of a film industry tax credit, a jobs creation tax credit, and a displaced worker tax credit.

The act also increases 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, House Bill 5844, as amended, increases the current transfer of General Fund petroleum gross receipts tax revenue to the Special Transportation Fund by $80 million. Total revenue policy changes 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 result in a net revenue increase of $249.5 million over the original fiscal year 2006-07 adopted revenue estimates.

On the expenditure side, this act provides $92 million in additional fiscal year 2006-07 General Fund appropriations. Significant changes include an increase of $60.0 million for settled collective bargaining contracts and an additional $30 million for increased energy costs. Other notable changes include a total increase of $51.8 million for priority school districts, school readiness and charter schools and $10.0 million for the 21st century jobs initiative.

No additional general obligation bond authorizations were enacted in the 2006 Session of the General Assembly. The Governor signed House Bill 5844, as amended, which authorizes an additional $1.0 billion in special tax obligation bonds to be issued over the next ten years to fund various transportation initiatives and $1.3 billion in bonds to be issued in anticipation of future federal transportation funds.

STATE DEBT

Page III-33 Table 7, III-37 Table 8, III-39 Table 10 and III-41 Table 12.

On March 9, 2006 the State issued $290,000,000 General Obligation Bonds (2006 Series A) (the "Series A Bonds") and $10,000,000 Taxable General Obligation Bond Anticipation Notes (2006 Series A) (the "Series A Notes"). The Series A Bonds mature $14,500,000 each December 15 from 2006 through 2025 and bear interest at varying rates from 3.30% to 5.00% per annum. The Series A Notes mature on March 9, 2007 with an interest rate of 5.00% per annum.

On May 31, 2006 the State issued $200,000,000 General Obligation Bonds (2006 Series B) (the "Series B Bonds"). The Series B Bonds mature $10,000,000 each May 1 from 2007 through 2026 and bear interest at varying rates from 3.60% to 5.00% per annum.

OTHER FUNDS, DEBT AND LIABILITIES

Page III-47. **Other Special Revenue Funds and Debt.** The following information updates the information under the caption ***Bradley Airport.***

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.

Page III-48. The information in the following paragraphs update the information in the second and third paragraphs, respectively, under the caption ***Second Injury Fund***:

Pursuant to Public Act No. 05-199, effective July 1, 2006 the Fund's assessment bases will be changed for both insured and self-insured employers.

In 1995 and 1996, the State enacted legislation to close the Second Injury Fund to future second injury claims.

Page III-51. The following information updates the information under the caption ***Connecticut Housing Finance Authority ("CHFA")***:

The General Assembly has passed a bill increasing the Authority's ability to make or purchase mortgage loans which are not insured or guaranteed from $750 million to an aggregate amount not to exceed $1 billion. This bill will take effect October 1, 2006.

Page III-53. The following information updates the information in the third paragraph under the caption ***Capital City Economic Development Authority ("CCEDA")***:

On June 15, 2006 debt service on CCEDA's revenue bonds was paid under the contract assistance agreement. CCEDA reimbursed the State to the extent of funds available for that purpose, which were approximately $50,000 less than required. CCEDA continues to owe this amount to the State.

Page III-54, Table 16. The following information updates information related to the ***Southeastern Connecticut Water Authority***:

The Southeastern Connecticut Water Authority issued $598,000 Working Capital and Organizational Fund Notes due March 9, 2007 which are guaranteed by the State.

PENSION AND RETIREMENT SYSTEMS

Page III-61. The following information is added to the end of the second paragraph under the caption ***Social Security and Other Post-Employment Benefits*:**

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 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 45. The detailed study is not expected to be completed before the Fall of 2006. No initial estimates have been calculated with respect to post-retirement health care benefits for members of the Teachers' Retirement System.

Page III-61. The following information is added to the end of the fourth paragraph under the caption ***Social Security and Other Post-Employment Benefits*:**

The State Teachers' Retirement Board has signed a contract with a consultant to begin a study of the estimated costs associated with respect to post-retirement health care benefits which will be reported in accordance with GASB 45 for the Teachers' Retirement System.

LITIGATION

Page III-63. The last sentence under the heading ***Carr v. Wilson-Coker*** is replaced with the following:

The parties filed cross-summary judgment motions. The Court ruled that a trial was necessary to resolve questions of fact on certain of the issues. No trial date has been set.

Page III-63. A sentence is added at the end of the paragraph under the heading ***Foreman v. State*** as follows:

The parties reached a settlement in which the State would pay the plaintiff class $2.5 million. The settlement was presented to the General Assembly and was deemed approved as of April 30, 2006 pursuant to statute by the General Assembly's failure to act.

Page III-64. The last sentence under the heading ***State of Connecticut v. Philip Morris, Inc. et al***., is replaced with the following:

The State has appealed the ruling that the dispute is subject to arbitration, and that appeal is pending in the Connecticut Supreme Court. 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. The Superior Court has stayed further action on this motion until the Connecticut Supreme Court has ruled on the appeal described above. 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. 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 could impact the amount of payments due to the State under the MSA.

Page III-64. A sentence is added to the paragraph under the heading ***Longley v. State Employees Retirement Commission*** as follows:

The State Supreme Court has granted certification of the case and will review the Appellate Court's ruling.

Page III-65. Under the heading regarding the alleged ***Indian Tribes***, at the end of the sentence regarding the decision of the Federal Bureau of Indian Affairs not to acknowledge the alleged Schaghticoke Indian tribe, add: "and the alleged Tribe has appealed that decision to the United States District Court."

Page III-65. The following is added to the **LITIGATION** section:

***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, 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 very early pleading stage.

APPENDIX III - C

Page III-C-1. The Comptroller has provided preliminary estimated financial statements prepared in accordance with generally accepted accounting principles for the fiscal year ending June 30, 2005, which are

included in this **Part II** as **Preliminary Appendix II-C**. The preliminary estimated financial statements are preliminary estimates as of February 28, 2006. The preliminary estimated financial statements are subject to additional updates and adjustments by the Comptroller and subject to the final audit. No assurances can be given that subsequent estimates or adjustments will not indicate changes in the final financial statements for fiscal year 2004-05.

PRELIMINARY APPENDIX II-C (2005)

The preliminary estimated financial statements in this **Preliminary Appendix II-C** are prepared in accordance with generally accepted accounting principles for the fiscal year ending June 30, 2005. The preliminary estimated financial statements are preliminary estimates as of February 28, 2006 for financial information relating to fiscal year 2004-05. The preliminary estimated financial statements are subject to additional updates and adjustments by the Comptroller and subject to the final audit. No assurances can be given that subsequent estimates or adjustments will not indicate changes in the final financial statements for fiscal year 2004-05.

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NANCY WYMAN
COMPTROLLER

STATE OF CONNECTICUT

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

MARK E. OJAKIAN
DEPUTY COMPTROLLER

February 28, 2006

The Honorable Denise L. Nappier
State Treasurer
55 Elm Street
Hartford, CT 06106

Dear Ms. Nappier:

I am pleased to provide the state of Connecticut's preliminary Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2005. This report is prepared in accordance with Generally Accepted Accounting Principles (GAAP) and remains subject to final audit and adjustment.

It should be noted that this preliminary Fiscal Year 2005 CAFR does not contain updated transportation infrastructure amounts as the Department of Transportation has not yet furnished the required update for Fiscal Year 2005 to my office.

The final audited CAFR for Fiscal Year 2005 is currently anticipated to be produced by July 31, 2006.

Sincerely,

Nancy Wyman

Nancy Wyman
State Comptroller

An Equal Opportunity Employer

MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)

The following discussion and analysis is supplementary information required by the Governmental Accounting Standards Board (GASB), and is intended to provide an easily readable explanation of the information provided in the attached basic financial statements. It is by necessity highly summarized, and in order to gain a thorough understanding of the state's financial position, the financial statements and footnotes should be viewed in their entirety.

FINANCIAL HIGHLIGHTS

Government-wide:
Assets of the state's governmental activities were $5.7 billion less than liabilities, a deterioration in financial position of $0.2 billion related to current year operations. Assets of the state's business type activities exceeded liabilities by $4.0 billion, an improvement in financial position of $0.1 billion related to current year operations. In terms of the total, net assets declined from negative $1.6 billion to a negative $1.7 billion, a decrease in total net assets of $0.1 billion.

As noted above, the governmental portion of state liabilities exceeded state governmental assets by $5.7 billion as of June 30, 2005. Of this amount, the unrestricted net asset portion was a negative $10.3 billion. One reason for the negative balance is the state's reliance on issuing bonds to fund certain operating grants. General Obligation bonds outstanding as of June 30, 2005 that related to municipal school construction, and other operating grants and loans totaled $3.4 billion. Additionally, long-term obligations such as net pension, compensated absences and worker's compensation obligations of $4.4 billion, with no offsetting assets, further contributed to the state's negative net assets.

Fund Level:
Total Governmental fund assets exceeded liabilities resulting in a fund balance of $2.4 billion, almost all of which was reserved leaving a net unreserved fund deficit of $313 million. The portion of unreserved undesignated fund balance that pertains to the General Fund was a negative $1.1 billion at June 30, 2005.

Total Enterprise Fund assets exceeded liabilities resulting in net assets of $4.0 billion, substantially all of which was restricted or invested in capital assets.

Debt Issued and Outstanding:
Long-term bonded debt of governmental activities totaled $13.3 billion (see Note 16). In addition, $0.2 billion in Economic Recovery Notes was outstanding on June 30, 2005. Other long-term liabilities totaled $4.4 billion.

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION

There are three major parts to the basic financial statements: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE STATEMENTS (Reporting the State as a Whole)

Governments have traditionally focused their reporting on groupings of funds rather than on the government taken as a whole. The GASB 34 financial reporting model, upon which this report is based, retains this traditional focus on funds and adds an additional focus on the overall government's financial position and operations.

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the state as a whole and its activities. These statements help to demonstrate how the state's financial position as a whole changed due to the year's operating activities. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting.

The Statement of Net Assets presents all of the state's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the state's financial position is improving or not.

The Statement of Activities presents information showing how the state's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in future fiscal year cash flows (e.g., earned but unused vacation time).

Both statements report three activities:

- *Governmental Activities* - Most of the state's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The legislature, the judiciary, and the general operations of the executive departments fall within the governmental activities.

- *Business-type Activities* – These activities are primarily funded by charges to external parties for the cost of goods and services provided. These activities are generally reported in Enterprise Funds in the fund level statements. The operations of Bradley International Airport, the Connecticut Lottery Corporation and Employment Security, are examples of business-type activities.

- *Discretely Presented Component Units* – Component units are legally separate organizations for which the state is financially accountable. More information on discretely presented component units can be found in Note 1 of the Notes to Financial Statement section.

Financial reporting for governmental activities traditionally has focused on changes in current spendable resources rather than on changes in total resources. This traditional focus has been retained for purposes of fund reporting. However, as governmental activities are included with other activities in the government-wide financial statement format, the focus for these activities shifts to changes in total resources. In other words, all activities reported in government-wide financial statements are reported in a manner similar to private-sector accounting. To increase the readers understanding, a summary reconciliation of the difference between the governmental

fund financial statements and the government-wide financial statements is provided as part of the basic financial statements.

FUND LEVEL STATEMENTS

Fund financial statements focus on individual parts of the state's operations in more detail than the government-wide statements. Funds are accounting devices that governments use to keep track of specific sources of funding and spending for particular purposes. The state of Connecticut is required to report four categories of fund statements – governmental, proprietary, and fiduciary funds, to the extent that state activities meet the criteria for using these funds, and "combining statements" for its component units. Under the GASB 34 financial reporting model, as presented here, governments focus on major individual funds rather than on fund types (with aggregated information presented for the total of all non-major funds).

Major Governmental Fund Financial Statements:

Governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. The state's major government funds include the General Fund, the Transportation Fund and the Debt Service Fund.

General Fund. The General Fund functions as the chief operating fund for the state government. All of the state's activities are reported in the General Fund unless there is a compelling reason to report them elsewhere.

Transportation Fund. The Transportation Fund is a special revenue fund that accounts for motor vehicle taxes, receipts and transportation related federal revenues collected for payment of debt service requirements and budgeted expenditures of the Department of Transportation and the Department of Motor Vehicles. The Department of Transportation is responsible for all aspects of the planning, development, maintenance and improvement of the state transportation system.

Debt Service Fund. The Debt Service Fund is a governmental fund, which accounts for the accumulation of resources for, and the payment of, Special Tax obligation principal and interest.

- 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 distinguish 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 should be used to report resources held and administered by the state when it is acting in a fiduciary capacity for individuals, private organizations or other governments.

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 states component units. The Component units of the State of Connecticut are:

Connecticut Housing Finance Authority. Classified as a major component unit, the CHFA is a public instrumentality and political subdivision created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development and construction of housing for low and moderate income families.

Connecticut Health and Educational Facilities Authority. Classified as a major component unit, CHEFA's purpose is to provide resources for financing major projects for health and educational institutions.

Connecticut Development Authority. CDA's purpose is to stimulate commercial development.

Connecticut Resources Recovery Authority. CRRA's purpose is solid waste management.

Connecticut Higher Education Supplemental Loan Authority. CHESLA's purpose is to provide resources for student loans.

Connecticut Innovations, Incorporated. CI's purpose is to stimulate application of new technology.

Capital City Economic Development Authority. CCEDA's purpose is to stimulate economic development in the city of Hartford.

University of Connecticut Foundation, Inc. The foundation's purpose is 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 supplementary information of this report.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

NET ASSETS

The following table was derived from the government-wide Statement of Net Assets. The state's combined net assets declined $0.1 billion over the course of Fiscal Year 2005 operations. The net assets of governmental activities decreased by $0.2 billion, while net assets from business-type activities improved by $0.1 billion from the prior year.

State Of Connecticut's Net Assets (in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
ASSETS:						
Current and Other Assets	$ 4,433.4	$ 3,902.0	$ 3,703.1	$ 3,575.4	$ 8,136.5	$ 7,477.4
Capital Assets	9,327.4	9,618.8	3,084.3	2,857.0	12,411.7	12,475.8
Total Assets	13,760.8	13,520.8	6,787.4	6,432.4	20,548.2	19,953.2
LIABILITES:						
Current Liabilities	2,760.0	2,914.2	730.2	606.9	3,490.2	3,521.1
Long-term Liabilities	16,689.0	16,046.9	2,060.0	2,165.6	18,749.0	18,212.5
Total Liabilities	19,449.0	18,961.1	2,790.2	2,772.5	22,239.2	21,733.6
NET ASSETS:						
Invested in Capital Assets, Net of Related Debt	2,992.7	3,264.1	2,321.0	2,209.5	5,313.7	5,473.6
Restricted	1,628.4	1,686.1	1,557.8	1,409.9	3,186.2	3,096.0
Unrestricted	(10,309.3)	(10,390.5)	118.3	40.5	(10,191.0)	(10,350.0)
Total Net Assets	$ (5,688.2)	$ (5,440.3)	$ 3,997.1	$ 3,659.9	$ (1,691.1)	$ (1,780.4)

The following condensed financial information was derived from the government-wide Statement of Activities and reflects the nature of the state's change in net assets throughout Fiscal Year 2005.

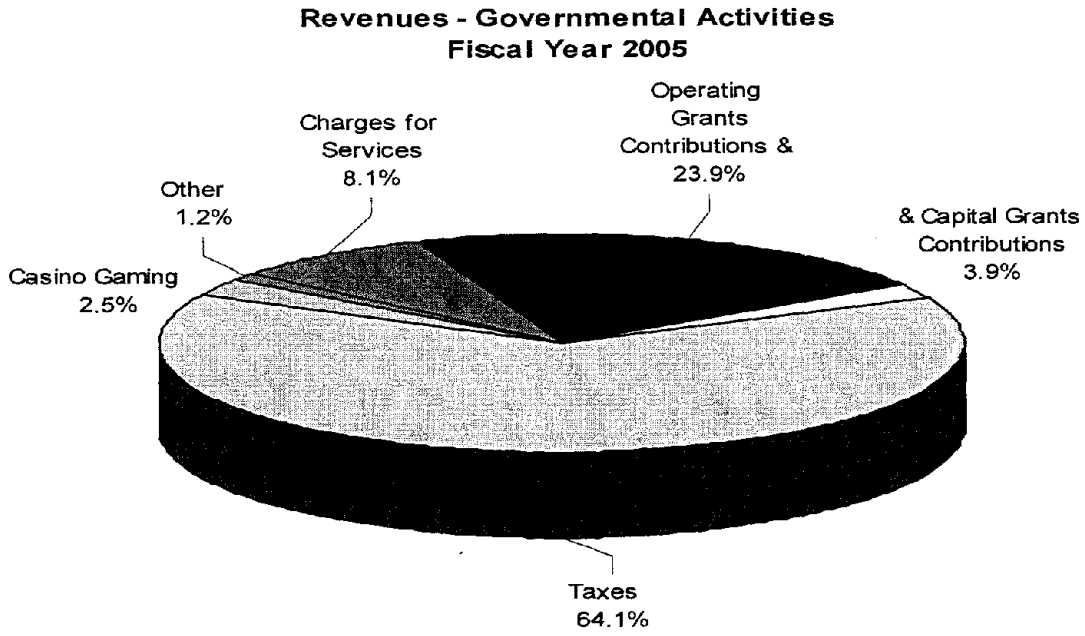
State of Connecticut's Changes in Net Assets
(Expressed in Millions)

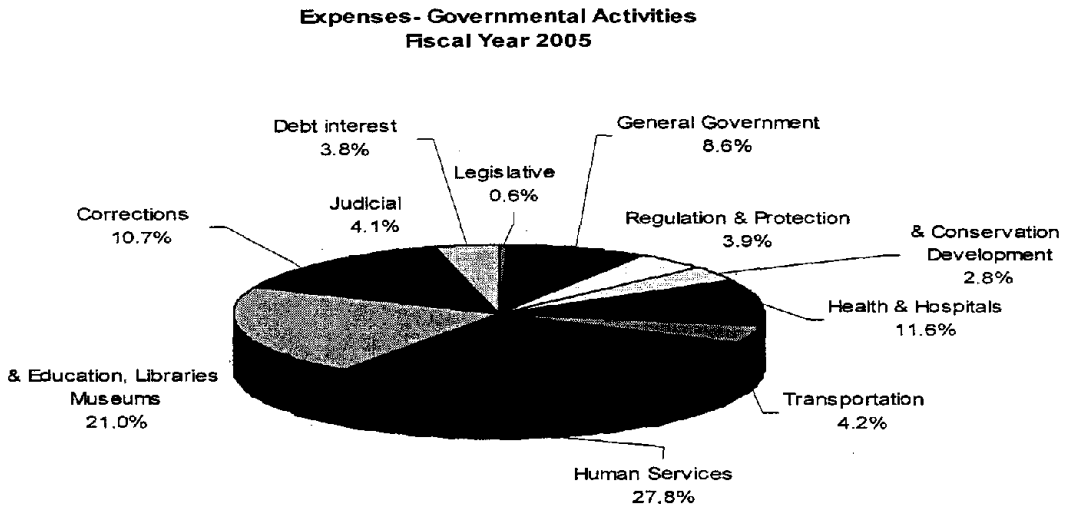
	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
REVENUES						
Program Revenues						
Charges for Services	1,366.4	1,253.7	$ 2,926.2	$ 2,936.0	$ 4,292.6	$ 4,189.7
Operating Grants and Contributions	3,689.5	3,850.1	262.5	227.7	3,952.0	4,077.8
Capital Grants and Contributions	402.0	543.8	10.3	9.3	412.3	553.1
General Revenues						
Taxes	10,832.8	9,741.8	-	-	10,832.8	9,741.8
Casino Gaming Payments	417.8	402.7	-	-	417.8	402.7
Other	187.8	134.9	95.1	90.5	282.9	225.4
Total Revenues	16,896.3	15,927.0	3,294.1	3,263.5	20,190.4	19,190.5
EXPENSES						
Legislative	100.2	89.5	-	-	100.2	89.5
General Government	1,399.5	1,100.7	-	-	1,399.5	1,100.7
Regulation and Protection	687.6	590.4	-	-	687.6	590.4
Conservation and Development	562.5	448.0	-	-	562.5	448.0
Health and Hospitals	1,833.6	1,683.4	-	-	1,833.6	1,683.4
Transportation	684.9	1,153.9	-	-	684.9	1,153.9
Human Services	4,536.5	4,630.2	-	-	4,536.5	4,630.2
Education, Libraries and Museums	3,467.7	3,174.3	-	-	3,467.7	3,174.3
Corrections	1,744.5	1,579.0	-	-	1,744.5	1,579.0
Judicial	675.6	546.2	-	-	675.6	546.2
Interest and Fiscal Charges	613.5	577.4	-	-	613.5	577.4
University of Connecticut	-	-	1,375.4	1,254.4	1,375.4	1,254.4
State Universities	-	-	500.0	469.7	500.0	469.7
Bradley International Airport	-	-	61.6	59.3	61.6	59.3
CT Lottery Corporation	-	-	691.2	656.7	691.2	656.7
Employment Security	-	-	580.4	811.5	580.4	811.5
Clean Water	-	-	27.7	24.8	27.7	24.8
Other	-	-	396.2	361.4	396.2	361.4
Total Expenses	16,306.1	15,573.0	3,632.5	3,637.8	19,938.6	19,210.8
Excess (Deficiency) Before Transfers, Special and Extraordinary Items	590.2	354.0	(338.4)	(374.3)	251.8	(20.3)
Transfers	(687.7)	(417.1)	493.7	417.1	(194.0)	-
Special and Extraordinary Items	(150.4)	(157.2)	(12.4)	(6.2)	(162.8)	(163.4)
Increase (Decrease) in Net Assets	(247.9)	(220.3)	142.9	36.6	(105.0)	(183.7)
Net Assets (Deficit) - Beginning (Restated)	(5,440.3)	(5,220.0)	3,854.2	3,623.3	(1,586.1)	(1,596.7)
Net Assets (Deficit) - Ending	(5,688.2)	(5,440.3)	$ 3,997.1	$ 3,659.9	(1,691.1)	$ (1,780.4)

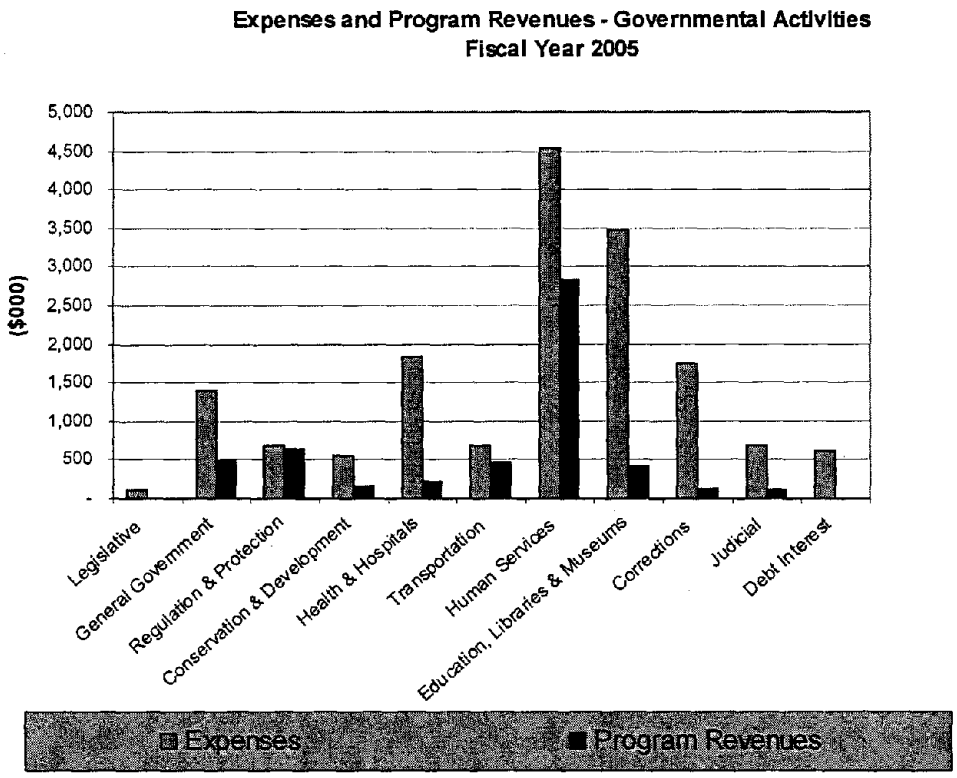
Special Items are significant transactions or other activity within management's control that are either unusual in nature or infrequent in occurrence. Extraordinary items are activities that are both unusual in nature and infrequent in occurrence.

GOVERNMENTAL ACTIVITIES

The following charts depict the distribution of revenues and expenses for Fiscal Year 2005.







Within governmental activities, Fiscal Year 2005 program expenses were $10.9 billion higher than program revenues. However, this excess of expenses over related program revenue was offset by general revenue in the amount of $10.8 billion, resulting in a decrease in net assets of $0.1 billion for the year. If a transfer of a capital asset to a component unit of $0.2 billion had not occurred, the deterioration in net assets for the year would have been nearly zero. Just prior to the start of fiscal year 2005, budget projections indicated that budgeted revenues would exceed the budgeted level of expenditures for the fiscal year (on a modified cash basis of accounting) producing an $83.6 million operating surplus in the General Fund. Revenues continued to grow throughout Fiscal Year 2005 as the economy strengthened. In the last quarter of the Fiscal Year the General Fund surplus estimates exceeded $600 million. Public Act 05-251 passed by the legislature and signed by the Governor appropriated $625.4 million of the projected surplus for various program expenditures. Authority was granted for these additional appropriations to carry forward to Fiscal Year 2006 and in some cases to Fiscal Year 2007 for expenditure. The Constitutional spending cap was exceeded by $370.8 million.

Business-type activities results of operations improved for fiscal year 2005 by $0.1 billion. Expenses of the Higher Education institutions, which include the University of Connecticut, the State University System and Connecticut Community Colleges, accounted for 60.6 percent of business-type expenses and 36.8 percent of program revenues. Program revenues exceeded expenses in the Connecticut Lottery Corporation by $0.2 billion.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The state completed Fiscal Year 2005 with a balance of $2.4 billion in its governmental funds. The unreserved balances totaling a deficit of $313 million is net of a $1.1 billion short fall in the general fund unreserved balance. Governmental fund expenditures exceeded fund revenues by $0.3 billion before other financing activities and special items totaling $0.7 billion. As a result fund balance for all governmental funds increased by $0.4 billion in fiscal year 2005.

General Fund

The General Fund is the chief operating fund of the state. At the end of Fiscal Year 2005, the General Fund had a fund balance of $0.3 billion of which a negative $1.1 billion was unreserved. The excess of general fund revenues over expenditures totaling $0.9 billion combined with net other financing uses totaling $0.5 billion resulted in an increase in fund balance of $0.5 billion for the fiscal year. Certain receipts recognized in 2004 were reserved to support spending in Fiscal Year 2005. On the modified cash basis of accounting, $150.3 million in Fiscal Year 2004 receipts were reserved from fund balance to support Fiscal Year 2005 General Fund operations.

Transportation Fund

The Transportation Fund ended Fiscal Year 2005 with a fund balance of $0.2 billion of which $0.1 billion was unreserved. Fund balance was increased by $11.0 million through Fiscal Year 2005 operations.

Other Funds

The other funds category includes the state's special revenue, capital projects and permanent funds. These funds had a balance of $1.2 billion on June 30, 2005 of which $0.7 billion was unreserved.

In Fiscal Year 2005, expenditures exceeded revenues by $1.3 billion in the other funds category. Bonds issued in the amount of $1.3 billion provided an offset to this deficit. The state has a long history of utilizing bond proceeds to offset operating deficits within these funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets.

The State of Connecticut's investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounts to $12.4 billion (net of accumulated depreciation). In fiscal year 2005, total of capital assets for governmental activities declined as a result of the transfer of state facilities to a component unit while capital assets for business-type activities increased 8.0%. Depreciation charges for the fiscal year totaled $0.4 billion.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Land	$ 845.8	$ 935.0	$ 52.8	$ 51.9	$ 898.6	$ 986.9
Buildings	1,046.0	1,036.3	2,105.1	1,916.1	3,151.1	2,952.4
Improvements Other than Buildings	197.2	133.9	262.2	245.5	459.4	379.4
Equipment	391.3	445.8	362.4	350.0	753.7	795.8
Infrastructure	6,731.4	6,731.4	-	-	6,731.4	6,731.4
Construction in Progress	115.7	336.5	301.8	293.4	417.5	629.9
Total	$ 9,327.4	$ 9,618.9	$ 3,084.3	$ 2,856.9	$ 12,411.7	$ 12,475.8

Additional information on the State of Connecticut's capital assets can be found in Note 10 of this report.

Long-term Debt.

The state, pursuant to various public and special acts, has authorized a variety of types of debt which fall into the following categories: direct general obligation debt, which is payable from the state's general fund; special tax obligation debt, which is payable from the debt service fund and revenue debt, which is payable from specified revenues of enterprise funds.

State of Connecticut's Outstanding Debt
General Obligation and Revenue Bonds (in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	$ 9,905.2	$ 9,606.6	$ -	$ -	$ 9,905.2	$ 9,606.6
Transportation Related Bonds	3,113.9	3,153.9	-	-	3,113.9	3,153.9
Revenue Bonds	-	-	1,619.7	1,713.8	1,619.7	1,713.8
Total	$ 13,019.1	$ 12,760.5	$ 1,619.7	$ 1,713.8	$ 14,638.8	$ 14,474.3

In Fiscal Year 2005 the state increased outstanding bonds by $0.2 billion. For the year, outstanding debt in governmental activities increased by 2.0 percent and while business-type activities decreased by 5.5 percent. The state's General Obligation bonds are rated Aa3, AA and AA by Moodys, Standard and Poors and Fitch respectively. Special Tax Obligation bonds are rated A1, AA-, AA- by Moodys, Standard and Poors and Fitch respectively.

Section 3-21 of the Connecticut General Statutes provides that the total amount of bonds, notes or other evidences of indebtedness payable from general fund tax receipts authorized by the General Assembly but have not been issued and the total amount of such indebtedness which has been issued and remains outstanding shall not exceed 1.6 times the total estimated general fund tax receipts of the state for the current fiscal year. In computing the indebtedness at any time, revenue anticipation notes, refunded indebtedness, bond anticipation notes, tax increment financing, budget deficit bonding, revenue bonding, balances in debt retirement funds and other

indebtedness pursuant to certain provisions of the General Statutes shall be excluded from the calculation.

CONTACTING THE STATE'S OFFICES OF FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have any questions about this report, please contact the State Comptroller's Office at 1-860-702-3350.

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Basic Financial Statements

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Statement of Net Assets

June 30, 2005
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 1,523,584	$ 506,805	$ 2,030,389	$ 143,501
Deposits with U.S. Treasury	-	572,789	572,789	-
Investments	137,830	157,133	294,963	289,641
Receivables, (Net of Allowances)	1,938,981	620,751	2,559,732	62,706
Due from Component Units	2,619	-	2,619	-
Due from Primary Government	-	-	-	13,196
Inventories	49,993	8,549	58,542	-
Restricted Assets	-	13,204	13,204	752,292
Internal Balances	(170,383)	170,383	-	-
Other Current Assets	16,974	10,820	27,794	6,477
Total Current Assets	3,499,598	2,060,434	5,560,032	1,267,813
Noncurrent Assets:				
Cash and Cash Equivalents	-	97,722	97,722	-
Due From Component Units	15,939	-	15,939	-
Investments	-	301,483	301,483	62,530
Loans, (Net of Allowances)	188,898	539,519	728,417	120,696
Restricted Assets	676,993	503,196	1,180,189	3,638,926
Capital Assets, (Net of Accumulated Depreciation)	9,327,401	3,084,266	12,411,667	432,231
Other Noncurrent Assets	51,946	200,732	252,678	33,676
Total Noncurrent Assets	10,261,177	4,726,918	14,988,095	4,288,059
Total Assets	13,760,775	6,787,352	20,548,127	5,555,872
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	587,348	218,392	805,740	51,534
Due to Component Units	13,196	-	13,196	-
Due to Primary Government	-	-	-	2,619
Due to Other Governments	75,887	-	75,887	-
Current Portion of Long-Term Obligations	1,201,851	197,556	1,399,407	143,464
Amount Held for Institutions	-	-	-	183,287
Deferred Revenue	13,943	149,668	163,611	-
Medicaid Liability	562,309	-	562,309	-
Liability for Escheated Property	88,401	-	88,401	-
Other Current Liabilities	217,021	164,596	381,617	37,392
Total Current Liabilities	2,759,956	730,212	3,490,168	418,296
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	16,689,045	2,060,021	18,749,066	3,495,160
Total Noncurrent Liabilities	16,689,045	2,060,021	18,749,066	3,495,160
Total Liabilities	19,449,001	2,790,233	22,239,234	3,913,456
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,992,681	2,321,038	5,313,719	280,083
Restricted For:				
Statutory Budget Reserve	302,155	-	302,155	-
Transportation	123,052	-	123,052	-
Debt Service	647,226	66,466	713,692	-
Capital Projects	166,859	86,495	253,354	-
Unemployment Compensation	-	718,215	718,215	-
Clean Water Projects	-	478,813	478,813	-
Bond Indenture Requirements	-	-	-	712,563
Permanent Investments or Endowments:				
Expendable	3,696	-	3,696	93,114
Nonexpendable	91,679	13,169	104,848	206,669
Other Purposes	293,763	194,651	488,414	89,631
Unrestricted (Deficit)	(10,309,337)	118,272	(10,191,065)	260,356
Total Net Assets (Deficit)	$ (5,688,226)	$ 3,997,119	$ (1,691,107)	$ 1,642,416

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

Statement of Activities

For The Fiscal Year Ended June 30, 2005
(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	$ 100,202	$ 2,435	$ -	$ -
General Government	1,399,545	440,495	43,594	-
Regulation and Protection	687,593	508,381	135,632	-
Conservation and Development	562,489	91,924	73,074	-
Health and Hospitals	1,833,585	59,047	152,336	-
Transportation	684,893	55,195	-	402,052
Human Services	4,536,480	66,132	2,765,351	-
Education, Libraries, and Museums	3,467,739	19,512	395,105	-
Corrections	1,744,480	20,259	117,935	-
Judicial	675,632	102,989	6,500	-
Interest and Fiscal Charges	613,465	-	-	-
Total Governmental Activities	16,306,103	1,366,369	3,689,527	402,052
Business-Type Activities:				
University of Connecticut & Health Center	1,375,385	723,965	168,935	9,664
State Universities	500,036	337,396	36,885	-
Bradley International Airport	61,559	56,294	-	668
Connecticut Lottery Corporation	691,163	933,098	-	-
Employment Security	580,439	640,874	-	-
Clean Water	27,740	14,028	15,148	-
Other	396,190	220,499	41,509	-
Total Business-Type Activities	3,632,512	2,926,154	262,477	10,332
Total Primary Government	$ 19,938,615	$ 4,292,523	$ 3,952,004	$ 412,384
Component Units				
Connecticut Housing Finance Authority (12-31-04)	$ 177,433	$ 162,794	$ -	$ -
Connecticut Health and Educational Facilities Authority	5,503	4,287	-	-
Other	251,088	311,561	3,518	165,412
Total Component Units	$ 434,024	$ 478,642	$ 3,518	$ 165,412

General Revenues:
- Taxes:
  - Personal Income
  - Corporate Income
  - Sales and Use
  - Other
- Restricted for Transportation Purposes:
  - Motor Fuel
  - Other
- Casino Gaming Payments
- Tobacco Settlement
- Unrestricted Investment Earnings

Contributions to Endowments

Special Items:
- Statutory Payment from Component Units
- Statutory Payment to State
- Transfer of State Facilities
- Other

Extraordinary Item-Refunds of Overpayments

Transfers-Internal Activities

Total General Revenues, Contributions, Special Items, Extraordinary Item, and Transfers

Change in Net Assets

Net Assets (Deficit)- Beginning (as restated)

Net Assets (Deficit)- Ending

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (97,767)	$ -	$ (97,767)	$ -
(915,456)	-	(915,456)	-
(43,580)	-	(43,580)	-
(397,491)	-	(397,491)	-
(1,622,202)	-	(1,622,202)	-
(227,646)	-	(227,646)	-
(1,704,997)	-	(1,704,997)	-
(3,053,122)	-	(3,053,122)	-
(1,606,286)	-	(1,606,286)	-
(566,143)	-	(566,143)	-
(613,465)	-	(613,465)	-
(10,848,155)	-	(10,848,155)	-
-	(472,821)	(472,821)	-
-	(125,755)	(125,755)	-
-	(4,597)	(4,597)	-
-	241,935	241,935	-
-	60,435	60,435	-
-	1,436	1,436	-
-	(134,182)	(134,182)	-
-	(433,549)	(433,549)	-
(10,848,155)	(433,549)	(11,281,704)	-
-	-	-	(14,639)
-	-	-	(1,216)
-	-	-	229,403
-	-	-	213,548
4,981,767	-	4,981,767	-
538,804	-	538,804	-
3,272,751	-	3,272,751	-
1,487,321	-	1,487,321	-
482,476	-	482,476	-
69,720		69,720	-
417,838	-	417,838	-
118,321	-	118,321	-
69,334	95,077	164,411	47,243
-	-	-	55,653
15,000	-	15,000	-
-	-	-	(15,000)
(165,412)	-	(165,412)	-
-	-	-	22,374
-	(12,395)	(12,395)	-
(687,733)	493,733	(194,000)	-
10,600,187	576,415	11,176,602	110,270
(247,968)	142,866	(105,102)	323,818
(5,440,258)	3,854,253	(1,586,005)	1,318,598
$ (5,688,226)	$ 3,997,119	$ (1,691,107)	$ 1,642,416

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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, 2005
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	$ 419,842	$ -	$ 133,675	$ 950,555	$ 1,504,072
Investments	-	-	-	137,830	137,830
Securities Lending Collateral	-	-	-	16,046	16,046
Receivables:					
Taxes, Net of Allowances	892,980	-	44,614	-	937,594
Accounts, Net of Allowances	188,687	-	9,071	43,394	241,152
Loans, Net of Allowances	-	-	-	188,898	188,898
From Other Governments	499,499	-	-	215,100	714,599
Interest	-	5,541	388	-	5,929
Other	-	-	-	22	22
Due from Other Funds	19,773	562	6,798	84,811	111,944
Advances to Other Funds	4,700	-	-	-	4,700
Due from Component Units	18,558	-	-	-	18,558
Inventories	34,024	-	12,210	-	46,234
Restricted Assets	-	676,993	-	-	676,993
Total Assets	$ 2,078,063	$ 683,096	$ 206,756	$ 1,636,656	$ 4,604,571
Liabilities and Fund Balances					
Liabilities					
Accounts Payable and Accrued Liabilities	$ 269,124	$ -	$ 22,833	$ 184,470	$ 476,427
Due to Other Funds	89,723	5,541	1,114	126,785	223,163
Due to Component Units	-	-	-	13,196	13,196
Due to Other Governments	73,292	-	-	2,595	75,887
Deferred Revenue	505,167	-	5,789	98,769	609,725
Medicaid Liability	562,309	-	-	-	562,309
Liability For Escheated Property	88,401	-	-	-	88,401
Securities Lending Obligation	-	-	-	16,046	16,046
Other Liabilities	176,786	-	-	662	177,448
Total Liabilities	1,764,802	5,541	29,736	442,523	2,242,602
Fund Balances					
Reserved For:					
Petty Cash	1,019	-	-	-	1,019
Inventories	34,024	-	12,210	-	46,234
Loans	23,258	-	-	188,898	212,156
Continuing Appropriations	694,422	-	37,418	6,189	738,029
Debt Service	-	677,555	-	-	677,555
Restricted Purposes	-	-	-	324,830	324,830
Surplus Transfer to FY 06	15,900	-	-	-	15,900
Surplus Transfer to/Assets of Budget Reserve Fund	659,155	-	-	-	659,155
Unreserved Reported In:					
General Fund	(1,114,517)	-	-	-	(1,114,517)
Transportation Fund	-	-	127,392	-	127,392
Special Revenue Funds	-	-	-	536,866	536,866
Capital Project Funds	-	-	-	137,350	137,350
Total Fund Balances	313,261	677,555	177,020	1,194,133	2,361,969
Total Liabilities and Fund Balances	$ 2,078,063	$ 683,096	$ 206,756	$ 1,636,656	$ 4,604,571

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, 2005
(Expressed in Thousands)

Total Fund Balance - Governmental Funds		$ 2,361,969
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	2,792,674	
Equipment	1,159,060	
Infrastructure	11,290,149	
Other Capital Assets	1,038,194	
Accumulated Depreciation	(6,991,739)	9,288,338
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.		50,373
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.		600,076
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.		(13,045)
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	(3,636,304)	
Worker's Compensation	(293,835)	
Capital Leases	(76,955)	
Compensated Absences	(408,830)	
Claims and Judgments	(6,609)	(4,422,533)
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	(209,560)	
Bonds Payable	(13,019,117)	
Unamortized Premiums	(502,703)	
Less: Deferred Loss on Refundings	273,634	
Accrued Interest Payable	(95,658)	(13,553,404)
Net Assets of Governmental Activities		$ (5,688,226)

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, 2005
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Revenues					
Taxes	$ 10,238,333	$ -	$ 556,394	$ 27,922	$ 10,822,649
Assessments	-	-	-	17,968	17,968
Licenses, Permits and Fees	142,694	-	323,570	58,607	524,871
Tobacco Settlement	-	-	-	118,321	118,321
Intergovernmental	2,533,578	-	-	1,406,666	3,940,244
Charges for Services	38,836	-	57,687	12,026	108,549
Fines, Forfeits and Rents	159,456	-	27,308	2,741	189,505
Casino Gaming Payments	417,838	-	-	-	417,838
Investment Earnings	15,199	29,932	6,428	17,783	69,342
Miscellaneous	143,491	-	4,856	365,312	513,659
Total Revenues	13,689,425	29,932	976,243	2,027,346	16,722,946
Expenditures					
Current:					
Legislative	83,429	-	-	2,475	85,904
General Government	821,568	-	1,044	336,359	1,158,971
Regulation and Protection	291,520	-	73,139	236,295	600,954
Conservation and Development	118,183	-	-	286,291	404,474
Health and Hospitals	1,582,554	-	-	189,724	1,772,278
Transportation	1,615	-	467,055	99,602	568,272
Human Services	4,111,758	-	-	339,439	4,451,197
Education, Libraries, and Museums	2,301,878	-	-	1,019,413	3,321,291
Corrections	1,579,952	-	-	40,471	1,620,423
Judicial	597,731	-	-	29,182	626,913
Capital Projects	-	-	-	704,647	704,647
Debt Service:					
Principal Retirement	808,318	239,535	3,455	-	1,051,308
Interest and Fiscal Charges	445,264	147,832	1,937	50,880	645,913
Total Expenditures	12,743,770	387,367	546,630	3,334,778	17,012,545
Excess (Deficiency) of Revenues Over Expenditures	945,655	(357,435)	429,613	(1,307,432)	(289,599)
Other Financing Sources (Uses)					
Bonds Issued	-	-	-	1,278,110	1,278,110
Premiums on Bonds Issued	-	41,426	-	51,589	93,015
Transfers In	394,691	422,000	28,007	188,322	1,033,020
Transfers Out	(886,668)	(26,749)	(446,181)	(363,711)	(1,723,309)
Refunding Bonds Issued	-	447,013	-	-	447,013
Payment to Refunded Bond Escrow Agent	-	(484,379)	-	-	(484,379)
Capital Lease Obligations	27,627	-	-	-	27,627
Total Other Financing Sources (Uses)	(464,350)	399,311	(418,174)	1,154,310	671,097
Special Item:					
Statutory Payment from Component Units	15,000	-	-	-	15,000
Net Change in Fund Balances	496,305	41,876	11,439	(153,122)	396,498
Fund Balances - Beginning	(179,590)	635,679	166,438	1,347,255	1,969,782
Changes in Reserves for Inventories	(3,454)	-	(857)	-	(4,311)
Fund Balances - Ending	$ 313,261	$ 677,555	$ 177,020	$ 1,194,133	$ 2,361,969

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, 2005

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 396,498
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	(1,278,110)	
Refunding Bonds Issued	(447,013)	
Premium on Bonds Issued	(93,015)	(1,818,138)
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	1,051,308	
Payments to Refunded Bond Escrow Agent ($710 reported in debt service)	485,089	
Capital Lease Payments	4,432	1,540,829
Some capital assets acquired this year were financed with capital leases. The amount financed by leases is reported in the governmental funds as a source of financing, but lease obligations are reported as long-term liabilities on the Statement of Net Assets.		(27,627)
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	704,647	
Depreciation Expense	(236,888)	
Transfer and Retirements	(754,351)	(286,592)
Inventories are reported as expenditures in the governmental funds when purchased. However, in the Statement of Activities the cost of these assets is recognized when those assets are consumed. This is the amount by which consumption exceeded purchases of inventories.		(4,311)
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	(11,881)	
Decrease in Interest Accreted on Capital Appreciation Debt	27,792	
Amortization of Bond Premium	38,179	
Amortization of Loss on Debt Refundings	(28,192)	
Increase in Compensated Absences Liability	(43,268)	
Increase in Workers Compensation Liability	(17,154)	
Decrease in Claims and Judgments Liability	6,574	
Increase in Net Pension Obligation	(195,950)	(223,900)
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.		173,334
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.		(3,912)
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	9,791	
Amortization of Debt Issue Costs	(3,940)	5,851
Change in Net Assets of Governmental Activities		$ (247,968)

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, 2005
(Expressed in Thousands)

	General Fund			
	Budget			Variance with Final Budget positive
Revenues	Original	Final	Actual	(negative)
Budgeted:				
Taxes, Net of Refunds	$ 9,441,100	$ 10,175,200	$ 10,290,351	$ 115,151
Operating Transfers In	396,100	386,900	386,894	(6)
Casino Gaming Payments	430,000	417,800	417,838	38
Licenses, Permits, and Fees	138,100	143,300	143,246	(54)
Other	300,800	351,100	361,081	9,981
Federal Grants	2,469,600	2,497,300	2,512,022	14,722
Transfer to the Resources of the General Fund	69,500	29,500	28,300	(1,200)
Refunds of Payments	(500)	(400)	(374)	26
Operating Transfers Out	(85,000)	(85,000)	(85,000)	-
Transfer out- Transportation Strategy Board	-	-	-	-
Total Revenues	13,159,700	13,915,700	14,054,358	138,658
Expenditures				
Budgeted:				
Legislative	69,820	69,820	63,220	6,600
General Government	458,390	495,886	408,818	87,068
Regulation and Protection	215,082	225,188	212,073	13,115
Conservation and Development	96,093	105,968	93,462	12,506
Health and Hospitals	1,272,186	1,303,673	1,282,771	20,902
Transportation	1,681	22,281	1,203	21,078
Human Services	3,986,701	4,063,011	3,908,030	154,981
Education, Libraries, and Museums	2,936,184	3,130,985	2,922,545	208,440
Corrections	1,205,045	1,268,907	1,239,562	29,345
Judicial	401,505	412,836	405,818	7,018
Non Functional	2,906,381	3,112,154	2,793,713	318,441
Total Expenditures	13,549,068	14,210,709	13,331,215	879,494
Appropriations Lapsed	109,850	123,900	-	(123,900)
Excess (Deficiency) of Revenues Over Expenditures	(279,518)	(171,109)	723,143	894,252
Other Financing Sources (Uses)				
Prior Year Appropriations Carried Forward	212,832	212,832	212,862	30
Appropriations Continued to Fiscal Year 2005-2006	-		(694,422)	(694,422)
Transfer of 2004 Surplus	150,300	150,300	150,300	-
Miscellaneous Adjustments	-	(18,744)	(18,744)	-
Total Other Financing Sources (Uses)	363,132	344,388	(350,004)	(694,392)
Net Change in Fund Balance	$ 83,614	$ 173,279	373,139	$ 199,860
Budgetary Fund Balances (deficit) - July 1			666,313	
Changes in Reserves			29,128	
Budgetary Fund Balances - June 30			$ 1,068,580	

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

Transportation Fund

Budget Original	Budget Final	Actual	Variance with Final Budget positive (negative)
$ 545,300	$ 553,800	$ 558,188	$ 4,388
-	-	-	-
-	-	-	-
385,300	387,300	388,935	1,635
27,000	32,700	32,681	(19)
3,300	-	-	-
-	-	-	-
(2,800)	(2,800)	(2,779)	21
(8,500)	(8,500)	(8,500)	-
(5,000)	(31,000)	(28,727)	2,273
944,600	931,500	939,798	8,298
-	-	-	-
2,504	2,504	943	1,561
55,006	71,767	51,347	20,420
-	-	-	-
-	-	-	-
386,834	389,625	372,894	16,731
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
530,163	520,126	507,572	12,554
974,507	984,022	932,756	51,266
11,000	13,847	-	(13,847)
(18,907)	(38,675)	7,042	45,717
34,166	34,166	34,166	-
-	-	(37,418)	(37,418)
-	-	-	-
-	16	6	(10)
34,166	34,182	(3,246)	(37,428)
$ 15,259	$ (4,493)	3,796	$ 8,289
		163,439	
		3,250	
		$ 170,485	

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Proprietary Fund Financial Statements

Major Funds

Higher Education
Higher Education Funds are used to account for all transactions relating to public institutions of higher education and an affiliated organization. Higher Education institutions include five universities and twelve community-technical colleges.

Bradley International Airport
The airport is owned by the State of Connecticut and is operated by the Bureau of Aeronautics of the State of Connecticut, Department of Transportation. In 1982, the State issued the Airport, 1982 series, Revenue Bonds in the aggregate principal amount of $100,000,000. The bonds were refunded in 1992 with the issuance of $94,065,000 in refunding bonds. The refunding bonds are secured by and payable solely from the gross operating revenues generated by the State from the operations of the Airport and other receipts, funds or monies pledged in the Indenture.

The Connecticut Lottery Corporation
The Connecticut Lottery Corporation, a public instrumentality and political subdivision of the State of Connecticut was created on July 1, 1996 for the purpose of generating revenues for the State of Connecticut's General Fund through the operation of a lottery.

Employment Security:
to account for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Clean Water:
to account for resources used to provide loans to municipalities to finance waste water treatment projects.

Nonmajor Funds
Nonmajor proprietary funds are presented, by fund type beginning on page 112.

Statement of Net Assets
Proprietary Funds

June 30, 2005
(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	$ 278,377	$ 82,550	$ 31,614	$ 26,767
Deposits with U.S. Treasury	-	-	-	-
Investments	608	111,117	-	45,408
Receivables:				
Accounts, Net of Allowances	112,187	102,020	5,784	45,314
Loans, Net of Allowances	2,347	2,520	-	-
Interest	-	-	-	12,473
From Other Governments	-	2,411	955	-
Due from Other Funds	51,009	48,150	-	-
Inventories	7,398	-	-	-
Restricted Assets	147	-	13,018	-
Other Current Assets	5,087	1,492	593	2,332
Total Current Assets	457,160	350,260	51,964	132,294
Noncurrent Assets:				
Cash and Cash Equivalents	1,444	96,278	-	-
Investments	12,589	-	-	288,894
Loans, Net of Allowances	9,217	8,562	-	-
Restricted Assets	13,813	-	112,386	-
Capital Assets, Net of Accumulated Depreciation	1,718,669	735,425	308,536	2,242
Other Noncurrent Assets	10,231	3,095	6,488	4,837
Total Noncurrent Assets	1,765,963	843,360	427,410	295,973
Total Assets	2,223,123	1,193,620	479,374	428,267
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	116,290	34,754	9,279	16,834
Due to Other Funds	13,341	2,020	1,514	-
Current Portion of Long-Term Obligations	57,041	17,906	10,140	48,108
Deferred Revenue	32,256	112,658	1,126	588
Other Current Liabilities	54,148	18,393	2,877	70,612
Total Current Liabilities	273,076	185,731	24,936	136,142
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	331,838	391,771	226,057	288,894
Total Noncurrent Liabilities	331,838	391,771	226,057	288,894
Total Liabilities	604,914	577,502	250,993	425,036
Net Assets (Deficit)				
Invested in Capital Assets, Net of Related Debt	1,404,571	541,796	107,436	2,242
Restricted For:				
Debt Service	11,401	-	28,164	-
Unemployment Compensation	-	-	-	-
Clean Water Projects	-	-	-	-
Capital Projects	31,490	-	55,005	-
Nonexpendable Purposes	12,591	558	-	-
Other Purposes	19,897	36,315	3,488	3,231
Unrestricted	138,259	37,449	34,288	(2,242)
Total Net Assets	$ 1,618,209	$ 616,118	$ 228,381	$ 3,231

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
$ -	$ 4,360	$ 83,137	$ 506,805	$ 19,512
572,789	-	-	572,789	-
-	-	-	157,133	-
146,501	-	31,967	443,773	7,248
-	141,501	2,729	149,097	-
-	6,806	334	19,613	-
4,481	421	-	8,268	-
874	-	93,655	193,688	7,031
-	-	1,151	8,549	3,759
-	39	-	13,204	-
-	-	1,316	10,820	928
724,645	153,127	214,289	2,083,739	38,478
-	-	-	97,722	-
-	-	#REF!	#REF!	-
-	474,513	47,227	539,519	-
-	295,788	81,209	503,196	-
-	-	319,394	3,084,266	39,063
-	157,151	18,930	200,732	1,573
-	927,452	#REF!	#REF!	40,636
724,645	1,080,579	#REF!	#REF!	79,114
-	5,854	35,381	218,392	9,950
6,430	-	-	23,305	39,071
-	34,386	29,975	197,556	274
-	-	3,040	149,668	4,294
-	2,127	16,439	164,596	23,525
6,430	42,367	84,835	753,517	77,114
-	507,169	314,292	2,060,021	15,045
-	507,169	314,292	2,060,021	15,045
6,430	549,536	399,127	2,813,538	92,159
-	-	264,993	2,321,038	39,063
-	-	26,901	66,466	-
718,215	-	-	718,215	-
-	478,813	-	478,813	-
-	-	-	86,495	-
-	-	20	13,169	-
-	-	131,720	194,651	-
-	52,230	(141,712)	118,272	(52,108)
$ 718,215	$ 531,043	$ 281,922	$ 3,997,119	$ (13,045)

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

For The Fiscal Year Ended June 30, 2005
(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	$ 640,402	$ 174,696	$ 41,618	$ 932,934
Assessments	-	-	-	-
Intergovernmental	173,807	34,730	-	-
Private Gifts and Grants	30,494	2,155	-	-
Interest on Loans	-	-	-	-
Other	48,197	83,195	-	158
Total Operating Revenues	892,900	294,776	41,618	933,092
Operating Expenses				
Cost of Sales and Services	110,212	-	-	648,318
Salaries, Wages and Administrative	885,096	310,270	32,649	12,915
Unemployment Compensation	-	-	-	-
Claims Paid	-	-	-	-
Depreciation and Amortization	105,058	34,528	17,553	597
Other	256,662	155,238	-	3,432
Total Operating Expenses	1,357,028	500,036	50,202	665,262
Operating Income (Loss)	(464,128)	(205,260)	(8,584)	267,830
Nonoperating Revenue (Expenses)				
Interest and Investment Income	6,912	6,057	4,324	26,608
Interest and Fiscal Charges	(11,158)	-	(11,357)	(25,901)
Other	(7,199)	79,505	14,676	6
Total Nonoperating Revenues (Expenses)	(11,445)	85,562	7,643	713
Income (Loss) Before Capital Contributions, Grants, Special Item, Extraordinary Item and Transfers	(475,573)	(119,698)	(941)	268,543
Capital Contributions	9,664	-	668	-
Federal Grants	-	-	-	-
Extraordinary Item-Refunds of Overpayments	-	-	-	-
Transfers In	497,443	225,195	8,877	-
Transfers Out	-	-	-	(268,515)
Change in Net Assets	31,534	105,497	8,604	28
Total Net Assets - Beginning (as restated)	1,586,675	510,621	219,777	3,203
Total Net Assets - Ending	$ 1,618,209	$ 616,118	$ 228,381	$ 3,231

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
$ -	$ -	$ 112,084	$ 1,901,734	$ 78,186
629,186	-	93,570	722,756	-
11,688	-	37,982	258,207	-
-	-	1,045	33,694	-
-	12,243	1,423	13,666	-
-	-	13,422	144,972	927
640,874	12,243	259,526	3,075,029	79,113
-	-	8,064	766,594	28,293
-	755	308,704	1,550,389	35,212
580,439	-	-	580,439	-
-	-	34,713	34,713	-
-	-	14,878	172,614	19,523
-	-	12,101	427,433	-
580,439	755	378,460	3,532,182	83,028
60,435	11,488	(118,934)	(457,153)	(3,915)
26,511	18,263	6,402	95,077	86
-	(26,985)	(15,519)	(90,920)	(83)
-	1,785	(2,211)	86,562	-
26,511	(6,937)	(11,328)	90,719	3
86,946	4,551	(130,262)	(366,434)	(3,912)
-	-	-	10,332	-
-	15,148	2,482	17,630	-
-	-	(12,395)	(12,395)	-
-	5,715	233,595	970,825	-
(4,633)	(325)	(203,619)	(477,092)	-
82,313	25,089	(110,199)	142,866	(3,912)
635,902	505,954	392,121	3,854,253	(9,133)
$ 718,215	$ 531,043	$ 281,922	$ 3,997,119	$ (13,045)

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2005
(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	$ 627,849	$ 262,436	$ 40,819	$ 932,820
Payments to Suppliers	(354,348)	(8,622)	(18,852)	(20,177)
Payments to Employees	(808,450)	(305,191)	(12,386)	(11,190)
Other Receipts (Payments)	253,512	(111,875)	-	(630,086)
Net Cash Provided by (Used in) Operating Activities	(281,437)	(163,252)	9,581	271,367
Cash Flows from Noncapital Financing Activities				
Proceeds from Sale of Bonds	-	-	-	-
Retirement of Bonds and Annuities Payable	-	-	-	(50,544)
Interest on Bonds and Annuities Payable	-	-	-	(27,691)
Transfers In	334,494	196,521	8,877	-
Transfers Out	-	-	-	(268,515)
Other Receipts (Payments)	23,602	37,447	-	-
Net Cash Flows from Noncapital Financing Activities	358,096	233,968	8,877	(346,750)
Cash Flows from Capital and Related Financing Activities				
Additions to Property, Plant and Equipment	(199,557)	(132,303)	(13,958)	(357)
Proceeds from Capital Debt	117,647	175,973	-	-
Principal Paid on Capital Debt	(57,966)	(63,673)	(8,780)	-
Interest Paid on Capital Debt	(43,632)	-	(12,267)	-
Transfer In	101,603	-	-	-
Federal Grant	-	-	-	-
Capital Contributions	-	16,764	875	-
Other Receipts (Payments)	18,948	1,000	(23,620)	-
Net Cash Flows from Capital and Related Financing Activities	(62,957)	(2,239)	(57,750)	(357)
Cash Flows from Investing Activities				
Proceeds from Sales and Maturities of Investments	-	(19)	1,085	50,308
Purchase of Investment Securities	(594)	(65,113)	-	-
Interest on Investments	6,065	5,609	4,130	28,397
(Increase) Decrease in Restricted Assets	-	-	-	-
Other Receipts (Payments)	-	-	-	-
Net Cash Flows from Investing Activities	5,471	(59,523)	5,215	78,705
Net Increase (Decrease) in Cash and Cash Equivalents	19,173	8,954	(34,077)	2,965
Cash and Cash Equivalents -Beginning of Year	274,462	169,874	143,246	23,802
Cash and Cash Equivalents -End of Year	$ 293,635	$ 178,828	$ 109,169	$ 26,767
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities				
Operating Income (Loss)	$ (464,128)	$ (205,259)	$ (8,584)	$ 267,830
Adjustments not Affecting Cash:				
Depreciation and Amortization	105,057	34,528	17,553	597
Other	73,234	721	-	42
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables, Net	(14,070)	(6,380)	(799)	(35,554)
(Increase) Decrease in Due from Other Funds	(1,017)	-	-	-
(Increase) Decrease in Inventories and Other Assets	(2,789)	348	-	(354)
Increase (Decrease) in Accounts Payables & Accrued Liabilities	19,625	12,407	1,411	38,806
Increase (Decrease) in Due to Other Funds	2,651	383	-	-
Total Adjustments	182,691	42,007	18,165	3,537
Net Cash Provided by (Used In) Operating Activities	$ (281,437)	$ (163,252)	$ 9,581	$ 271,367
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets				
Cash and Cash Equivalents - Current	$ 278,378	$ 82,550	$ 31,614	
Cash and Cash Equivalents - Noncurrent	1,444	96,278	-	
Cash and Cash Equivalents - Restricted	13,813	-	77,555	
	$ 293,635	$ 178,828	$ 109,169	

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
$ 652,410	$ 51,436	$ 208,983	$ 2,776,753	$ 72,290
-	-	(63,403)	(465,402)	(28,826)
-	(659)	(241,409)	(1,379,285)	(34,497)
(674,288)	(39,782)	18,933	(1,183,586)	-
(21,878)	10,995	(76,896)	(251,520)	8,967
-	-	205,345	205,345	-
-	(38,207)	(68,373)	(157,124)	-
-	(23,743)	(23,063)	(74,497)	-
-	5,389	187,815	733,096	-
(4,633)	-	(202,933)	(476,081)	-
-	(462)	(10,238)	50,349	-
(4,633)	(57,023)	88,553	281,088	-
-	-	(5,977)	(352,152)	(8,284)
-	-	-	293,620	-
-	-	-	(130,419)	-
-	-	(3,507)	(59,406)	-
-	-	40,563	142,166	-
-	15,137	1,694	16,831	-
-	-	-	17,639	-
-	-	(8,070)	(11,742)	-
-	15,137	24,703	(83,463)	(8,284)
-	-	-	51,374	-
-	-	(28,364)	(94,071)	-
26,511	18,648	4,855	94,215	83
-	-	(3,308)	(3,308)	-
-	13,637	(174)	13,463	-
26,511	32,285	(26,991)	61,673	83
-	1,394	9,369	7,778	766
-	2,966	73,768	688,118	18,746
$ -	$ 4,360	$ 83,137	$ 695,896	$ 19,512
$ 60,435	$ 11,488	$ (118,934)	$ (457,152)	$ (3,915)
-	-	14,878	172,613	19,523
-	-	(22)	73,975	-
10,936	(493)	(11)	(46,371)	7,425
600	-	-	(417)	(7,181)
(95,592)	-	22,813	(75,574)	757
-	-	4,380	76,629	(5,556)
1,743	-	-	4,777	(2,086)
(82,313)	(493)	42,038	205,632	12,882
$ (21,878)	$ 10,995	$ (76,896)	$ (251,520)	$ 8,967

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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, 2005

(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	$ 13,668	$ -	$ -	$ 178,146	$ 191,814
Receivables:					
Accounts, Net of Allowances	14,827	-	-	2,659	17,486
From Other Governments	1,082	-	-	-	1,082
From Other Funds	1,715	-	-	5,104	6,819
Interest	1,030	826	-	215	2,071
Investments	21,206,864	722,898	-	-	21,929,762
Inventories	-	-	-	915	915
Securities Lending Collateral	2,547,012	-	-	-	2,547,012
Other Assets	5,460	9	43,684	555,263	604,416
Total Assets	23,791,658	723,733	43,684	$ 742,302	25,301,377
Liabilities					
Accounts Payable and Accrued Liabilities	-	1,744	-	$ 331	2,075
Securities Lending Obligation	2,547,012	-	-	-	2,547,012
Due to Other Funds	33,943	-	-	-	33,943
Other Liabilities	-	19	-	2,883	2,902
Funds Held for Others	-	-	-	739,088	739,088
Total Liabilities	2,580,955	1,763	-	$ 742,302	3,325,020
Net Assets					
Held in Trust For:					
Employees' Pension Benefits (Note 13)	21,172,669	-	-		21,172,669
Other Employee Benefits	38,034	-	-		38,034
Individuals, Organizations, and Other Governments	-	721,970	43,684		765,654
Total Net Assets	$ 21,210,703	$ 721,970	$ 43,684		$ 21,976,357

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, 2005
(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	$ 337,297	$ -	$ -	$ 337,297
State	729,206	-	-	729,206
Municipalities	25,365	-	-	25,365
Total Contributions	1,091,868	-	-	1,091,868
Investment Income	2,161,165	25,888	-	2,187,053
Less: Investment Expense	(114,427)	(290)	-	(114,717)
Net Investment Income	2,046,738	25,598	-	2,072,336
Escheat Securities Received	-	-	31,057	31,057
Transfers In	2,556	-	-	2,556
Other	175	-	69	244
Total Additions	3,141,337	25,598	31,126	3,198,061
Deductions				
Administrative Expense	2,068	-	-	2,068
Benefit Payments and Refunds	2,007,280	-	-	2,007,280
Escheat Securities Returned or Sold	-	-	91,714	91,714
Pool's Share Transactions	-	69,533	-	69,533
Distributions to Pool Participants	-	25,598	-	25,598
Other	4,725	-	-	4,725
Total Deductions	2,014,073	95,131	91,714	2,200,918
Change in Net Assets Held In Trust For:				
Pension and Other Employee Benefits	1,127,264	-	-	1,127,264
Individuals, Organizations, and Other Governments	-	(69,533)	(60,588)	(130,121)
Net Assets - Beginning	20,083,439	791,503	104,272	20,979,214
Net Assets - Ending	$ 21,210,703	$ 721,970	$ 43,684	$ 21,976,357

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

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Component Unit Financial Statements

Major Component Units

Connecticut Housing Finance Authority:
the Connecticut Housing Finance Authority is a public instrumentality and political subdivision of the State created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development and construction of housing for low and moderate income families throughout the State.

Connecticut Resources Recovery Authority:
the Connecticut Resources Recovery Authority is a public instrumentality and political subdivision of the State. The Authority is responsible for implementing the State's solid waste management plan, which includes design, construction and operation of resources recovery facilities and the marketing of recovered products.

Nonmajor
The nonmajor component units are presented beginning on page 130.

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Statement of Net Assets
Component Units

June 30, 2005

(Expressed in Thousands)

Assets	Connecticut Housing Finance Authority (12-31-04)	Connecticut Health and Educational Facilities Authority	Other Component Units	Total
Current Assets:				
Cash and Cash Equivalents	$ -	$ 21,135	$ 122,366	$ 143,501
Investments	-	103	289,538	289,641
Receivables:				
Accounts, Net of Allowances	-	337	31,575	31,912
Loans, Net of Allowances	-	-	29,602	29,602
Other	-	-	1,192	1,192
Due from Primary Government	-	-	13,196	13,196
Restricted Assets	500,269	183,305	68,718	752,292
Other Current Assets	-	123	6,354	6,477
Total Current Assets	500,269	205,003	562,541	1,267,813
Noncurrent Assets:				
Investments	-	-	62,530	62,530
Loans, Net of Allowances	-	-	120,696	120,696
Restricted Assets	3,505,969	-	132,957	3,638,926
Capital Assets, Net of Accumulated Depreciation	3,410	198	428,623	432,231
Other Noncurrent Assets	-	2,247	31,429	33,676
Total Noncurrent Assets	3,509,379	2,445	776,235	4,288,059
Total Assets	4,009,648	207,448	1,338,776	5,555,872
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	17,074	2,387	32,073	51,534
Current Portion of Long-Term Obligations	126,941	-	16,523	143,464
Amount Held for Institutions	-	183,287	-	183,287
Due to Primary Government	-	-	2,619	2,619
Other Liabilities	27,165	-	10,227	37,392
Total Current Liabilities	171,180	185,674	61,442	418,296
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	3,122,495	2,247	370,418	3,495,160
Total Noncurrent Liabilities	3,122,495	2,247	370,418	3,495,160
Total Liabilities	3,293,675	187,921	431,860	3,913,456
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,410	198	276,475	280,083
Restricted:				
Bond Indentures	712,563	-	-	712,563
Expendable Endowments	-	-	93,114	93,114
Nonexpendable Endowments	-	-	206,669	206,669
Other Purposes	-	-	89,631	89,631
Unrestricted	-	19,329	241,027	260,356
Total Net Assets	$ 715,973	$ 19,527	$ 906,916	$ 1,642,416

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

Statement of Activities
Component Units

For The Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Connecticut Housing Finance Authority (12/31/04)	$ 177,433	$ 162,794	$ -	$ -
Connecticut Health and Educational Facilities Authority	5,503	4,287	-	-
Other Component Units	251,088	311,561	3,518	165,412
Total Component Units	$ 434,024	$ 478,642	$ 3,518	$ 165,412

General Revenues:
Investment Income (Loss)
Contributions to Endowments
Special Items:
Statutory Payment to State
Other
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 (12-31-04)	Connecticut Health & Educational Facilities Authority	Other Component Units	Totals
$ (14,639)	$ -	$ -	$ (14,639)
-	(1,216)	-	(1,216)
-	-	229,403	229,403
(14,639)	(1,216)	229,403	213,548
43,165	454	3,624	47,243
-	-	55,653	55,653
-	-	(15,000)	(15,000)
-	-	22,374	22,374
43,165	454	66,651	110,270
28,526	(762)	296,054	323,818
687,447	20,289	610,862	1,318,598
$ 715,973	$ 19,527	$ 906,916	$ 1,642,416

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Notes to the Financial Statements
June 30, 2005

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, 2004.

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, a major Enterprise fund.

Financial statements for the major component units are included in the accompanying financial statements after the fund

financial statements. Audited financial statements issued separately by each component unit can be obtained from their respective administrative offices.

Blended Component Units
Connecticut Lottery Corporation
The Connecticut Lottery Corporation is a legally separate organization for which the State appoints a voting majority of the Corporation's governing board and which provides a significant amount of revenues to the State. The corporation is reported as part of the primary government's business-type activities in the government-wide financial statements and as a major Enterprise fund in the fund financial statements.

c. Government-wide and Fund Financial Statements
Government-wide Financial Statements
The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between the governmental and business-type activities of the primary government by using separate columns and rows. Governmental activities are generally financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds issued to buy, construct, or improve those assets.

2. Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

3. Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are not allocated to the various functions or segments. Program revenues include a) fees, fines, and charges paid by the recipients of goods or services offered by the functions or segments and b) grants and contributions that are restricted to meeting the operational or capital needs of a particular function or segment. Revenues that are not classified as program revenues, including all taxes, are reported as general revenues.

Fund Financial Statements
The fund financial statements provide information about the State's funds, including its fiduciary funds and blended component units. Separate statements for each fund category (governmental, proprietary, and fiduciary) are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The State reports the following major governmental funds:

General Fund - This is the State's primary operating fund. It is used to account for all financial resources which are not required to be accounted in other funds and which are spent for those services normally provided by the State (e.g., health, social assistance, education, etc.).

Debt Service - This fund is used to account for the resources accumulated and payments made for principal and interest on special tax obligation bonds of the Transportation fund.

Transportation - This fund is used to account for motor vehicle taxes, receipts, and transportation related federal revenues collected for the purpose of payment of transportation related bonds and budgeted appropriations of the Department of Transportation. The Department of Transportation is responsible for all aspects of the planning, development, maintenance, and improvement of transportation in the State.

The State reports the following major enterprise funds:

University of Connecticut & 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 restricted resources first, then unrestricted resources, as they are needed.

e. Budgeting Process

By statute, the Governor must submit the State budget to the General Assembly in February of every other year. Prior to June 30, the General Assembly enacts the budget through the passage of appropriation acts for the next two fiscal years and sets forth revenue estimates for the same period for the following funds: the General Fund, the Transportation Fund, the Mashantucket Pequot Fund, the Workers' Compensation Administration Fund, the Banking Fund, the Consumer Counsel and Public Utility Control Fund, the Insurance Fund, the Criminal Injuries Fund, the Soldiers, Sailors, and Marines Fund and the Regional Market Operations Fund. Under the State Constitution, the Governor has the power to veto any part of the itemized appropriations bill and to accept the remainder of the bill. However, the General Assembly may separately reconsider and repass the disapproved items by a two-thirds majority vote of both the Senate and the House.

Budgetary control is maintained at the individual appropriation account level by agency as established in authorized appropriation bills and is reported in the Annual Report of the State Comptroller. A separate document is necessary because the level of legal control is more detailed than reflected in the CAFR. Before an agency can utilize funds appropriated for a particular purpose, such funds must be allotted for the specific purpose by the Governor and encumbered by the Comptroller upon request by the agency. Such funds can then be expended by the Treasurer only upon a warrant, draft or order of the

Comptroller drawn at the request of the responsible agency. The allotment process maintains expenditure control over special revenue, enterprise, and internal service funds that are not budgeted as part of the annual appropriation act.

The Governor has the power under Connecticut statute to modify budgetary allotment requests for the administration, operation and maintenance of a budgeted agency. However, the modification cannot exceed 3 percent of the fund or 5 percent of the appropriation amount. Modifications beyond those limits, but not in excess of 5 percent of the total funds require the approval of the Finance Advisory Committee. The Finance Advisory Committee is comprised of the Governor, the Lieutenant Governor, the Treasurer, the Comptroller, two senate members, not of the same political party, and three house members, not more than two of the same political party. Additional reductions of appropriations of more than 5 percent of the total appropriated fund can be made only with the approval of the General Assembly.

All funds, except fiduciary funds, use encumbrance accounting. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditures of the fund are recorded in order to reserve that portion of the applicable appropriation. All encumbrances lapse at year-end and, generally, all appropriations lapse at year-end except for certain continuing appropriations (continuing appropriations are defined as carry forwards of spending authority from one fiscal budget into a subsequent budget). The continuing appropriations include: appropriations continued for a one-month period after year-end which are part of a program that was not renewed the succeeding year; appropriations continued the entire succeeding year, as in the case of highway and other capital construction projects; and appropriations continued for specified amounts for certain special programs. Carry forward appropriations are reported as reservations of the fund balance in the financial statements.

The budget is prepared on a "modified cash" basis of accounting under which revenues are recognized when received, except for certain taxes which are recognized when earned. Tax revenues recognized when earned include the following: sales and use, personal income, corporation, public service corporations, petroleum companies, cigarettes, alcoholic beverages, gasoline, special motor fuel, and motor carrier road. Under the modified cash basis, expenditures are recognized when paid. A comparison of actual results of operations recorded on this basis and the adopted budget is presented in the financial statements for the General and Transportation funds. During the 2005 fiscal year, the original adopted budget was adjusted by the General Assembly and the Finance Advisory Committee.

f. Assets and Liabilities

Cash and Cash Equivalents (see Note 4)

In addition to petty cash and bank accounts, this account includes cash equivalents – short-term, highly liquid investments with original maturities of three months or less when purchased. Cash equivalents include investments in the Short-Term Investment Fund ("STIF") and the Tax Exempt Proceeds Fund, Inc. ("TEPF"). TEPF is a short-term, tax-exempt money market fund reported under the Investment Company Act of 1940. Investments in STIF and TEPF are reported at the fund's share price.

Investments (see Note 4)

Investments include Equity in Combined Investment Funds and other investments. Equity in Combined Investment Funds is reported at fair value based on the funds' current share price. Other investments are reported at fair value, except for the following investments which are reported at cost or amortized cost:

- Nonparticipating interest-earning investment contracts.
- Money market investments that mature within one year or less at the date of their acquisition.
- Investments of the External Investment Pool fund (an Investment Trust fund).

The fair value of other investments is determined based on quoted market prices except for:

- The fair value of State bonds held by the Clean Water and Drinking Water funds (Enterprise funds) which is estimated using matrix pricing.
- The fair value of equity and debt securities held by the Connecticut Innovations, Incorporated, a component unit. The fair value of these investments is determined by the Valuation Committee of the Corporation, after giving consideration to pertinent information about the companies comprising the investments, including but not limited to recent sales prices of the issuer's securities, sales growth, progress toward business goals, and other operating data.

The State invests in derivatives. These investments are held by the Combined Investment Funds and are reported at fair value in each fund's statement of net assets.

Inventories

Inventories are reported at cost. Cost is determined by the first-in first-out (FIFO) method. Inventories in the governmental funds consist of expendable supplies held for consumption whose cost was recorded as an expenditure at the time the individual inventory items were purchased. Reported inventories in these funds are offset by a fund balance reserve to indicate that they are unavailable for appropriation.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, railways, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the State as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated fair market value at the date of donation.

Collections of historical documents, rare books and manuscripts, guns, paintings, and other items are not

capitalized. These collections are held by the State Library for public exhibition, education, or research; and are kept protected, cared for, and preserved indefinitely. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are also not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40
Improvements Other than Buildings	10-20
Machinery and Equipment	5-30
Infrastructure	20-28

Securities Lending Transactions (see Note 4)
Assets, liabilities, income, and expenses arising from securities lending transactions of the Combined Investment Funds are allocated ratably to the participant funds based on their equity in the Combined Investment Funds.

Deferred Revenues
In the government-wide and fund financial statements, this liability represents resources that have been received, but not yet earned. In the fund financial statements, this liability also represents revenues considered measurable but not available during the current period.

Long-term Obligations
In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and issuance costs are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Other long-term obligations include compensated absences, workers' compensation claims, capital leases, claims and judgements, annuities payable, and the net pension obligation.

In the fund financial statements, governmental fund types recognize bond premiums and bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Capital Appreciation Bonds
Capital appreciation (deep-discount) bonds issued by the State, unlike most bonds, which pay interest semi-annually, do not pay interest until the maturity of the bonds. An investor who purchases a capital appreciation bond at its discounted price and holds it until maturity will receive an amount which equals the initial price plus an amount which has accrued over the life of the bond on a semiannual compounding basis. The net value of the bonds is accreted (the discount reduced), based on this semiannual compounding, over the life of the bonds. This deep-discount debt is reported in the government-wide statement of net assets at its net or accreted value rather than at face value.

Compensated Absences
The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Vacation and sick policy is as follows: Employees hired on or before June 30, 1977, and managers regardless of date hired can accumulate up to a maximum of 120 vacation days. Employees hired after that date can accumulate up to a maximum of 60 days. Upon termination or death, the employee is entitled to be paid for the full amount of vacation days owed. No limit is placed on the number of sick days that an employee can accumulate. However, the employee is entitled to payment for accumulated sick time only upon retirement, or after ten years of service upon death, for an amount equal to one-fourth of his/her accrued sick leave up to a maximum payment equivalent to sixty days.

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

g. Fund Balance
In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

h. Interest Rate Swap Agreements
The State has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements (see Note 17).

i. Interfund Activities

In the fund financial statements, interfund activities are reported as follows:

Interfund receivables/payables - The current portion of interfund loans outstanding at the end of the fiscal year is reported as due from/to other funds; the noncurrent portion as advances to/from other funds. All other outstanding balances between funds are reported as due from/to other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Interfund services provided and used - Sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. In the statement of activities, transactions between the primary government and its discretely presented component units are reported as revenues and expenses, unless they represent repayments of loans or similar activities.

Interfund transfers - Flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

Interfund reimbursements - Repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are not reported in the financial statements.

j. Food Stamps

Food stamps distributed to recipients during the year are recognized as both an expenditure and a revenue in the governmental fund financial statements.

k. External Investment Pool

Assets and liabilities of the Short-Term Investment Fund are allocated ratably to the External Investment Pool Fund based on its investment in the Short-Term Investment Fund (see Note 4). Pool income is determined based on distributions made to the pool's participants.

l. Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Note 2 Budgetary vs. GAAP Basis of Accounting

The following is a reconciliation of the net change in fund balances as reported in the budgetary and GAAP basis of accounting statements of revenues, expenditures, and changes in fund balances (amounts in thousands):

	General Fund	Transportation Fund
Net change in fund balances (budgetary basis)	$ 373,139	$ 3,796
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	(134,469)	(5,763)
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	(142,154)	231
Salaries and Fringe Benefits Payable	68,529	3,403
Increase in Continuing Appropriations	481,560	3,252
Transfer of 2044 Surplus	(150,300)	-
Fund Reclassification-Bus Operations	-	6,520
Net change in fund balances (GAAP basis)	$ 496,305	$ 11,439

The major differences between the budgetary (legal) and the GAAP (generally accepted accounting principles) basis of accounting as reconciled above are as follows:

1. Revenues are recorded when received in cash except for certain year-end accruals (budgetary basis) as opposed to revenues being recorded when they are susceptible to accrual (GAAP basis).

2. Expenditures are recorded when paid in cash (budgetary basis) as opposed to expenditures being recorded when the related fund liability is incurred (GAAP basis).

3. For budgetary reporting purposes, continuing appropriations are reported with other financing sources and uses in the determination of the budgetary surplus or deficit to more fully demonstrate compliance with authorized spending for the year. For GAAP purposes, continuing appropriations are excluded from operations and reported as reserved fund balance.

Note 3 Nonmajor Fund Deficits

The following funds have deficit balances at June 30, 2005, none of which constitutes a violation of statutory provisions (amounts in thousands).

Special Revenue Fund	
Consumer Counsel and Public Utility Control	$ 83
Enterprise	
Bradley Parking Garage	$ 6,676
Rate Reduction Bond Operations	$ 178,503

Note 4 Cash Deposits and Investments

In 2005 the State implemented GASB Statement No. 40, "*Deposit and Investment Risk Disclosures*". According to the Statement, 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, 2005, STIF had the following investments (amounts in thousands):

Short-Term Investment Fund

Investment Type	Amortized Cost
Commercial Paper	$ 450,000
Asset Backed Commercial Paper:	
Multi -Seller	138,926
Secured Liquidity Notes	1,475,438
Securities Backed	623,263
Floating Rate Bonds	147,874
Repurchase Agreements	283,915
Total Investments	$ 3,119,416

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, 2005, the weighted average maturity of the STIF was 32 days. Additionally, STIF is allowed by policy to invest in floating-rate securities, and limit total exposure to 20 percent. 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, 2005, the amount of STIF's investments in variable-rate securities was $147.9 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, 2005, STIF's investments were rated by Standard and Poor's as follows (amounts in thousands):

Short-Term Investment Fund

Investment Type	Amortized Cost	Quality Ratings AAA	AA	A-1+
Commercial Paper	$ 450,000	$ -	$ -	$ 450,000
Asset Backed Commercial Paper:				
Multi-Seller	138,926	-	-	138,926
Secured Liquidity Notes	1,475,438	-	-	1,475,438
Securities Backed	623,263	-	-	623,263
Floating Rate Bonds	147,874	86,909	60,965	-
Repurchase Agreements	283,915	283,915	-	-
Total	$ 3,119,416	$ 370,824	$ 60,965	$ 2,687,627

Concentration of Credit Risk
STIF reduces its exposure to this risk by requiring that not more than 10% 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, 2005, STIF's investments in any one single issuer that represents more than 5% of total investments were as follows (amounts in thousands):

Investment Issuer	Amortized Cost
Albis Capital Corporation	$ 266,830
ASAP Funding	$ 259,905
Freedom Park	$ 267,336
GE Capital Corporation	$ 411,910

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 whole long-term debt is rated at least A and its issuer rating is at least "C". As of June 30, 2005, $1,199,700 of the bank balance of STIF's deposits of $1,200,000 was exposed to custodial credit risk as follows

Uninsured and uncollateralized	$ 1,079,700
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	120,000
Total	$ 1,199,700

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, 2005, 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	$ 91,679	$ 608	$ 21,206,864
Other Investments	46,151	156,525	722,898
Total Investments-Current	$ 137,830	$ 157,133	$ 21,929,762

As of June 30, 2005, 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	$ 708,309	$ 654,141	$ 54,168	$ -	$ -
Asset Backed Securities	550,401	-	397,158	152,552	691
Government Securities	1,694,411	104,220	712,476	379,632	498,083
Government Agency Securities	1,391,637	-	54,004	79,916	1,257,717
Mortgage Backed Securities	683,404	-	14,400	58,216	610,788
Corporate Debt	2,227,231	135,452	821,914	791,801	478,064
Convertible Securities	33,214	2,341	12,559	16,301	2,013
Mutual Fund	223,364	-	-	65,540	157,824
Total Debt Investments	7,511,971	$ 896,154	$ 2,066,679	$1,543,958	$3,005,180
Common Stock	12,080,219				
Preferred stock	77,336				
Real Estate Investment Trust	117,112				
Mutual Fund	104,007				
Limited liability Corporation	16,964				
Trusts	52,613				
Limited Partnerships	1,612,794				
Annuities	249				
Total Investments	$ 21,573,265				

Interest Rate Risk

CIFS' investment managers are given full discretion to manage their portion of CIFS' assets within their respective guidelines and constrains. The guidelines and constrains 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

As of June 30, 2005, 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	$4,088,153	$ 7,997	$ 540,415	$ 1,529,447	$ 1,345,159	$ 466,323	$ 195,306	$ 3,506	$ -
Aa	553,095	50,000	-	23,814	-	4,256	474,888	137	-
A	304,992	-	-	15,538	-	2,168	286,747	539	-
Baa	509,602	-	8,471	54,069	-	14,911	432,085	66	-
Ba	291,113	-	-	12,306	-	16,773	261,971	63	-
B	419,175	-	-	32,847	-	2,123	384,205	-	-
Caa	27,241	-	-	-	-	6,600	9,199	11,442	-
Ca	78,798	-	-	-	-	84	78,714	-	-
C	122	-	-	-	-	122	-	-	-
Prime-1	174,626	174,626	-	-	-	-	-	-	-
Not Rated	1,065,054	475,687	1,515	26,390	46,478	170,043	104,118	17,460	223,363
Total	$7,511,971	$ 708,310	$ 550,401	$ 1,694,411	$ 1,391,637	$ 683,403	$2,227,233	$ 33,213	$ 223,363

Foreign Currency Risk

The CIFS manage exposure to this risk by utilizing a strategic hedge ratio of 50% 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, 2005, 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	$ 222	$ 17	$ -	$ -	$ -	$ 205	$ -	$ -
Australian Dollar	133,950	1,558	-	-	-	132,392	-	-
Brazilian Real	49,242	58	-	3,929	-	8,641	36,614	-
Canadian Dollar	24,627	27	-	989	-	23,611	-	-
Chilean Peso	653	19	-	-	-	398	236	-
Czech Koruna	470	-	-	-	-	470	-	-
Danish Krone	35,872	381	-	-	-	35,491	-	-
Egyptian Pound	1,737	-	-	-	-	1,737	-	-
Euro Currency	1,195,787	4,401	5,045	2,958	63	1,171,926	11,394	-
Honk Kong Dollar	123,837	166	-	-	-	123,671	-	-
Hungarian Fornit	369	-	-	-	-	369	-	-
Indonesian Rupiah	12,110	1,074	-	-	-	11,036	-	-
Israeli Shekel	6,795	-	-	-	-	6,795	-	-
Japanese Yen	821,920	5,330	-	11,027	920	804,643	-	-
Malaysian Ringgit	28,034	13	-	-	-	28,021	-	-
Mexican Peso	37,768	29	16,150	3,134	-	18,455	-	-
New Taiwan Dollar	63,459	1,348	-	-	-	62,111	-	-
New Turkish Dollar	16,690	-	-	-	-	16,690	-	-
New Zealand Dollar	25,619	2,400	3,019	4,885	-	15,315	-	-
Norwegian Krone	32,968	(150)	-	-	-	33,118	-	-
Pakistan Rupee	624	19	-	-	-	605	-	-
Philippine Peso	4,195	-	-	-	-	4,195	-	-
Polish Zloty	6,524	-	-	-	-	6,524	-	-
Pound Sterling	764,487	1,231	-	10,416	-	752,840	-	-
Singapore Dollar	56,963	388	7,481	7,126	-	41,886	-	82
South African Rand	64,286	84	-	5	-	64,197	-	-
South Korean Won	238,807	348	-	-	-	212,741	25,718	-
Swedish Drona	65,295	390	-	-	-	64,905	-	-
Swiss Franc	215,154	321	-	-	-	214,833	-	-
Thailand Baht	27,983	12	-	10,555	-	17,416	-	-
Total	$ 4,056,447	$ 19,464	$ 31,695	$ 55,024	$ 983	$ 3,875,237	$ 73,962	$ 82

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, 2005, the CIFS had deposits with a bank balance of $21.8 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, 2005, 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	$ 71,252	$ 71,252	$ -	$ -	$ -
State/Municipal Bonds	75,602	152	1,839	19,362	54,249
U.S Government Sec.	104,980	87,852	693	135	16,300
U.S. Agency Sec.	360,468	27,996		332,472	-
Guaranteed Investment Contracts	450,544	-	49,660	206,949	193,935
Tax Exempt Proceeds Fund	38,141	38,141	-	-	-
Money Market Funds	9,439	9,439	-	-	-
Mortgage-Backed Securities	6,648	6,648	-	-	-
Mutual Funds	2,489	2,489	-	-	-
Corporate Bonds	7	2	5	-	-
Total Debt Investments	1,119,570	$ 243,971	$ 52,197	$ 558,918	$ 264,484
Annuity Contracts	334,302				
Endowment Pool	11,081				
Total Investments	$ 1,464,953				

Credit Risk

As of June 30, 2005, other investments were rated by rating agencies as follows (amounts in thousands):

Other Investments

Investment Type	Fair Value	Quality Ratings AAA	AA/Aa	A	Unrated
Repurchase Agreements	$ 71,252	$ 66,898	$ -	$ 4,354	$ -
State/Municipal Bonds	75,602	801	74,801	-	-
U.S. Agency Sec.	360,468	332,472	-	27,996	-
Guaranteed Investment Contracts	450,544	372,958	77,586	-	-
Tax Exempt Proceeds Fund	38,141	-	-	-	38,141
Money Market Funds	9,439	-	-	-	9,439
Mortgage-Backed Securities	6,648	6,648	-	-	-
Mutual Funds	2,489	2,489			-
Corporate Bonds	7	-	-	-	7
Total	$ 1,014,590	$ 782,266	$ 152,387	$ 32,350	$ 47,587

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, 2005, $33,056 of the bank balance of the Primary Government of $35,110 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 29,229
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	3,827
Total	$ 33,056

Component Units

As of June 30, 2005, 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	$ 4,239	$ -	$ -	$ -	$ 4,239
Corporate Finance Bonds	8,316	-	2,357	5,959	-
Corporate Notes	8,480	-	7,046	-	1,434
Federated Funds	9,881	9,881	-	-	-
Fidelity Tax Exempt Fund	8,416	8,416	-	-	-
GNMA Program Assets	676,755	-	-	-	676,755
Guaranteed Investment Contracts	401,618	40,306	359,948	1,364	-
Investment Agreements	1,770	-	-	1,770	-
Mortgage Backed Securities	7,385	-	188	2,416	4,781
Repurchase Agreements	10,436	-	-	-	10,436
U.S. Government Securities	765	-	-	-	765
Structured Securities	468	-	-	-	468
Money Market Funds	117,394	117,394	-	-	-
Total	$ 1,255,923	$ 175,997	$ 369,539	$ 11,509	$ 698,878

The Connecticut Housing Finance Authority (CHFA) and the Connecticut Health and Education Facilities Authority (CHESLA) own 87.4% and 12.6% 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.

CHESLA

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 State 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.

CHESLA
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 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, State's Short-Term Investment Fund (STIF), etc.

As of June 30, 2005, 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	A	BBB	CCC	Unrated
Collateralized Mortgage Obligations	$ 755	$ 755	$ -	$ -	$ -	$ -
Corporate Finance Bonds	8,316	-	2,357	5,959	-	-
Corporate Notes	8,480	-	6,839	1,641	-	-
Fidelity Tax Exempt Fund	8,416	-	-	-	-	8,416
GIC's	401,618	401,618	-	-	-	-
Mortgage Backed Securities	877	877	-	-	-	-
Structured Securities	468	-	-	-	468	-
Money Market Funds	117,394	117,394	-	-	-	-

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 24.6% 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.

CHESLA
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 % of unrestricted investments, except for qualified money market or mutual bond funds, none of which shall constitute greater than 50% 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 Trinity Funding, LLC represents 20% 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, 2005, the funds had no credit exposure to the borrowers, because the value of collateral held and the market value securities on loan were $ 2,673.7 million and $2,595.3 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 37 days; the average duration of the loans was unknown, although it is assumed to remain at one day.

Note 5 Receivables

As of June 30, 2005, receivables consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	$ 1,002,186	$ -	$ -
Accounts	1,159,706	526,313	32,063
Loans-Current Portion	-	149,097	31,901
Other Governments	714,599	8,268	-
Interest	5,929	19,613	1,192
Other	32,459	-	-
Total Receivables	2,914,879	703,291	65,156
Allowance for Uncollectibles	(975,898)	(82,540)	(2,450)
Receivables, net	$ 1,938,981	$ 620,751	$ 62,706

Note 6 Taxes Receivable

Taxes receivable consisted of the following as of June 30, 2005 (amounts in thousands):

	Governmental Activities		
	General Fund	Transportation Fund	Total
Sales and Use	$ 458,485	$ -	$ 458,485
Income Taxes	225,174	-	225,174
Corporations	86,180	-	86,180
Gasoline and Special Fuel	-	44,964	44,964
Various Other	187,383	-	187,383
Total Taxes Receivable	957,222	44,964	1,002,186
Allowance for Uncollectibles	(64,242)	(350)	(64,592)
Taxes Receivable, net	$ 892,980	$ 44,614	$ 937,594

Note 7 Loans Receivable

Loans receivable (noncurrent portion) for the primary government and its component units, as of June 30, 2005, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Industrial	$ -	$ -	$ 62,845
Housing	8,515	-	-
Clean Water	39,331	474,513	-
Education	-	26,136	68,799
Other	151,319	46,588	-
Total Loans	199,165	547,237	131,644
Allowance for Uncollectibles	(10,267)	(7,718)	(10,948)
Loans Receivable, Net	$ 188,898	$ 539,519	$ 120,696

The Clean Water fund loans funds to qualified municipalities for planning, design, and construction of water quality projects. These loans are payable over a 20 year period at an annual interest rate of 2 percent and are secured by the full faith and credit or revenue pledges of the municipalities, or both.

The industrial loan program consists of loans made by the Connecticut Development Authority to finance the purchase of land, buildings, and equipment by qualified applicants and to finance other economic development programs of the Authority. These loans are collateralized by assets acquired from proceeds of the related loans and have originating terms of 1 to 25 years and earn interest at rates ranging from 2.34 percent to 11.15 percent. As of June 30, 2005 loans in the amount of $9.3 million (including loans of $6.5 million made by other lending institutions) were insured by an insurance fund created by the Authority and by the faith and credit pledged by the State. This insurance fund had net assets of $(142) 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, 2005, 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	$ 208,541	$ 468,452	$ -	$ -	$ 676,993
Total-Governmental Activities	$ 208,541	$ 468,452	$ -	$ -	$ 676,993
Business-Type Activities:					
Bradley International Airport	$ 77,555	$ 45,171	$ -	$ 2,678	$ 125,404
UConn/Health Center	13,813	147	-	-	13,960
Clean Water	76,114	219,713	-	-	295,827
Other Proprietary	33,549	47,660	-	-	81,209
Total-Business-Type Activities	$ 201,031	$ 312,691	$ -	$ 2,678	$ 516,400
Component Units:					
CHFA	$ 370,975	$ 1,098,223	$ 2,429,333	$ 107,707	$ 4,006,238
CHEFA	25,607	157,596	-	102	183,305
Other Component Units	150,850	50,498	-	327	201,675
Total-Component Units	$ 547,432	$ 1,306,317	$ 2,429,333	$ 108,136	$ 4,391,218

Note 9 Accounts Payable and Accrued Liabilities

As of June 30, 2005, 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	$ 134,401	$ 134,723	$ -	$ -	$ 269,124
Transportation	13,742	9,091	-	-	22,833
Other Governmental	166,473	17,534	463	-	184,470
Internal Service	2,739	2,539	-	4,672	9,950
Reconciling amount from fund financial statements to government-wide financial statements	-	-	95,658	5,313	100,971
Total-Governmental Activities	$ 317,355	$ 163,887	$ 96,121	$ 9,985	$ 587,348
Business-Type Activities:					
UConn/Health Center	$ 61,224	$ 55,066	$ -	$ -	$ 116,290
State Universities	4,975	27,866	1,913	-	34,754
Other Proprietary	41,387	17,883	8,078	-	67,348
Total-Business-Type Activities	$ 107,586	$ 100,815	$ 9,991	$ -	$ 218,392

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	$ 934,959	$ 41,517	$ 130,665	$ 845,811
Construction in Progress	1,671,935	109,972	330,816	1,451,091
Total Capital Assets not being Depreciated	2,606,894	151,489	461,481	2,296,902
Other Capital Assets:				
Buildings	2,757,050	79,443	42,936	2,793,557
Improvements Other than Buildings	402,069	88,068	810	489,327
Equipment	1,304,277	84,237	71,948	1,316,566
Infrastructure	9,542,114	-	-	9,542,114
Total Other Capital Assets at Historical Cost	14,005,510	251,748	115,694	14,141,564
Less: Accumulated Depreciation For:				
Buildings	1,720,740	69,839	42,936	1,747,643
Improvements Other than Buildings	268,226	24,643	810	292,059
Equipment	858,459	138,740	71,948	925,251
Infrastructure	4,146,112	-	-	4,146,112
Total Accumulated Depreciation	6,993,537	233,222 *	115,694	7,111,065
Other Capital Assets, Net	7,011,973	18,526	-	7,030,499
Governmental Activities, Capital Assets, Net	$ 9,618,867	$ 170,015	$ 461,481	$ 9,327,401

* Depreciation expense was charged to functions as follows:

Governmental Activities:	
Legislative	$ 4,896
General Government	30,955
Regulation and Protection	29,412
Conservation and Development	8,266
Health and Hospitals	11,559
Transportation	40,556
Human Services	2,530
Education, Libraries and Museums	33,735
Corrections	36,788
Judicial	14,398
Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets	20,127
Total Depreciation Expense	$ 233,222

	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities				
Capital Assets not being Depreciated:				
Land	$ 51,909	$ 907	$ 25	$ 52,791
Construction in Progress	293,424	160,885	152,465	301,844
Total Capital Assets not being Depreciated	345,333	161,792	152,490	354,635
Capital Assets being Depreciated:				
Buildings	2,685,014	280,058	681	2,964,391
Improvements Other Than Buildings	393,200	35,057	-	428,257
Equipment	749,775	78,710	23,849	804,636
Total Other Capital Assets at Historical Cost	3,827,989	393,825	24,530	4,197,284
Less: Accumulated Depreciation For:				
Buildings	768,722	90,983	400	859,305
Improvements Other Than Buildings	147,655	18,472	-	166,127
Equipment	399,988	62,022	19,791	442,219
Total Accumulated Depreciation	1,316,365	171,477	20,191	1,467,651
Other Capital Assets, Net	2,511,624	222,348	4,339	2,729,633
Business-Type Activities, Capital Assets, Net	$ 2,856,957	$ 384,140	$ 156,829	$ 3,084,268

b. Component Units

Capital assets of the component units consisted of the following as of June 30, 2005 (amounts in thousands):

Land	$ 28,625
Buildings	413,058
Improvements other than Buildings	2,658
Machinery and Equipment	249,179
Construction in Progress	71
Total Capital Assets	693,591
Accumulated Depreciation	(261,360)
Capital Assets, net	$ 432,231

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 6/30/2004	TRS 6/30/2004	JRS 6/30/2004
Retirees and beneficiaries receiving benefits	36,749	24,297	217
Terminated plan members entitled to but not yet receiving benefits	1,744	1,250	3
Active plan members	47,926	49,946	220
Total	86,419	75,493	440

State Employees' Retirement System

Plan Description

SERS is a single-employer defined-benefit pension plan covering substantially all of the State full-time employees who are not eligible for another State sponsored retirement plan. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and the State, and other plan provisions are described in Sections 5-152 to 5-192 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Tier I Plan B and Hazardous Duty members are required to contribute 2 percent and 4 percent respectively, of their salary up to the Social Security Taxable Wage Base plus 5 percent above that level; Tier I Plan C members are required to contribute 5 percent of their annual salary; Tier IIA members are required to contribute 2 percent and hazardous duty members are required to contribute 5 percent. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

Teachers Retirement System

Plan Description

TRS is a single-employer defined-benefit pension plan covering any teacher, principal, superintendent or supervisor engaged in service of public schools in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 10-183b to 10-183pp of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. For fiscal year 2005, the annual required contribution (ARC) was $281.4 million; however, the State contributed $185.3 million to the plan, reflecting a reduction of $96.1 million by the legislature to the State's TRS appropriation. Administrative costs of the plan are funded by the State.

Judicial Retirement System

Plan Description

JRS is a single-employer defined-benefit pension plan covering any appointed judge or compensation commissioner in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 51-49 to 51-51 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

Annual Pension Cost, Net Pension Obligation, and Related Information

The State's annual pension cost and net pension obligation to SERS, TRS, and JRS for the current year were as follows (amounts in thousands):

	SERS	TRS	JRS
Annual required contribution	$ 518,764	$ 281,366	$ 12,236
Interest on net pension obligation	182,369	110,057	4
Adjustment to annual required contribution	(119,051)	(73,445)	(2)
Annual pension cost	582,082	317,978	12,238
Contributions made	518,764	185,348	12,236
Increase (decrease) in net pension obligation	63,318	132,630	2
Net pension obligation beginning of year	2,145,521	1,294,790	43
Net pension obligation end of year	$ 2,208,839	$ 1,427,420	$ 45

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

	Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
SERS	2003	$ 485,527	86.8%	$ 2,081,663
	2004	534,191	88.0%	2,145,521
	2005	582,082	89.1%	2,208,839
TRS	2003	$ 254,996	70.6%	$ 1,174,893
	2004	305,243	60.7%	1,294,790
	2005	317,978	58.2%	1,427,420
JRS	2003	$ 10,127	100%	$ 41
	2004	11,600	100%	43
	2005	12,238	100%	45

Defined Contribution Plan

The State also sponsors the Connecticut Alternate Retirement Program (CARP), a defined contribution plan. CARP is administered by the State Comptroller's Retirement Office under the direction of the Connecticut State Employees Retirement Division. Plan provisions, including contribution requirements of plan members and the State, are described in Section 5-156 of the General Statutes.

Unclassified employees at any of the units of the Connecticut State System of Higher Education are eligible to participate in the plan. Plan members are required to contribute 5 percent of their annual salaries. The State is required to contribute 8 percent of covered salary. During the year, plan members and the State contributed $26.3 million and $41.4 million, respectively.

Note 12 Other Retirement Systems Administered by the State of Connecticut

The State acts solely as the administrator and custodian of the assets of the Connecticut Municipal Employees' Retirement System (CMERS) and the Connecticut Probate Judges and Employees Retirement System (CPJERS). The State makes no contribution to and has only a fiduciary responsibility for these funds. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for CMERS and CPJERS are presented in Note No. 13.

Plan Descriptions and Contribution Information

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

	CMERS 6/30/2004	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	$ -	$ -	$ -	$ 1,555	$ -	$ 84	$ 1,639
Receivables:							
Accounts, Net of Allowances	2,466	8,857	8	3,492	4	-	14,827
From Other Governments		1,082	-	-	-	-	1,082
From Other Funds	-	209	-	-	-	-	209
Interest	482	397	21	116	11	-	1,027
Investments	8,175,320	11,392,147	152,715	1,394,838	72,082	718	21,187,820
Securities Lending Collateral	981,044	1,367,007	18,626	169,138	8,606	104	2,544,525
Total Assets	9,159,312	12,769,699	171,370	1,569,139	80,703	906	23,751,129
Liabilities							
Securities Lending Obligation	981,044	1,367,007	18,626	169,138	8,606	104	2,544,525
Due to Other Funds	28,447	5,479	2	-	7	-	33,935
Total Liabilities	1,009,491	1,372,486	18,628	169,138	8,613	104	2,578,460
Net Assets							
Held in Trust For Employee Pension Benefits	8,149,821	11,397,213	152,742	1,400,001	72,090	802	21,172,669
Total Net Assets	$ 8,149,821	$ 11,397,213	$ 152,742	$ 1,400,001	$ 72,090	$ 802	$ 21,172,669

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	$ 51,722	$ 222,108	$ 1,430	$ 12,217	$ 250	$ 34	$ 287,761
State	518,764	185,348	12,236	-	-	-	716,348
Municipalities	-	3,539	-	21,809	-	-	25,348
Total Contributions	570,486	410,995	13,666	34,026	250	34	1,029,457
Investment Income	830,313	1,170,186	14,430	137,371	7,260	54	2,159,614
Less: Investment Expenses	(43,965)	(61,960)	(764)	(7,274)	(385)	(3)	(114,351)
Net Investment Income	786,348	1,108,226	13,666	130,097	6,875	51	2,045,263
Transfers In	-	-	-	-	2,556	-	2,556
Other	-	-	-	172	-	3	175
Total Additions	1,356,834	1,519,221	27,332	164,295	9,681	88	3,077,451
Deductions							
Administrative Expense	460	-	10	7	-	-	477
Benefit Payments and Refunds	887,562	972,887	15,085	71,191	2,568	82	1,949,375
Other	1,444	1,168	-	-	2,079	-	4,691
Total Deductions	889,466	974,055	15,095	71,198	4,647	82	1,954,543
Changes in Net Assets	467,368	545,166	12,237	93,097	5,034	6	1,122,908
Net Assets Held in Trust For Employee Pension Benefits:							
Beginning of Year	7,682,453	10,852,047	140,505	1,306,904	67,056	796	20,049,761
End of Year	$ 8,149,821	$ 11,397,213	$ 152,742	$ 1,400,001	$ 72,090	$ 802	$ 21,172,669

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, 2005, 35,942 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, 2005, $377.3 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):

2006	$	35,552
2007		31,375
2008		32,601
2009		32,632
2010		27,803
Thereafter		20,163
Total	$	180,126

Contingent revenues for the year ended June 30, 2005, were $2.3 million.

State as Lessee

Obligations under capital and operating leases as of June 30, 2005, were as follows (amounts in thousands):

	Noncancelable Operating Leases	Capital Leases
2006	$ 37,852	$ 8,260
2007	22,742	7,961
2008	16,467	7,577
2009	13,408	7,484
2010	18,090	7,173
2011-2015	12,295	32,406
2016-2020	-	14,536
2021-2025	-	6,136
2026-2030	-	6,102
2031-2035	-	1,215
Total minimum lease payments	$ 120,854	98,850
Less: Amount representing interest costs		21,895
Present value of minimum lease payments		$ 76,955

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, 2005, totaled $27.6 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 $343 million at June 30, 2005.

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, 2005, (amounts in thousands):

Governmental Activities	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Amounts due within one year
Bonds:					
General Obligation	$ 9,606,611	$ 1,435,407	$ 1,136,776	$ 9,905,242	$ 767,115
Transportation	3,153,949	290,722	330,796	3,113,875	270,950
	12,760,560	1,726,129	1,467,572	13,019,117	1,038,065
Plus/(Less) premiums and deferred amounts	181,367	67,313	19,612	229,068	-
Total Bonds	12,941,927	1,793,442	1,487,184	13,248,185	1,038,065
Economic Recovery Notes	273,215	-	63,655	209,560	63,470
Other Liabilities:					
Net Pension Obligation	3,440,354	912,298	716,348	3,636,304	-
Compensated Absences	370,916	49,745	6,029	414,632	12,461
Workers' Compensation	276,681	91,524	74,370	293,835	78,898
Capital Leases	53,761	27,627	4,433	76,955	3,044
Claims and Judgments	13,183	770	7,344	6,609	5,913
Contracts Payable & Other	5,561	4,816	5,561	4,816	-
Total Other Liabilities	4,160,456	1,086,780	814,085	4,433,151	100,316
Governmental Activities Long-Term Liabilities	$ 17,375,598	$ 2,880,222	$ 2,364,924	$ 17,890,896	$ 1,201,851
In prior years, the General and Transportation funds have been used to liquidate other liabilities.					
Business-Type Activities					
Revenue Bonds	$ 1,713,805	$ 130,025	$ 224,172	$ 1,619,658	$ 94,483
Plus/(Less) premiums, discounts and deferred amounts	36,349	1,739	4,205	33,883	-
Total Revenue Bonds	1,750,154	131,764	228,377	1,653,541	94,483
Lottery Prizes	385,229	-	48,227	337,002	48,108
Compensated Absences	104,229	9,972	11,490	102,711	30,387
Other	97,104	72,869	5,650	164,323	24,578
Total Other Liabilities	586,562	82,841	65,367	604,036	103,073
Business-Type Long-Term Liabilities	$ 2,336,716	$ 214,605	$ 293,744	$ 2,257,577	$ 197,556

b) As of June 30, 2005, long-term debt of component units consisted of the following (amounts in thousands):

Long-Term Debt	Balance June 30, 2005	Amounts due within year
Bonds Payable	$ 3,458,756	$ 114,342
Escrow Deposits	124,583	26,586
Closure of Landfills	26,477	1,529
State Loan	18,558	2,619
Deferred Revenue	6,160	853
Other	6,709	154
Total	$ 3,641,243	$ 146,083

Note 17 Long-Term Notes and Bonded Debt

a. Economic Recovery Notes

In December 2002, $219.2 million of General Obligation Economic Recovery Notes were issued to fund the deficit for the 2001-2002 fiscal year. As of June 30 2005, the amount of Economic Recovery Notes outstanding was $209.6 million. These notes 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, 2005, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2006	$ 63,470	$ 6,921	$ 70,391
2007	63,270	4,532	67,802
2008	63,270	2,161	65,431
2009	19,550	712	20,262
Total	$ 209,560	$ 14,326	$ 223,886

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, 2005, 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%	$ 2,183,198	$ 329,013
School Construction	2005-2025	2-7.282%	1,790,608	72,001
Municipal & Other Grants & Loans	2005-2023	2-7.51%	1,559,884	576,132
Elderly Housing	2005-2011	7-7.5%	9,605	-
Elimination of Water Pollution	2005-2023	3-7.525%	279,172	303,517
General Obligation Refunding	2005-2020	2-6.14%	3,513,479	-
Miscellaneous	2005-2031	2.5-6.75%	79,194	11,506
			9,415,140	$ 1,292,169
Accretion-Various Capital Appreciation Bonds			490,102	
		Total	$ 9,905,242	

Future amounts needed to pay principal and interest on general obligation bonds outstanding at June 30, 2005, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2006	$ 767,115	$ 505,917	$ 1,273,032
2007	751,743	481,424	1,233,167
2008	750,789	456,191	1,206,980
2009	707,179	463,662	1,170,841
2010-2014	3,075,004	1,454,161	4,529,165
2015-2019	2,153,073	557,551	2,710,624
2020-2024	1,146,332	141,070	1,287,402
2025-2029	61,710	3,772	65,482
2030-2034	2,195	109	2,304
Total	$ 9,415,140	$ 4,063,857	$ 13,478,997

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, 2005, 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%	$ 2,123	$ 4,065
Infrastructure Improvements	2005-2024	2-8.0%	3,101,518	433,936
General Obligation Other	2008	7.513-7.525%	343	-
			3,103,984	$ 438,001
Accretion-Various Capital Appreciation Bonds			9,891	
		Total	$ 3,113,875	

Future amounts required to pay principal and interest on transportation related bonds outstanding at June 30, 2005, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2006	$ 270,950	$ 144,287	$ 415,237
2007	259,873	136,419	396,292
2008	268,498	124,300	392,798
2009	266,698	106,072	372,770
2010	259,790	91,827	351,617
2011-2015	1,030,375	282,392	1,312,767
2016-2020	520,350	107,354	627,704
2021-2025	227,450	21,838	249,288
Total	$ 3,103,984	$ 1,014,489	$ 4,118,473

Variable-Rate Demand Bonds

As of June 30, 2005, 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	$ 113,900	1990	2010
General Obligation	90,000	1997	2014
Special Tax Obligation	100,000	2000	2020
General Obligation	100,000	2001	2021
Special Tax Obligation	416,035	2003	2022
General Obligation	300,000	2005	2023
Total	$ 1,119,935		

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, 2005, 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	$ 68,400	12/19/1990	5.746%	65% of LIBOR (1)	$ (6,089)	12/1/2010	Aa2/AA/AA
1990 STO	45,500	12/19/1990	5.709%	65% of LIBOR (1)	(4,012)	12/1/2010	A1/A/NR
2001 GO	20,000	6/28/2001	4.330%	CPI (3) plus 1.43%	(411)	6/15/2012	Aa3/A+/AA-
2003 STO	118,645	1/23/2003	3.293%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	(4,070)	2/1/2022	Aa2/AA/AA-
2003 STO	98,600	1/23/2003	3.288%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	(3,288)	2/1/2022	Aa1/AA/AA+
2003 STO	198,790	1/23/2003	3.284%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	(6,834)	2/1/2022	Aa2/AA+/AA+
2005 GO	140,000	3/24/2005	3.392%	60% of LIBOR (1) plus 30bp	(4,422)	3/1/2023	AA+
2005 GO	140,000	3/24/2005	3.401%	60% of LIBOR (1) plus 30bp	(4,508)	3/1/2023	Aa1
2005 GO	15,620	4/27/2005	3.620%	CPI (3) plus .62%	(998)	6/1/2016	Aa3/A+/AA-
2005 GO	20,000	4/27/2005	4.700%	CPI (3) plus 1.73%	(1,392)	6/1/2017	Aa3/A+/AA-
2005 GO	20,000	4/27/2005	4.760%	CPI (3) plus 1.79%	(1,385)	6/1/2020	Aaa/AAA/AAA
Total	$ 885,555				$ (37,409)		

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

Fair value

Because interest rates have declined, all swaps have negative fair values as of June 30, 2005. 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, 2005, the State had no credit risk exposure on the other outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the State would be exposed to credit risk in the amount of the swaps' fair value.

The swap agreements contain varying collateral agreements with the counterparties. 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, 2005. 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 22 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 A1/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, 2005, the BMA rate was 2.43 percent, whereas 65 percent and 60 percent plus 30bp of LIBOR were 2.17 and 2.30 percent, respectively. The State recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal year 2005, 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, 2005, 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
2006	$ 19,135	$ 15,849	$ 10,803	$ 45,787
2007	20,350	15,388	10,170	45,908
2008	21,665	14,901	9,490	46,056
2009	22,985	14,381	8,780	46,146
2010-2014	238,090	70,340	24,088	332,518
2015-2019	418,885	97,100	28,171	544,156
2020-2024	144,445	74,366	5,940	224,751
Total	$ 885,555	$ 302,325	$ 97,442	$ 1,285,322

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, 2005, were as follows (amounts in thousands):

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
Higher Education	2009-2035	2.1-7%	$ 566,950
Bradley International Airport	2012-2032	2.5-7.65%	236,515
Clean Water	2006-2026	2-10%	521,968
Other:			
Bradley Parking Garage	2006-2024	6.125-8%	51,915
Drinking Water	2026	4-5.9%	49,572
Rate Reduction Bonds	2005-2011	2.5-5%	192,740
Total Revenue Bonds			1,619,660
Plus/(Less) premiums, discounts and deferred amounts:			
Bradley International Airport			(317)
Clean Water			19,585
Other			14,613
Revenue Bonds, net			$ 1,653,541

Bradley Airport has issued various revenue bonds to finance costs of improvements to the airport. As of June 30, 2005, the following bonds were outstanding:

a) 2004 Airport Revenue Refunding Bonds in the amount of $30.6 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 $187.4 million and 2001 Bradley International Airport Refunding Bonds in the amount of $18.4 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.

Bradley Parking Garage bonds were issued in 2000 in the amount of $53.8 million to build a parking garage at the airport.

In 2004, the State of Connecticut issued $205.3 million of Special Obligation Rate Reduction Bonds. These bonds were issued to sustain for two years the funding of energy conservation and load management and renewable energy investment programs by providing money to the State's General Fund.

Future amounts needed to pay principal and interest on revenue bonds outstanding at June 30, 2005, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2006	$ 94,483	$ 62,144	$ 156,627
2007	98,450	67,794	166,244
2008	108,974	64,508	173,482
2009	103,253	58,855	162,108
2010-2014	406,458	227,971	634,429
2015-2019	310,024	151,710	461,734
2020-2024	250,524	86,435	336,959
2025-2029	156,510	40,100	196,610
2030-2034	56,680	13,141	69,821
2035	34,304	3,662	37,966
Total	$ 1,619,660	$ 776,320	$ 2,395,980

d. Component Units

Component units' revenue bonds outstanding at June 30, 2005, were as follows (amounts in thousands):

Component Unit	Final Maturity Date	Interest Rates	Amount Outstanding (000's)
CT Development Authority	2005-2019	2.35-6%	$ 38,640
CT Housing Finance Authority	2005-2045	1.25-9.36%	3,124,853
CT Resources Recovery Authority	2005-2016	3.9-7.7%	86,575
Other:			
CT Higher Education Supplemental Loan Authority	2005-2024	1.7-6.4%	130,645
Capital City Economics Development Authority	2005-2034	2.5-5%	72,500
UConn Foundation	2029	3.6-5.375%	7,350
Total Revenue Bonds			3,460,563
Plus/(Less) premiums, discounts, and deferred amounts:			
CDA			(23)
CRRA			(1,582)
CCEDA			(202)
Revenue Bonds, net			$ 3,458,756

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, 2005 were $3.2 million. Assets totaling $5.6 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 $35.0 million in general obligation bonds outstanding at year-end. These bonds were issued to finance the lease of an entertainment/sports facility and the purchase of a hockey team.

Connecticut Housing Finance Authority's revenue bonds are issued to finance the purchase, development and construction of housing for low and moderate-income families and persons throughout the State. The Authority has issued bonds under a bond resolution dated 9/27/72 and an indenture dated 9/25/95. As of December 31, 2004, bonds outstanding under the bond resolution and the indenture were $2,720.0 million and $404.9 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 ($230.6 million at 12/31/04) on all outstanding bonds. As of December 31, 2004, the Authority has entered into interest rate swap agreements for $756.9 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 $76.6 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 in an amount equal to debt service, 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, 2005, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2006	$ 114,342	$ 146,705	$ 261,047
2007	101,662	123,239	224,901
2008	111,610	119,721	231,331
2009	470,065	114,117	584,182
2010-2014	704,510	553,168	1,257,678
2015-2019	641,170	321,664	962,834
2020-2024	494,778	213,093	707,871
2025-2029	456,736	116,299	573,035
2030-2034	325,500	39,060	364,560
2035-2039	27,765	6,196	33,961
2040-2044	12,200	1,522	13,722
2045-2049	225	6	231
Total	$ 3,460,563	$ 1,754,790	$ 5,215,353

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, 2005 were $893.9 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, 2005 were $181.4 million. Of this amount, $57.7 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, 2005, were $4,727.2 million, of which $411.0 million was secured by special capital reserve funds.

The State may be contingently liable for those bonds that are secured by special capital reserve funds as discussed previously in this section.

e. Debt Refundings

During the year, the State issued $447.7 million of general obligation and special tax obligation refunding bonds with an average interest rate of 4.65% to advance refund $451.8 million of general obligation and special tax obligation refunding bonds with an average interest rate of 5.33%. 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 $25.7 million. This amount is being netted against the new debt and amortized over the life of the new or old debt, whichever is shorter.

The State advance refunded these bonds to reduce its total debt service payments over the next fifteen years by $18.8 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of $12.2 million. As of June 30, 2005, $3,595.8 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 6-30-03	$ 265,645	$ 8,500
Incurred claims	86,184	6,227
Paid claims	(75,148)	(4,387)
Balance 6-30-04	276,681	10,340
Incurred claims	91,524	4,937
Paid claims	(74,370)	(1,915)
Balance 6-30-05	$ 293,835	$ 13,362

Note 19 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2005, were as follows (amounts in thousands):

	Balance due to fund(s)										
	General	Transportation	Other Governmental	UConn	State Universities	Other Proprietary	Employment Security	Internal Services	Fiduciary	Component Units	Total
Balance due from fund(s)											
General	$ -	$ -	$ 1,172	$ 45,899	$ 15,695	$ 14,853	$ 874	$ 5,917	$ 5,313	$ -	$ 89,723
Transportation	-	-	-	-	-	-	-	1,114	-	-	1,114
Other Governmental	4,075	6,798	5,086	5,110	32,455	78,802	-	-	-	13,196	145,522
UConn	13,341	-	-	-	-	-	-	-	-	-	13,341
State Universities	2,020	-	-	-	-	-	-	-	-	-	2,020
Employment Security	-	-	6,430	-	-	-	-	-	-	-	6,430
Other Proprietary	337	-	1,177	-	-	-	-	-	-	-	1,514
Internal Services	4,700	-	39,071	-	-	-	-	-	-	-	43,771
Fiduciary	-	-	32,437	-	-	-	-	-	1,506	-	33,943
Component Units	18,558	-	-	-	-	-	-	-	-	-	18,558
Total	$ 43,031	$ 6,798	$ 85,373	$ 51,009	$ 48,150	$ 93,655	$ 874	$ 7,031	$ 6,819	$ 13,196	$ 355,936

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, 2005, consisted of the following (amounts in thousands):

	Amount transferred to fund(s)								
	General	Debt Service	Transportation	Other Governmental	UConn	State Universities	Other Proprietary	Fiduciary	Total
Amount transferred from fund(s)									
General	$ -	$ -	$ -	$ 105,096	$ 392,899	$ 197,996	$ 190,677	$ -	$ 886,668
Debt Service	-	-	26,749	-	-	-	-	-	26,749
Transportation	-	410,954	-	35,227	-	-	-	-	446,181
Other Governmental	126,176	11,046	1,258	42,299	104,544	27,199	48,633	2,556	363,711
Connecticut Lottery	268,515	-	-	-	-	-	-	-	268,515
Other Proprietary	194,000	-	-	5,700	-	-	8,877	-	208,577
Total	$ 588,691	$ 422,000	$ 28,007	$ 188,322	$ 497,443	$ 225,195	$ 248,187	$ 2,556	$ 2,200,401

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. The $194,000 transfer to the General fund resulted from a timing difference in the reporting of the transfer by the Rate Reduction Bond Operations fund whose reporting date was December 31, 2004.

Note 21 Restatement of Net Assets/Fund Balances

As of June 30, 2005, the beginning net assets/fund balances for the following funds and activities were restated as follows (amounts in thousands):

	Balance 6-30-04 Previously Reported	Correction of Reported Assets/ Liabilities	Balance 12-31-04 as Restated
Proprietary Funds and Business-Type Activities			
Non-Major Funds:			
Rate Reduction Bond Operations	$ (194,336)	$ 194,336	$ -
Total Proprietary Funds	$ 3,659,917	$ 194,336	$ 3,854,253
Net Assets of Business-Type Activities	$ 3,659,917	$ 194,336	$ 3,854,253

During the year, the State changed the reporting date for the Rate Reduction Bond Operations fund from June 30th to December 31st. The change was made to reflect the reporting date used for this fund in the annual report of the State Treasurer.

Note 22 Related Organizations

Related organizations are legally separate organizations that are not financially accountable to the State. However, these organizations are still related to the State as discussed next.

The State appoints a voting majority of the following organizations' governing boards, the Community Economic Development Fund and the Connecticut Student Loan Foundation. The State's accountability for these organizations does not extend beyond making the appointments.

Note 23 Commitments and Contingencies

A. Commitments

At June 30, 2005, the State, including its component units, had the following outstanding commitments:

1) Infrastructure (highways, roads, etc.) and other construction contracts and miscellaneous contracts with various vendors totaling approximately $2,340 million of which $1,656 million is expected to be reimbursed by federal grants or other payments.

2) School construction and alteration grants with various towns for $3,610 million and interest costs of $150 million for a total of $3,760 million. Funding for these projects is expected to come from bond sales.

3) Loan commitments, mortgage and grant programs, and loan guarantees total approximately $678.3 million. Funding for these programs is expected to come from bond sales.

4) The State has authorized a loan to the Connecticut Resources Recovery Authority (a component unit) of up to $115 million to support the repayment of the Authority's debt for one of its facilities and to minimize the amount of tipping fee increases chargeable to the towns which use the facility. As of June 30, 2005, the Authority had drawn $21.5 million on these funds.

B. Contingent Liabilities

The State entered into a contractual agreement with H.N.S. Management Company, Inc. and ATE Management and Service Company, Inc. to manage and operate the bus transportation system for the State. The State shall pay all expenses of the system including all past, present and future pension plan liabilities of the personnel employed by the system and any other fees as agreed upon. When the agreement is terminated the State shall assume or make arrangements for the assumption of all the existing obligations of the management companies including but not limited to all past, present and future pension plan liabilities and obligations.

In 2002 the City of Waterbury issued $97.5 million of General Obligation Special Capital Reserve Fund Bonds. These bonds are secured by a Special Capital Reserve Fund for which the State may be contingently liable as explained previously in Note 17 – Component Units.

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, 2005, 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 and Extraordinary Items

Special items are significant transactions or other events within management's control that are either unusual in nature or infrequent in occurrence. Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Transfers to the General fund from the State's component units were as follows:

Connecticut Innovations, Incorporated	$ 5.0
Connecticut Development Authority	$10.0

During the year, the State completed work on the Hartford Convention Center, which was placed into service in the month of June. At the same time, the State transferred control of the Convention Center to the Capital City Economic Development Authority (a component unit) which will be responsible for managing the facilities. The Authority recorded the Convention Center in its financial statements at a cost of $220.3 million, of which $165.4 million represents contributions from the State.

Other special items were reported by the Connecticut Resources Recovery Authority (a component unit) and consisted of a gain on sale of Enron claim of $28.5 million and a loss on early retirement of debt of $6.1 million.

Note 25 Subsequent Events

In November 2005, the state issued $300 million of general obligation bonds. The bonds will mature in years 2006 through 2025 and bear interest rates ranging from 4.0% to 5.0%.

In December 2005, $250 million of special tax obligation bonds for transportation infrastructure programs were issued. These bonds will mature in years 2006 through 2025 and bear interest rates ranging from 4.0% to 5.0%.

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Required PERS Supplementary Information

Required Supplementary Information
Schedules of Funding Progress
(Expressed in Millions)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
SERS						
6/30/1998	$5,669.9	$9,592.4	$3,922.5	59.1%	$2,339.0	167.7%
6/30/1999 *	-	-	-	-	-	-
6/30/2000	$7,196.0	$11,512.1	$4,316.1	62.5%	$2,651.9	162.8%
6/30/2001	$7,638.9	$12,105.4	$4,466.5	63.1%	$2,784.5	160.4%
6/30/2002	$7,893.7	$12,806.1	$4,912.4	61.6%	$2,852.1	172.2%
6/30/2003	$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 *	-	-	-	-	-	-
*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 *	-	-	-	-	-	-
*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	$69.0	68.7%	28.90	238.8%
6/30/2005 *	-	-	-	-	-	-
*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%	$-	-

Note: During the years 2000 thru 2004 the only contributions to the Probate Judges Retirement System were the required member contributions.

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

	SERS	TRS	JRS	MERS	PJRS
Valuation date	6/30/2004	6/30/2004	6/30/2004	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	28 Years	8-27 Years	26 Years	3-21 Years	-
Asset valuation method	5 year smoothed market	4 year smoothed market	5 year smoothed market	5 year smoothed market	Asset smoothing
Actuarial assumptions:					
Investment rate of return	8.5%	8.5%	8.5%	8.5%	8.5%
Projected salary increases	4.25-15%	4-8%	5.5%	4.5-11.25%	6%
Includes inflation at	5%	4%	5.5%	3.75%	3.5%
Cost-of-living adjustments	2.75-3.75%	3%	3-5.5%	2.6-4.0%	3%

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PART III
ANNUAL INFORMATION STATEMENT
STATE OF CONNECTICUT

JANUARY 31, 2006

This Annual Information Statement of the State of Connecticut (the "State") contains information through January 31, 2006. For information about the State after January 31, 2006, the State expects to provide an updating Information Supplement from time to time. The reader should refer to the Information Supplement, if any, set forth in this Official Statement immediately preceding this Annual Information Statement. This Annual Information Statement and the Information Supplement that precedes it, if any, and any appendices attached thereto, should be read collectively and in their entirety.

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

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

Constitutional Elected Officers

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

Executive Branch Officers

* Secretary of the Office of Policy and Management	Robert L. Genuario
* Commissioner of Public Works	James T. Fleming
Commissioner of Transportation	Stephen E. Korta 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

* Denotes member of the State Bond Commission

PART III
January 31, 2006
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.

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, 2005 $302.1 million was deposited into the budget reserve fund from the fiscal year 2003-04 surplus. It is expected that once the results for fiscal year 2005 have been finalized, approximately

$300 million more from the fiscal year 2004-05 surplus will be added to the budget reserve fund. In the past, moneys in the budget reserve fund were applied to partially offset a general fund deficit and surplus moneys in excess of amounts transferred to the budget reserve fund have been held or applied to provide for the retirement of outstanding indebtedness or for debt avoidance.

Revenues. The Treasurer superintends the collection and receipt of all taxes and revenues belonging to the State, and is authorized to deposit the same in any qualified public depository as defined by statute. Each State department, institution, board, commission or other State agency and any official or employee thereof that receives any money for revenue of the State must, within 24 hours of its receipt or within seven days of receipt for amounts less than $500, account for and pay the same to the Treasurer or, with the approval of the Treasurer and the Comptroller, deposit the same in an account in a qualified public depository in the name of the State or in the name of the public official as such official. The Treasurer is authorized to make exceptions to the limitations on amounts and timing of payments or deposits of receipts provided the Treasurer files a written statement of such exception with the Comptroller and the 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 October 15 of each year, audited financial statements of the State's combined investment funds, and financial statements of the Short Term Investment Fund, the Second Injury Fund, and the Tax Exempt Proceeds Fund for the prior fiscal year.

In July 2003 the State implemented the first phase of a new, fully integrated, Internet based, financial management and human resources system called Core-CT. The financial software modules (accounts payable, accounts receivable, commitment control, general ledger and reporting) came online first in July 2003, followed by the human resources and payroll applications (payroll, time and labor) in October 2003. 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 initial implementation problems with the CORE-CT financial management software system caused a delay in the preparation of financial statements and reports for fiscal year 2003-04. The Comptroller's Office has completed the audited legal accounting basis (modified cash) financial statements and audited statements prepared in accordance with generally accepted accounting principles (GAAP) for the State for the fiscal year ending June 30, 2004. The financial statements appear in **Parts III-C and III-D**. On December 30, 2005 the State submitted its Single Audit for the fiscal year ending June 30, 2004 to the U.S. Department of Health & Human Services pursuant to OMB Circular No. A-133. The final preparation and subsequent audit of the financial statements for fiscal year 2004-05 has been delayed due to the delay in completing the final audited 2003-04 financial statements. Work on the 2004-05 fiscal year financial statements commenced approximately six months late and thus the final audited statements for the 2004-05 fiscal year are not anticipated before July 15, 2006.

Investment and Cash Management

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

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

Short Term Investment Fund. Cash management and the investment by the Treasurer of all State monies is based on the concept of a common cash pool. The Short Term Investment Fund ("STIF") is a combined investment pool of high quality, short term money market instruments which is the primary investment vehicle for the temporarily surplus cash of all funds of which the Treasurer is custodian and/or trustee, except certain bond funds, State pension funds and selected trust funds. All agencies, instrumentalities and political subdivisions of the State are permitted to invest in STIF. The State is responsible to these governmental entities to manage their deposits and accumulated earnings in a prudent manner. Individual

participants in STIF can add or withdraw monies on a daily basis with interest earned from date of deposit to date of withdrawal. The primary investment objectives of STIF are the preservation of principal and the provision of liquidity to meet participants' daily cash flow needs, while seeking to earn competitive yields. STIF is managed in accordance with the investment guidelines established by the Treasurer. These investment guidelines prohibit investment in derivative securities other than floating rate securities which vary in the same direction as individual short term money market indices, and limit the ability to enter into reverse repurchase agreements to amounts not to exceed five percent (5%) of the STIF's net assets at the time of execution. Shares of the Short Term Investment Fund are rated "AAAm" by Standard & Poor's.

Medium Term Investment Fund. A 1997 statute created the Medium-Term Investment Fund. The Treasurer may purchase participation units of the fund for all trusts and other funds for which the Treasurer has investment responsibility. The Treasurer may sell participation units in the Medium-Term Investment Fund to all agencies, authorities, instrumentalities and political subdivisions of the State. The Treasurer is authorized to invest and reinvest funds of the Medium-Term Investment Fund in obligations of the United States government and its agencies and instrumentalities, certificates of deposit, commercial paper, corporate debt securities, savings accounts and bankers' acceptances, repurchase agreements collateralized by such securities, and investment funds or pools comprised of securities in which the Medium-Term Investment Fund may directly invest. To date, the Medium Term Investment Fund has not been implemented.

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

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

Investment of Bond Proceeds. Proceeds of bonds are accounted for in various general obligation bond funds. All invested assets of the bond funds are invested in STIF or TEPF. Bond proceeds are expended

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

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

STATE GENERAL FUND

The State finances most of its operations through its General Fund. However, certain State functions, such as the State's transportation budget, are financed through other State funds. See **OTHER FUNDS, DEBT AND LIABILITIES** herein. For budgetary purposes, the State's General Fund is accounted for on a modified cash basis of accounting (the "budgetary-basis"), which differs from generally accepted accounting principles ("GAAP"). For an explanation of the differences between the budgetary-basis and GAAP based accounting, see **FINANCIAL PROCEDURES — Accounting Procedures** herein. The State is not presently required to prepare GAAP financial statements, although it has prepared such statements annually since 1988. GAAP based audited financial statements for all civil list funds of the State for the fiscal year ending June 30, 2004 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, 2001 through June 30, 2004 are included in **Appendix III-D** to this Annual Information Statement. Due to delays in preparing the financial statements for fiscal year ending June 30, 2004, the preparation of fiscal year 2004-05 financial statements has been delayed. However, the Office of the Comptroller has provided preliminary estimates as of January 23, 2006 for financial information relating to fiscal year 2004-05 for purposes of this Annual Information Statement. Such information is referred to as "preliminary" herein and is subject to additional updates and adjustments by the Comptroller and subject to the final audit. Such operating results are only preliminary estimates as of January 23, 2006 and no assurances can be given that subsequent estimates or adjustments will not indicate changes in the final results of the fiscal year 2004-05 operations of the General Fund. The preliminary estimated financial statements for the fiscal year ending June 30, 2005 are included in **Appendix III-D** to this Annual Information Statement. The preliminary estimate of the budgetary-basis results for the fiscal year ending June 30, 2005 (as of January 23, 2006), the adopted budgets for fiscal years ending June 30, 2006 and June 30, 2007 and the estimated (as of November 30, 2005) budget for the fiscal year ending June 30, 2006 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.

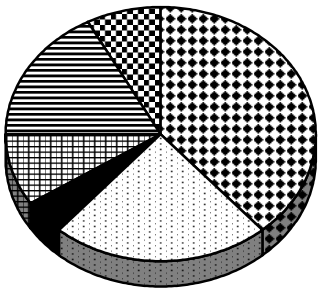
Fiscal Year 2005-2006 and 2006-2007 Adopted Revenues. General Fund revenues as forecasted at the adoption of the budgets for the fiscal years ending June 30, 2006 and June 30, 2007 ("Adopted Revenues") are reflected in **Appendix III-E** to this Annual Information Statement. The State, as of the forecast date,

expected to derive approximately 74 percent of its General Fund revenues from taxes during the 2005-06 fiscal year and the 2006-07 fiscal year. The adopted budgets for the fiscal years ending June 30, 2006 and June 30, 2007, the preliminary estimate of the budgetary-basis results for the fiscal year ending June 30, 2005 (as of January 23, 2006) and the estimated budgetary basis results (as of November 30, 2005) for the fiscal year ending June 30, 2006 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 budget, for the fiscal year ending June 30, 2006 and for the fiscal year ending June 30, 2007, are set forth below:

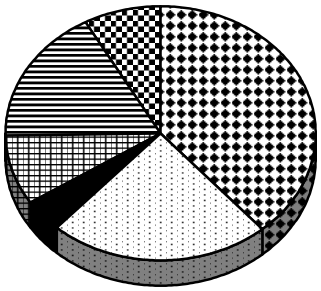
Adopted General Fund Revenues (In Millions)

Adopted Revenues 2005-2006
$14,133.7 [(a)]



Personal Income Tax	$ 5,786.0	38.6%
Sales and Use Tax	3,432.0	22.9%
Corporate Business Tax	646.3	4.3%
Other Taxes[(b)]	1,372.1	9.2%
Unrestricted Federal Grants	2,601.4	17.4%
Other Non-Tax Revenues [(c)]	1,163.2	7.8%

Adopted Revenues 2006-2007
$14,748.5 [(a)]



Personal Income Tax	$ 6,065.0	38.7%
Sales and Use Tax	3,592.0	22.9%
Corporate Business Tax	674.8	4.3%
Other Taxes[(b)]	1,402.7	9.0%
Unrestricted Federal Grants	2,675.5	17.1%
Other Non-Tax Revenues [(c)]	1,277.1	8.2%

(a) The pie charts reflect the total of the listed tax and revenue amounts of $15,001.0 million for fiscal year 2005-06 and $15,687.1 million for fiscal year 2006-07 and do not reflect tax refunds and transfers to other funds of $867.3 million for fiscal year 2005-06 and $938.6 million for fiscal year 2006-07. The total listed tax and revenue amounts do not reflect a $17 million reduction in General Fund revenues for fiscal year 2005-06 and $16 million reduction in General Fund revenues for fiscal year 2006-07 due to the enactment of Public Act No. 05-5 of the October 25 Special Session which diverts such amounts to the Citizens Election Fund. See **Appendix III-E** for anticipated adjustments to adopted tax revenues.

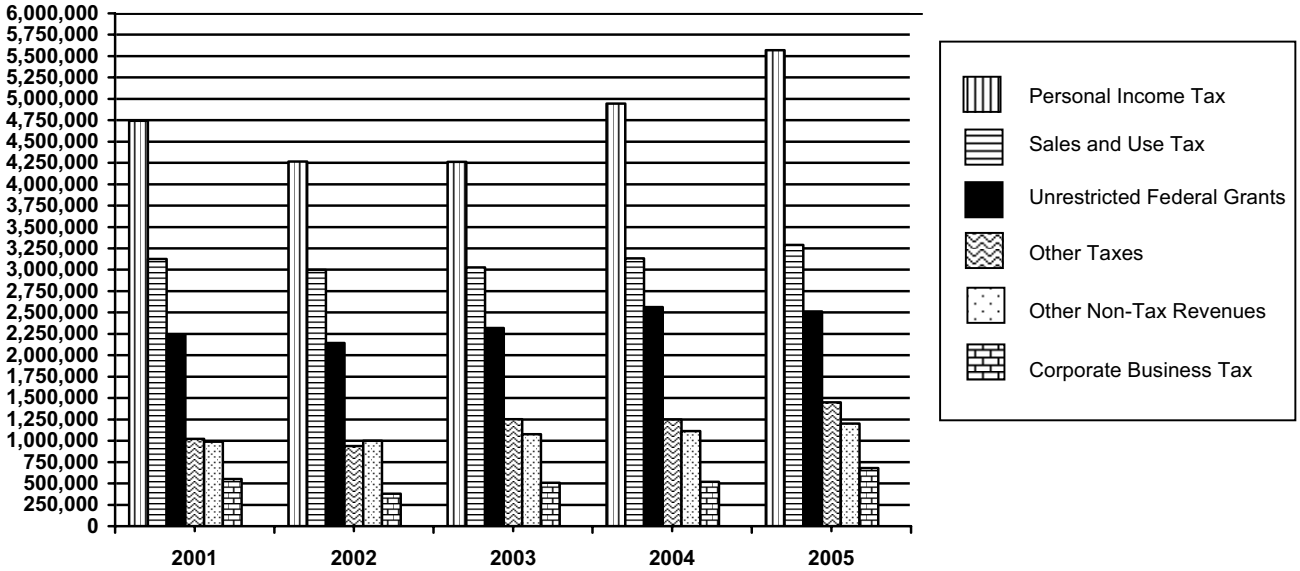
(b) Other taxes are comprised of inheritance and estate taxes, taxes on gross receipts of public service corporations, on net direct premiums of insurance companies, on oil companies, on cigarettes and alcoholic beverages, on real estate transfers, on admissions and dues, on nursing home providers and 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.

Historical General Fund Revenues. Actual General Fund revenues for the fiscal years ending June 30, 2001 through 2004 and preliminary estimate of the General Fund revenues for fiscal year 2004-05 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)



	2001	2002	2003	2004	2005 [d] (preliminary)
Taxes:					
Personal Income Tax	$ 4,744,233	$ 4,265,912	$ 4,263,070	$ 4,943,430	$ 5,570,724
Sales Tax	3,125,078	2,997,766	3,025,743	3,133,888	3,290,362
Corporate Business Tax	550,509	380,985	507,975	518,009	678,668
Other Taxes [b]	1,022,755	937,782	1,252,376	1,248,406	1,448,300
Subtotal	9,442,575	8,582,445	9,049,164	9,843,733	10,988,054
R & D Credit Exchange	-	-	(11,148)	(10,378)	(8,850)
Refunds of Taxes	(735,482)	(851,491)	(808,209)	(650,800)	(681,279)
Total Net Taxes	$ 8,707,093	$ 7,730,954	$ 8,229,807	$ 9,182,555	$ 10,297,925
Other Revenue:					
Federal Grants (Unrestricted)	2,237,045	2,142,269	2,318,421	2,564,256	2,514,085
Other Non-Tax Revenues (Unrestricted)[c]	987,932	999,888	1,078,620	1,115,081	1,201,745
Transfers to Other Funds	(85,400)	(147,686)	(93,009)	(85,000)	(85,000)
Transfers from Other Funds	138,800	120,000	489,486	346,883	141,300
Total Other Revenues	$ 3,278,377	$ 3,114,471	$ 3,793,518	$ 3,941,220	$ 3,772,130
Total Revenues	$ 11,985,470	$ 10,845,425	$ 12,023,325	$13,123,775	$ 14,070,055

(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.

(d) Based on information obtained from the State Comptroller's preliminary estimates as of January 23, 2006 for the period ending June 30, 2005. ***These are preliminary estimates and are subject to further adjustments***. See discussion on **Page III-13**, **paragraph one** of this Annual Information Statement.

SOURCE: 2001, 2002, 2003 and 2004 Annual Reports of the State Comptroller.

Components of Revenue

Personal Income Tax. The State imposes a personal income tax on the income of residents of the State (including resident trusts and estates), part-year residents and certain non-residents who have taxable income derived from or connected with sources within Connecticut. The tax imposed is at the maximum rate of 5% on Connecticut taxable income. Depending on federal income tax filing status, the taxable year and Connecticut adjusted gross income, personal exemptions are available to taxpayers, ranging from $12,000 to $24,000, with the lower end of the range increasing annually to $15,000 by taxable year 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 scheduled to increase to $400 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%. Legislation in 2003 and 2005 imposed a one time corporation business tax surcharge of 20% for income year 2003, 25% for income year 2004, 20% for income year 2006 and 15% for income year 2007. There was no corporation business tax surcharge for income year 2005.

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 2004-05 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

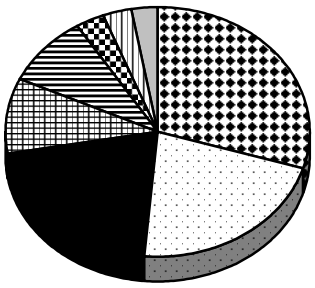
Appropriated and Historical Expenditures

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 adopted budgets for the fiscal years ending June 30, 2006 and June 30, 2007, the preliminary estimate of the budgetary-basis results (as of January 23, 2006) for the fiscal year ending June 30, 2005 and the estimated (as of November 30, 2005) budgetary – basis results for the fiscal year ending June 30, 2006 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.

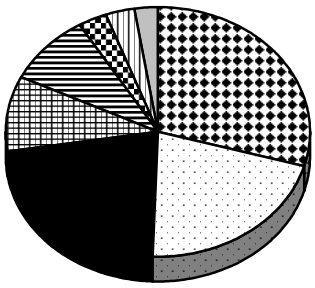
Appropriated General Fund Expenditures (In Millions)

Appropriated Expenditures 2005-2006
$14,131.7[a]



Human Services	$ 4,237.4	29.8%
Education, Libraries and Museums	3,062.2	21.5%
Non-Functional	3,000.6	21.1%
Health and Hospitals	1,374.4	9.7%
Corrections	1,314.2	9.2%
General Government	434.5	3.0%
Judicial	430.7	3.0%
Other Expenditures[b]	383.1	2.7%

Appropriated Expenditures 2006-2007
$14,745.2[a]



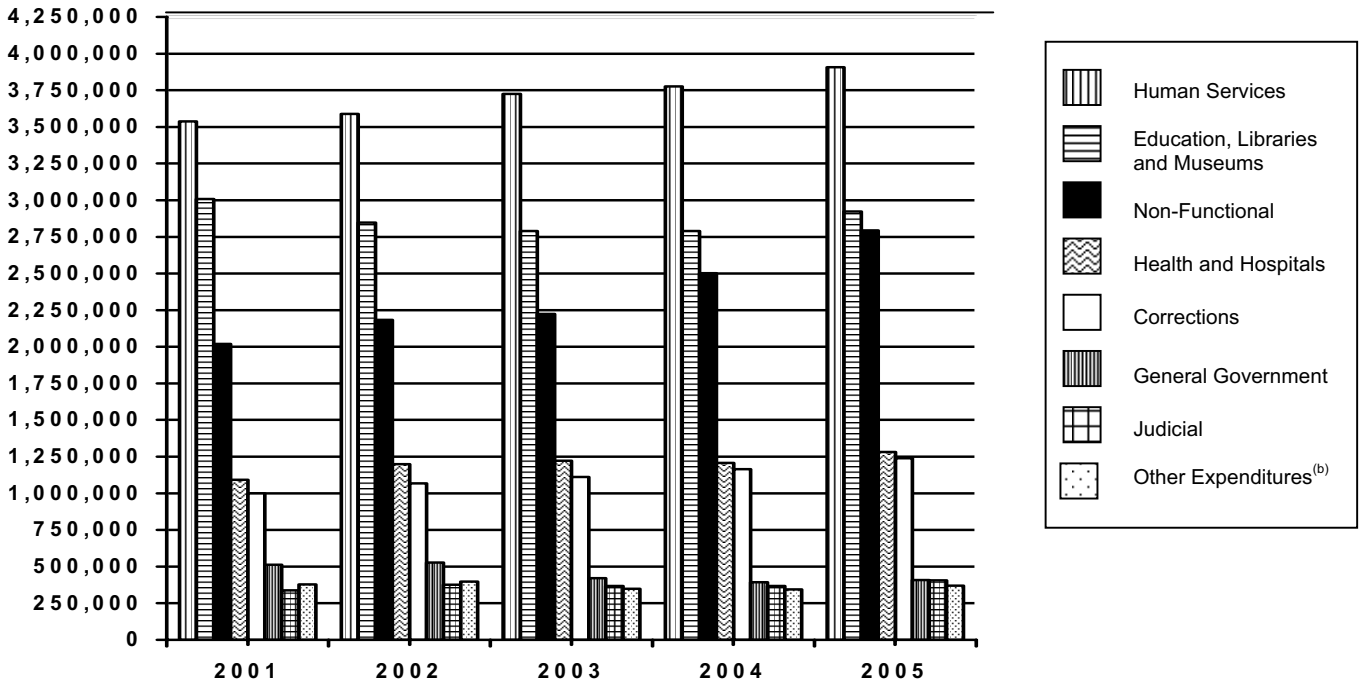
Human Services	$ 4,364.0	29.4%
Education, Libraries and Museums	3,130.0	21.1%
Non-Functional	3,297.7	22.2%
Health and Hospitals	1,414.3	9.5%
Corrections	1,370.6	9.2%
General Government	449.2	3.0%
Judicial	442.8	3.0%
Other Expenditures[b]	391.3	2.6%

(a) The pie charts reflect the total listed expenditures of $14,237.1 million for fiscal year 2005-06 and $14,859.9 million for fiscal year 2006-07, and do not reflect adjustments for unallocated lapses of $105.5 million for fiscal year 2005-06 and $114.7 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 Pages III-23 and 24 under the heading **Budget 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.

SOURCE: Public Act No. 05-251.

Historical General Fund Expenditures. Actual General Fund expenditures for the fiscal years ending June 30, 2001 through 2004 and preliminary estimates of the General Fund expenditures for Fiscal Year 2004-05 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)

	2001	2002	2003	2004	2005[c] (preliminary)
Human Services	$ 3,537,462	$ 3,589,653	$ 3,724,789	$ 3,776,415	$ 3,908,030
Education, Libraries and Museums	3,007,391	2,847,540	2,789,051	2,789,367	2,922,543
Non-Functional	2,019,041	2,182,512	2,224,838	2,502,331	2,793,713
Health and Hospitals	1,092,361	1,198,335	1,222,978	1,206,942	1,283,000
Corrections	999,052	1,068,183	1,111,416	1,165,656	1,239,562
General Government	511,430	527,287	420,241	394,193	408,817
Judicial	338,568	376,813	368,143	368,326	405,818
Other Expenditures(b)	377,395	396,703	348,877	343,689	370,866
Totals	$ 11,882,700	$ 12,187,026	$ 12,210,333	$ 12,546,919	$ 13,332,349

(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.

(c) Based on information obtained from the State Comptroller's preliminary estimates as of January 23, 2006 for the period ending June 30, 2005. ***These are preliminary estimates and are subject to further adjustments***. See discussion on **Page III-13**, **paragraph one** of this Annual Information Statement.

SOURCE: 2001, 2002, 2003 and 2004 Annual Reports of the State Comptroller.

Components of Expenditures

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

Education, Libraries and Museums. Based upon the adopted budget for the 2005-06 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 39% of all appropriations for Conservation and Development based upon the adopted budget for the 2005-06 fiscal year.

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

Expenditures by Type

General Fund appropriations and the State expenditures to which they relate are divided for both administrative and budgetary purposes among appropriation account categories based on the type of appropriation. Appropriation account types may be grouped conceptually into two broad categories: payments to third parties and costs of State administration. Payments to third parties consist of two major appropriation account types: payments to local governments, and payments to parties other than local governments (which include debt service payments). Such payments to third parties amount to approximately 63% of total General Fund appropriations under the adopted budget for the 2005-06 fiscal year. Costs of State administration consist of three major appropriation account types: personal services, equipment, and other expenses. These expenditures are used directly to operate the facilities and programs of State agencies and include such items as salaries, wages, pension and other benefits for State employees; utility and fuel costs; food; institutional and office supplies; equipment; rent for office space and other facilities; and other current expenses. Appropriations for costs of State administration represent approximately 37% of all General Fund appropriations under the adopted budget for the 2005-06 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 2003-04[2]		Fiscal Year 2004-05[2] (Preliminary)		Fiscal Year 2005-06 (Appropriated)	
	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments
LEGISLATIVE						
Total – Legislative	265	0	268	0	320	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	50,730	50,730	50,730	50,730
Undesignated	33,349	18,963	31,447	16,100	33,544	17,413
Total – General Government	104,585	90,199	102,683	87,336	104,780	88,649

	Fiscal Year 2003-04[2]		Fiscal Year 2004-05[2] (Preliminary)		Fiscal Year 2005-06 (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	37	0	137	0
CONSERVATION AND DEVELOPMENT						
Total - Conservation and Development	24,759	17,550	29,497	20,072	24,789	15,370
HEALTH AND HOSPITALS						
Employment Opportunities and Day Services (Dept. of Mental Retardation)	115,364	0	121,025	0	134,115	0
Community Residential Services (Dept. of Mental Retardation)	248,679	0	268,536	0	301,115	0
Grants for Substance Abuse Services.	19,816	0	21,462	0	22,182	0
Grants for Mental Health Services	73,598	0	74,712	0	76,320	0
Undesignated	43,248	8,236	44,784	10,842	45,562	10,925
Total - Health and Hospitals	500,705	8,236	530,519	10,842	579,294	10,925
HUMAN SERVICES						
Medicaid	2,785,097	0	2,922,403	0	3,218,835	0
Old Age Assistance	29,175	0	29,300	0	31,802	0
Aid to the Disabled	54,267	0	54,377	0	55,732	0
Temporary Assistance to Families – TANF	127,564	0	127,855	0	132,282	0
Connecticut Pharmaceutical Assistance Contract to the Elderly .	75,272	0	60,517	0	50,089	0
Medicaid - Disproportionate Share - Mental Health	105,935	0	105,935	0	105,935	0
Connecticut Home Care Program	33,187	0	36,152	0	43,775	0
Child Care Services - TANF/CCDBG	60,851	0	59,588	0	68,580	0
Housing/Homeless Services	21,799	0	22,035	0	25,881	0
Disproportionate Share - Medical Emergency Assistance	64,005	0	63,725	0	58,725	0
DSH - Urban Hospitals in Distressed Municipalities	31,550	0	31,550	0	31,550	0
State Administered General Assistance	133,809	0	131,953	0	143,589	0
Undesignated	47,724	6,151	48,230	5,110	57,219	5,160
Total - Human Services	3,570,235	6,151	3,693,620	5,110	4,023,994	5,160
EDUCATION, LIBRARIES AND MUSEUMS						
Charter Schools	16,971	0	19,732	0	20,569	0
Transportation of School Children	43,140	43,140	42,696	42,696	46,764	46,764
Education Equalization Grants	1,522,564	1,522,564	1,563,014	1,563,014	1,594,356	1,594,356

	Fiscal Year 2003-04[2]		Fiscal Year 2004-05[2] (Preliminary)		Fiscal Year 2005-06 (Appropriated)	
	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments
Priority School Districts	82,156	82,156	99,423	99,423	102,177	102,177
Excess Cost - Student Based	61,520	61,520	67,105	67,105	80,097	80,097
Magnet Schools	54,353	54,353	66,913	66,913	84,518	84,518
Teachers' Retirement Contributions	185,348	0	185,348	0	226,128	0
Undesignated	130,083	57,789	135,618	59,734	154,802	68,026
Total – Education	2,096,135	1,821,522	2,179,849	1,898,885	2,309,411	1,975,938
CORRECTIONS						
Community Support Services (Dept. of Correction)	19,764	0	21,067	0	26,405	0
Board and Care for Children – Adoption	49,718	0	51,562	0	58,102	0
Board and Care for Children – Foster	81,791	0	87,111	0	100,598	0
Board and Care for Children – Residential	146,844	0	150,960	0	158,655	0
Undesignated	71,549	0	77,874	0	90,384	0
Total – Corrections	369,666	0	388,574	0	434,144	0
NON FUNCTIONAL						
Debt Service (Including UConn 2000 and CHEFA Day Care Security)[3]	1,127,452	0	1,259,138	0	1,273,379	0
Reimbursement to Towns for Loss of Taxes on State Property	64,959	64,959	69,959	69,959	69,959	69,959
Reimbursement to Towns for Loss of Taxes on Private Tax-exempt Property	100,932	100,932	105,932	105,932	105,932	105,932
Undesignated	674	0	817	0	925	0
Total - Non Functional	1,294,017	165,891	1,435,846	175,891	1,450,195	175,891
Total - Fixed Charges	7,960,404	2,109,549	8,360,893	2,198,136	8,927,064	2,271,933

[1] Table 1 includes actual fixed charge expenditures for fiscal year 2003-04, preliminary estimates of fixed charge expenditures for Fiscal Year 2004-05 due to difficulties in obtaining certain reports from the State's Core-CT System, and appropriated fixed charge expenditures for fiscal year 2005-06.

[2] Includes funds carried forward from the previous fiscal year. Information was obtained by the Office of Policy and Management from the Fiscal Year 2004 Trial Balance of Appropriations Core-CT report, Budget and Expense columns.

[3] 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:

By statute, 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 to the Governor, dated September 1, 2005, the Comptroller provided preliminary financial statements (on the modified cash basis) for the General Fund as of the period ending June 30, 2005, and estimated that General

Fund revenues for the 2004-05 fiscal year were $13,915.7 million, General Fund expenditures and miscellaneous adjustments were $13,758.3 million and the General Fund balance for the 2004-05 fiscal year was estimated to have a surplus of $157.4 million. However, subsequent preliminary estimates of the Comptroller as of January 23, 2006 prepared for this Annual Information Statement, for the period ending June 30, 2005, indicated that General Fund revenues were estimated at $14,070.1 million, General Fund expenditures and net miscellaneous adjustments were estimated at $13,698.3 million and the General Fund surplus for the 2004-05 fiscal year was estimated at $371.8 million. Such operating results are only preliminary estimates as of January 23, 2006 and no assurances can be given that subsequent estimates or adjustments will not indicate changes in the final result of the fiscal year 2004-05 operations of the General Fund. The final resulting surplus balance is reserved for transfer to the Budget Reserve Fund after all adjustments and the audit have been completed. The surplus takes into account the General Assembly's passage of the biennial budget for fiscal years 2005-06 and 2006-07, pursuant to which the legislature has appropriated unanticipated additional revenues of approximately $623.9 million from the 2004-05 fiscal year for various purposes, discussed more fully below under the caption **Budget for Fiscal Years 2005-2006 and 2006-2007**.

The estimated operating results for fiscal year 2004-05 based on the preliminary estimates of the State Comptroller as of January 23, 2006 are outlined in **Appendix III-D** and **Appendix III-E** to this Annual Information Statement.

The above estimated operating results are only preliminary, and the information in the Comptroller's report contains only estimates. No assurances can be given that subsequent estimates or adjustments will not indicate changes in the final result of the fiscal year 2004-05 operations of the General Fund.

Budget for Fiscal Years 2005-2006 and 2006-2007

The General Assembly passed the biennial budget for fiscal years 2005-06 and 2006-07 prior to its adjournment date of June 8, 2005. The budget for fiscal year 2005-06 includes General Fund revenues of $14,133.7 million and appropriations of $14,131.7 million, resulting in a projected surplus of $2.0 million. The budget for fiscal year 2006-07 includes General Fund revenues of $14,748.5 million and appropriations of $14,745.2 million, resulting in a projected surplus of $3.3 million. Such surplus amounts do not, however, reflect the reductions to General Fund revenues in the amounts of $17 million and $16 million respectively for fiscal years 2005-06 and 2006-07 pursuant to an act of the October 25, 2005 Special Session which diverts such amounts from abandoned property receipts to the Citizens Election Fund.

The following more significant revenue changes in the biennial budget include (i) reducing the property tax credit under the income tax from $500 to $400, saving an estimated $105 million in fiscal year 2005-06 and $70 million in fiscal year 2006-07, (ii) imposing a 20% surcharge on the corporation tax in income year 2006 and a 15% surcharge in income year 2007, estimated to generate $43.4 million in fiscal year 2005-06 and $50.8 million in fiscal year 2006-07, (iii) enacting a new unified estate and gift tax on estates and gifts over $2.0 million along with a repeal of the succession tax and repeal of the separate gift tax, estimated to generate a net increase of $40.7 million in fiscal year 2005-06 and $102.1 million in fiscal year 2006-07, and (iv) instituting a nursing home provider tax as part of an overall plan to garner additional federal funds for the provider industry, estimated to generate $134.7 million in revenue from the tax in each year of the biennium as well as $114.8 million in additional federal funds in each year of the biennium.

The General Assembly also approved the use of anticipated fiscal year 2004-05 surplus funds to pay for various spending items, which are counted against expenditures in fiscal year 2004-05 in the discussion above under the caption **Fiscal Year 2004-2005 Operations**. These include (i) appropriating $546.8 million for various items, including (1) $137.7 million to pay the debt service costs due in fiscal years 2005-06 and 2006-07 on the outstanding Economic Recovery Notes which were issued to fund the State's fiscal year 2001-02 and fiscal year 2002-03 General Fund deficits, (2) $100.0 million contribution to the Teachers' Retirement Fund, (3) $57.3 million of education equalization grants to towns, and (4) $42.4 million for accrued sick and

vacation leave payments due to the early retirement program that was offered in 2003, (ii) transferring $57.1 million to agencies for various purposes, and (iii) funding $20 million for stem cell research. In accordance with the Constitution, the Governor issued a declaration to exceed the State's expenditure cap in order to appropriate these funds. These appropriations were approved by the required three-fifths vote of each house of the General Assembly.

The budget was $24.6 million below the expenditure cap in fiscal year 2005-06 and $10.3 million below the expenditure cap in fiscal year 2006-07. The General Assembly also included in the budget a $244 million appropriation in fiscal year 2005-06 related to the nursing home provider tax within various sectors of the provider industry. The expenditure of these funds would have placed the budget above the expenditure cap in fiscal year 2005-06. However, in accordance with the Constitution, the Governor issued a declaration to exceed the State's expenditure cap in order to garner the additional federal funds associated with the program. This appropriation was approved by the required three-fifths vote of each house of the General Assembly.

Fiscal Year 2005-2006 Operations

Pursuant to Section 4-66 of the Connecticut General Statutes, the Office of Policy and Management provides estimates to the Comptroller by the twentieth day of each month of revenues and expenditures for the current fiscal year for use by the Comptroller in preparing the Comptroller's monthly report. In the monthly estimates provided by the Office of Policy and Management on December 20, 2005, for the period ending November 30, 2005, General Fund revenues for the 2005-06 fiscal year were estimated at $14,482.9 million, General Fund expenditures and miscellaneous adjustments were estimated at $14,155.1 million and the General Fund balance for the 2005-06 fiscal year was estimated to have a surplus of $327.8 million. While the Comptroller was in general agreement with the Office of Policy and Management's estimate, based on the fiscal trends at the time of her January 3, 2006 letter the Comptroller's estimates indicated that General Fund revenues for the 2005-06 fiscal year were estimated at $14,482.9 million, General Fund expenditures and miscellaneous adjustments were estimated at $14,170.9 million and the General Fund balance for the 2005-06 fiscal year was estimated to have a surplus of $312.0 million, as of the period ending November 30, 2005.

The projected operating results for the 2005-06 fiscal year are set forth in **Appendix III-E** to this Annual Information Statement.

The above projections are only estimates and the information in the Comptroller's monthly report and in the monthly letter of the Office of Policy and Management to the Comptroller contain only estimates and no assurance can be given that future events will materialize as estimated or that subsequent estimates or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2005-06 operations of the General Fund.

General Fund Budget History

Table 2 summarizes the results of operation of the General Fund on the budgetary-basis. Summaries of actual revenues and expenditures on the budgetary (modified cash) basis for the fiscal years 2001 through 2004 and the preliminary estimates as of January 23, 2006 for fiscal year 2004-05 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

	2001	2002	2003	2004	2005[h] (preliminary)
Total General Fund Revenues[a]	$11,985.5	$10,845.4	$ 12,023.3	$ 13,123.8	$ 14,070.1
Net Appropriations/Expenditures[b]	11,954.8[c]	11,662.5	12,119.9	12,821.6	13,698.3
Operating Surplus/(Deficit)	$ 30.7[d]	$ (817.1)[e]	$ (96.6)[f]	$ 302.2[g]	$ 371.8[i]

(a) Does not include Restricted Accounts and Federal and Other Grants. See **Appendix III-D-6**.

(b) Does not include expenditures for Restricted Accounts and Federal and Other Grants. Includes Amounts Reserved for Prior Year Appropriations Less Appropriations Carried Forward and Other Adjustments. See **Appendix III-D.**

(c) Does not include expenditures which were financed from fiscal year 1999-2000 reserves of $265.5 million for debt avoidance.

(d) $30.7 million of the operating surplus was reserved for transfer to the Budget Reserve Fund.

(e) $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.

(f) 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.

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

(h) Based on information obtained from the State Comptroller's preliminary estimates as of January 23, 2006 for the period ending June 30, 2005. ***These are preliminary estimates and are subject to further adjustments***. See discussion on **Page III-13**, **paragraph one** of this Annual Information Statement.

(i) 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. Adopted audited GAAP based financial statements for fiscal year 2004 are included in **Appendix III-C**.

TABLE 3

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

(In Millions)

Fiscal Years Ending June 30

	2001	2002	2003	2004	2005[a]
Modified Cash Basis Operating Surplus/(Deficit)	$ 30.7	$ (817.1)	$(96.6)	$302.2	$
Adjustments:					
Increases (decreases) in revenue accruals:					
Governmental Receivables	80.0	37.0	(3.9)	27.8	
Other Receivables	(15.1)	9.0	(75.0)	90.1	
(Increases) decreases in expenditure accruals:					
Accounts Payable and Other Liabilities	(115.8)	69.4	59.6	(166.6)	
Salaries and Fringe Benefits Payable	(14.1)	(15.6)	8.7	(97.2)	
Increase (decrease) in Continuing Appropriations	334.0	(543.8)	(82.0)	126.2	
Reclassification of equity adjustments	(266.5)	--	--	(154.1)	
Proceeds of Recovery Notes	--	--	222.4	97.7	
GAAP Based Operating Surplus/(Deficit)	$ 33.2	$(1,261.1)	$ 33.2	$226.1	$

(a) Since GAAP-based financial statements for fiscal year ending June 30, 2005 are not yet available, figures for this column could not be determined.

SOURCE: Comptroller's Office

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

TABLE 4

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

(In Millions)

Fiscal Years Ending June 30

	2001	2002	2003	2004	2005[a] (preliminary)
Operating Surplus/Deficit	$ 30.7	$ (817.1)	$ (96.6)	$ 302.2	$ 371.9
Fund Transfers and Reserves					
Transfers to Budget Reserve Fund	30.7	--	--	302.2	--
Transfers from Budget Reserve Fund	--	594.7		--	--
Economic Recovery Note Debt Retirement	--	--	--	--	--
Reserve for Transfers to Budget Reserve Fund	--	--	--	--	371.9
Reserve for Debt Service Appropriation	--	--	--	--	--
Reserve for Debt Avoidance	--	--	--	--	--
Total Transfers/Reserves	30.7	594.7	0	0	0
Unreserved Fund Balance					
Surplus/(deficit)	$ 0.0	$ (222.4)	$ (96.6)	$ 0.0	$ 0.0

(a) Based on information obtained from the State Comptroller's preliminary estimates as of January 23, 2006 for the period ending June 30, 2005. ***These are preliminary estimates and are subject to further adjustments***. See discussion on **Page III-13**, **paragraph one** of this Annual Information Statement.

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

	2001	2002	2003	2004	2005[b]
Unreserved Fund Balance (Deficit)					
Modified Cash Basis	$ 0.0	$ (222.4)	$ (96.6)	$ 0.0	$
GAAP Based Adjustments					
Continuing Appropriations Available for GAAP Liabilities	25.4	-	-	-	-
Additional Assets					
Taxes Receivable					
Income Tax Accrual Reduction	(194.1)	(221.8)	(268.2)	(233.5)	
Eliminate Corporation Accrual	(23.3)	(16.9)	(19.0)	(12.9)	
Additional Taxes Receivable	7.0	9.3	15.2	6.4	
Net Increase (Decrease) Taxes	(210.4)	(229.4)	(272.0)	(240.0)	
Net Accounts Receivable	83.8	57.3	87.3	155.0	
Federal and Other Grants Receivable[a]	525.8	582.0	478.2	589.7	
Due From Other Funds	7.2	13.1	13.0	23.4	
Total Additional Assets	$ 406.4	$ 423.0	$ 306.5	$ 528.1	$
Additional Liabilities					
Salaries and Fringe Payable	(173.4)	(189.3)	(180.6)	(233.8)	
Accounts Payable—Department of Social Services	(773.3)	(704.8)	(631.3)	(723.0)	
Accounts Payable—Trade & Other	(191.2)	(180.7)	(162.4)	(335.1)	
Payable to Local Governments	-	-	-	-	
Payable to Federal Government	(72.6)	(62.0)	(49.5)	(120.9)	
Due to Other Funds	(3.1)	(7.8)	(28.4)	(15.9)	
Total Additional Liabilities	$(1,213.6)	$(1,144.6)	$(1,052.2)	$(1,428.7)	$
Unreserved Fund Balance (Deficit) GAAP Basis	$ (781.8)	$ (944.0)	$ (842.3)	$ (900.6)	$

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

(b) Since GAAP-based financial statements for fiscal year ending June 30, 2005 are not yet available, figures for this column could not be determined.

SOURCE: Comptroller's Office

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

TABLE 6

General Fund Fund Balances-GAAP Basis

(In Millions)

Fiscal Years Ending June 30

	2001	2002	2003	2004	2005[a]
Reserved:					
Petty Cash	$ 1.0	$ 1.0	$ 1.0	$ 1.0	$
Budget Reserve	594.7	-	-	302.2	
Loans & Advances to Other Funds	6.6	5.9	6.7	16.8	
Restricted Purposes	249.3	283.2	249.3	150.3	
Inventories	36.2	41.9	42.1	37.4	
Continuing Appropriations	687.0	167.8	86.6	212.8	
Debt Service	20.7	9.3	55.1	-	
Total	1,595.5	509.1	440.8	720.5	
Unreserved:	(781.8)	(944.0)	(842.3)	(900.6)	
Total Fund Balance	$ 813.7	$ (434.9)	$ (401.5)	$ (180.1)	$

(a) Since GAAP-based financial statements for fiscal year ending June 30, 2005 are not yet available, figures for this column could not be determined.

SOURCE: Comptroller's Office

STATE DEBT

Constitutional Provisions

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

Types of State Debt

Pursuant to various public and special acts the State has authorized a variety of types of debt. These types fall generally into the following categories: direct general obligation debt, which is payable from the State's General Fund; special tax obligation debt, which is payable from specified taxes and other funds which are maintained outside the State's General Fund; and special obligation and revenue debt, which is payable from specified revenues or other funds which are maintained outside the State's General Fund. In addition, the State has a number of programs under which the State 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, 2005 as last estimated by the General Assembly's joint standing committee on finance, revenue and bonding, and the calculation of the debt limit, the aggregate amount of outstanding debt and of authorized but unissued debt subject to such limit, and the debt incurring margin, all as of December 16, 2005, is described in the following table.

TABLE 7
Statutory Debt Limit
as of December 16, 2005 [(a)]

Total General Fund Tax Receipts	$10,455,400,000	
Multiplier	1.60	
Debt Limit		$16,728,640,000
Outstanding Debt [(b)]	$ 9,038,558,789	
Guaranteed Debt [(c)]	$ 768,365,146	
Authorized Debt [(d)]	$ 3,170,598,407	
Total Subject to Debt Limit		$12,977,522,343
Less Debt Retirement Funds [(e)]	$ 39,087,308	
Aggregate Net Debt		$12,938,435,035
Debt Incurring Margin		$ 3,790,204,965

(a) Economic Recovery Notes are exempt from the statutory debt limit and are not included in the debt limit calculations.
(b) See ***Table 8***. Includes accreted value of capital appreciation bonds. Excludes UConn 2000 Bonds, tax increment financings, short term revenue anticipation notes, and lease financings other than the Middletown Courthouse and the Juvenile Training School.
(c) See **OTHER FUNDS, DEBT AND LIABILITIES – Contingent Liability Debt.** Guarantees for certain outstanding debt of Southeastern Connecticut Water Authority and UConn 2000 Bonds. Excludes accreted value of UConn 2000 capital appreciation bonds.
(d) Includes guarantee for UConn 2000 Bonds authorized but unissued under cap for 2005-06 fiscal year.
(e) Includes debt service funds for self-liquidating debt issued to finance facilities at the University of Connecticut and Connecticut State University.

SOURCE: State Treasurer's Office

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

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

Types of Direct General Obligation Debt

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

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

UConn 2000 Financing. The General Assembly has enacted two acts for the financing of projects at the University of Connecticut. In 1995 the General Assembly 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 may authorize 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. No such debt service assistance agreement has been authorized by the State Bond Commission as of the date hereof.

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

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

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

Derivatives. The 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 December 16, 2005) for the payment of the principal and interest on which the State has pledged its full faith and credit or which is otherwise payable from the State's General Fund.

TABLE 8

Direct General Obligation Indebtedness [(a)]
Principal Amount Outstanding as of December 16, 2005
(In Thousands)

General Obligation Bonds	$ 9,165,764
UConn 2000 Bonds	774,721
Lease Financings	38,435
Tax Increment Financings	27,675
Long Term General Obligation Debt Total	10,006,595
Short Term General Obligation Debt Total	-
Gross Direct General Obligation Debt	10,006,595
Deduct:	
University Auxiliary Services [(b)]	39,087
Net Direct General Obligation Debt	$ 9,967,507

(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)

	2001	2002	2003	2004	2005
Gross Direct Debt[(a)]	$7,920,531	$8,619,092	$9,289,485	$9,935,339	$10,161,489
Net Direct Debt[(a)]	$7,795,785	$8,492,234	$9,239,987	$9,890,111	$10,114,517
Ratio of Debt to Personal Income [(b)]					
Gross Direct Debt	5.36%	5.86%	6.22%	6.23%	6.37%
Net Direct Debt	5.29%	5.77%	6.19%	6.20%	6.34%
Ratio of Debt to Estimated Full Value[(c)]					
Gross Direct Debt	2.48%	2.39%	2.37%	2.24%	2.07%
Net Direct Debt	2.44%	2.36%	2.36%	2.23%	2.06%
Per Capita Debt[(d)]					
Gross Direct Debt	$2,308	$2,493	$2,665	$2,839	$2,895
Net Direct Debt	$2,271	$2,456	$2,651	$2,827	$2,882

(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: 2001—$147,356 million; 2002—$147,163 million; 2003 — $149,276 million; and 2004 — $159,435 million. The 2005 ratio uses 2004 data.
(c) Full value estimated by OPM. Uses final equalized net grand lists: 1999 – $320 billion; 2000—$360 billion; 2001—$392 billion; 2002 — $444 billion; and 2003 — $490 billion. Property is assessed as of October 1 in each year for the tax levy effective the following July 1. The 2001 ratio uses 1999 data; 2002 ratio uses 2000 data; 2003 ratio uses 2001 data; 2004 ratio uses 2002 data; and 2005 ratio uses 2003 data.
(d) See ***Appendix III-B, Table B-1***. State population: 2001—3,432,000; 2002—3,458,000; 2003—3,486,000; 2004—3,499,000; and 2005 — 3,510,000.

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 December 16, 2005. Although not specifically reflected as a result of combining all outstanding long-term direct debt, the State generally issues general obligation bonds maturing within twenty years. The exceptions include thirty-year Rental Housing Term Bonds and certain other bonds with maturities of less than twenty years where required by statute or in instances where the expected period of usefulness of the project or purpose financed does not warrant a maturity of twenty years.

TABLE 10

Summary of Principal, Mandatory Sinking Fund Payments, and Interest on Long-Term Direct General Obligation Debt[(a)] as of December 16, 2005

Fiscal Year	Principal Payments [(b)]	Interest Payments [(b)-(c)]	Total Debt Service
2006	$ 410,490,571	$ 246,818,548	$ 657,309,120
2007	837,763,472	502,228,733	1,339,992,205
2008	837,497,791	472,520,990	1,310,018,781
2009	750,399,554	477,975,529	1,228,375,083
2010	732,869,243	436,375,332	1,169,244,575
2011	698,504,706	343,261,430	1,041,766,136
2012	638,081,696	289,386,638	927,468,335
2013	579,144,369	239,639,202	818,783,572
2014	531,805,000	197,272,015	729,077,016
2015	514,231,365	162,187,430	676,418,795
2016	465,690,061	137,205,609	602,895,670
2017	442,514,988	115,879,134	558,394,122
2018-2031	2,110,754,072	331,625,084	2,442,379,156
Totals	$ 9,549,746,890	$ 3,952,375,675	$ 13,502,122,565

(a) Includes long-term general obligation debt as outlined in ***Table 8***. The future principal payments ($9,549,746,890), plus accreted interest ($456,847,910) on State and UConn 2000 capital appreciation bonds total the amount of such long-term debt ($10,006,595,000) as shown in ***Table 8***. See footnotes (b) to (c) for further explanation.

(b) Principal payments include aggregate stated initial values of capital appreciation bonds. Interest payments include the difference between the aggregate stated initial values and the aggregate maturity amounts of capital appreciation bonds, including capital appreciation bond issues pursuant to the College Savings Bond Program and UConn 2000 bonds. Capital appreciation bonds mature in fiscal years 2006-2014.

(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	$ 90,000,000	2006-2014	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	87,500,000	2006-2012	4.25
2002	70,140,000	70,140,000	2006-2007	3.75
2003	77,700,000	62,700,000	2006-2013	4.25
2004	97,700,000	78,200,000	2006-2009	3.75
2005*	300,000,000	300,000,000	2006-2023	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-In Thousands)

Fiscal Year	Gross Debt	Net Debt	Fiscal Year	Gross Debt	Net Debt
1996	$6,573,810 [(a)]	$6,428,391 [(a)]	2001	$7,920,531	$7,795,785
1997	6,826,826 [(b)]	6,678,398 [(b)]	2002	8,619,092	8,492,234
1998	6,981,212 [(c)]	6,865,905 [(c)]	2003	9,289,485 [(d)]	9,239,987 [(d)]
1999	7,176,905	7,067,276	2004	9,935,339 [(e)]	9,890,111 [(e)]
2000	7,432,891	7,315,945	2005	10,161,489 [(f)]	10,114,517 [(f)]

(a) Includes $236,055,000 Economic Recovery Notes.
(b) Includes $157,055,000 Economic Recovery Notes.
(c) Includes $78,055,000 Economic Recovery Notes.
(d) Includes $219,235,000 Economic Recovery Notes.
(e) Includes $273,215,000 Economic Recovery Notes.
(f) Includes $209,560,000 Economic Recovery Notes.

SOURCE: State Treasurer's Office

Future Issuance of Direct General Obligation Debt

Authorized But Unissued Direct General Obligation Debt. The General Assembly has empowered the State Bond Commission to authorize direct obligation bonds pursuant to certain bond acts. The table below shows, as of December 16, 2005, the amount of bonds authorized by bond acts in effect, the amount the State Bond Commission has authorized, the amount of bonds issued pursuant to State Bond Commission authorizations, the balance remaining authorized but unissued and the balance available for authorization. The table shows the same information for UConn 2000 bonds secured by the State's debt service commitment authorized to be issued under the cap through June 30, 2005.

TABLE 12

Authorized but Unissued Direct General Obligation Debt as of December 16, 2005[a] (In Thousands)

	State Direct Debt	UCONN 2000 [b]	Tax Increment[c]	Total
Bond Acts in Effect	$18,891,017	$1,089,592	$42,800	$20,023,409
Amount Authorized	17,123,204	1,089,592	42,800	18,255,596
Amount Issued	15,799,419	1,010,592	39,330	16,849,341
Authorized but Unissued	1,323,785	79,000	3,470	1,406,255
Available for Authorization	1,767,813	-	-	1,767,813

(a) Economic Recovery Notes are not included in calculations.
(b) Includes bonds which may be issued under the cap in effect on the date of the table. The amount available for authorization does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest. Amount issued has been adjusted to reflect increases due to closing costs and decreases due to premiums.
(c) The amount of tax increment bonds authorized is based on the amount authorized by the State Bond Commission as of December 16, 2005 since there is no statutory amount of authorization.

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

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

TABLE 13

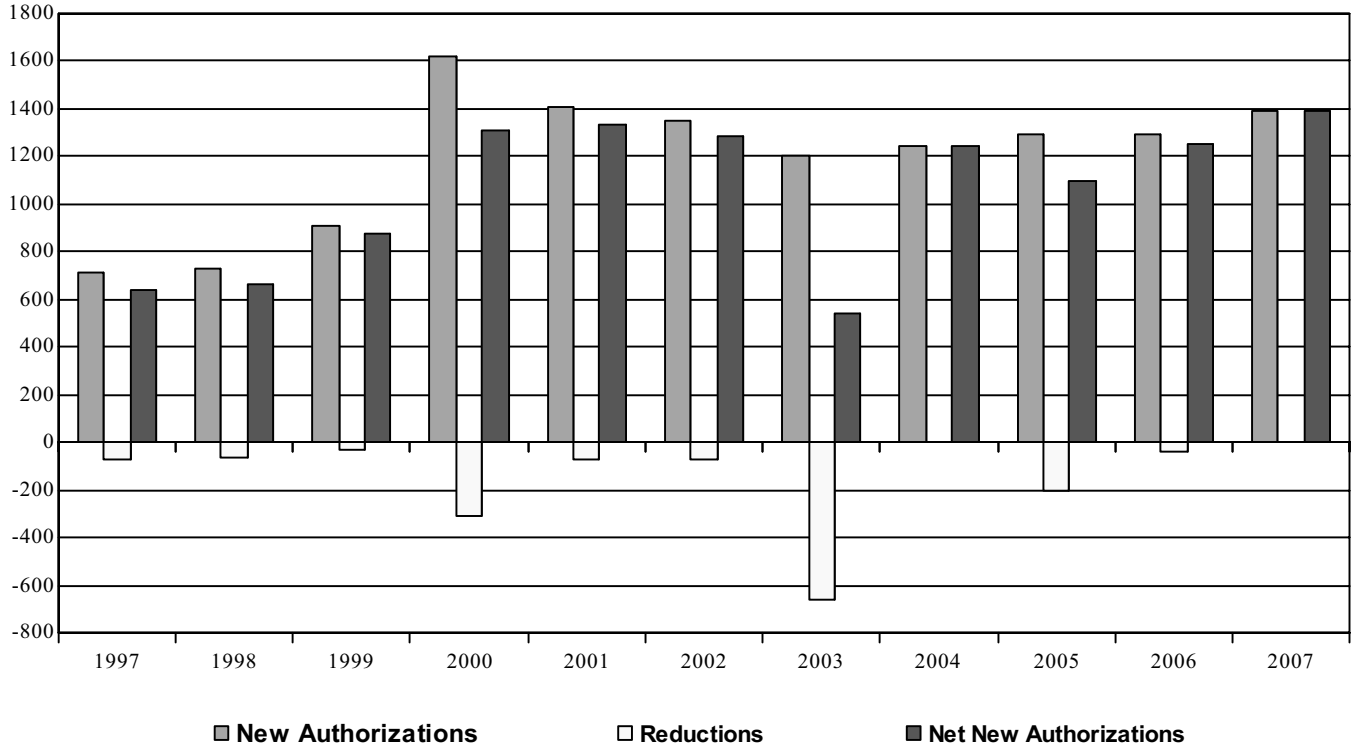
Statutory General Obligation Bond Authorizations and Reductions[a]
(In Millions)

	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.

The cost of the infrastructure program for State fiscal years 1985-2010, which is to be met from federal, State, and local funds, is currently 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 is required for fiscal years 2007-2010. The $3.2 billion is 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, is to be funded from transportation related taxes, fees and revenues deposited in the Special Transportation Fund, as described below, and from the proceeds of STO bonds. The portion of State program costs not financed by STO bonds is estimated at $0.6 billion and includes the expenses of the infrastructure program which either are not sufficiently large or do not have a long enough life expectancy to justify the issuance of long-term bonds. Such expenses currently include liquid resurfacing, minor bridge repairs, highway maintenance activities, safety improvements, and other minor transportation improvements.

The State's share of the cost of the infrastructure program for State fiscal years 1985-2010 to be financed by STO bonds is estimated at $6.6 billion. The actual amount may exceed $6.6 billion to finance reserves and cost of issuance amounts. The issuance of such STO bonds has eliminated the need for the authorization of additional general obligation bonds of the State for surface transportation purposes. STO bonds may also be issued for the purpose of refunding general obligation bonds of the State issued for transportation infrastructure purposes.

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

The following table shows the amount of STO bonds authorized by the General Assembly for the program, the amount issued and the amount outstanding (excluding refunded bonds) as of December 16, 2005. It is anticipated that additional STO bonds will be authorized by the General Assembly annually in an amount necessary to finance and to complete the infrastructure program. Such additional bonds may be issued on an equal rank with the outstanding bonds provided certain pledged revenue coverage requirements of the STO indentures controlling the issuance of such bonds are met. The State expects to continue to offer bonds for this program.

TABLE 15

Special Tax Obligation Bonds
As of December 16, 2005
(In Millions)[a]

	New Money	Total
Amount Authorized	**$6,031.4**	
Amount Issued	**5,646.7**	**$8,474.9**
Amount Outstanding	**1,591.7**	**3,098.3**

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

SOURCE: State Treasurer's Office

Debt service on State direct general obligation bonds for transportation purposes may be paid from resources of the Special Transportation Fund provided there is sufficient funding first to pay all STO debt service. For the year ended June 30, 2005 the Special Transportation Fund paid $4.5 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 2005-06 is $3.8 million.

Over the past decade, the Fund's revenues and expenses have undergone a variety of legislative changes. Several legislative actions in 2003 and 2005 affected the revenues and expenditures of the Fund. Among other legislative changes, one act provided for a one-time transfer of $52 million from the Fund to the State's General Fund.

In addition, legislation passed in 2001 created the fifteen-member Connecticut Transportation Strategy Board ("TSB"). The TSB's strategic goals are: 1) improve personal mobility within and through Connecticut; 2) improve the movement of goods and freight within and through Connecticut; 3) integrate transportation with economic, land use, environmental and quality of life issues; 4) develop policies and procedures that will integrate the state economy with regional, national and global economies; and 5) identify policies and sources that provide an adequate and reliable flow of funding necessary for a quality multi-modal transportation system.

In 2003 TSB presented it recommendations to the Governor and General Assembly and 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. The legislation also authorizes the issuance of more than $830 million of special tax obligation bonds for the ten-year period from 2005 to 2014 for rail, bus and highway acquisitions and improvements. As of December 16, 2005, $53 million of the amount authorized is effective in fiscal year 2005-06 and is included in **Table 15**.

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 December 16, 2005, there were $226.4 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 December 16, 2005 $49.9 million of such bonds are outstanding.

Clean Water Fund

The General Assembly has authorized the issue of up to $1,238.4 million revenue bonds, of which $863.1 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 December 16, 2005 $548.2 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 Treasurer is the custodian of the Second Injury Fund, and is responsible for its administration. The State established the Second Injury Fund in 1945 to encourage the hiring of persons with pre-existing physical impairments, such as veterans. Until the July 1, 1995 statutory closure of the Second Injury Fund to second injury claims, the Fund provided relief to employers when an injured worker, who already had a pre-existing injury or condition, was hurt on the job and the second injury was made worse by the existence of the first injury. Employers transferred liability for workers' compensation claims to the Second Injury Fund after 104 weeks if certain criteria were met.

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

In 1995 and 1996, the State enacted legislation to close the Second Injury Fund to future 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.

The State issued $100 million Second Injury Fund Revenue Bonds in 1996 and an additional $124.1 million in 2000 that were payable solely from amounts held in the Finance Account of the Second Injury Fund, revenues pledged for their payment pursuant to legislation and amounts held under the indenture of trust with respect to the bonds, including a special assessment premium surcharge on employers. Currently, all of the Second Injury Fund Revenue Bonds have been defeased and it is not expected that additional revenue bonds will be issued. The management objective is to pay additional claims and settlements from current income and, if necessary, short term borrowings.

Rate Reduction Bonds

The General Assembly authorized the issuance of special obligation bonds 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 December 16, 2005, $179.8 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 December 16, 2005, 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 December 16, 2005, loans insured by the Insurance Fund totaled $9.2 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 JPMorgan Chase Bank, 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 December 16, 2005, 12.2 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.

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 $750 million. In order to finance these activities CHFA has established a Housing Mortgage Finance Program and has issued its general obligation bonds under a General Bond Resolution pursuant to which CHFA has pledged all revenues which it may receive in connection with the mortgages financed thereunder including its fees and charges therefor and any recoveries of principal therefrom from any source and any monies received from investments, 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 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.

As of December 16, 2005 approximately $129.8 million bonds issued by CRRA remain outstanding which are secured by a special capital reserve fund. Approximately $69.4 million of these bonds pertain to the Mid-Connecticut waste to energy plant in Hartford, Connecticut. In addition to tipping fees under service agreements with participating municipalities, these bonds are payable from the sale of energy. In December 2000 CRRA entered into a transaction with Enron Power Marketing, Inc. ("Enron") whereby CRRA paid Enron $220 million in exchange for above market monthly payments for capacity and electrical output from the Mid-Connecticut facility. Enron filed for bankruptcy on December 2, 2001 and has not made its payments since that date.

CRRA, in an effort to generate adequate revenues to pay debt service on its bonds for the Mid-Connecticut facility following the Enron bankruptcy, has increased tipping fees, is pursuing remedies in civil court with the Attorney General, and has entered into two consecutive two-year electricity sales agreements for a portion of the Mid-Connecticut energy through June 2007 with Select Energy, a subsidiary of Northeast Utilities. In addition to attempting to increase its revenues, CRRA has decreased its expenses by implementing reductions in administrative and operational expenses.

During August 2003, the General Assembly authorized a loan by the State to the CRRA of up to $22 million for fiscal years ending June 30, 2003 and June 30, 2004, and, for subsequent fiscal years, an additional aggregate amount of $93 million, to support the repayment of CRRA's debt for the Mid-Connecticut facility and to minimize the amount of tipping fee increases chargeable to the towns which use the Mid-Connecticut facility. As of December 16, 2005 CRRA had borrowed a total of $21.5 million from the State pursuant to the loan and $17.2 million remains outstanding. Interest on the outstanding loan amount accrues at a variable rate, and CRRA is required to make monthly payments of principal and interest. Final payment on the loans is scheduled to coincide with the expiration of the municipal service agreements and final maturity of the Mid-Connecticut bonds in 2012.

In August 2004 CRRA sold its Enron bankruptcy claims to Deutsche Bank Securities through a competitive bid auction. Deutsche Bank Securities agreed to pay CRRA approximately $111.2 million, once the bankruptcy claim was deemed final. On January 20, 2005 the bankruptcy court approved the Enron settlement agreement, and after a ten-day appeal period the Enron bankruptcy order was deemed final, and accordingly $111.7 million (including accrued interest) was released to CRRA on February 1, 2005.

On March 11, 2005 CRRA applied a portion of the proceeds of the sale of its Enron bankruptcy claims to the legal defeasance of $96.8 million bonds related to the Mid-Connecticut facility. In addition, on March 24, 2005 CRRA applied the remaining bankruptcy proceeds to the establishment with an independent trustee of an escrow sufficient with investments to pay the debt service as it comes due on the outstanding balance of

its State loan. As of December 16, 2005 the balance of the Mid-Connecticut bonds outstanding was $69.4 million and the State's maximum annual obligation to maintain the special capital reserve fund for the Mid-Connecticut bonds is approximately $23.7 million.

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 December 16, 2005, only three ad hoc seats were filled.

Capital City Economic Development Authority ("CCEDA"). CCEDA was created in 1998 and was granted the power to issue revenue bonds for a convention center in Hartford. The bonds are to be backed by State contractual assistance equal to annual debt service. 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. An additional $12.5 million of borrowing, not backed by the contract assistance agreement, has been incurred in the form of a credit agreement. The remaining $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 opened in June 2005. In the fiscal year ending June 30, 2006, the first full year of convention center operations, long term parking arrangements commenced later than originally anticipated and as a result CCEDA may not have in hand sufficient parking revenues to fully reimburse the State for debt service payments in June 2006 as planned. The convention center is expected to require significant annual appropriations by the State to support its operations as currently planned.

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. As of December 16, 2005 the City has $87.5 million Special Capital Reserve Fund Bonds outstanding. The Minimum Capital Reserve Requirement is $9.4 million.

The Waterbury Financial Planning and Assistance Board is comprised of the Secretary of the Office of Policy and Management, the State Treasurer, the Mayor of the City, and four members appointed by the Governor, one of whom shall be affiliated with a business located in the City, one of whom shall have expertise in finance, one of whom shall be a resident of the City and one of whom shall be a representative of organized labor. The Board may be terminated when the City meets certain conditions outlined in the Act.

Southeastern Connecticut Water Authority. The Southeastern Connecticut Water Authority was established for the purpose of developing a reliable water supply for southeastern Connecticut. The State Bond Commission is authorized to approve a State guarantee of obligations of the Southeastern Connecticut Water Authority. Amounts borrowed by the Authority are to be repaid by July 1, 2045.

State Treasurer's Role

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

Similarly, no municipality may issue any obligation for which there is a special capital reserve fund of any kind which is in any way contributed to or guaranteed by the State unless and until such obligation and the agreement establishing the capital reserve fund are approved by the State Treasurer. The State Treasurer's

approval shall be based upon factors delineated in the general statutes, including the establishment of a property tax intercept procedure to service the municipality's debt.

Outstanding Contingent Debt

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

TABLE 16
Bond Authorizations With
Limited Or Contingent Liability
(In Millions)

	Authorized SCRF or Guaranteed Debt As of 12/16/05	Outstanding SCRF or Guaranteed Debt As of 12/16/05	Minimum Capital Reserve Requirement As of 12/16/05
INDEBTEDNESS SECURED BY SPECIAL CAPITAL RESERVE FUNDS			
Connecticut Development Authority			
Umbrella Bond Program	$300.0	$1.2	$.4
General Obligation Bond Program	30.6	12.2	2.3
Connecticut Health and Educational Facilities Authority			
Nursing Home Program	(a)	80.2	9.1
Connecticut State University System	(a)	314.5	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	120.5	9.1
Connecticut Housing Finance Authority			
Housing Mortgage Finance Program	(a)	2,939.1	233.7
Special Needs Housing Mortgage Finance Program	(a)	55.1	3.9
Connecticut Resources Recovery Authority	725.0	129.8	31.7
University of Connecticut Student Fee Revenue Bonds	(a)	28.4	2.1
City of Waterbury Special Capital Reserve Fund Bonds	100.0	87.5	9.4
INDEBTEDNESS GUARANTEED BY STATE			
Southeastern Connecticut Water Authority	15.0	0.0	N.A.

(a) No statutory limit.

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, 2005 the Commissioner of Education estimates that current grant obligations under this program are approximately $3 billion, which includes approximately $5 billion in grants approved to date less payments already made of $2 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, 2005 the State is obligated to various cities, towns and regional districts for approximately $610 million in aggregate principal installment payments and $150 million in aggregate interest subsidies, for a total of $760 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 December 16, 2005 CHEFA has approximately $36.6 million bonds outstanding under this program with annual debt service of approximately $2.9 million, of which the Department of Social Services is committed to pay approximately $2.4 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, 2005 the current and long term liabilities of the Corporation total $425 million.

PENSION AND RETIREMENT SYSTEMS

State Employees' Retirement Fund

The State Employees' Retirement Fund is the largest system maintained by the State with approximately 48,919 active members, 2,999 inactive (vested) members and 36,075 retired members as of June 30, 2005. Generally employees hired before July 1, 1984 participate in the Tier I plan, which includes employee contributions. As of July 1, 2005 approximately 17% 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, 2005 approximately 50% 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, 2005 approximately 33% of the total work force was covered under the Tier IIA Plan.

With the exception of fiscal year 2003-04, since fiscal year 1978-79 payments into the fund and investment income in each fiscal year have been sufficient to meet benefits paid from the fund in that 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 2004-05 the State's actuarially-determined annual required contribution to the fund was $516,298,168 and $518,763,968 was contributed to the fund. For fiscal year 2005-06 the State's actuarially-determined annual required contribution to the fund is $623,062,748 and $507,264,748 has been appropriated from the General and Transportation Funds for such purpose. The Office of Policy and Management projects that contributions to the fund for fiscal year 2005-06 from grant reimbursements from Federal and other funds will be sufficient to meet the balance of the annual required contribution.

Actuarial valuations are performed as of June 30th of each even-numbered year. The most recent actuarial valuation, dated November 16, 2004, indicated that as of June 30, 2004 the State Employees' Retirement Fund had assets with an actuarial value of $8,238,250,287. The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 8.80% on investment assets in the State Employees' Retirement Fund over the past ten years (fiscal year 1995-96 through fiscal year 2004-05) and an annualized net return of 3.12% over the past five years (fiscal year 2000-01 through fiscal year 2004-05). As of June 30, 2004 the market value of the fund's investment assets was $7,677,233,815, which amount was less than the actuarial value by $561,016,472. As of June 30, 2005 the market value of the fund's investment assets was $8,175,319,667.

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 and June 30, 2004.

TABLE 17

State Employees' Retirement Fund

	Year Ending June 30				
	2001	**2002**	**2003**	**2004**	**2005**
General Fund Contributions	$257,806,736	$ 284,527,059	$285,694,490	$ 321,866,112	$ 354,400,568
Transportation Fund Contributions	31,321,880	36,676,000	40,214,000	44,864,000	48,916,000
Federal and other Reimbursements	86,494,566	94,289,540	95,543,241	103,602,832	115,447,400
Employee Contributions	46,088,785	49,577,375	50,953,367	47,632,219	51,721,944
Total Contributions	$421,711,967	$ 465,069,974	$472,405,098	$ 517,965,163	$ 570,485,912
Investment Income[(a)]	$276,494,999	$ 271,253,981	$319,223,363	$ 312,386,363	$ 329,385,117
Net Realized Gains (Losses)	($2,140,298)	$ 1,341,884	$ 9,032,166	$ 49,503,590	$ 1,948,216
Benefits Paid	$619,174,473	$ 651,201,069	$702,878,746	$ 868,165,140	$ 882,375,233
Actuarial Accrued Liabilities	N/A	$12,806,115,474	N/A	$15,128,502,117	N/A
Actuarial Values Of Assets	N/A	7,893,683,977	N/A	8,238,250,287	N/A
Unfunded Accrued Liabilities	N/A	$ 4,912,431,497	N/A	$ 6,890,251,830	N/A

(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, 2005, there were approximately 58,856 active and former employees with accrued and accruing benefits and approximately 24,870 retired members.

With the exception of fiscal years 2003-04 and 2004-05, since fiscal year 1978-79 payments into the fund and investment income in each fiscal year have been sufficient to meet benefits paid from the fund in that 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 2004-05 the State's actuarially-determined annual required contribution to the fund was $281,366,266 and $185,348,143 was contributed to the fund. For fiscal year 2005-06 the State's actuarially-determined annual required contribution to the fund is $396,248,625 and $276,127,844 has been appropriated for such purpose.

Actuarial valuations are performed as of June 30th of each even-numbered year. The most recent actuarial valuation, dated November 29, 2004, indicated that as of June 30, 2004 the Teachers' Retirement Fund had assets, inclusive of the excess earnings account, with an actuarial value of $11,306,878,529. The actuarial valuation was based upon an 8.50% earnings assumption. The Treasurer has realized an annualized net return of 8.91% on investment assets in the Teachers' Retirement Fund over the past ten years (fiscal year 1995-96 through fiscal year 2004-05) and an annualized net return of 3.21% over the past five years (fiscal year 2000-01 through fiscal year 2004-05). As of June 30, 2004 the market value of the fund's investment assets was $10,853,461,575 which amount was less than the actuarial value by $453,416,954. As of June 30, 2005 the market value of the fund's investment assets was $11,392,543,770.

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 and June 30, 2004.

TABLE 18

Teachers' Retirement Fund

	Year Ending June 30				
	2001	**2002**	**2003**	**2004**	**2005**
General Fund Contributions	$214,665,698	$ 204,511,460	$179,823,603	$ 185,348,144	$ 185,348,143
Employee Contributions[a]	173,884,438	187,095,618	204,659,700	237,705,201	259,408,422
Total Contributions	$388,550,136	$ 391,607,078	$384,483,303	$ 423,053,345	$ 444,756,565
Investment Income[b]	$399,305,587	$ 388,785,006	$453,002,988	$ 440,180,533	$ 460,613,365
Net Realized Gains (Losses)	($3,335,159)	$ 1,584,432	$ 11,694,321	$ 66,792,223	$ 2,275,332
Benefits Paid	$690,674,530	$ 754,655,476	$811,028,527	$ 874,593,010	$ 964,597,731
Actuarial Accrued Liabilities	N/A	$15,253,882,989	N/A	$16,530,678,148	N/A
Actuarial Values Of Assets[c]	N/A	11,961,346,260	N/A	11,306,878,529	N/A
Unfunded Accrued Liabilities	N/A	$ 3,292,536,729	N/A	$ 5,223,799,619	N/A

(a) Includes municipal contributions under early retirement incentive programs ($7,062,072 during fiscal year 2000-01, $3,324,208 during fiscal year 2001-02, $4,651,928 during fiscal year 2002-03, $1,495,353 during fiscal year 2003-04 and $2,456,776 during fiscal year 2004-05); does not include employee contributions to the Teachers' Retirement Health Insurance Fund ($26,109,591 during fiscal year 2000-01, $25,903,003 during fiscal year 2001-02, $27,933,646 during fiscal year 2002-03, $24,242,639 during fiscal year 2003-04 and $43,830,845 during fiscal year 2004-05).

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

(c) Includes excess earnings account.

Other Retirement Systems

The other minor retirement systems funded by the State include the Judicial Retirement System, the General Assembly Pension System, the State Attorneys' Retirement Fund and the Public Defenders' Retirement Fund. As of June 30, 2005, there were approximately 221 active members of these plans and approximately 243 retired members.

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

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

Social Security and Other Post-Employment Benefits

State employees, except for police and members of a retirement system other than the State Employees' Retirement Fund, whose employment commenced after February 21, 1958, are entitled to Social Security coverage. Certain employees hired prior to that date have also elected to be covered. Pursuant to a collective bargaining agreement, State Troopers hired on or after May 8, 1984 are entitled to Social Security

coverage. As of June 30, 2005, approximately 62,526 State employees were entitled to Social Security coverage. The amount expended by the State for Social Security coverage for fiscal year 2004-05 was $193.3 million. Of this amount, $180.4 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 the fiscal year 2005-06, $380.1 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.

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

TABLE 19

State Employee Retirees Health Care And Life Insurance Benefits

	Year Ending June 30				
	2001	**2002**	**2003**	**2004**	**2005**
Retirees Eligible to Receive Benefits	32,225	32,602	37,233	38,078	39,737
Retirees Receiving Health Care Benefits	30,941	31,276	35,280	35,581	36,815
Retirees Receiving Life Insurance Benefits	22,968	22,997	23,734	25,871	25,827
General Fund Expenditures on Retiree Health Care and Life Insurance Benefits (millions)	$174.0	$204.8	$242.2	$316.0	$377.0

The State makes a General Fund appropriation to the Teachers' Retirement Fund to cover the portion of retiree health insurance costs which is not funded from the amounts available in the Teachers' Retirement Health Insurance Fund. The amount of $20,935,000 has been appropriated for such purpose for fiscal year 2005-06. No fund has been established for the accumulation of assets with which to pay such benefits in future years; therefore, significant General Fund appropriations will be required for each fiscal year. Legislation which became effective July 1, 1998 generally requires the State to subsidize the health insurance costs of retired teachers who are not members of the Board's health benefit plan in a manner consistent with its prior practice of subsidizing the health insurance costs of those retired teachers who were members of the Board's health benefit plan. Of the total General Fund appropriation for fiscal year 2005-06, $8,315,000 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 Statement No. 45.

Set forth below are State contributions to the Teachers' Retirement Fund to cover the portion of retiree health insurance costs which is not funded from the amounts available in the Teachers' Retirement Health Insurance Fund and the portions of such contribution attributable to the health insurance cost subsidy for retired teachers who are not members of the Board's health benefit plan for each of the past five fiscal years.

TABLE 20

Teachers' Retirement Health Insurance Fund

	Year Ending June 30				
	2001	**2002**	**2003**	**2004**	**2005**
General Fund Contributions.....	$9,440,747	$10,485,936	$11,367,016	$12,206,066	$12,857,769
Portions Attributable To Non-Board Health Insurance Cost Subsidy	$4,454,670	$4,751,670	$5,051,970	$5,333,743	$5,715,000

Additional Information

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

LITIGATION

The State 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. Although the motion remains pending, the parties have recently informed the Court that they are not presently in need of a ruling on the issues raised.

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

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

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 intend to appeal this decision to the U.S. Court of Appeals.

In ***State of Connecticut v. Philip Morris, Inc., et al.***, the action that resulted in the 1998 Master Settlement Agreement (MSA) entered into by Connecticut and nearly all other states and territories to resolve litigation claims against the major domestic tobacco manufacturers, three manufacturers that subsequently agreed to participate in the MSA, Commonwealth Brands, Inc., King Maker Marketing, Inc., and Sherman 1400 Broadway N.Y.C. Inc., have filed a petition to compel arbitration against the State with regard to certain alleged obligations of the State under the MSA. These parties contend that the State has not diligently enforced its obligations under the MSA to enforce statutory requirements against non-participating manufacturers and that the issue is subject to arbitration under the MSA. If such claims are determined to be subject to arbitration, and an arbitration panel were to conclude that the State had not diligently enforced its obligations under the MSA against non-participating manufacturers, then the payments that the State receives under the MSA could be reduced or eliminated for any year that the State was found not to have diligently enforced its obligations. In a ruling dated August 3, 2005, the Court ordered that the parties' dispute was in fact subject to arbitration. The State has appealed that ruling.

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.

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 will seek further review of this ruling. 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.

Since 1991, the State Department of Children and Families has been operating under the provisions of a federal court-ordered consent decree in the ***Juan F.*** case. In October 2003, the State entered into an agreement with the ***Juan F.*** Court Monitor and lawyers representing the plaintiff class of children in the child welfare system designed to end judicial oversight of the agency by November 2006. The agreement was approved and ordered by the court. The agreement included the establishment of a Transition Task Force,

which included the ***Juan F.*** Court Monitor, who was given full and binding authority to develop an Exit Plan. The Court Monitor's Exit Plan includes an open-ended funding provision (virtually identical to that contained in the Consent Decree). The State has objected to this provision of the Exit Plan, which was adopted by the court in December 2003, claiming in part that the Exit Plan requires the State to provide open-ended funding to implement the plan which could violate the State's constitutional cap on spending. On February 10, 2004 the court denied the State's request to reconsider the funding provision. 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 the Interior, and that appeal was dismissed on March 18, 2005. 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 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 the Schaghticoke Indian Tribe. The land claims have been stayed pending the resolution of the federal recognition matter. It is possible that other land claims could be brought by other Indian groups, who have petitioned the Federal Government for Federal recognition. 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. 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, pursuant to a 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 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. White Oak has appealed that ruling, which appeal is still pending. 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.

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GOVERNMENTAL ORGANIZATION AND SERVICES

Introduction

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

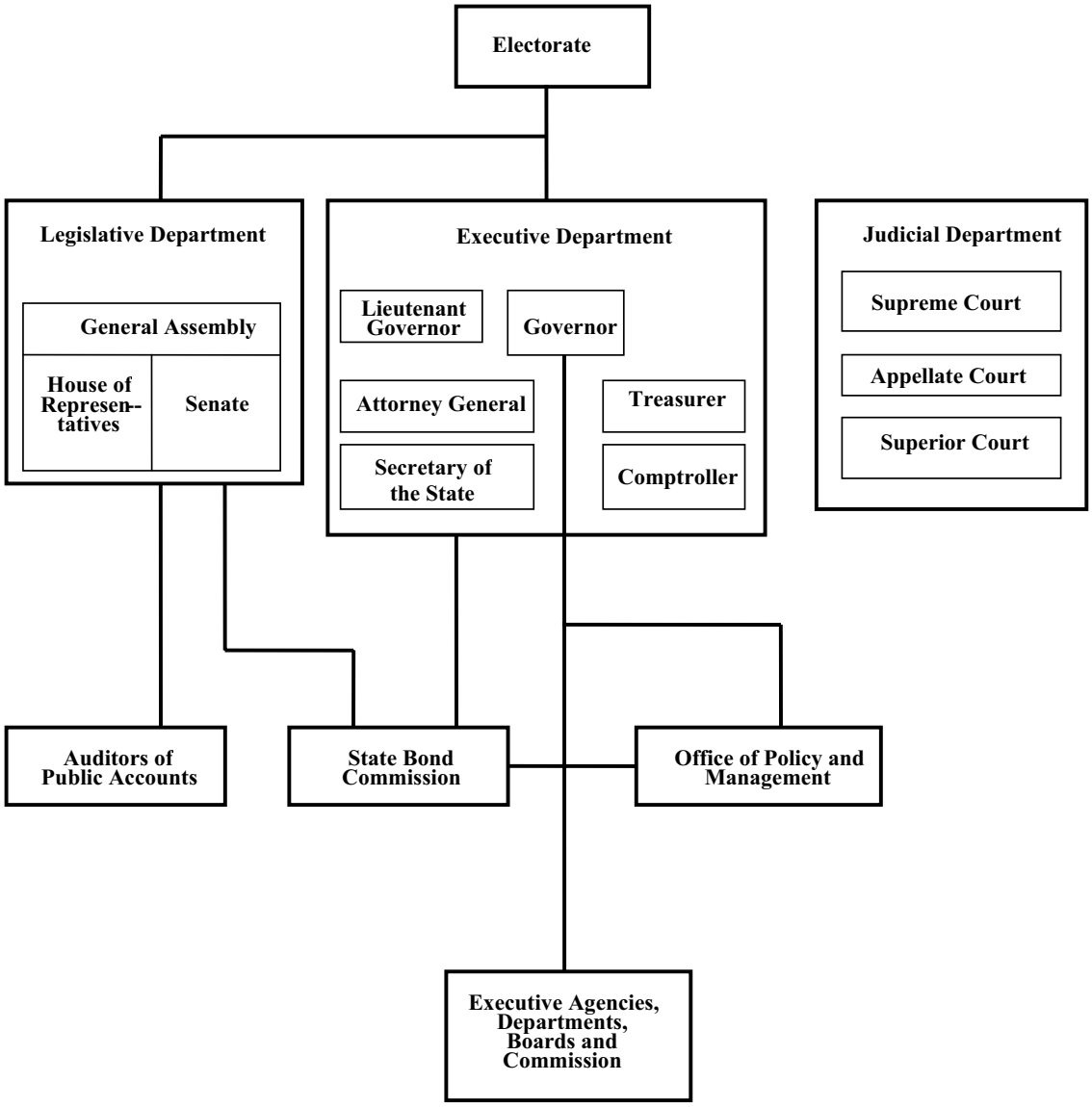
Under Connecticut law, all municipal governmental bodies have only the powers specifically granted to them by the State and the ancillary powers that are necessarily implied by powers explicitly granted. Municipalities which have the power to tax and to issue debt are explicitly denied the power by statute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

State Government Organization

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

TABLE A-1

Structure of State Government



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

General Assembly members are elected biennially at the general election in November in even numbered years and take office in the January following their election. Elections for the General Assembly were held in November 2004, and the new members took office in January 2005.

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

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

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

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

The Treasurer is primarily responsible for receiving and disbursing all monies belonging to the State, superintending the collection of State taxes and revenues and the investment of State funds, administering certain State trust funds and managing State property. Subject to the approval of the Governor, the Treasurer

is authorized, when necessary, to make temporary borrowings evidenced by State obligations. In addition, the State Bond Commission may delegate to the Treasurer the responsibility for determining the terms and conditions and carrying out the issuance of State debt.

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

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

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

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

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

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

The Superior Court is vested with original trial court jurisdiction over all civil and criminal matters. There are approximately 174 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)]	2001	2002	2003	2004	2005
Legislative	447	509	502	550	586
General Government	3,806	3,801	3,162	3,376	3,429
Regulation and Protection	4,592	4,620	3,950	4,071	4,211
Conservation and Development	1,401	1,440	1,205	1,275	1,358
Health and Hospitals	8,635	8,710	7,330	7,389	7,593
Transportation	3,626	3,631	2,918	2,863	3,150
Human Services	2,332	2,315	1,847	1,804	1,827
Education	14,921	15,331	14,384	14,540	15,077
Corrections	9,956	10,168	9,485	9,537	9,573
Judicial	3,342	3,369	3,769	4,185	4,386
Total	53,058	53,894	48,552	49,590	51,190

(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, 2005[(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	584				2		586
General Government	2,855	10	8	486	22	48	3,429
Regulation and Protection	2,250	615	535	182	626	3	4,211
Conservation and Development	619		7	344	309	79	1,358
Health and Hospitals	7,196			35	350	12	7,593
Transportation		3,042		108			3,150
Human Services	1,535		13		261	18	1,827
Education	9,998			4,896	179	4	15,077
Corrections	9,428			88	42	15	9,573
Judicial	4,361			16	7	2	4,386
Total	38,826	3,667	563	6,155	1,798	181	51,190

(a) Table shows approximate filled full-time positions.

(b) Breakdown for 2005 reflects the funding breakdown on Core-CT chart of accounts coding. Some positions which in prior years 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	9.22%	Contract in place through 6/30/2008
Administrative Clerical	8.58%	Contract in place through 6/30/2006
Maintenance and Service	7.57%	Contract in place through 6/30/2005[b]
Health Care Non-Professionals	7.36%	Contract in place through 6/30/2009
Social and Human Services	7.21%	Contract in place through 6/30/2006
Administrative and Residual	5.65%	Contract in place through 6/30/2007
Health Care Professionals	5.54%	Contract in place through 6/30/2009
Engineering, Scientific and Technical	4.63%	Contract in place through 6/30/2005[b]
University Health Professionals (University of Connecticut Health Center)	3.14%	Contract in place through 6/30/2006
University of Connecticut Professional Employee Association	2.87%	Contract in place through 6/30/2007
University of Connecticut Faculty	2.84%	Contract in place through 6/30/2007
Judicial Employees	2.64%	Contract in place through 6/30/2006
Connecticut State University Faculty	2.51%	Contract in place through 8/24/2007
Congress of Connecticut Community Colleges	2.31%	Contract in place through 6/30/2007
Vocational Technical School Teachers	2.27%	Contract in place through 8/31/2007
State Police	2.17%	Contract in place through 6/30/2007
Judicial Professionals	2.10%	Contract in place through 6/30/2006
Protective Services	1.63%	Contract in place through 6/30/2008
Education Professionals (Institutions)	1.58%	Contract in place through 6/30/2005[b]
Other Bargaining Units (13 units)	5.08%	Varies by Unit
Total Covered by Collective Bargaining	86.90%	
Not Covered by Collective Bargaining		
Auditors of Public Accounts	0.20%	Not Applicable
Other Employees	12.90%	Not Applicable
Total Not Covered by Collective Bargaining	13.10%	
Total Full-Time Work Force	100.00%	

(a) Percentage expressed reflects approximately 51,190 filled full-time positions as of June 30, 2005.

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

SOURCE: Office of Policy and Management

Governmental Services

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

TABLE III-A-5

Function of Government Headings [(a)(b)]

Legislative
Legislative Management
Auditors of Public Accounts
Commission on 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
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
Insurance Department
Office of Consumer Counsel
Department of Public Utility Control
Office of the Health Care Advocate
Department of Consumer Protection
Department of Labor
Office of Victim Advocate
Commission on Human Rights and Opportunities
Office of Protection and Advocacy for Persons with Disabilities
Office of the Child Advocate
Workers' Compensation Commission

Conservation and Development
Department of Agriculture
Department of Correction
Department of Children and Families
Council to Administer the Children' Trust Fund
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, 2005.

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 is devising 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 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. 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. Within New England, only Vermont and New Hampshire experienced growth significantly higher than the region. The mid-2005 population in Connecticut was estimated at 3,510,297, up 0.32% from a year ago, compared to increases of 0.13% and 0.94% for New England and the United States, respectively.

TABLE B-1

Population
(In Thousands)

	Connecticut		New England		United States	
Calendar Year	Total	% Change	Total	% Change	Total	% Change
1940 Census	1,709		8,437		132,165	
1950 Census	2,007	17.4%	9,314	10.4%	151,326	14.5%
1960 Census	2,535	26.3	10,509	12.8	179,323	18.5
1970 Census	3,032	19.6	11,847	12.7	203,302	13.4
1980 Census	3,108	2.5	12,349	4.2	226,542	11.4
1990 Census	3,287	5.8	13,207	6.9	248,710	9.8
2000 Census	3,406	3.6	13,923	5.4	281,422	13.2
1996….	3,337	0.4	13,555	0.6	269,394	1.2
1997….	3,349	0.4	13,642	0.6	272,647	1.2
1998….	3,365	0.5	13,734	0.7	275,854	1.2
1999….	3,386	0.6	13,838	0.8	279,040	1.2
2000….	3,412	0.8	13,953	0.8	282,193	1.1
2001….	3,432	0.6	14,043	0.7	285,108	1.0
2002….	3,458	0.8	14,126	0.6	287,985	1.0
2003….	3,486	0.8	14,194	0.5	290,850	1.0
2004….	3,499	0.4	14,222	0.2	293,657	1.0
2005….	3,510	0.3	14,240	0.1	296,410	0.9

Note: 1940-2000, April 1 Census. Figures are for census comparison purposes.
1996-2005, Mid-year estimates.

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

The State is highly urbanized with a 2005 population density of 725 persons per square mile, as compared with 84 for the United States as a whole and 227 for the New England region. Of the 8 counties in the State, 75% of the population resides within Fairfield (26%), Hartford (25%), and New Haven (24%) counties.

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

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

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

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

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

Legislation passed in 1998 provided for the restructuring of the electric industry in Connecticut. 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.

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

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

In addition to the electric and natural gas industries, telecommunications services are also in the process of being opened to competition. Local exchange telephone service is provided in the State by local exchange carriers (LECs) and competitive local exchange carriers (CLECs). Two LECs currently offer local telephone services in Connecticut. They are SBC Communications, Inc., which acquired The Southern New England Telephone Company (SNET) in 1997, and Verizon New York, Inc. Connecticut also has approximately 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 5,217 million British Thermal Units (MBTU) per dollar of Gross State Product in 2001, 46% less than the national average of 9,765 MBTU. When compared to the national per person average, Connecticut residents use a moderate amount of energy. Connecticut consumed 248.5 MBTU of energy per person in 2001, ranking it 46th among the 50 states and 27% less than the national average of 337.7 MBTU.

In 2005 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 supply disruptions 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 2004 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%	134.4%
1996	108,189	32,424	115.0	134.0
1997	115,134	34,375	115.8	135.5
1998	123,918	36,822	116.2	136.8
1999	129,807	38,332	115.7	137.1
2000	141,570	41,489	114.9	138.9
2001	147,356	42,920	115.0	140.3
2002	147,163	42,545	113.8	137.9
2003	149,276	42,810	112.6	135.8
2004	159,435	45,506	113.0	137.6

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

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

TABLE B-3

Annual Growth Rates in Personal Income By Place of Residence

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%	2.8%	3.0%	3.3%
1996	4.8	5.7	6.0	2.9	3.8	4.1
1997	6.4	6.0	6.1	4.8	4.3	4.4
1998	7.6	7.4	7.3	6.5	6.3	6.2
1999	4.8	5.4	5.1	3.3	3.9	3.7
2000	9.1	9.9	8.0	6.9	7.8	5.9
2001	4.1	4.1	3.5	1.7	1.7	1.1
2002	(0.1)	0.7	1.8	(1.9)	(1.0)	0.1
2003	1.4	2.2	3.2	(0.6)	0.2	1.2
2004	6.8	6.2	5.9	4.2	3.6	3.3

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

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

The following table indicates the sources of personal income by place of residence for Connecticut and the United States in 2004.

TABLE B-4

Sources of Personal Income By Place of Residence
Calendar Year 2004
(In Millions)

	Conn.	Percent of Total	U.S.	Percent of Total
Wages in Non-manufacturing	$ 78,249	49.08%	$4,695,126	48.39%
Property Income (Div., Rents & Int.)	25,456	15.97	1,529,780	15.77
Wages in Manufacturing	12,703	7.97	687,499	7.09
Transfer Payments less Social Insurance Paid	5,490	3.44	607,542	6.26
Other Labor Income	20,769	13.03	1,290,130	13.30
Proprietor's Income	16,768	10.52	892,448	9.20
Personal Income—Total	$159,435	100.00%	$9,702,525	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 2004, the State produced $185.8 billion worth of goods and services and $171.5 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	145,318	5.5%	498,656	6.0%	8,679,657	5.4%
1999	150,713	3.7	526,249	5.5	9,201,137	6.0
2000	160,685	6.6	568,212	8.0	9,749,104	6.0
2001	165,434	3.0	584,487	2.9	10,058,156	3.2
2002	167,235	1.1	596,017	2.0	10,412,244	3.5
2003	174,085	4.1	620,136	4.0	10,923,849	4.9
2004	185,802	6.7	662,408	6.8	11,665,595	6.8

(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	--	8,602,955	--
1998	150,752	4.0%	512,367	5.0%	9,004,669	4.5%
1999	153,699	2.0	534,094	4.2	9,404,249	4.4
2000	160,685	4.5	568,212	6.4	9,749,104	3.7
2001	161,595	0.6	573,703	1.0	9,836,571	0.9
2002	160,115	(0.9)	573,700	0.0	10,009,433	1.8
2003	164,137	2.5	588,536	2.6	10,289,220	2.8
2004	171,479	5.0	615,736	4.9	10,734,763	4.3

* 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 2004 Connecticut's production concentrated in three areas: finance, insurance and real estate (FIRE), services and manufacturing. Production in these three industries accounted for 68.5% of total production in Connecticut compared to 58.8% 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 12.2% in 2004 caused by increased competition with foreign countries and other states as well as generally declining and only recently rising defense expenditures during this period. The broadly defined services in the private sector, which includes industries in information, professional and technical services, health care and education, other services and FIRE, have increased to 60.3% of the total GSP in 2004 from 57.7% in 1997. During this period, the shift toward services in Connecticut has been occurring at a slightly slower rate than the rate for the nation as a whole. The share of service production increased 2.6 percentage points in Connecticut versus 3.4 percentage points for the nation. The increasing share of service production may help smooth the business cycle, reducing the span and depth of recessions and prolonging the length of expansions. Normally, activities in service sectors relative to manufacturing are less susceptible to pent-up demand, less subject to inventory-induced swings, less intensive in capital requirements, and somewhat less vulnerable to foreign competition. Therefore, this shift to the service sectors may serve to smooth output fluctuations.

TABLE B-7

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

Sector	1997	1998	1999	2000	2001	2002	2003	2004
Manufacturing	$ 20,042	$ 21,360	$ 20,312	$ 20,782	$ 21,313	$ 21,003	$ 21,325	$ 22,652
Construction[a]	4,120	4,471	4,767	5,113	5,474	5,599	5,816	6,513
Agriculture[b]	285	313	322	358	327	289	330	303
Utilities[c]	9,786	10,600	11,296	11,565	11,892	11,672	12,351	13,937
Wholesale Trade	8,598	8,550	8,728	8,716	9,053	9,194	9,408	9,842
Retail Trade	8,554	8,887	9,448	10,379	10,178	10,912	11,177	11,507
Finance[d]	37,807	40,569	42,828	47,843	48,709	48,270	51,074	55,286
Services[e]	36,568	38,153	40,204	42,229	43,967	45,008	47,129	49,414
Government	11,939	12,416	12,808	13,700	14,520	15,287	15,475	16,348
Total GSP	$137,699	$145,319	$150,713	$160,685	$165,433	$167,234	$174,085	$185,802

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 2004. Connecticut's nonagricultural employment reached its decade-long high in the first quarter of 1989 with 1,677,990 persons employed, but began declining with the onset of the recession in the early 1990s. It was not until 1994 that the State's economy started to gain momentum, adding tens of thousands of new workers. In the first quarter of 2000, nonagricultural employment surpassed the previous peak with a total employment of 1,686,330. Total nonagricultural employment declined in 2001, 2002, and 2003 as the economy softened beginning with the fourth quarter of 2000. Total non-agricultural employment in Connecticut reached a recent low of 1,639,330 jobs in the third quarter of 2003, and rebounded to 1,675,100 jobs by the fourth quarter of 2005.

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	2.65%
1996	1,583.6	1.41	6,431.8	1.66	119,699	2.04
1997	1,612.5	1.82	6,575.2	2.23	122,767	2.56
1998	1,643.5	1.92	6,723.5	2.25	125,924	2.57
1999	1,669.2	1.56	6,855.1	1.96	128,992	2.44
2000	1,693.2	1.44	7,016.4	2.35	131,792	2.17
2001	1,681.2	(0.71)	7,024.4	0.11	131,833	0.03
2002	1,664.9	(0.97)	6,914.9	(1.56)	130,345	(1.13)
2003	1,644.5	(1.23)	6,837.5	(1.12)	129,999	(0.27)
2004	1,651.7	0.44	6,864.2	0.39	131,475	1.14

(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 2004. 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, 2004
(In Thousands)

	Connecticut Total	Connecticut Percent	United States Total	United States Percent
Services[a]	656.5	39.7%	51,273	39.0%
Trade[b]	308.3	18.7	25,511	19.4
Manufacturing	197.5	12.0	14,329	10.9
Government	242.3	14.7	21,620	16.4
Finance[c]	140.6	8.5	8,051	6.1
Information[d]	39.1	2.4	3,138	2.4
Construction[e]	66.6	4.0	7,553	5.7
Total[f]	1,651.7	100.0%	131,475	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 2004 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	294.84	572.37	220.84	132.38	41.49	51.17	1,561.59
1996	245.32	299.12	591.32	222.80	128.58	43.27	53.20	1,583.63
1997	245.38	302.49	607.73	225.72	130.12	44.49	56.53	1,612.52
1998	247.88	308.57	618.60	227.82	136.98	44.28	59.32	1,643.47
1999	240.24	312.14	634.48	235.14	140.82	44.67	61.64	1,669.18
2000	235.71	317.51	643.31	241.89	143.05	46.41	65.34	1,693.23
2001	226.71	312.18	644.10	244.47	142.94	44.67	66.08	1,681.18
2002	211.19	309.24	647.36	249.29	142.63	41.02	64.16	1,664.93
2003	200.04	305.52	648.02	245.98	142.67	39.58	62.67	1,644.53
2004	197.49	308.32	656.49	242.25	140.63	39.13	66.57	1,651.73

(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 in fiscal year 2005. 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 2004 approximately 12.0% of the State's workforce, versus 10.9% 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	965.1	0.38	17,418	1.05
1998	247.9	1.02	970.1	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	(3.82)	900.7	(4.50)	16,441	(4.77)
2002	211.2	(6.84)	815.8	(9.42)	15,258	(7.20)
2003	200.0	(5.28)	765.0	(6.23)	14,508	(4.91)
2004	197.5	(1.27)	748.8	(2.11)	14,329	(1.24)

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 2004.

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	245.33
1997	51.49	51.45	37.20	25.46	79.79	245.38
1998	52.27	52.34	37.62	25.42	80.23	247.87
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	46.99	33.68	22.41	76.76	226.71
2002	45.33	43.18	29.25	20.27	73.15	211.19
2003	43.35	40.86	26.47	18.92	70.44	200.04
2004	43.19	41.07	25.82	18.68	68.72	197.49

(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 1995 at 248,510 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 197,490 in 2004. The total number of manufacturing jobs dropped 51,020, or 20.5%, for the ten year period since 1995.

Exports. In Connecticut, the export sector of manufacturing has assumed an important role in overall economic growth. According to figures published by the United States Department of Commerce, which were adjusted and enhanced by the University of Massachusetts (MISER), exports of manufacturing products registered at $8.6 billion in 2004, accounting for 4.6% of Gross State Product. From 2000 to 2004, the State's export of goods grew at an average annual rate of 1.7%. The following table shows the growth in exports of manufacturing products.

TABLE B-13

Exports Originating in Connecticut
(In Millions)

	2000	2001	2002	2003	2004	Percent of 2004 Total	Average Percent Growth 2000-2004
A. Manufacturing Products							
Transportation Equipment	$3,168.5	$3,988.3	$4,098.7	$3,298.1	$3,177.8	37.1%	1.4%
Computer & Electronics	904.5	804.4	760.0	789.5	803.6	9.4	(2.7)
Machinery, Except Electronics	1,005.2	898.0	669.8	784.4	1,106.8	12.9	5.5
Fabricated Metal Production	369.8	391.5	427.4	440.5	406.5	4.7	2.6
Chemicals	612.8	567.3	499.9	749.0	608.2	7.1	2.9
Misc. Manufacturing	395.1	430.4	393.6	486.4	606.2	7.1	12.1
Electrical Equipment	292.9	259.8	316.3	336.1	469.7	5.5	14.1
Plastics & Rubber	144.6	152.0	141.2	137.6	179.6	2.1	6.5
Paper	150.8	139.5	174.9	188.6	165.8	1.9	3.4
Primary Metal Mfg.	247.0	210.1	167.6	203.1	275.7	3.2	5.4
Others	755.7	769.1	664.0	723.0	759.3	8.9	0.5
Total	$8,046.8	$8,610.4	$8,313.4	$8,136.4	$8,559.2	100.0%	1.7%
% Growth	11.3%	7.0%	(3.4%)	(2.1%)	5.2%		
B. Gross State Product[(a)]	$160,685	$165,434	$167,235	$174,085	$185,802		
Mfg Exports as a % of GSP	5.0%	5.2%	5.0%	4.7%	4.6%		

(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 has witnessed a marked reduction in the amount of federal spending earmarked for defense related industries in the State. In federal fiscal year 2004, Connecticut received $9.0 billion of prime contract awards. These total awards accounted for 4.4% of national total awards and ranked fifth in total defense dollars awarded and second in per capita dollars awarded among the 50 states. In fiscal year 2004,

Connecticut had $2,557 in per capita defense awards, compared to the national average of $693. 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 4.1% of Gross State Product in fiscal year 2004, up from 2.2% of Gross State Product in fiscal year 1995. 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	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

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 will not be closed in this 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% by 2004. This trend has decreased the State's dependence on manufacturing. Over the course of the last ten years, there were slightly more than 141,000 jobs created in this sector, an increase of 10.7%. Moreover, this sector has more than compensated for the loss in manufacturing jobs, fueling the recovery in nonagricultural employment since 1995.

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

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

Calendar Year	Connecticut Number	Connecticut Percent Growth	New England Number	New England Percent Growth	United States Number	United States Percent Growth
1995	1,313.1	1.77%	5,358.8	2.51%	100,062	2.88%
1996	1,338.3	1.92	5,470.4	2.08	102,462	2.40
1997	1,367.1	2.15	5,610.2	2.55	105,349	2.82
1998	1,395.6	2.08	5,753.3	2.55	108,363	2.86
1999	1,428.9	2.39	5,910.3	2.73	111,668	3.05
2000	1,457.5	2.00	6,073.3	2.76	114,526	2.56
2001	1,454.5	(0.21)	6,123.7	0.83	115,391	0.76
2002	1,453.7	(0.05)	6,099.1	(0.40)	115,088	(0.26)
2003	1,444.5	(0.64)	6,072.5	(0.44)	115,491	0.35
2004	1,454.2	.67	6,115.4	.71	117,146	1.43

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, 2002, 2003 and 2004 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 2004 service industry employment expanded by 84,120 workers, adding more than one out of every two jobs statewide, which registered an increase of 141,150 jobs. State and local governments expanded by 25,250 jobs. The increase in this line item over the ten-year period can be attributed to the Federal Government's decision to categorize all workers employed on Indian Reservations as state and local government employees. There are approximately 22,000 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 2002	Calendar Year 2003	Calendar Year 2004	Percent Change 2003-04	Percent Change 1995-04
Construction[a]	51.17	64.16	62.67	66.57	7.64%	30.12%
Information	41.49	41.02	39.58	39.13	(1.06)	(5.68)
Transportation, Warehousing & Utilities	49.30	48.95	48.75	49.43	(1.37)	.25
Wholesale Trade	63.71	66.02	65.46	65.71	.39	3.14
Retail Trade	181.79	194.27	191.31	193.18	1.03	6.27
Finance, Insurance & Real Estate	132.38	142.63	142.63	140.63	(1.51)	6.23
Services[b]	572.37	647.36	648.02	656.49	1.48	14.70
Federal Government	23.95	21.23	20.82	20.11	(2.95)	(16.03)
State and Local Government	196.89	228.06	225.16	222.14	(1.54)	12.82)
Total Non-manufacturing Employment[c]	1,313.08	1,453.73	1,444.48	1,454.23	.74	10.75

(a) Includes natural resources and mining.
(b) Covers a considerable variety of activities, including professional, business, education, health care and personal services.
(c) 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 SIC code as well as the State's retail trade history for the past five fiscal years. It demonstrates the fluctuating pattern of retail sales in Connecticut. Connecticut retail trade in fiscal 2003 totaled $45.2 billion, an increase of 2.8% from fiscal 2002. This increase reflects the sales improvement in those industries such as general merchandise, hardware stores, and food products.

TABLE B-17

Retail Trade In Connecticut[a]
(In Millions)

		Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002	Fiscal Year 2003	Percent of Fiscal Year 2003 Total	Average Percent Growth Fiscal Year 1999-2003
SIC52	Hardware Stores	$ 2,320	$ 2,418	$ 2,376	$ 2,751	$ 2,736	6.1%	4.4%
SIC53	General Merchandise	3,742	3,744	3,024	4,002	4,191	9.3	4.5
SIC54	Food Products	6,922	7,139	7,521	8,127	8,142	18.0	4.2
SIC55	Automotive Products	7,963	8,712	8,531	8,605	8,688	19.2	2.3
SIC56	Apparel & Accessory	2,047	2,195	2,237	2,274	2,105	4.7	0.8
SIC57	Furniture & Appliances	4,011	4,299	3,971	3,629	3,518	7.8	(3.0)
SIC58	Eating & Drinking	2,966	3,148	3,327	3,374	3,461	7.7	3.9
SIC59	Misc. Shopping Stores	9,865	10,975	11,247	11,161	12,329	27.3	5.9
	Total[b]	$39,836	$42,630	$42,234	$43,924	$45,169	100.0%	3.2%
% Change from Previous Year		5.1	7.0	(0.9)	4.0	2.8		
Durables (SIC 52,55,57)		$14,294	$15,429	$14,878	$14,986	$14,941	33.1%	1.2%
% Change from Previous Year		5.9	7.9	(3.6)	(0.7)	(0.3)		
Non Durables (all other SICs)		$25,542	$27,201	$27,356	$28,939	$30,228	66.9%	4.3%
% Change from Previous Year		4.7	6.5	0.6	5.8	4.5		

(a) Breakdown for Fiscal Year 2004 could not be determined due to difficulties in obtaining certain reports from the State's Core-CT System.

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

SOURCE: Connecticut Department of Revenue Services

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

After enjoying an extraordinary boom during the mid-1980s, Connecticut, as well as the rest of the Northeast, experienced an economic slowdown during the recession of the early 1990s. The unemployment rate in the State then generally declined and mostly remained below the New England and national averages for the late second half of the 1990's, and reached its low of 2.4% compared to New England's average of 2.8% and the national average of 4.0% in 2000. Connecticut's unemployment rate of 5.0% for the first six months of 2005 is higher than the New England average of 4.6%, but lower than the national average of 5.2% 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 2005.

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	2.4	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	4.8	5.5
2005[(a)]	5.0	4.6	5.2

(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

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MARK E. OJAKIAN
DEPUTY COMPTROLLER

January 27, 2006

The Honorable Denise L. Nappier
State Treasurer
55 Elm Street
Hartford, CT 06106

Dear Ms. Nappier

I have reviewed the accompanying general purpose financial statements of the State of Connecticut for the Fiscal Year ending June 30, 2004. The statements and the Independent Auditors' Report are extracted from the Comprehensive Annual Report of the State of Connecticut, which is prepared by my office in conformance with generally accepted accounting principles.

Sincerely,

Nancy Wyman
State Comptroller

An Equal Opportunity Employer

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

KEVIN P. JOHNSTON 210 CAPITOL AVENUE ROBERT G. JAEKLE

HARTFORD, CONNECTICUT 06106-1559

INDEPENDENT AUDITORS' REPORT

Governor M. Jodi Rell
Members of the General Assembly

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Connecticut as of and for the year ended June 30, 2004, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Connecticut's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit:

Government-wide Financial Statements

- the financial statements of the Special Transportation Fund account within the Transportation Fund, the Transportation Special Tax Obligations account within the Debt Service Fund, and the Clean Energy Fund account within the Environmental Programs Fund, which in the aggregate, represent seven percent of the assets and seven percent of the revenues of the Governmental Activities;
- the financial statements of the John Dempsey Hospital, University of Connecticut Foundation, Connecticut State University, and Connecticut Community Colleges accounts within the Higher Education Fund, Bradley International Airport, Bradley International Airport Parking Facility, Connecticut Lottery Corporation, Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 59 percent of the assets and 50 percent of the revenues of the Business Type Activities;
- the financial statements of the discretely presented component units;

Fund Financial Statements

- the financial statements of the Special Transportation Fund account, which represents 98 percent of the assets and 98 percent of the revenues of the Transportation Fund;

- the financial statements of the Transportation Special Tax Obligations account, which represents 100 percent of the assets and 100 percent of the revenues of the Debt Service Fund;
- the financial statements of the Clean Energy Fund account, which represents 25 percent of the assets and 36 percent of the revenues of the Environmental Programs Fund;
- the financial statements of the John Dempsey Hospital, University of Connecticut Foundation, Connecticut State University, and Connecticut Community-Technical Colleges accounts within the Higher Education Fund; Bradley International Airport, Bradley International Airport Parking Facility, Connecticut Lottery Corporation, Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 59 percent of the assets and 50 percent of the revenues of the Enterprise Funds;

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned funds and accounts, is based on the reports of the other auditors. All of the aforementioned audits were conducted in accordance with auditing standards generally accepted in the United States of America. In addition, the audits of the Drinking Water Fund, Clean Water Fund, Bradley International Airport, Connecticut Lottery Corporation, Connecticut Resources Recovery Authority, Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, Connecticut Housing Finance Authority, and Connecticut Innovations Incorporated were conducted in accordance with standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except that the audits of certain entities of the State, as described above, were not conducted in accordance with *Government Auditing Standards.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the State of Connecticut as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 21 of the financial statements, the State of Connecticut adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14*. This standard modifies the criteria for defining component units of a governmental entity. As a result of the implementation of this standard, the University of Connecticut Foundation, Inc. has been added as a component unit.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2005, on our consideration of the State of Connecticut's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should considered in assessing the results of our audit.

The management's discussion and analysis information on pages 17 through 28 and budgetary comparison information on pages 40 and 41, are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Connecticut's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

December 30, 2005
State Capitol
Hartford, Connecticut

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)

The following discussion and analysis is supplementary information required by the Governmental Accounting Standards Board (GASB), and is intended to provide an easily readable explanation of the information provided in the attached basic financial statements. It is by necessity highly summarized, and in order to gain a thorough understanding of the state's financial position, the financial statements and footnotes should be viewed in their entirety.

FINANCIAL HIGHLIGHTS

Government-wide:
Assets of the state's governmental activities were $5.4 billion less than liabilities, a deterioration in financial position of $0.2 billion related to current year operations. Assets of the state's business type activities exceeded liabilities by $3.7 billion, which are by and large unchanged from that of the prior year. In terms of the total, net assets declined from negative $1.6 billion to a negative $1.8 billion, a decrease in total net assets of $0.2 billion.

As noted above, the governmental portion of state liabilities exceeded state governmental assets by $5.4 billion as of June 30, 2004. Of this amount, the unrestricted net asset portion was a negative $10.4 billion. One reason for the negative balance is the state's reliance on issuing bonds to fund certain operating grants. General Obligation bonds outstanding as of June 30, 2004 that related to municipal school construction, and other operating grants and loans totaled $3.1 billion. Additionally, long-term obligations such as net pension, compensated absences and worker's compensation obligations of $4.1 billion, with no offsetting assets, further contributed to the state's negative net assets.

Fund Level:
Total Governmental fund assets exceeded liabilities resulting in a fund balance of $1.9 billion, all of which was reserved leaving a net unreserved fund balance of just under zero. The portion of unreserved undesignated fund balance that pertains to the General Fund was a negative $0.9 billion at June 30, 2004.

Total Enterprise Fund assets exceeded liabilities resulting in net assets of $3.7 billion, substantially all of which was restricted or invested in capital assets.

Debt Issued and Outstanding:
Long-term bonded debt of governmental activities totaled $12.9 billion (see Note 16). In addition, $0.3 billion in Economic Recovery Notes was outstanding on June 30, 2004. Other long-term liabilities totaled $4.2 billion.

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION

There are three major parts to the basic financial statements: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE STATEMENTS (Reporting the State as a Whole)

Governments have traditionally focused their reporting on groupings of funds rather than on the government taken as a whole. The GASB 34 financial reporting model, upon which this report is based, retains this traditional focus on funds and adds an additional focus on the overall government's financial position and operations.

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the state as a whole and its activities. These statements help to demonstrate how the state's financial position as a whole changed due to the year's operating activities. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting.

The Statement of Net Assets presents all of the state's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the state's financial position is improving or not.

The Statement of Activities presents information showing how the state's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in future fiscal year cash flows (e.g., earned but unused vacation time).

Both statements report three activities:

- *Governmental Activities* - Most of the state's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The legislature, the judiciary, and the general operations of the executive departments fall within the governmental activities.

- *Business-Type Activities* – These activities are primarily funded by charges to external parties for the cost of goods and services provided. These activities are generally reported in Enterprise Funds in the fund level statements. The operations of Bradley International Airport, the Connecticut Lottery Corporation and Employment Security, are examples of business-type activities.

- *Discretely Presented Component Units* – Component units are legally separate organizations for which the state is financially accountable. More information on discretely presented component units can be found in Note 1 of the Notes to Financial Statement section.

Financial reporting for governmental activities traditionally has focused on changes in current spendable resources rather than on changes in total resources. This traditional focus has been retained for purposes of fund reporting. However, as governmental activities are included with other activities in the government-wide financial statement format, the focus for these activities shifts to changes in total resources. In other words, all activities reported in government-wide financial statements are reported in a manner similar to private-sector accounting. To increase the readers understanding, a summary reconciliation of the difference between the governmental fund financial statements and the government-wide financial statements is provided as part of the basic financial statements.

FUND LEVEL STATEMENTS

Fund financial statements focus on individual parts of the state's operations in more detail than the government-wide statements. Funds are accounting devices that governments use to keep track of specific sources of funding and spending for particular purposes. The state of Connecticut is required to report four categories of fund statements – governmental, proprietary, and fiduciary funds, to the extent that state activities meet the criteria for using these funds, and "combining statements" for its component units.

As a practical matter, governments have traditionally been combining similar individual funds into groupings or "fund types" (i.e., general fund, special revenue funds, debt service funds, capital projects funds, enterprise funds, internal service funds and trust & agency funds). In the past, it was these fund types, rather than individual funds, that have been the focus of the combined financial statements presented in financial reports. Under the GASB 34 financial reporting model, as presented here, governments focus on major individual funds rather than on fund types (with aggregated information presented for the total of all non-major funds).

Major Governmental Fund Financial Statements:

Governmental fund reporting focuses primarily on the sources uses and balances of current financial resources and often has a budgetary orientation. The state's major government funds include the General Fund, the Transportation Fund and the Debt Service Fund.

General Fund. The General Fund functions as the chief operating fund for the state government. All of the state's activities are reported in the General Fund unless there is a compelling reason to report them elsewhere.

Transportation Fund. The Transportation Fund is a special revenue fund that accounts for motor vehicle taxes, receipts and transportation related federal revenues collected for payment of debt service requirements and budgeted expenditures of the Department of Transportation and the Department of Motor Vehicles. The Department of Transportation is responsible for all aspects of the planning, development, maintenance and improvement of the state transportation system.

Debt Service Fund. The Debt Service Fund is a governmental fund, which accounts for the accumulation of resources for, and the payment of, Special Tax obligation principal and interest.
Changes in budgetary reporting. Traditionally, governments have included a budget-to-actual comparison as one of their basic financial statements. The final amended budget has provided the

budgetary amounts used for this presentation. The GASB 34 financial reporting model brought three important changes to traditional practice.

- Budgetary comparisons present the original budget in addition to the final amended budget.

- In the past budgetary comparisons were presented by fund type (e.g., total budgeted special revenue funds). The GASB 34 financial reporting model requires a budgetary comparison for the General Fund and individual major special-revenue funds.

- Governments are permitted to present the budgetary comparison as a basic financial statement if they wish to do so, thereby retaining it within the scope of the independent audit. The state of Connecticut has elected to do so even though it is only required to present non-audited budgetary comparison statements as "required supplementary information".

Major Proprietary Fund Financial Statements:

Proprietary funds (enterprise and internal service) are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting where all assets and liabilities are reported on the balance sheet. Revenues are recorded when earned and expenses are recorded when incurred. In accordance with the requirements of the GASB 34 reporting model utilized in preparation of this report:

- Proprietary fund reporting distinguish current assets and liabilities from non-current assets and liabilities.

- Traditionally, the equity of proprietary funds was divided between "contributed capital" and "retained earnings." Under the GASB 34 reporting model, such a distinction is no longer made. Three classifications are used under the GASB 34 reporting model to classify equity for proprietary funds and for the government-wide financial statements. These three classifications are 1) "invested in capital assets net of related debt," 2) "restricted" (distinguishing between major categories of restrictions) and 3) "unrestricted."

Enterprise funds report activities that provide goods or services to the general public. An example is the Connecticut Lottery. Internal service funds report activities that provide supplies and services to the state's other programs and activities. An example is the state's motor fleet operations. Internal service funds are reported as governmental activities on the government-wide statements

Fiduciary Fund Financial Statements:

The fiduciary fund category includes pension (and other employee benefit) trust funds, investment-trust fund, private-purpose-trust fund and agency funds. These fund types should be used to report resources held and administered by the state when it is acting in a fiduciary capacity for individuals, private organizations or other governments. Some of the important changes to traditional reporting include the following:

Limitation on the use of fiduciary funds. The use of fiduciary funds has been limited to accounting for resources that are not available to support a government's operations and programs. This limitation resulted in the non-fiduciary reclassification of numerous expendable and non-expendable trust funds reported in the *Comprehensive Annual Financial Report* prior to Fiscal Year 2002.

Changes in fiduciary funds. The distinction between expendable and non-expendable trust funds has been eliminated. Instead, some expendable trust funds have been reclassified and are now reported as special revenue funds while others have been replaced by the "private-purpose" trust fund. This fund type is used to report all trust arrangements under which principal and income are to be used to benefit individuals, private organizations or other governments. Non-expendable or endowment-like arrangements available to support the operations or programs of the government (e.g., cemetery perpetual care funds) are accounted for in a governmental fund type, newly created by GASB statement 34, called "permanent funds."

Component Unit Combining Statements:

The same GASB 34 reporting rules regarding the determination of major funds are applied to the states component units. The Component units of the State of Connecticut are:

Connecticut Housing Finance Authority. Classified as a major component unit, the CHFA is a public instrumentality and political subdivision created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development and construction of housing for low and moderate income families.

Connecticut Health and Educational Facilities Authority. Classified as a major component unit, CHEFA's purpose is to provide resources for financing major projects for health and educational institutions.

Connecticut Development Authority. CDA's purpose is to stimulate commercial development.

Connecticut Resources Recovery Authority. CRRA's purpose is solid waste management.

Connecticut Higher Education Supplemental Loan Authority. CHESLA's purpose is to provide resources for student loans.

Connecticut Innovations, Incorporated. CI's purpose is to stimulate application of new technology.

Capital City Economic Development Authority. CCEDA's purpose is to stimulate economic development in the city of Hartford.

University of Connecticut Foundation, Inc. The foundation's purpose is 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 States progress on funding its obligation to provide pension benefits to its employees.

Combining Financial Statements. Combining statements for non-major funds are not required to be presented or audited under generally accepted accounting principals. Nevertheless, Connecticut presents these statements as supplementary information, in the optional part of this report.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

NET ASSETS

The following table was derived from the government-wide Statement of Net Assets. The state's combined net assets declined $0.2 billion over the course of Fiscal Year 2004 operations. The net assets of governmental activities decreased by the same $0.2 billion, while net assets from business-type activities remained by and large unchanged from the prior year.

State Of Connecticut's Net Assets
(in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
ASSETS:						
Current and Other Assets	$ 3,902.0	$ 3,142.0	$ 3,575.4	$ 3,515.9	$ 7,477.4	$ 6,657.9
Capital Assets	9,618.8	9,531.9	2,857.0	2,621.5	12,475.8	12,153.4
Total Assets	13,520.8	12,673.9	6,432.4	6,137.4	19,953.2	18,811.3
LIABILITES:						
Current Liabilities	2,914.2	2,345.6	606.9	549.8	3,521.1	2,895.4
Long-term Liabilities	16,046.9	15,638.3	2,165.6	1,964.3	18,212.5	17,602.6
Total Liabilities	18,961.1	17,983.9	2,772.5	2,514.1	21,733.6	20,498.0
NET ASSETS:						
Invested in Capital Assets, Net of Related Debt	3,264.1	2,622.4	2,209.5	2,093.9	5,473.6	4,716.3
Restricted	1,686.1	1,245.3	1,409.9	1,402.1	3,096.0	2,647.4
Unrestricted	(10,390.5)	(9,177.7)	40.5	127.3	(10,350.0)	(9,050.4)
Total Net Assets	$ (5,440.3)	$ (5,310.0)	$ 3,659.9	$ 3,623.3	$ (1,780.4)	$ (1,686.7)

The following condensed financial information was derived from the government-wide Statement of Activities and reflects the nature of the state's change in net assets throughout Fiscal Year 2004.

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

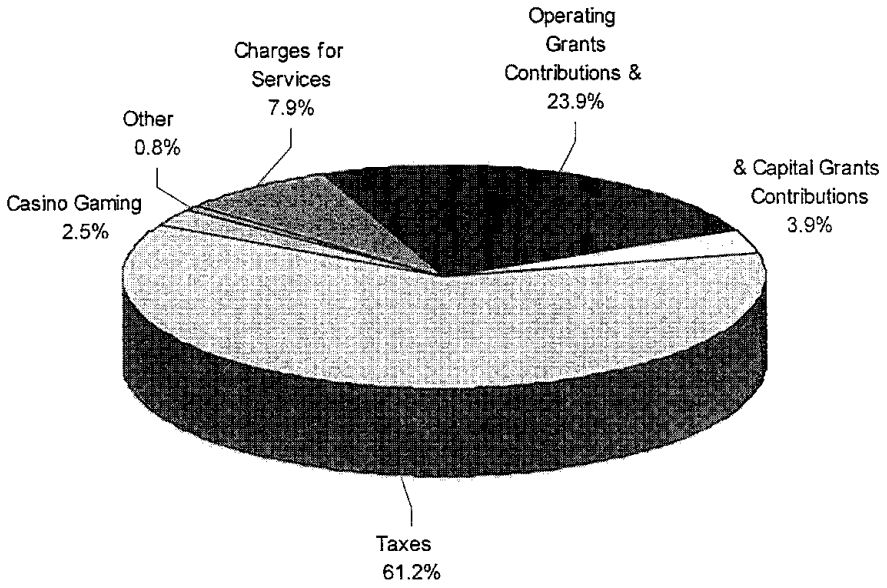
	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
REVENUES						
Program Revenues						
Charges for Services	1,253.7	1,072.9	$ 2,936.0	$ 2,594.8	$ 4,189.7	$ 3,667.7
Operating Grants and Contributions	3,850.1	3,489.2	227.7	456.2	4,077.8	3,945.5
Capital Grants and Contributions	543.8	562.6	9.3	10.2	553.1	572.8
General Revenues						
Taxes	9,741.8	8,644.7	-	-	9,741.8	8,644.7
Casino Gaming Payments	402.7	387.3	-	-	402.7	387.3
Other	134.9	435.8	90.5	111.3	225.4	547.1
Total Revenues	15,927.0	14,592.5	3,263.5	3,172.5	19,190.5	17,765.1
EXPENSES						
Legislative	89.5	80.2	-	-	89.5	80.2
General Government	1,100.7	1,145.6	-	-	1,100.7	1,145.6
Regulation and Protection	590.4	574.7	-	-	590.4	574.7
Conservation and Development	448.0	410.2	-	-	448.0	410.2
Health and Hospitals	1,683.4	1,711.1	-	-	1,683.4	1,711.1
Transportation	1,153.9	941.3	-	-	1,153.9	941.3
Human Services	4,630.2	4,138.9	-	-	4,630.2	4,138.9
Education, Libraries and Museums	3,174.3	3,090.6	-	-	3,174.3	3,090.6
Corrections	1,579.0	1,450.4	-	-	1,579.0	1,450.4
Judicial	546.2	555.8	-	-	546.2	555.8
Interest and Fiscal Charges	577.4	595.9	-	-	577.4	595.9
University of Connecticut	-	-	1,254.4	1,187.7	1,254.4	1,187.7
State Universities	-	-	469.7	463.3	469.7	463.3
Bradley International Airport	-	-	59.3	54.3	59.3	54.3
CT Lottery Corporation	-	-	656.7	643.2	656.7	643.2
Employment Security	-	-	811.5	963.2	811.5	963.2
Clean Water	-	-	24.8	29.4	24.8	29.4
Other	-	-	361.4	364.6	361.4	364.6
Total Expenses	15,573.0	14,694.7	3,637.8	3,705.8	19,210.8	18,400.5
Excess (Deficiency) Before Transfers, Special and Extraordinary Items	354.0	(102.2)	(374.3)	(533.3)	(20.3)	(635.5)
Transfers	(417.1)	(640.2)	417.1	640.3	-	0.1
Special and Extraordinary Items	(157.2)	-	(6.2)	(6.5)	(163.4)	(6.5)
Increase (Decrease) in Net Assets	(220.3)	(742.4)	36.6	100.5	(183.7)	(641.9)
Net Assets (Deficit) - Beginning (Restated)	(5,220.0)	(4,567.6)	3,623.3	3,522.8	(1,596.7)	(1,044.8)
Net Assets (Deficit) - Ending	(5,440.3)	(5,310.0)	$ 3,659.9	$ 3,623.3	(1,780.4)	$ (1,686.7)

Special Items are significant transactions or other activity within management's control that are either unusual in nature or infrequent in occurrence. Extraordinary items are activities that are both unusual in nature and infrequent in occurrence.

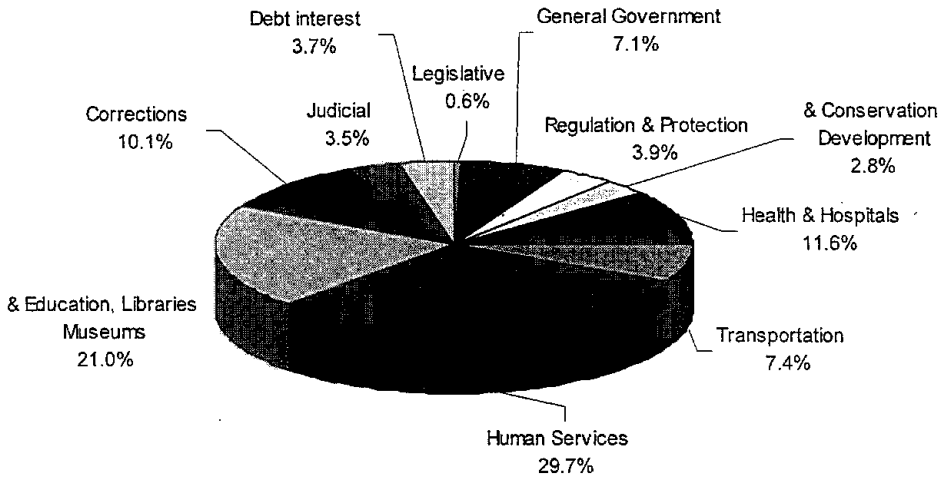
GOVERNMENTAL ACTIVITIES

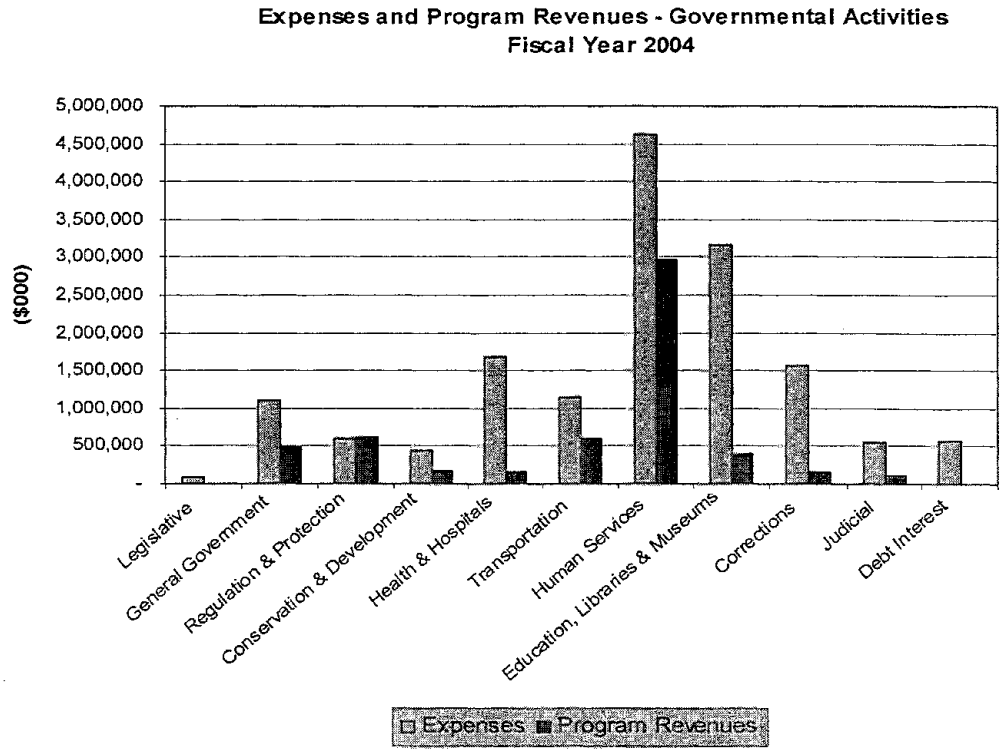
The following charts depict the distribution of revenues and expenses for Fiscal Year 2004.

Revenues - Governmental Activities
Fiscal Year 2004



Expenses- Governmental Activities
Fiscal Year 2004





Within governmental activities, Fiscal Year 2004 program expenses were $9.9 billion higher than program revenues. However, this excess of expenses over related program revenue was offset by general revenue in the amount of $9.7 billion, resulting in a decrease in net assets of $0.2 billion for the year. Had a transfer of loans to component units of $0.2 billion (a Special Item) not occurred, there would have been almost no change in net assets for the year.

During the fiscal year 2004, budget projections indicated that budgeted revenues would exceed the budgeted level of expenditures (on a modified cash basis of accounting) producing an operating surplus in the General Fund. As a result, legislation was enacted (Public Act 04-216) to restore funding for various program activities that had been cut as part of the state's Fiscal Year 2003 deficit mitigation efforts. The restored funding totaled $112.4 million in Fiscal Year 2004. In addition, $150.3 million of the Fiscal Year 2004 General Fund operating surplus was reserved to support Fiscal Year 2005 anticipated spending requirements.

Business-Type activities achieved a near breakeven on operations for fiscal year 2004. Expenses of the Higher Education institutions, which include the University of Connecticut, the State University System and Connecticut Community Colleges, accounted for 61.7 percent of business-type expenses and 44.2 percent of program revenues. Program revenues exceeded expenses in the Connecticut Lottery Corporation by $0.2 billion.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

The state completed Fiscal Year 2004 with a fund balance of $2.0 billion in its governmental funds. The unreserved portion of fund balance, totaling a deficit of $47.0 million, is net of a $0.9 billion short fall in the general fund unreserved fund balance. Governmental fund expenditures exceeded fund revenues by $0.5 billion before other financing sources and special items totaling $0.9 billion. As a result fund balance for all governmental funds increased by $0.4 billion in fiscal year 2004.

General Fund

The General Fund is the chief operating fund of the state. At the end of Fiscal Year 2004, the General Fund had a negative fund balance of $0.2 billion of which a negative $0.9 billion was unreserved. The excess of general fund revenues over expenditures totaled $0.7 billion. Net other financing uses totaling $0.5 billion included a transfer of $0.3 billion to establish a new special revenue fund, the Restricted Grants & Accounts fund. This resulted in an increase in fund balance of $0.2 billion for the fiscal year. Tax increases and other revenue enhancements enacted by the legislature and signed by the governor during Fiscal Year 2003 (Public Acts 03-2 and 03-1 of the June Special Session) generated over $800 million in additional Fiscal Year 2004 revenue, and spending reductions implemented in fiscal year 2003 and continued and annualized into fiscal year 2004 were projected to save over $300 million (the estimates are on a budgetary basis or modified cash basis of accounting). These actions helped avert a large General Fund operating deficit in Fiscal Year 2004 and to ultimately generate a General Fund surplus .

Transportation Fund

The Transportation Fund ended Fiscal Year 2004 with a fund balance of $0.2 billion of which $0.1 billion was unreserved. Fund balance was reduced by $2.0 million through Fiscal Year 2004 operations.

Other Funds

The other funds category includes the state's special revenue, capital projects and permanent funds. These funds had a balance of $1.3 billion on June 30, 2004 of which $0.7 billion was unreserved. In fiscal 2004 the Clean Energy fund, which in prior years was combined with the CT Innovations, Inc. component unit, was presented as part of the environmental fund, a special revenue fund of the state.

In Fiscal Year 2004, expenditures exceeded revenues by $1.2 billion in the other funds category. Bonds issued in the amount of $1.3 billion provided an offset to this deficit. The state has a long history of utilizing bond proceeds to offset operating deficits within these funds.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets.

The State of Connecticut's investment in capital assets for its governmental and business-type activities as of June 30, 2004 amounts to $12.4 billion (net of accumulated depreciation). The total of capital assets for governmental activities remained largely unchanged from the prior year while the increase for business-type activities was 9.0%. Depreciation charges for the fiscal year totaled $0.8 billion.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003 (1)	2004	2003(2)	2004	2003
Land	$ 935.0	$ 911.8	$ 51.9	$ 44.8	$ 986.9	$ 956.6
Buildings	1,036.3	879.9	1,916.1	1,706.1	2,952.4	2,586.0
Improvements Other than Buildings	133.9	63.2	245.5	230.0	379.4	293.2
Equipment	445.8	458.4	350.0	355.5	795.8	813.9
Infrastructure	6,731.4	6,758.4	-		6,731.4	6,758.4
Construction in Progress	336.5	460.3	293.4	285.1	629.9	745.4
Total	$ 9,618.9	$ 9,532.0	$ 2,856.9	$ 2,621.5	$ 12,475.8	$ 12,153.5

(1) Totals differ with that of the prior year due to the recording of software costs . See footnote number 21.
(2) Totals differ with that of the prior year due to the implementation of GASB 39. See footnote number 21.

Additional information on the State of Connecticut's capital assets can be found in Note 10 of this report.

Long-term Debt.

The state, pursuant to various public and special acts, has authorized a variety of types of debt which fall into the following categories: direct general obligation debt, which is payable from the state's general fund; special tax obligation debt, which is payable from the debt service fund and revenue debt, which is payable from specified revenues of enterprise funds.

State of Connecticut's Outstanding Debt
General Obligation and Revenue Bonds (in Millions)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	$ 9,606.6	$ 9,216.4	$ -	$ -	$ 9,606.6	$ 9,216.4
Transportation Related Bonds	3,153.9	3,205.8	-	-	3,153.9	3,205.8
Revenue Bonds	-	-	1,713.8	1,547.5	1,713.8	1,547.5
Total	$ 12,760.5	$ 12,422.2	$ 1,713.8	$ 1,547.5	$ 14,474.3	$ 13,969.7

In Fiscal Year 2004 the state increased outstanding bonds by $0.6 billion. For the year, outstanding debt in governmental activities increased by 2.7 percent and for business-type activities the increase was 10.8 percent. It should also be noted that the state also issued $97.7 million in economic recovery notes (see note 17). The state's General Obligation bonds are rated Aa3, AA and AA by Moodys, Standard and Poors and Fitch respectively. Special Tax Obligation bonds are rated A1, AA-, AA- by Moodys, Standard and Poors and Fitch respectively.

Section 3-21 of the Connecticut General Statutes provides that the total amount of bonds, notes or other evidences of indebtedness payable from general fund tax receipts authorized by the General Assembly but have not been issued and the total amount of such indebtedness which has been issued and remains outstanding shall not exceed 1.6 times the total estimated general fund tax receipts of the state for the current fiscal year. In computing the indebtedness at any time, revenue anticipation notes, refunded indebtedness, bond anticipation notes, tax increment financing, budget deficit bonding, revenue bonding, balances in debt retirement funds and other indebtedness pursuant to certain provisions of the General Statutes shall be excluded from the calculation.

CONTACTING THE STATE'S OFFICES OF FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have any questions about this report, please contact the State Comptroller's Office at 1-860-702-3350.

Basic Financial Statements

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Statement of Net Assets

June 30, 2004
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 986,019	$ 436,936	$ 1,422,955	$ 139,538
Deposits with U.S. Treasury	-	477,197	477,197	-
Investments	106,120	171,156	277,276	233,307
Receivables, (Net of Allowances)	1,969,678	559,784	2,529,462	63,626
Due from Component Units	1,484	-	1,484	-
Due from Primary Government	-	-	-	22,179
Inventories	55,152	8,637	63,789	-
Restricted Assets	-	12,334	12,334	1,308,138
Internal Balances	(134,416)	134,416	-	-
Other Current Assets	16,242	7,413	23,655	7,135
Total Current Assets	3,000,279	1,807,873	4,808,152	1,773,923
Noncurrent Assets:				
Cash and Cash Equivalents	-	102,145	102,145	-
Due From Component Units	10,606	-	10,606	-
Investments	-	367,558	367,558	68,794
Loans, (Net of Allowances)	208,875	549,380	758,255	137,447
Restricted Assets	634,596	540,904	1,175,500	3,318,946
Capital Assets, (Net of Accumulated Depreciation)	9,618,867	2,856,957	12,475,824	227,926
Other Noncurrent Assets	47,657	207,572	255,229	32,068
Total Noncurrent Assets	10,520,601	4,624,516	15,145,117	3,785,181
Total Assets	13,520,880	6,432,389	19,953,269	5,559,104
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	589,450	192,507	781,957	50,827
Due to Component Units	22,179	-	22,179	-
Due to Primary Government	-	-	-	1,484
Due to Other Governments	124,514	-	124,514	-
Current Portion of Long-Term Obligations	1,328,704	171,112	1,499,816	167,885
Amount Held for Institutions	-	-	-	431,010
Deferred Revenue	10,917	142,314	153,231	36
Medicaid Liability	561,118	-	561,118	-
Liability for Escheated Property	77,106	-	77,106	-
Other Current Liabilities	200,256	100,935	301,191	24,156
Total Current Liabilities	2,914,244	606,868	3,521,112	675,398
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	16,046,894	2,165,604	18,212,498	3,565,108
Total Noncurrent Liabilities	16,046,894	2,165,604	18,212,498	3,565,108
Total Liabilities	18,961,138	2,772,472	21,733,610	4,240,506
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,264,134	2,209,541	5,473,675	42,867
Restricted For:				
Statutory Budget Reserve Requirements	302,155	-	302,155	-
Transportation	102,268	-	102,268	-
Debt Service	605,123	68,094	673,217	-
Capital Projects	215,136	68,507	283,643	-
Unemployment Compensation	-	635,902	635,902	-
Clean Water Projects	-	449,055	449,055	-
Bond Indenture Requirements	-	-	-	684,009
Permanent Investments or Endowments:				
Expendable	4,471	-	4,471	77,929
Nonexpendable	88,820	11,499	100,319	174,761
Other Purposes	368,116	176,858	544,974	95,016
Unrestricted (Deficit)	(10,390,481)	40,461	(10,350,020)	244,016
Total Net Assets (Deficit)	$ (5,440,258)	$ 3,659,917	$ (1,780,341)	$ 1,318,598

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

Statement of Activities

For The Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

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	$ 89,532	$ 2,410	$ 58	$ -
General Government	1,100,700	306,472	170,124	-
Regulation and Protection	590,377	502,182	107,716	-
Conservation and Development	448,077	106,922	73,643	-
Health and Hospitals	1,683,465	45,206	110,279	-
Transportation	1,153,888	57,277	-	543,805
Human Services	4,630,154	93,407	2,876,193	-
Education, Libraries, and Museums	3,174,305	19,953	381,877	-
Corrections	1,579,043	20,730	125,137	-
Judicial	546,163	99,113	5,105	-
Interest and Fiscal Charges	577,448	-	-	-
Total Governmental Activities	15,573,152	1,253,672	3,850,132	543,805
Business-Type Activities:				
University of Connecticut	1,254,402	677,819	149,998	8,243
State Universities	469,712	282,447	31,908	-
Bradley International Airport	59,338	51,157	-	1,096
Connecticut Lottery Corporation	656,716	907,866	-	-
Employment Security	811,483	778,797	-	-
Clean Water	24,759	16,518	1,991	-
Other	361,367	221,351	43,777	-
Total Business-Type Activities	3,637,777	2,935,955	227,674	9,339
Total Primary Government	$ 19,210,929	$ 4,189,627	$ 4,077,806	$ 553,144
Component Units				
Connecticut Housing Finance Authority (12-31-03)	$ 207,982	$ 182,868	$ -	$ -
Connecticut Health and Educational Facilities Authority	4,184	4,253	-	-
Other	240,922	231,826	4,929	4,995
Total Component Units	$ 453,088	$ 418,947	$ 4,929	$ 4,995

General Revenues:
- Taxes:
  - Personal Income
  - Corporate Income
  - Sales and Use
  - Other
- Restricted for Transportation Purposes:
  - Motor Fuel
  - Other
- Casino Gaming Payments
- Tobacco Settlement
- Unrestricted Investment Earnings

Contributions to Endowments

Special Items:
- Statutory Payment from Component Units
- Payment from Lease/Lease Back Transaction
- Transfer of Loans to Component Unit
- Statutory Payment to State
- Loss on Disposal of Assets

Extraordinary Item-Loss on Early Retirement of Debt

Transfers-Internal Activities

Total General Revenues, Contributions, Special Items, Extraordinary Item, and Transfers

Change in Net Assets

Net Assets (Deficit)- Beginning (as restated)

Net Assets (Deficit)- Ending

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (87,064)	$ -	$ (87,064)	$ -
(624,104)	-	(624,104)	-
19,521	-	19,521	-
(267,512)	-	(267,512)	-
(1,527,980)	-	(1,527,980)	-
(552,806)	-	(552,806)	-
(1,660,554)	-	(1,660,554)	-
(2,772,475)	-	(2,772,475)	-
(1,433,176)	-	(1,433,176)	-
(441,945)	-	(441,945)	-
(577,448)	-	(577,448)	-
(9,925,543)	-	(9,925,543)	-
-	(418,342)	(418,342)	-
-	(155,357)	(155,357)	-
-	(7,085)	(7,085)	-
-	251,150	251,150	-
-	(32,686)	(32,686)	-
-	(6,250)	(6,250)	-
-	(96,239)	(96,239)	-
-	(464,809)	(464,809)	-
(9,925,543)	(464,809)	(10,390,352)	-
-	-	-	(25,114)
-	-	-	69
-	-	-	828
-	-	-	(24,217)
4,392,403	-	4,392,403	-
473,505	-	473,505	-
3,061,423	-	3,061,423	-
1,274,149	-	1,274,149	-
470,001	-	470,001	-
70,411	-	70,411	-
402,733	-	402,733	-
116,578	-	116,578	-
18,350	90,486	108,836	25,137
-	-	-	41,339
17,500	-	17,500	-
29,357	-	29,357	
(204,117)	-	(204,117)	-
-	-	-	(15,000)
-	(4,190)	(4,190)	-
-	(1,983)	(1,983)	-
(417,062)	417,062	-	-
9,705,231	501,375	10,206,606	51,476
(220,312)	36,566	(183,746)	27,259
(5,219,946)	3,623,351	(1,596,595)	1,291,339
$ (5,440,258)	$ 3,659,917	$ (1,780,341)	$ 1,318,598

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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, 2004
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	$ -	$ -	$ 124,227	$ 843,046	$ 967,273
Investments	-	-	-	106,120	106,120
Securities Lending Collateral	-	-	-	15,346	15,346
Receivables:					
Taxes, Net of Allowances	830,383	-	45,443	-	875,826
Accounts, Net of Allowances	186,672	-	10,922	57,943	255,537
Loans, Net of Allowances	-	-	-	208,875	208,875
From Other Governments	590,687	-	-	193,780	784,467
Interest	-	4,487	170	-	4,657
Other	-	-	-	70	70
Due from Other Funds	19,740	1,083	5,964	287,572	314,359
Advances to Other Funds	4,700	-	-	-	4,700
Due from Component Units	12,090	-	-	-	12,090
Inventories	37,478	-	13,069	-	50,547
Restricted Assets	-	634,596	-	-	634,596
Other Assets	57	-	-	-	57
Total Assets	$ 1,681,807	$ 640,166	$ 199,795	$ 1,712,752	$ 4,234,520
Liabilities and Fund Balances					
Liabilities					
Accounts Payable and Accrued Liabilities	$ 277,531	$ -	$ 22,484	$ 188,034	$ 488,049
Due to Other Funds	250,775	4,487	534	99,679	355,475
Due to Component Units	-	-	-	22,179	22,179
Due to Other Governments	122,053	-	-	2,461	124,514
Deferred Revenue	392,102	-	10,339	35,089	437,530
Medicaid Liability	561,118	-	-	-	561,118
Liability For Escheated Property	77,106	-	-	-	77,106
Securities Lending Obligation	-	-	-	15,346	15,346
Other Liabilities	180,712	-	-	2,709	183,421
Total Liabilities	1,861,397	4,487	33,357	365,497	2,264,738
Fund Balances					
Reserved For:					
Petty Cash	996	-	-	-	996
Inventories	37,478	-	13,069	-	50,547
Loans	16,790	-	-	208,875	225,665
Continuing Appropriations	212,862	-	34,166	3,975	251,003
Debt Service	-	635,679	-	-	635,679
Restricted Purposes	-	-	-	400,450	400,450
Statutory Surplus Reserve- FYE '05	150,300				150,300
Transfer to Budget Reserve Fund	302,155	-	-	-	302,155
Unreserved Reported In:					
General Fund	(900,171)	-	-	-	(900,171)
Transportation Fund	-	-	119,203	-	119,203
Special Revenue Funds	-	-	-	512,106	512,106
Capital Project Funds	-	-	-	221,849	221,849
Total Fund Balances	(179,590)	635,679	166,438	1,347,255	1,969,782
Total Liabilities and Fund Balances	$ 1,681,807	$ 640,166	$ 199,795	$ 1,712,752	$ 4,234,520

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

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2004
(Expressed in Thousands)

Total Fund Balance - Governmental Funds		$ 1,969,782
Net assets reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Buildings	2,756,332	
Equipment	1,147,292	
Infrastructure	11,290,148	
Other Capital Assets	1,251,695	
Accumulated Depreciation	(6,870,548)	9,574,919
Debt issue costs are recorded as expenditures in the funds. However, these costs are deferred (reported as other assets) and amortized over the life of the bonds in the Statement of Net Assets.		45,890
Some of the state's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		426,742
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.		(9,134)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds (Note 16).		
Net Pension Obligation	(3,440,354)	
Worker's Compensation	(276,681)	
Capital Leases	(53,761)	
Compensated Absences	(365,559)	
Claims and Judgments	(13,183)	(4,149,538)
Long-term bonded debt is not due and payable in the current period and therefore is not reported in the funds. Unamortized premiums, loss on refundings, and interest payable are not reported in the funds. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement (Note 16).		
Economic Recovery Note	(273,215)	
Bonds Payable	(12,760,560)	
Unamortized Premiums	(457,490)	
Less: Deferred Loss on Refundings	276,124	
Accrued Interest Payable	(83,778)	(13,298,919)
Net Assets of Governmental Activities		$ (5,440,258)

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

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For The Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	General	Debt Service	Transportation	Other Funds	Total Governmental Funds
Revenues					
Taxes	$ 9,181,928	$ -	$ 535,460	$ 25,413	$ 9,742,801
Assessments	-	-	-	25,827	25,827
Licenses, Permits and Fees	154,159	-	310,811	50,079	515,049
Tobacco Settlement	-	-	-	116,578	116,578
Intergovernmental	2,827,350	-	-	1,556,148	4,383,498
Charges for Services	39,714	-	55,054	3,457	98,225
Fines, Forfeits and Rents	107,843	-	27,138	3,638	138,619
Casino Gaming Payments	402,733	-	-	-	402,733
Investment Earnings	1,262	12,304	2,534	11,431	27,531
Miscellaneous	131,157	-	5,795	319,889	456,841
Total Revenues	12,846,146	12,304	936,792	2,112,460	15,907,702
Expenditures					
Current:					
Legislative	82,134	-	-	2,138	84,272
General Government	716,950	-	1,582	337,937	1,056,469
Regulation and Protection	267,305	-	68,743	223,171	559,219
Conservation and Development	106,668	-	-	325,922	432,590
Health and Hospitals	1,399,824	-	-	242,973	1,642,797
Transportation	6,511	-	437,277	83,538	527,326
Human Services	4,209,227	-	-	329,542	4,538,769
Education, Libraries, and Museums	2,214,534	-	-	876,602	3,091,136
Corrections	1,486,471	-	-	39,333	1,525,804
Judicial	506,420	-	-	26,364	532,784
Capital Projects	-	-	-	780,194	780,194
Debt Service:					
Principal Retirement	724,973	236,300	4,035	5	965,313
Interest and Fiscal Charges	398,406	179,030	13,125	57,236	647,797
Total Expenditures	12,119,423	415,330	524,762	3,324,955	16,384,470
Excess (Deficiency) of Revenues Over Expenditures	726,723	(403,026)	412,030	(1,212,495)	(476,768)
Other Financing Sources (Uses)					
Bonds/Notes Issued	97,700	-	-	1,297,845	1,395,545
Premiums on Bonds Issued	-	200,328	-	68,730	269,058
Transfers In	607,456	428,328	26,906	617,168	1,679,858
Transfers Out	(1,242,481)	(26,605)	(440,789)	(388,750)	(2,098,625)
Refunding Bonds Issued	-	1,961,040	-	-	1,961,040
Payment to Refunded Bond Escrow Agent	-	(2,146,469)	-	-	(2,146,469)
Total Other Financing Sources (Uses)	(537,325)	416,622	(413,883)	1,594,993	1,060,407
Special Items:					
Statutory Payment from Component Units	17,500	-	-	-	17,500
Tranfer of Loans to Component Units	-	-	-	(204,117)	(204,117)
Payment From Lease/Lease Back Transaction	-	-	-	29,357	29,357
Net Change in Fund Balances	206,898	13,596	(1,853)	207,738	426,379
Fund Balances - Beginning (as restated)	(381,843)	622,083	168,303	1,139,517	1,548,060
Changes in Reserves for Inventories	(4,645)	-	(12)	-	(4,657)
Fund Balances - Ending	$ (179,590)	$ 635,679	$ 166,438	$ 1,347,255	$ 1,969,782

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

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

June 30, 2004

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds		$ 426,379
Amounts reported for governmental activities in the Statement of Activities are different because:		
Bond proceeds provide current financial resources to governmental funds. However, issuing debt increases long term-liabilities in the Statement of Net Assets. Bond proceeds were received this year from:		
Bonds Issued	(1,395,545)	
Refunding Bonds Issued	(1,961,040)	
Premium on Bonds Issued	(269,058)	(3,625,643)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Long-term debt repayments this year consisted of:		
Principal Retirement	965,313	
Payments to Refunded Bond Escrow Agent ($25,100 reported in debt service)	2,171,568	
Capital Lease Payments	14,227	3,151,108
Capital outlays are reported as expenditures in the governmental funds. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital Outlays	690,099	
Depreciation Expense	(654,603)	35,496
Inventories are reported as expenditures in the governmental funds when purchased. However, in the Statement of Activities the cost of these assets is recognized when those assets are consumed. This is the amount by which consumption exceeded purchases of inventories.		(4,657)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in Accrued Interest	5,510	
Decrease in Interest Accreted on Capital Appreciation Debt	8,835	
Amortization of Bond Premium	26,234	
Amortization of Loss on Debt Refundings	(16,865)	
Increase in Compensated Absences Liability	(23,210)	
Increase in Workers Compensation Liability	(11,036)	
Increase in Claims and Judgments Liability	(5,571)	
Increase in Net Pension Obligation	(183,757)	(199,860)
Because some revenues will not be collected for several months after the state's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased by this amount this year.		17,857
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.		(42,526)
Debt issue costs are recorded as expenditures in the govenmental funds. However, these costs are amortized over the life of the bonds in the Statement of Activities. In the current year, these amounts are:		
Debt Issue Costs Payments	24,356	
Amortization of Debt Issue Costs	(2,822)	21,534
Change in Net Assets of Governmental Activities		$ (220,312)

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

Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual - Non-GAAP Budgetary Basis General and Transportation Funds

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	General Fund			
	Budget			Variance with Final Budget positive (negative)
Revenues	Original	Final	Actual	
Budgeted:				
Taxes, Net of Refunds	$ 8,624,000	$ 9,121,600	$ 9,182,569	$ 60,969
Operating Transfers In	380,600	401,300	401,277	(23)
Casino Gaming Payments	410,000	402,700	402,733	33
Licenses, Permits, and Fees	149,500	149,800	154,595	4,795
Other	238,800	268,900	271,804	2,904
Federal Grants	2,527,000	2,539,800	2,564,256	24,456
Transfer to the Resources of the General Fund	207,700	-	232,305	232,305
Refunds of Payments	(500)	(600)	(574)	26
Operating Transfers Out	(85,000)	(3,000)	(85,000)	(82,000)
Transfer out- Transportation Strategy Board	-	-	-	-
Total Revenues	12,452,100	12,880,500	13,123,965	243,465
Expenditures				
Budgeted:				
Legislative	62,033	66,284	57,221	9,063
General Government	436,640	444,573	394,193	50,380
Regulation and Protection	217,255	217,790	198,945	18,845
Conservation and Development	72,474	99,486	81,580	17,906
Health and Hospitals	1,259,016	1,377,476	1,206,942	170,534
Transportation	8,953	7,613	5,931	1,682
Human Services	3,779,660	3,875,193	3,776,416	98,777
Education, Libraries, and Museums	2,834,745	2,860,859	2,789,367	71,492
Corrections	1,172,902	1,200,187	1,165,666	34,521
Judicial	390,253	390,824	368,327	22,497
Non Functional	2,564,981	2,615,747	2,502,331	113,416
Total Expenditures	12,798,912	13,156,032	12,546,919	609,113
Appropriations Lapsed	260,311	285,300	-	(285,300)
Excess (Deficiency) of Revenues Over Expenditures	(86,501)	9,768	577,046	567,278
Other Financing Sources (Uses)				
Prior Year Appropriations Carried Forward	86,647	86,647	86,647	-
Appropriations Continued to Fiscal Year 2004-2005	-	-	(212,862)	(212,862)
Miscellaneous Adjustments	-	105,881	1,624	(104,257)
Total Other Financing Sources (Uses)	86,647	192,528	(124,591)	(317,119)
Net Change in Fund Balance	$ 146	$ 202,296	452,455	$ 250,159
Budgetary Fund Balances (deficit) - July 1			792,654	
Changes in Reserves			(578,796)	
Budgetary Fund Balances - June 30			$ 666,313	

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

Transportation Fund			
Budget			Variance with Final Budget positive (negative)
Original	Final	Actual	
$ 535,400	$ 538,500	$ 535,298	$ (3,202)
-	-	-	-
-	-	-	-
353,400	370,900	374,233	3,333
30,700	27,800	28,254	454
3,300	-	-	-
-	-	-	-
(2,800)	(2,500)	(2,507)	(7)
(8,500)	(8,500)	(8,500)	-
(10,000)	(23,000)	(22,850)	150
901,500	903,200	903,928	728
-	-	-	-
2,250	2,250	1,589	661
55,932	56,406	48,690	7,716
-	-	-	-
-	-	-	-
361,462	361,613	340,996	20,617
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
519,852	519,226	502,032	17,194
939,496	939,495	893,307	46,188
22,064	10,675	-	(10,675)
(15,932)	(25,620)	10,621	36,241
19,866	19,866	19,866	-
-	-	(34,166)	(34,166)
-	-	4	4
19,866	19,866	(14,296)	(34,162)
$ 3,934	$ (5,754)	(3,675)	$ 2,079
		356,314	
		(189,200)	
		$ 163,439	

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Proprietary Fund Financial Statements

Major Funds

Higher Education
Higher Education Funds are used to account for all transactions relating to public institutions of higher education and an affiliated organization. Higher Education institutions include five universities and twelve community-technical colleges.

Bradley International Airport
The airport is owned by the State of Connecticut and is operated by the Bureau of Aeronautics of the State of Connecticut, Department of Transportation. In 1982, the State issued the Airport, 1982 series, Revenue Bonds in the aggregate principal amount of $100,000,000. The bonds were refunded in 1992 with the issuance of $94,065,000 in refunding bonds. The refunding bonds are secured by and payable solely from the gross operating revenues generated by the State from the operations of the Airport and other receipts, funds or monies pledged in the Indenture.

The Connecticut Lottery Corporation
The Connecticut Lottery Corporation, a public instrumentality and political subdivision of the State of Connecticut was created on July 1, 1996 for the purpose of generating revenues for the State of Connecticut's General Fund through the operation of a lottery.

Employment Security:
to account for the collection of unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Clean Water:
to account for resources used to provide loans to municipalities to finance waste water treatment projects.

Nonmajor Funds
Nonmajor proprietary funds are presented, by fund type beginning on page 112.

Statement of Net Assets
Proprietary Funds

June 30, 2004
(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	University of Connecticut	State Universities	Bradley International Airport	Connecticut Lottery Corporation
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 247,584	$ 69,179	$ 19,637	$ 23,802
Deposits with U.S. Treasury	-	-	-	-
Investments	587	122,849	-	47,720
Receivables:				
Accounts, Net of Allowances	91,409	96,211	4,927	9,799
Loans, Net of Allowances	2,229	1,425	-	-
Interest	-	-	-	14,263
From Other Governments	-	1,874	1,163	-
Due from Other Funds	50,204	36,683	-	-
Inventories	7,641	-	-	-
Restricted Assets	157	-	12,177	-
Other Current Assets	2,296	1,195	690	1,977
Total Current Assets	402,107	329,416	38,594	97,561
Noncurrent Assets:				
Cash and Cash Equivalents	1,450	100,695	-	-
Investments	11,514	-	-	334,568
Loans, Net of Allowances	10,083	10,243	-	-
Restricted Assets	25,925	-	129,105	-
Capital Assets, Net of Accumulated Depreciation	1,624,428	595,865	312,335	2,484
Other Noncurrent Assets	9,498	2,600	6,236	4,713
Total Noncurrent Assets	1,682,898	709,403	447,676	341,765
Total Assets	2,085,005	1,038,819	486,270	439,326
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	95,653	33,846	9,075	11,785
Due to Other Funds	8,908	1,636	2,071	-
Current Portion of Long-Term Obligations	45,971	16,372	8,780	50,661
Deferred Revenue	36,732	101,371	656	438
Other Current Liabilities	23,707	18,505	3,397	38,671
Total Current Liabilities	210,971	171,730	23,979	101,555
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	287,359	356,468	242,514	334,568
Total Noncurrent Liabilities	287,359	356,468	242,514	334,568
Total Liabilities	498,330	528,198	266,493	436,123
Net Assets (Deficit)				
Invested in Capital Assets, Net of Related Debt	1,372,885	462,358	103,800	2,484
Restricted For:				
Debt Service	10,794	-	35,241	-
Unemployment Compensation	-	-	-	-
Clean Water Projects	-	-	-	-
Capital Projects	21,743	-	46,764	-
Nonexpendable Purposes	10,962	517	-	-
Other Purposes	19,648	27,340	22,868	3,203
Unrestricted	150,643	20,406	11,104	(2,484)
Total Net Assets	$ 1,586,675	$ 510,621	$ 219,777	$ 3,203

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

Business-Type Activities				Governmental
Enterprise Funds				Activities
Employment Security	Clean Water	Other Funds	Total	Internal Service Funds
$ -	$ 2,966	$ 73,768	$ 436,936	$ 18,746
477,197	-	-	477,197	-
-	-	-	171,156	-
155,490	-	26,317	384,153	8,515
-	136,926	3,773	144,353	-
-	6,705	436	21,404	-
6,428	409	-	9,874	-
1,474	-	63,357	151,718	6,008
-	-	996	8,637	4,605
-	-	-	12,334	-
-	-	1,255	7,413	839
640,589	147,006	169,902	1,825,175	38,713
-	-	-	102,145	-
-	-	21,476	367,558	-
-	479,120	49,934	549,380	-
-	307,315	78,559	540,904	-
-	-	321,845	2,856,957	43,948
-	163,080	21,445	207,572	1,767
-	949,515	493,259	4,624,516	45,715
640,589	1,096,521	663,161	6,449,691	84,428
-	6,432	35,716	192,507	12,940
4,687	-	-	17,302	63,387
-	38,207	11,121	171,112	212
-	-	3,117	142,314	129
-	2,589	14,066	100,935	1,489
4,687	47,228	64,020	624,170	78,157
-	543,339	401,356	2,165,604	15,404
-	543,339	401,356	2,165,604	15,404
4,687	590,567	465,376	2,789,774	93,561
-	-	268,014	2,209,541	43,948
-	-	22,059	68,094	-
635,902	-	-	635,902	-
-	449,055	-	449,055	-
-	-	-	68,507	-
-	-	20	11,499	-
-	-	103,799	176,858	-
-	56,899	(196,107)	40,461	(53,081)
$ 635,902	$ 505,954	$ 197,785	$ 3,659,917	$ (9,133)

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

For The Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	University of Connecticut	State Universities	Bradley International Airport	Connecticut Lottery Corporation
Operating Revenues				
Charges for Sales and Services	$ 585,961	$ 161,814	$ 37,587	$ 907,656
Assessments	-	-	-	-
Intergovernmental	160,962	30,545	-	-
Private Gifts and Grants	31,809	1,363	-	-
Interest on Loans	-	-	-	-
Other	49,085	73,282	-	192
Total Operating Revenues	827,817	267,004	37,587	907,848
Operating Expenses				
Cost of Sales and Services	157,333	-	-	611,844
Salaries, Wages and Administrative	798,488	287,956	29,464	11,881
Unemployment Compensation	-	-	-	-
Claims Paid	-	-	-	-
Depreciation and Amortization	89,684	37,549	16,477	458
Other	188,337	144,207	-	3,126
Total Operating Expenses	1,233,842	469,712	45,941	627,309
Operating Income (Loss)	(406,025)	(202,708)	(8,354)	280,539
Nonoperating Revenue (Expenses)				
Interest and Investment Income	4,513	5,023	3,705	29,758
Interest and Fiscal Charges	(10,198)	-	(13,397)	(29,407)
Other	(10,362)	47,351	13,570	18
Total Nonoperating Revenues (Expenses)	(16,047)	52,374	3,878	369
Income (Loss) Before Capital Contributions, Grants, Special Item, Extraordinary Item and Transfers	(422,072)	(150,334)	(4,476)	280,908
Capital Contributions	8,243	-	1,096	-
Federal Grants	-	-	-	-
Special Item-Loss on Disposal of Capital Assets	(4,190)	-	-	-
Extraordinary Item-Loss on Early Retirement of Debt	-	-	-	-
Transfers In	479,467	206,705	8,695	-
Transfers Out	-	-	-	(280,763)
Change in Net Assets	61,448	56,371	5,315	145
Total Net Assets - Beginning (as restated)	1,525,227	454,250	214,462	3,058
Total Net Assets - Ending	$ 1,586,675	$ 510,621	$ 219,777	$ 3,203

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

Business-Type Activities				Governmental
Enterprise Funds				Activities
Employment Security	Clean Water	Other Funds	Totals	Internal Service Funds
$ -	$ -	$ 83,199	$ 1,776,217	$ 91,090
628,026	-	93,965	721,991	-
150,771	-	36,944	379,222	-
-	-	935	34,107	-
-	12,268	1,216	13,484	-
-	-	41,799	164,358	1,026
778,797	12,268	258,058	3,089,379	92,116
-	-	7,077	776,254	74,151
-	604	279,701	1,408,094	38,585
811,483	-	-	811,483	-
-	-	36,496	36,496	-
-	-	14,721	158,889	20,248
-	-	12,610	348,280	1,659
811,483	604	350,605	3,539,496	134,643
(32,686)	11,664	(92,547)	(450,117)	(42,527)
25,451	18,829	3,207	90,486	62
-	(24,155)	(10,762)	(87,919)	(61)
-	4,250	1,172	55,999	-
25,451	(1,076)	(6,383)	58,566	1
(7,235)	10,588	(98,930)	(391,551)	(42,526)
-	-	-	9,339	-
-	1,991	5,898	7,889	-
-	-	-	(4,190)	-
-	-	(1,983)	(1,983)	-
-	10,282	208,384	913,533	-
(3,262)	(659)	(211,787)	(496,471)	-
(10,497)	22,202	(98,418)	36,566	(42,526)
646,399	483,752	296,203	3,623,351	33,393
$ 635,902	$ 505,954	$ 197,785	$ 3,659,917	$ (9,133)

Statement of Cash Flows
Proprietary Funds

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Business-Type Activities			
	Enterprise Funds			
	Uconn	State Universities	Bradley International Airport	Connecticut Lottery Corporation
Cash Flows from Operating Activities				
Receipts from Customers	$ 597,353	$ 256,882	$ 37,255	$ 907,015
Payments to Suppliers	(341,499)	(32,796)	(18,316)	(20,917)
Payments to Employees	(741,620)	(278,039)	(10,855)	(10,090)
Other Receipts (Payments)	247,666	(107,232)	-	(595,347)
Net Cash Provided by (Used in) Operating Activities	(238,100)	(161,185)	8,084	280,661
Cash Flows from Noncapital Financing Activities				
Proceeds from Sale of Bonds	-	-	-	-
Retirement of Bonds and Annuities Payable	-	-	-	(51,090)
Interest on Bonds and Annuities Payable	-	-	-	(31,207)
Transfers In	327,745	189,417	8,695	-
Transfers Out	-	-	-	(280,763)
Other Receipts (Payments)	7,987	47,524	-	-
Net Cash Flows from Noncapital Financing Activities	335,732	236,941	8,695	(363,060)
Cash Flows from Capital and Related Financing Activities				
Additions to Property, Plant and Equipment	(212,734)	(124,022)	(28,481)	(1,549)
Proceeds from Capital Debt	123,410	117,731	-	-
Principal Paid on Capital Debt	(51,795)	(68,312)	(6,140)	-
Interest Paid on Capital Debt	(35,293)	-	(13,783)	-
Transfer In	71,317	-	-	-
Federal Grant	-	-	-	-
Capital Contributions	-	15,289	2,840	-
Other Receipts (Payments)	34,112	231	11,051	-
Net Cash Flows from Capital and Related Financing Activities	(70,983)	(59,083)	(34,513)	(1,549)
Cash Flows from Investing Activities				
Proceeds from Sales and Maturities of Investments	-	62	70,849	50,559
Purchase of Investment Securities	(27,563)	(23,778)	-	-
Interest on Investments	4,249	4,987	4,658	31,557
(Increase) Decrease in Restricted Assets	-	-	-	-
Other Receipts (Payments)	-	40	-	-
Net Cash Flows from Investing Activities	(23,314)	(18,689)	75,507	82,116
Net Increase (Decrease) in Cash and Cash Equivalents	3,335	(2,016)	57,773	(1,832)
Cash and Cash Equivalents -Beginning of Year	271,127	171,890	85,473	25,634
Cash and Cash Equivalents -End of Year	$ 274,462	$ 169,874	$ 143,246	$ 23,802
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities				
Operating Income (Loss)	$ (406,025)	$ (202,708)	$ (8,354)	$ 280,539
Adjustments not Affecting Cash:				
Depreciation and Amortization	89,684	37,549	16,477	458
Others	47,295	300	-	51
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables, Net	8,625	(14,266)	(654)	(285)
(Increase) Decrease in Due from Other Funds	1,515	(2,999)	-	-
(Increase) Decrease in Inventories and Other Assets	547	13,574	-	(19)
Increase (Decrease) in Accounts Payables & Accrued Liabilities	19,501	7,311	615	(83)
Increase (Decrease) in Due to Other Funds	758	54	-	-
Total Adjustments	167,925	41,523	16,438	122
Net Cash Provided by (Used In) Operating Activities	$ (238,100)	$ (161,185)	$ 8,084	$ 280,661
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets				
Cash and Cash Equivalents - Current	$ 247,584	$ 69,179	$ 19,637	
Cash and Cash Equivalents - Noncurrent	1,450	100,695	-	
Cash and Cash Equivalents - Restricted	25,428	-	123,609	
	$ 274,462	$ 169,874	$ 143,246	

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

Business-Type Activities Enterprise Funds				Governmental Activities
Employment Security	Clean Water	Other	Totals	Internal Service Funds
$ 761,758	$ 50,278	$ 182,525	$ 2,793,066	$ 99,088
-	-	(59,302)	(472,830)	$ (50,865)
-	(602)	(215,791)	(1,256,997)	$ (38,567)
(807,963)	(48,665)	(1,330)	(1,312,871)	-
(46,205)	1,011	(93,898)	(249,632)	9,656
-	314,609	245,982	560,591	-
-	(36,723)	(58,207)	(146,020)	-
-	(22,717)	(8,414)	(62,338)	-
-	9,623	168,885	704,365	-
(3,262)	-	(211,787)	(495,812)	-
-	(271,441)	(3,997)	(219,927)	-
(3,262)	(6,649)	132,462	340,859	-
-	-	(7,101)	(373,887)	(1,085)
-	-	-	241,141	-
-	-	-	(126,247)	-
-	-	(3,582)	(52,658)	-
-	-	40,425	111,742	-
-	1,714	5,011	6,725	-
-	-	-	18,129	-
-	-	(6,461)	38,933	-
-	1,714	28,292	(136,122)	(1,085)
-	-	-	121,470	-
-	-	(40,095)	(91,436)	-
25,451	19,130	3,195	93,227	62
-	-	2,788	2,788	-
24,016	(12,684)	(12,839)	(1,467)	-
49,467	6,446	(46,951)	124,582	62
-	2,522	19,905	79,687	8,633
-	444	62,641	617,209	10,113
$ -	$ 2,966	$ 82,546	$ 696,896	$ 18,746
$ (32,686)	$ 11,664	$ (92,547)	$ (450,117)	$ (42,527)
-	-	14,721	158,889	20,248
-	-	(23,492)	24,154	-
(15,667)	(10,653)	(17,743)	(50,643)	4,932
3,252	-	-	1,768	(1,227)
-	-	15,274	29,376	326
-	-	9,889	37,233	3,643
(1,104)	-	-	(292)	24,261
(13,519)	(10,653)	(1,351)	200,485	52,183
$ (46,205)	$ 1,011	$ (93,898)	$ (249,632)	$ 9,656
		$ 73,768		
		-		
		8,778		
		$ 82,546		

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Fiduciary Fund Financial Statements

Investment Trust Fund
External Investment Pool:
to account for the portion of the Short-Term Investment Fund that belongs to participants that are not part of the State's financial reporting entity.

Private Purpose Trust Fund
Escheat Securities:
to account for securities that are held by the State Treasurer for individuals under escheat laws of the State.

Individual fund descriptions and financial statements begin on the following pages:
Pension (and Other Employee Benefit) Trust Funds, page 120
Agency Funds, page 126

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2004

(Expressed in Thousands)

	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	$ 6,088	$ -	$ -	$ 160,629	$ 166,717
Receivables:					
Accounts, Net of Allowances	12,475	-	-	2,477	14,952
From Other Funds	8,108	-	-	4,675	12,783
Interest	382	871	-	63	1,316
Investments	20,099,983	791,474	-	-	20,891,457
Inventories	-	-	-	440	440
Securities Lending Collateral	2,107,047	-	-	-	2,107,047
Other Assets	5,107	6	104,272	525,322	634,707
Total Assets	22,239,190	792,351	104,272	$ 693,606	23,829,419
Liabilities					
Accounts Payable and Accrued Liabilities	-	758	-	1,523	2,281
Securities Lending Obligation	2,107,047	-	-	-	2,107,047
Due to Other Funds	48,704	-	-	-	48,704
Other Liabilities	-	-	-	2,751	2,751
Funds Held for Others	-	90	-	689,332	689,422
Total Liabilities	2,155,751	848	-	$ 693,606	2,850,205
Net Assets					
Held in Trust For:					
Employees' Pension Benefits (Note 13)	20,049,761	-	-		20,049,761
Other Employee Benefits	33,678	-	-		33,678
Individuals, Organizations, and Other Governments	-	791,503	104,272		895,775
Total Net Assets	$ 20,083,439	$ 791,503	$ 104,272		$ 20,979,214

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

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

For the Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	Pension & Other Employee Benefit Trust Funds	Investment Trust Fund External Investment Pool	Private-Purpose Trust Fund Escheat Securities	Total
Additions				
Contributions:				
Plan Members	$ 308,193	$ -	$ -	$ 308,193
State	679,485	-	-	679,485
Municipalities	17,290	-	-	17,290
Total Contributions	1,004,968	-	-	1,004,968
Investment Income	2,777,351	14,854	-	2,792,205
Less: Investment Expense	(65,717)	(368)	-	(66,085)
Net Investment Income	2,711,634	14,486	-	2,726,120
Escheat Securities Received	-	-	69,718	69,718
Transfers In	1,705	-	-	1,705
Other	1,097	-	9,027	10,124
Total Additions	3,719,404	14,486	78,745	3,812,635
Deductions				
Administrative Expense	1,947	-	-	1,947
Benefit Payments and Refunds	1,880,051	-	-	1,880,051
Escheat Securities Returned or Sold	-	-	9,041	9,041
Pool's Share Transactions	-	257,544	-	257,544
Distributions to Pool Participants	-	14,486	-	14,486
Other	2,057	-	-	2,057
Total Deductions	1,884,055	272,030	9,041	2,165,126
Change in Net Assets Held In Trust For:				
Pension and Other Employee Benefits	1,835,349	-	-	1,835,349
Individuals, Organizations, and Other Governments	-	(257,544)	69,704	(187,840)
Net Assets - Beginning	18,248,090	1,049,047	34,568	19,331,705
Net Assets - Ending	$ 20,083,439	$ 791,503	$ 104,272	$ 20,979,214

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

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Component Unit Financial Statements

Major Component Units

Connecticut Housing Finance Authority:
the Connecticut Housing Finance Authority is a public instrumentality and political subdivision of the State created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development and construction of housing for low and moderate income families throughout the State.

Connecticut Resources Recovery Authority:
the Connecticut Resources Recovery Authority is a public instrumentality and political subdivision of the State. The Authority is responsible for implementing the State's solid waste management plan, which includes design, construction and operation of resources recovery facilities and the marketing of recovered products.

Nonmajor
The nonmajor component units are presented beginning on page 130.

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Statement of Net Assets
Component Units

June 30, 2004

(Expressed in Thousands)

Assets	Connecticut Housing Finance Authority (12-31-03)	Connecticut Health and Educational Facilities Authority	Other Component Units	Total
Current Assets:				
Cash and Cash Equivalents	$ -	$ 20,045	$ 119,493	$ 139,538
Investments	-	159	233,148	233,307
Receivables:				
Accounts, Net of Allowances	-	345	32,361	32,706
Loans, Net of Allowances	-	-	29,878	29,878
Other	-	-	1,042	1,042
Due from Primary Government	-	-	22,179	22,179
Restricted Assets	812,442	433,266	62,430	1,308,138
Other Current Assets	-	139	6,996	7,135
Total Current Assets	812,442	453,954	507,527	1,773,923
Noncurrent Assets:				
Investments	-	-	68,794	68,794
Loans, Net of Allowances	-	-	137,447	137,447
Restricted Assets	3,222,000	-	96,946	3,318,946
Capital Assets, Net of Accumulated Depreciation	3,438	187	224,301	227,926
Other Noncurrent Assets	-	-	32,068	32,068
Total Noncurrent Assets	3,225,438	187	559,556	3,785,181
Total Assets	4,037,880	454,141	1,067,083	5,559,104
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	19,325	592	30,910	50,827
Current Portion of Long-Term Obligations	137,335	-	30,550	167,885
Amount Held for Institutions	-	431,010	-	431,010
Due to Primary Government	-	-	1,484	1,484
Deferred Revenue	-	-	36	36
Other Liabilities	16,417	-	7,739	24,156
Total Current Liabilities	173,077	431,602	70,719	675,398
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	3,177,356	2,250	385,502	3,565,108
Total Noncurrent Liabilities	3,177,356	2,250	385,502	3,565,108
Total Liabilities	3,350,433	433,852	456,221	4,240,506
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,438	187	39,242	42,867
Restricted:				
Bond Indentures	684,009	-	-	684,009
Expendable Endowments	-	-	77,929	77,929
Nonexpendable Endowments	-	-	174,761	174,761
Other Purposes	-	-	95,016	95,016
Unrestricted	-	20,102	223,914	244,016
Total Net Assets	$ 687,447	$ 20,289	$ 610,862	$ 1,318,598

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

Statement of Activities
Component Units

For The Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Connecticut Housing Finance Authority (12/31/03)	$ 207,982	$ 182,868	$ -	$ -
Connecticut Health and Educational Facilities Authority	4,184	4,253	-	-
Other Component Units	240,922	231,826	4,929	4,995
Total Component Units	$ 453,088	$ 418,947	$ 4,929	$ 4,995

General Revenues:
Investment Income (Loss)
Contributions to Endowments
Special Item:
Statutory Payment to State
Total General Revenues, Contributions, and Special Item
Change in Net Assets
Net Assets - Beginning (as restated)
Net Assets - Ending

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

Net (Expense) Revenue and Changes in Net Assets			
Connecticut Housing Finance Authority (12-31-03)	Connecticut Health & Educational Facilities Authority	Other Component Units	Totals
$ (25,114)	$ -	$ -	$ (25,114)
-	69	-	69
-	-	828	828
(25,114)	69	828	(24,217)
25,342	245	(450)	25,137
-	-	41,339	41,339
-	-	(15,000)	(15,000)
25,342	245	25,889	51,476
228	314	26,717	27,259
687,219	19,975	584,145	1,291,339
$ 687,447	$ 20,289	$ 610,862	$ 1,318,598

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Notes to the Financial Statements
June 30, 2004

Note 1 Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying financial statements of the State of Connecticut have been prepared in conformity with generally accepted accounting principles as prescribed in pronouncements of the Governmental Accounting Standards Board, except for the financial statements of the University of Connecticut Foundation, Incorporated (a component unit). Those statements are prepared according to generally accepted accounting principles as prescribed in pronouncements of the Financial Accounting Standards Board.

b. Reporting Entity

For financial reporting purposes, the State's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, agencies, departments, bureaus, commissions, and component units that are considered an integral part of the State's legal entity. Component units are legally separate organizations for which the State is financially accountable. Financial accountability exists if (1) the State appoints a voting majority of the organization's governing board, and (2) the State is able to impose its will on the organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State. The State also includes a nongovernmental nonprofit corporation as a component unit because it would be misleading to exclude the corporation from the reporting entity. Component units are reported in the financial statements in a separate column (discrete presentation), or as part of the primary government (blending presentation).

Discretely Presented Component Units

Discretely presented component units include legally separate organizations for which the State appoints a voting majority of the organization's governing board and is contingently liable for the organization's debt or provides funding for the organization's programs (applies only to the Connecticut Innovations, Incorporated and the Capital City Economic Development Authority). In addition, a nongovernmental nonprofit corporation is included as a discretely presented component unit because of the nature and significance of its relationship with the State are such that it would be misleading to exclude the corporation from the State's reporting entity. The following organizations are reported in separate columns and rows in the government-wide financial statements to emphasize that they are legally separate from the primary government:

Connecticut Development Authority

The Authority is a public instrumentality and political subdivision of the State. It was created to stimulate industrial and commercial development within the State through its Self-Sustaining Bond, Umbrella, and Insurance programs as well as other economic development programs.

Connecticut Housing Finance Authority

The Authority is a public instrumentality and political subdivision of the State. It was created for the purpose of increasing the housing supply and encouraging and assisting in the purchase, development, and construction of housing for low and moderate-income families and persons throughout the State. The Authority's fiscal year is for the period ending on December 31, 2003.

Connecticut Resources Recovery Authority

The Authority is a public instrumentality and political subdivision of the State. It is responsible for implementing the State Solid Waste Management Plan by determining the location of and constructing solid waste management projects; owning, operating, and maintaining waste management projects; or making provisions for operation and maintenance by contracting with private industry.

Connecticut Higher Education Supplemental Loan Authority

The Authority is a public instrumentality and political subdivision of the State. It was created to assist students, their parents, and institutions of higher education to finance the cost of higher education through its Bond funds.

Connecticut Health and Educational Facilities Authority

The Authority is a public instrumentality and political subdivision of the State. The purpose of the Authority is to assist certain health care institutions, institutions of higher education, and qualified for-profit and not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to programs for these institutions.

Connecticut Innovations, Incorporated

The Authority is a public instrumentality and political subdivision of the State. It was established to stimulate and promote technological innovation and application of technology within Connecticut and encourage the development of new products, innovations, and inventions or markets in Connecticut by providing financial and technical assistance.

Capital City Economic Development Authority

The Authority is a public instrumentality and political subdivision of the State. It was established in 1998 to stimulate new investment in Connecticut; to attract and service large conventions, 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, a major Enterprise fund.

Financial statements for the major component units are included in the accompanying financial statements after the fund

financial statements. Audited financial statements issued separately by each component unit can be obtained from their respective administrative offices.

Blended Component Units

Connecticut Lottery Corporation

The Connecticut Lottery Corporation is a legally separate organization for which the State appoints a voting majority of the Corporation's governing board and which provides a significant amount of revenues to the State. The corporation is reported as part of the primary government's business-type activities in the government-wide financial statements and as a major Enterprise fund in the fund financial statements.

c. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between the governmental and business-type activities of the primary government by using separate columns and rows. Governmental activities are generally financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds issued to buy, construct, or improve those assets.

2. Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

3. Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are not allocated to the various functions or segments. Program revenues include a) fees, fines, and charges paid by the recipients of goods or services offered by the functions or segments and b) grants and contributions that are restricted to meeting the operational or capital needs of a particular function or segment. Revenues that are not classified as program revenues, including all taxes, are reported as general revenues.

Fund Financial Statements

The fund financial statements provide information about the State's funds, including its fiduciary funds and blended component units. Separate statements for each fund category (governmental, proprietary, and fiduciary) are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The State reports the following major governmental funds:

General Fund - This is the State's primary operating fund. It is used to account for all financial resources which are not required to be accounted in other funds and which are spent for those services normally provided by the State (e.g., health, social assistance, education, etc.).

Debt Service - This fund is used to account for the resources accumulated and payments made for principal and interest on special tax obligation bonds of the Transportation fund.

Transportation - This fund is used to account for motor vehicle taxes, receipts, and transportation related federal revenues collected for the purpose of payment of transportation related bonds and budgeted appropriations of the Department of Transportation. The Department of Transportation is responsible for all aspects of the planning, development, maintenance, and improvement of transportation in the State.

The State reports the following major enterprise funds:

University of Connecticut – This fund is used to account for the operations of the University of Connecticut a comprehensive institution of higher education, which includes the University of Connecticut Health Center and John Dempsey Hospital.

State Universities – This fund is used to account for the operations of the State University System which consists of four universities: Central, Eastern, Southern, and Western.

Bradley International Airport - This fund is used to account for the financial activities of the Bradley International Airport, which is owned and operated by the State.

Connecticut Lottery Corporation - This fund is used to account for the financial activities of the State's lottery. The Corporation was created in 1996 for the purpose of generating revenues for the State's General Fund.

Employment Security - This fund is used to account for unemployment insurance premiums from employers and the payment of unemployment benefits to eligible claimants.

Clean Water - This fund is used to account for resources used to provide loans to municipalities to finance waste water treatment facilities.

In addition, the State reports the following fund types:

Internal Service Funds - These funds account for goods and services provided to other agencies of the State on a cost-reimbursement basis. These goods and services include prisoner-built office furnishings, information services support, telecommunications, printing, and other services.

Pension (and Other Employee Benefits) Trust Funds - These funds account for resources held in trust for the members and beneficiaries of the State's defined benefit pension plans, a defined contribution plan, and other employee benefits plans. These plans are discussed more fully in Notes 11 and 12.

Investment Trust Fund - This fund accounts for the external portion of the State's Short-Term Investment Fund, an investment pool managed by the State Treasurer.

Private-Purpose Trust Fund - This fund accounts for escheat securities held in trust for individuals by the State Treasurer.

Agency Funds - These funds account for deposits, investments, and other assets held by the State as an agent for inmates and patients of State institutions, insurance companies, municipalities, and private organizations.

d. Measurement Focus and Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Taxes and casino gaming payments are recognized as revenues in the period when the underlying exchange transaction has occurred. Grants and similar items are recognized as revenues in the period when all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the State's enterprise and internal service funds are charges to customers for sales and services, assessments, and intergovernmental revenues. Operating expenses for enterprise and internal service funds include salaries, wages, and administrative expenses, unemployment compensation, claims paid, and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. This option is followed by the following component units of the State: the Connecticut Development Authority and the Connecticut Health and Educational Facilities Authority.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Sales and use taxes, personal income taxes, public service corporation taxes, special fuel taxes, federal grants, and casino gaming payments are considered to be susceptible to accrual. Licenses, permits, and fees are not considered to be susceptible to accrual and are recognized as revenues when the cash is collected. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general-long term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then unrestricted resources, as they are needed.

e. Budgeting Process

By statute, the Governor must submit the State budget to the General Assembly in February of every other year. Prior to June 30, the General Assembly enacts the budget through the passage of appropriation acts for the next two fiscal years and sets forth revenue estimates for the same period for the following funds: the General Fund, the Transportation Fund, the Mashantucket Pequot Fund, the Workers' Compensation Administration Fund, the Banking Fund, the Consumer Counsel and Public Utility Control Fund, the Insurance Fund, the Criminal Injuries Fund, the Soldiers, Sailors, and Marines Fund and the Regional Market Operations Fund. Under the State Constitution, the Governor has the power to veto any part of the itemized appropriations bill and to accept the remainder of the bill. However, the General Assembly may separately reconsider and repass the disapproved items by a two-thirds majority vote of both the Senate and the House.

Budgetary control is maintained at the individual appropriation account level by agency as established in authorized appropriation bills and is reported in the Annual Report of the State Comptroller. A separate document is necessary because the level of legal control is more detailed than reflected in the CAFR. Before an agency can utilize funds appropriated for a particular purpose, such funds must be allotted for the specific purpose by the Governor and encumbered by the Comptroller upon request by the agency. Such funds can then be expended

by the Treasurer only upon a warrant, draft or order of the Comptroller drawn at the request of the responsible agency. The allotment process maintains expenditure control over special revenue, enterprise, and internal service funds that are not budgeted as part of the annual appropriation act.

The Governor has the power under Connecticut statute to modify budgetary allotment requests for the administration, operation and maintenance of a budgeted agency. However, the modification cannot exceed 3 percent of the fund or 5 percent of the appropriation amount. Modifications beyond those limits, but not in excess of 5 percent of the total funds, require the approval of the Finance Advisory Committee. The Finance Advisory Committee is comprised of the Governor, the Lieutenant Governor, the Treasurer, the Comptroller, two senate members, not of the same political party, and three house members, not more than two of the same political party. Additional reductions of appropriations of more than 5 percent of the total appropriated fund can be made only with the approval of the General Assembly.

All funds, except fiduciary funds, use encumbrance accounting. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditures of the fund are recorded in order to reserve that portion of the applicable appropriation. All encumbrances lapse at year-end and, generally, all appropriations lapse at year-end except for certain continuing appropriations (continuing appropriations are defined as carry forwards of spending authority from one fiscal budget into a subsequent budget). The continuing appropriations include: appropriations continued for a one-month period after year-end which are part of a program that was not renewed the succeeding year; appropriations continued the entire succeeding year, as in the case of highway and other capital construction projects; and appropriations continued for specified amounts for certain special programs. Carry forward appropriations are reported as reservations of the fund balance in the financial statements.

The budget is prepared on a "modified cash" basis of accounting under which revenues are recognized when received, except for certain taxes which are recognized when earned. Tax revenues recognized when earned include the following: sales and use, personal income, corporation, public service corporations, petroleum companies, cigarettes, alcoholic beverages, gasoline, special motor fuel, and motor carrier road. Under the modified cash basis, expenditures are recognized when paid. A comparison of actual results of operations recorded on this basis and the adopted budget is presented in the financial statements for the General and Transportation funds. During the 2004 fiscal year, the original adopted budget was adjusted by the General Assembly and the Finance Advisory Committee.

f. Assets and Liabilities

Cash and Cash Equivalents (see Note 4)

In addition to petty cash and bank accounts, this account includes cash equivalents – short-term, highly liquid investments with original maturities of three months or less when purchased. Cash equivalents include investments in the Short-Term Investment Fund ("STIF") and the Tax Exempt Proceeds Fund, Inc. ("TEPF"). TEPF is a short-term, tax-exempt money market fund reported under the Investment Company Act of 1940. Investments in STIF and TEPF are reported at the fund's share price.

Investments (see Note 4)

Investments include Equity in Combined Investment Funds and other investments. Equity in Combined Investment Funds is reported at fair value based on the funds' current share price. Other investments are reported at fair value, except for the following investments which are reported at cost or amortized cost:

- Nonparticipating interest-earning investment contracts.
- Money market investments that mature within one year or less at the date of their acquisition.
- Investments of the External Investment Pool fund (an Investment Trust fund).

The fair value of other investments is determined based on quoted market prices except for:

- The fair value of State bonds held by the Clean Water and Drinking Water funds (Enterprise funds) which is estimated using matrix pricing.
- The fair value of equity and debt securities held by the Connecticut Innovations, Incorporated, a component unit. The fair value of these investments is determined by the Valuation Committee of the Corporation, after giving consideration to pertinent information about the companies comprising the investments, including but not limited to recent sales prices of the issuer's securities, sales growth, progress toward business goals, and other operating data.

The State invests in derivatives. These investments are held by the Combined Investment Funds and are reported at fair value in each fund's statement of net assets.

Inventories

Inventories are reported at cost. Cost is determined by the first-in first-out (FIFO) method. Inventories in the governmental funds consist of expendable supplies held for consumption whose cost was recorded as an expenditure at the time the individual inventory items were purchased. Reported inventories in these funds are offset by a fund balance reserve to indicate that they are unavailable for appropriation.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, railways, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the State as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated fair market value at the date of donation.

Collections of historical documents, rare books and manuscripts, guns, paintings, and other items are not capitalized. These collections are held by the State Library for public exhibition, education, or research; and are kept protected, cared for, and preserved indefinitely. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are also not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40
Improvements Other than Buildings	10-20
Machinery and Equipment	5-30
Infrastructure	20-28

Securities Lending Transactions (see Note 4)
Assets, liabilities, income, and expenses arising from securities lending transactions of the Combined Investment Funds are allocated ratably to the participant funds based on their equity in the Combined Investment Funds.

Deferred Revenues
In the government-wide and fund financial statements, this liability represents resources that have been received, but not yet earned. In the fund financial statements, this liability also represents revenues considered measurable but not available during the current period.

Long-term Obligations
In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and issuance costs are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Other long-term obligations include compensated absences, workers' compensation claims, capital leases, claims and judgements, annuities payable, and the net pension obligation.

In the fund financial statements, governmental fund types recognize bond premiums and bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Capital Appreciation Bonds
Capital appreciation (deep-discount) bonds issued by the State, unlike most bonds, which pay interest semi-annually, do not pay interest until the maturity of the bonds. An investor who purchases a capital appreciation bond at its discounted price and holds it until maturity will receive an amount which equals the initial price plus an amount which has accrued over the life of the bond on a semiannual compounding basis. The net value of the bonds is accreted (the discount reduced), based on this semiannual compounding, over the life of the bonds. This deep-discount debt is reported in the government-wide statement of net assets at its net or accreted value rather than at face value.

Compensated Absences
The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Vacation and sick policy is as follows: Employees hired on or before June 30, 1977, and managers regardless of date hired can accumulate up to a maximum of 120 vacation days. Employees hired after that date can accumulate up to a maximum of 60 days. Upon termination or death, the employee is entitled to be paid for the full amount of vacation days owed. No limit is placed on the number of sick days that an employee can accumulate. However, the employee is entitled to payment for accumulated sick time only upon retirement, or after ten years of service upon death, for an amount equal to one-fourth of his/her accrued sick leave up to a maximum payment equivalent to sixty days.

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

g. Fund Balance
In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

h. Interest Rate Swap Agreements
The State has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements (see Note 17).

i. Interfund Activities

In the fund financial statements, interfund activities are reported as follows:

Interfund receivables/payables - The current portion of interfund loans outstanding at the end of the fiscal year is reported as due from/to other funds; the noncurrent portion as advances to/from other funds. All other outstanding balances between funds are reported as due from/to other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Interfund services provided and used - Sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. In the statement of activities, transactions between the primary government and its discretely presented component units are reported as revenues and expenses, unless they represent repayments of loans or similar activities.

Interfund transfers - Flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

Interfund reimbursements - Repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are not reported in the financial statements.

j. Food Stamps

Food stamps distributed to recipients during the year are recognized as both an expenditure and a revenue in the governmental fund financial statements.

k. External Investment Pool

Assets and liabilities of the Short-Term Investment Fund are allocated ratably to the External Investment Pool Fund based on its investment in the Short-Term Investment Fund (see Note 4). Pool income is determined based on distributions made to the pool's participants.

l. Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Note 2 Budgetary vs. GAAP Basis of Accounting

The following is a reconciliation of the net change in fund balances as reported in the budgetary and GAAP basis of accounting statements of revenues, expenditures, and changes in fund balances (amounts in thousands):

	General Fund	Transportation Fund
Net change in fund balances (budgetary basis)	$ 452,455	$ (3,675)
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	116,791	9,350
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	(165,655)	(7,634)
Salaries and Fringe Benefits Payable	(97,256)	(5,036)
Transfer of Restricted Resources	(304,358)	(10,026)
Proceeds of Economic Recovery Notes	96,615	-
Increase in Continuing Appropriations	126,215	14,299
Net Adjustments to Fund Balance	(17,909)	-
Fund Reclassification-Bus Operations	-	869
Net change in fund balances (GAAP basis)	$ 206,898	$ (1,853)

The major differences between the budgetary (legal) and the GAAP (generally accepted accounting principles) basis of accounting as reconciled above are as follows:

1. Revenues are recorded when received in cash except for certain year-end accruals (budgetary basis) as opposed to revenues being recorded when they are susceptible to accrual (GAAP basis).

2. Expenditures are recorded when paid in cash (budgetary basis) as opposed to expenditures being recorded when the related fund liability is incurred (GAAP basis).

3. For budgetary reporting purposes, continuing appropriations are reported with other financing sources and uses in the determination of the budgetary surplus or deficit to more fully demonstrate compliance with authorized spending for the year. For GAAP purposes, continuing appropriations are excluded from operations and reported as reserved fund balance.

Note 3 Nonmajor Fund Deficits

The following funds have deficit balances at June 30, 2004, none of which constitutes a violation of statutory provisions (amounts in thousands).

Special Revenue Fund	
Consumer Counsel and Public Utility Control	$ 2,237
Enterprise	
Second Injury & Compenstion Assurance	$ 11,896
Bradley Parking Garage	$ 8,624
Rate Reduction Bond Operations	$ 194,336

Note 4 Cash Deposits and Investments

In this note, the State's deposits and investments are classified in categories of "custodial credit risk." This is the risk that the State will not be able to (a) recover deposits if the depository bank fails or (b) recover the value of investments or collateral securities that are in the custody of an outside party if the counterparty to the investment or deposit transaction fails. Classification in category 1 means that the exposure of deposits or investments to potential custodial credit risk is low. The level of potential custodial credit risk is higher for those deposits or investments classified in category 2 and highest for those in category 3.

Cash Deposits (amounts in million)
At June 30, 2004, the reported amount of the State's deposits was $(43.6) for the Primary Government and Fiduciary Funds (pooled deposits) and $16.5 for the Component Units. The corresponding bank balance for such deposits was $176.1 for the Primary Government and Fiduciary Funds and $18.7 for the Component Units. Of the bank balance for the Primary Government and Fiduciary Funds $91.3 was insured by the Federal Deposit Insurance Corporation or held in the State's name (Category 1) and $84.8 was uninsured and uncollateralized (Category 3). Of the bank balance for the Component Units, $6.3 was insured by the Federal Deposit Insurance Corporation or held in the Component Units' name (Category 1), and $12.4 was uninsured and uncollateralized (Category 3).

Category 3 deposits include some deposits that are collateralized as required by state statute. Under the statute, any bank holding public deposits must at all times maintain, segregated from its other assets, eligible collateral in an amount equal to 10 percent, 25 percent, 100 percent, or 120 percent of its public deposits. However, the collateral is held in the custody of the trust department of either the pledging bank or another bank in the name of the pledging bank.

Investments
The State Treasurer is the chief fiscal officer of State government and is responsible for the prudent management and investment of monies of State funds and agencies as well as monies of pension and other trust funds. The State Treasurer with the advice of the Investment Advisory Council, whose members include outside investment professionals and pension beneficiaries, establishes investment policies and guidelines. Currently, the State Treasurer manages one Short-Term Investment Fund ("STIF") and seven Combined Investment Funds (the "CIFS"), including one international investment fund.

STIF is a money market investment pool in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer is authorized to invest monies of STIF in United States government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans. STIF's investments are reported at amortized cost (which approximates fair value) in the fund's statement of net assets and are disclosed in this note.

For financial reporting purposes, STIF is considered to be a mixed investment pool – a pool having external and internal portions. The external portion of STIF (i.e. the portion that belongs to participants which are not part of the State's financial reporting entity) is reported as an investment trust fund (External Investment Pool fund) in the fiduciary fund financial statements. The internal portion of STIF (i.e., the portion that belongs to participants that are part of the State's financial reporting entity) is not reported in the financial statements. Instead, each fund's investment in the internal portion of STIF is reported as "cash equivalents" in the government-wide and fund financial statements.

The CIFS are open-ended, unitized portfolios in which the State pension trust and permanent funds are eligible to invest. The State pension trust and permanent funds own the units of the CIFS. The State Treasurer is also authorized to invest monies of the CIFS in common stock, commercial equity real estate, foreign companies stocks and bonds, commercial and residential mortgages, foreign governments' obligations, mortgage-backed securities, and venture capital partnerships. CIFS' investments are reported at fair value in each fund's statement of net assets and are disclosed in this note.

For financial reporting purposes, the CIFS are considered to be internal investment pools and are not reported in the financial statements. Instead, each fund's equity in the CIFS is reported as investments in the government-wide and fund financial statements. Complete financial information about STIF and the CIFS can be obtained from financial statements issued by the State Treasurer.

As of June 30, 2004, investments consisted of the following (amounts in thousands):

	Primary Government			
	Governmental Activities	Business-Type Activities	Component Units	Fiduciary Funds
Equity in CIFS	$ 88,820	$ 587	$ -	$ 20,099,983
Other Investments	17,300	170,569	233,307	791,474
Total Investments-Current	$ 106,120	$ 171,156	$ 233,307	$ 20,891,457
Other Investments-Noncurrent	$ -	$ 367,558	$ 68,794	$ -
Other Investments-Restricted	$ 509,641	$ 325,561	$ 1,131,807	$ -

The following investment schedules disclose the reported amount and fair value of the State's investment in total and by investment type as of June 30, 2004. Further, the reported amounts of these investments are classified according to the following categories of custodial credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the State's name.

Investments-Primary Government and Fiduciary Funds
Short-Term Investment Fund
(amounts in thousands)

Investment Type	Reported Amount Category 1	Fair Value
Certificates of Deposit	$ 819,000	$ 819,000
Commercial Paper	1,773,914	1,773,851
Corporate Notes	393,002	393,363
Bankers' Acceptances	24,899	24,863
Money Market Funds	117,506	117,506
Federal Agency Securities	10,000	9,994
Extendable Commercial Notes	490,792	490,811
Repurchase Agreements	200,000	200,000
Total Investments	$ 3,829,113	$ 3,829,388

Investments-Primary Government and Fiduciary Funds
Combined Investment Funds
(amounts in thousands)

Investment Type	Reported Amount (Fair Value) Category 1	Category 3	Total
Certificates of Deposit-Negotiable	$ -	$ 449,490	$ 449,490
Asset Backed Securities	573,352	-	573,352
U.S. Government and Agency Securities:			
Not on Securities Loan	1,360,258	-	1,360,258
On Securities Loan for Securities or Letter of Credit Collateral	-	54,528	54,528
Mortgage Backed Securities	538,702	-	538,702
Corporate Debt	2,745,364	1,669,430	4,414,794
Convertible Securities	34,989	-	34,989
U. S. Corporate Stock:			-
Not on Securities Loan	7,336,000	-	7,336,000
On Securities Loan for Securities or Letter of Credit Collateral	-	12,501	12,501
International Equity Securities:			
Not on Securities Loan	3,150,791	-	3,150,791
On Securities Loan for Securities or Letter of Credit Collateral	-	1,476	1,476
Preferred Stock	75,269	-	75,269
	$ 15,814,725	$ 2,187,425	18,002,150
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form.			
Real Estate Investment Trusts			76,727
Mutual Funds			179,393
Limited Liability Corporations			22,948
Trusts			46,404
Limited Partnerships			1,836,286
Annuities			1,314
Securities Held by Brokers-Dealers under Security Loans for Cash Collateral:			
U.S. Government and Agency Securities			916,311
U. S. Corporate Stock			436,761
International Equity Securities			533,527
Domestic Fixed Securities			178,874
International Fixed Securities			1,038
			$ 22,231,733

The pension trust funds own approximately 100 percent of the investments that are in categories 1 and 3.

The CIFS account for the purchase and sale of investments using "trade date" accounting – investments are increased or decreased on the date the purchase or sales order is made although the investments are not received or delivered until a later date (settlement date). Thus, the above schedule was prepared taking into account unsettled sales and purchases of investments. This means that investments under unsettled sales are included in the schedule, because the investments are still subject to custodial credit risk that could result in losses prior to settlement. Conversely, investments under unsettled purchases are excluded from the schedule, because the investments are still in the hands of the dealers.

Other Investments-Primary Government
(amounts in thousands)

Investment Type	Reported Amount (Fair Value) Category 1	Category 3	Total
Collateralized Investment Agreements	$ 271,378	$ -	$ 271,378
State/Municipal Bonds	33,739	-	33,739
U.S. Government & Agency Securities	405,573	115,963	521,536
Mortgage Backed Securities	-	6,886	6,886
Other	9,452	-	9,452
	$ 720,142	$ 122,849	842,991
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:			
Annuity Contracts			382,288
Guaranteed Investment Contracts			158,640
Tax Exempt Proceeds Fund			46,294
Other			6,710
Total Investments			$ 1,436,923

The Transportation fund owns approximately 53 percent and the State Universities own 100 percent of the investments in Category 1 and 3, respectively.

Other Investments-Component Units
(amounts in thousands)

Investment Type	Reported Amount (Fair Value) Category 1	Category 2	Category 3	Total
U.S. Government & Agency Securities	$ 733	$ -	$ 1,788	$ 2,521
Common Stock	69,956	1,034	-	70,990
Repurchase Agreements	65,091	-	-	65,091
Collateralized Investment Agreements	1,953	-	1,636	3,589
Mortgage Backed Securities and Obligations	602,438	-	-	602,438
Corporate Debt	45,551	44,561	-	90,112
Other	21,775	-	-	21,775
	$ 807,497	$ 45,595	$ 3,424	856,516
Investments not categorized because they are not evidenced by securities that exist in physical or book entry form:				
Guaranteed Investment Contracts				88,447
Fidelity Funds				306,079
Investment Agreements				17,713
Mutual Funds				71,816
Limted Partnerships				6,688
Other				86,649
Total Investments				$ 1,433,908

CHFA owns approximately 92 percent and 48 percent of the investments that are in categories 1 and 3, respectively.

Security Lending Transactions

Certain of the Combined Investment Funds are permitted by State statute to lend its securities through a lending agent to authorized broker-dealers and banks for collateral with a simultaneous agreement to return the collateral for the same securities in the future.

During the year, the funds' lending agent lent securities similar to the types on loan at year-end and received cash (United States and foreign currency), U.S. Government securities, sovereign debt rated A or better, convertible bonds, and irrevocable bank letters of credit as collateral. The funds' lending agent did not have the ability to pledge or sell collateral securities delivered absent borrower default. Borrowers were required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102 percent of the market value of the loaned securities; and (2) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105 percent of the market value of the loaned securities. The funds did not impose any restrictions during the fiscal year on the amount of loans that the lending agent made on their behalf and the lending agent indemnified the funds by agreeing to purchase replacement securities, or return the cash collateral thereof in the event any borrowers failed to return the loaned securities or pay distributions thereon. At year-end, the funds had no credit exposure to the borrowers, because the amounts the funds owed the borrowers exceeded the amounts the borrowers owed the funds.

All securities loans can be terminated on demand by either the funds or the borrowers. Cash collateral is invested by the funds' lending agent, and the average duration of the investments can not exceed (a) 120 days or (b) the average duration of the loans by more than 45 days. At year-end, the average duration of the collateral investments was 63 days; the average duration of the loans was unknown, although it is assumed to remain at one day.

Note 5 Receivables

As of June 30, 2004, receivables consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	$ 933,848	$ -	$ -
Accounts	1,198,844	467,546	32,854
Loans-Current Portion	-	144,354	32,478
Other Governments	784,467	10,323	-
Interest	4,657	21,404	1,042
Other	40,676	-	-
Total Receivables	2,962,492	643,627	66,374
Allowance for Uncollectibles	(992,814)	(83,843)	(2,748)
Receivables, net	$ 1,969,678	$ 559,784	$ 63,626

Note 6 Taxes Receivable

Taxes receivable consisted of the following as of June 30, 2004 (amounts in thousands):

	Governmental Activities		
	General Fund	Transportation Fund	Total
Sales and Use	$ 431,331	$ -	$ 431,331
Income Taxes	188,837	-	188,837
Corporations	87,590	-	87,590
Gasoline and Special Fuel	-	45,636	45,636
Various Other	180,454	-	180,454
Total Taxes Receivable	888,212	45,636	933,848
Allowance for Uncollectibles	(57,829)	(193)	(58,022)
Taxes Receivable, net	$ 830,383	$ 45,443	$ 875,826

Note 7 Loans Receivable

Loans receivable (noncurrent portion) for the primary government and its component units, as of June 30, 2004, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Industrial	$ -	$ -	$ 76,792
Housing	2,555	-	-
Clean Water	42,912	479,120	-
Education	-	28,509	71,502
Other	164,985	49,222	-
Total Loans	210,452	556,851	148,294
Allowance for Uncollectibles	(1,577)	(7,471)	(10,847)
Loans Receivable, Net	$ 208,875	$ 549,380	$ 137,447

The Clean Water fund loans funds to qualified municipalities for planning, design, and construction of water quality projects. These loans are payable over a 20 year period at an annual interest rate of 2 percent and are secured by the full faith and credit or revenue pledges of the municipalities, or both.

The industrial loan program consists of loans made by the Connecticut Development Authority to finance the purchase of land, buildings, and equipment by qualified applicants and to finance other economic development programs of the Authority. These loans are collateralized by assets acquired from the proceeds of the related loans and have originating terms of 1 to 25 years and earn interest at rates ranging from 1.39 percent to 11.15 percent. As of June 30, 2004, loans in the amount of $12.0 million (including loans of $6.4 million made by other lending institutions) were insured by an insurance fund created by the Authority and by the faith and credit pledged by the State. This insurance fund had net assets of $6.4 million at year-end. Thus, the State is contingently liable in the event of any defaulted loans that could not be paid out of the assets of the insurance fund.

Note 8 Restricted Assets

Restricted assets are defined as resources that are restricted by legal or contractual requirements. As of June 30, 2004, restricted assets were comprised of the following (amounts in thousands):

	Cash & Cash Equivalents	Investments	Loans, Net of Allowances	Other	Total Restricted Assets
Governmental Activities:					
Debt Service	$ 124,955	$ 509,641	$ -	$ -	$ 634,596
Total-Governmental Activities	$ 124,955	$ 509,641	$ -	$ -	$ 634,596
Business-Type Activities:					
Bradley International Airport	$ 123,609	$ 15,136	$ -	$ 2,537	$ 141,282
Uconn	25,428	654	-	-	26,082
Clean Water	50,852	256,463	-	-	307,315
Other Properitary	25,251	53,308	-	-	78,559
Total-Business-Type Activities	$ 225,140	$ 325,561	$ -	$ 2,537	$ 553,238
Component Units:					
CHFA	$ 682,518	$ 710,628	$ 2,543,494	$ 97,802	$ 4,034,442
CHEFA	38,675	394,393	-	198	433,266
Other Component Units	132,443	26,786	-	147	159,376
Total-Component Units	$ 853,636	$ 1,131,807	$ 2,543,494	$ 98,147	$ 4,627,084

Note 9 Accounts Payable and Accrued Liabilities

As of June 30, 2004, accounts payable and accrued liabilities consisted of the following:

	Vendors	Salaries and Benefits	Interest	Other	Total Payables & Accrued Liabilities
Governmental Activities:					
General	$ 133,029	$ 144,502	$ -	$ -	$ 277,531
Transportation	14,524	7,960	-	-	22,484
Other Governemental	172,676	15,100	258	-	188,034
Internal Service	4,195	2,270	-	6,475	12,940
Reconciling amount from fund financial statements to government-wide financial statements	-	-	83,778	4,683	88,461
Total-Governmental Activities	$ 324,424	$ 169,832	$ 84,036	$ 11,158	$ 589,450
Business-Type Activities:					
University of Connecticut	$ 49,185	$ 46,468	$ -	$ -	$ 95,653
State Universities	6,471	25,135	2,240	-	33,846
Other Proprietary	39,944	13,004	10,060	-	63,008
Total-Business-Type Activities	$ 95,600	$ 84,607	$ 12,300	$ -	$ 192,507

Note 10 Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities				
Capital Assets not being Depreciated:				
Land	$ 911,754	$ 28,160	$ 4,955	$ 934,959
Construction in Progress-Infrastructure	1,276,607	383,532	324,706	1,335,433
Construction in Progress	530,693	107,895	302,086	336,502
Total Capital Assets not being Depreciated	2,719,054	519,587	631,747	2,606,894
Other Capital Assets:				
Buildings	2,539,216	225,317	7,483	2,757,050
Improvements Other than Buildings	311,390	90,954	275	402,069
Equipment	1,353,217	162,541	211,481	1,304,277
Infrastructure	9,217,408	324,706	-	9,542,114
Total Other Capital Assets at Historical Cost	13,421,231	803,518	219,239	14,005,510
Less: Accumulated Depreciation For:				
Buildings	1,659,297	68,926	7,483	1,720,740
Improvements Other than Buildings	248,218	20,283	275	268,226
Equipment	894,755	175,185	211,481	858,459
Infrastructure	3,735,656	410,456	-	4,146,112
Total Accumulated Depreciation	6,537,926	674,850	* 219,239	6,993,537
Other Capital Assets, Net	6,883,305	128,668	-	7,011,973
Governmental Activities, Captial Assets, Net	$ 9,602,359	$ 648,255	$ 631,747	$ 9,618,867

* Depreciation expense was charged to functions as follows:

Governmental Activities:	
Legislative	$ 4,902
General Government	32,166
Regulation and Protection	30,426
Conservation and Development	10,504
Health and Hospitals	12,079
Transportation	481,186
Human Services	3,009
Education, Libraries and Museums	32,739
Corrections	33,175
Judicial	14,417
Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets	20,247
Total Depreciation Expense	$ 674,850

	Beginning Balance	Additions	Retirements	Ending Balance
Business-Type Activities				
Capital Assets not being Depreciated:				
Land	$ 44,774	$ 7,345	$ 210	$ 51,909
Construction in Progress	285,139	185,980	177,695	293,424
Total Capital Assets not being Depreciated	329,913	193,325	177,905	345,333
Capital Assets being Depreciated:				
Buildings	2,400,582	293,755	9,323	2,685,014
Improvements Other Than Buildings	361,994	32,362	1,156	393,200
Equipment	718,721	68,905	37,851	749,775
Total Other Capital Assets at Historical Cost	3,481,297	395,022	48,330	3,827,989
Less: Accumulated Depreciation For:				
Buildings	694,516	79,484	5,278	768,722
Improvements Other Than Buildings	131,946	15,809	100	147,655
Equipment	363,210	56,275	19,497	399,988
Total Accumulated Depreciation	1,189,672	151,568	24,875	1,316,365
Other Capital Assets, Net	2,291,625	243,454	23,455	2,511,624
Business-Type Activities, Capital Assets, Net	$ 2,621,538	$ 436,779	$ 201,360	$ 2,856,957

b. Component Units

Capital assets of the component units consisted of the following as of June 30, 2004:

Land	$ 27,774
Buildings	197,211
Improvements other than Buildings	1,591
Machinery and Equipment	237,181
Construction in Progress	501
Total Capital Assets	464,258
Accumulated Depreciation	(236,332)
Capital Assets, net	$ 227,926

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 6/30/2004	TRS 6/30/2004	JRS 6/30/2004
Retirees and beneficiaries receiving benefits	36,749	24,297	217
Terminated plan members entitled to but not yet receiving benefits	1,744	1,250	3
Active plan members	47,926	49,946	220
Total	86,419	75,493	440

State Employees' Retirement System

Plan Description

SERS is a single-employer defined-benefit pension plan covering substantially all of the State full-time employees who are not eligible for another State sponsored retirement plan. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and the State, and other plan provisions are described in Sections 5-152 to 5-192 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Tier I Plan B and Hazardous Duty members are required to contribute 2 percent and 4 percent respectively, of their salary up to the Social Security Taxable Wage Base plus 5 percent above that level; Tier I Plan C members are required to contribute 5 percent of their annual salary; Tier IIA members are required to contribute 2 percent and hazardous duty members are required to contribute 5 percent. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

Teachers Retirement System

Plan Description

TRS is a single-employer defined-benefit pension plan covering any teacher, principal, superintendent or supervisor engaged in service of public schools in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 10-183b to 10-183pp of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. For fiscal year 2004, the annual required contribution (ARC) was $270.5 million; however, the State contributed $185.3 million to the plan, reflecting a reduction of $85.2 million by the legislature to the State's TRS appropriation. Administrative costs of the plan are funded by the State.

Judicial Retirement System

Plan Description

JRS is a single-employer defined-benefit pension plan covering any appointed judge or compensation commissioner in the State. Plan benefits, cost-of-living allowances, required contributions of plan members and the State, and other plan provisions are described in Sections 51-49 to 51-51 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Funding Policy

The contribution requirements of plan members and the State are established and may be amended by the State legislature. Plan members are required to contribute 6 percent of their annual salary. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

Annual Pension Cost, Net Pension Obligation, and Related Information

The State's annual pension cost and net pension obligation to SERS, TRS, and JRS for the current year were as follows (amounts in thousands):

	SERS	TRS	JRS
Annual required contribution	$ 470,333	$ 270,544	$ 11,598
Interest on net pension obligation	176,941	99,866	4
Adjustment to annual required contribution	(113,083)	(65,167)	(2)
Annual pension cost	534,191	305,243	11,600
Contributions made	470,333	185,348	11,598
Increase (decrease) in net pension obligation	63,858	119,895	2
Net pension obligation beginning of year	2,081,663	1,174,895	41
Net pension obligation end of year	$ 2,145,521	$ 1,294,790	$ 43

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

	Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
SERS	2002	$ 479,501	86.7%	$ 2,017,588
	2003	485,527	86.8%	2,081,663
	2004	534,191	88.0%	2,145,521
TRS	2002	$ 246,404	83.0%	$ 1,099,721
	2003	254,996	70.6%	1,174,893
	2004	305,243	60.7%	1,294,790
JRS	2002	$ 9,599	100%	$ 40
	2003	10,127	100%	41
	2004	11,600	100%	43

Defined Contribution Plan

The State also sponsors the Connecticut Alternate Retirement Program (CARP), a defined contribution plan. CARP is administered by the State Comptroller's Retirement Office under the direction of the Connecticut State Employees Retirement Division. Plan provisions, including contribution requirements of plan members and the State, are described in Section 5-156 of the General Statutes.

Unclassified employees at any of the units of the Connecticut State System of Higher Education are eligible to participate in the plan. Plan members are required to contribute 5 percent of their annual salaries. The State is required to contribute 8 percent of covered salary. During the year, plan members and the State contributed $24.0 million and $37.9 million, respectively.

Note 12 Other Retirement Systems Administered by the State of Connecticut

The State acts solely as the administrator and custodian of the assets of the Connecticut Municipal Employees' Retirement System (CMERS) and the Connecticut Probate Judges and Employees Retirement System (CPJERS). The State makes no contribution to and has only a fiduciary responsibility for these funds. None of the above mentioned systems issue stand-alone financial reports. However, financial statements for CMERS and CPJERS are presented in Note No. 13.

Plan Descriptions and Contribution Information

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

	CMERS 6/30/2003	CPJERS 12/31/2002
Retirees and beneficiaries receiving benefits	4,743	226
Terminated plan members entitled to but not receiving benefits	419	34
Active plan members	8,420	371
Total	13,582	631
Number of participating employers	164	1

Connecticut Municipal Employees' Retirement System

Plan Description

CMERS is a cost-sharing multiple-employer defined benefit pension plan that covers fire, police, and other personnel (except teachers) of participating municipalities in the State. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and participating municipalities, and other plan provisions are described in Chapters 7-425 to 7-451 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions

Plan members are required to contribute 2.25 percent to 5.0 percent of their annual salary. Participating municipalities are required to contribute at an actuarial determined rate. The participating municipalities fund administrative costs of the plan.

Connecticut Probate Judges and Employees' Retirement System

Plan Description

CPJERS is a single-employer defined benefit pension plan that covers judges and employees of probate courts in the State. Plan benefits, cost-of-living adjustments, required contributions of plan members and the probate court system, and other plan provisions are described in Chapters 45a-34 to 45a-56 of the General statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions

Plan members are required to contribute 1.0 percent to 3.75 percent of their annual salary. The probate court system is required to contribute at an actuarial determined rate. Administrative costs of the plan are funded by the probate court system.

Note 13 Pension Trust Funds Financial Statements

The financial statements of the pension trust funds are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. State contributions are recognized in the period in which the contributions are appropriated. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investment income and related expenses of the Combined Investment Funds are allocated ratably to the pension trust funds based on each fund's equity in the Combined Investment Funds. (see Note No. 4)

Statement of Fiduciary Net Assets (000's)

	State Employees	State Teachers	Judicial	Connecticut Municipal Employees	Probate Judges	Other	Total
Assets							
Cash and Cash Equivalents	$ -	$ -	$ 106	$ 250	$ -	$ 80	$ 436
Receivables:							
Accounts, Net of Allowances	2,380	7,286	8	2,796	5	-	12,475
From Other Funds	-	1,641	-	-	-	-	1,641
Interest	138	209	4	25	4	-	380
Investments	7,709,616	10,860,276	140,387	1,303,833	67,072	716	20,081,900
Securities Lending Collateral	813,091	1,127,976	15,704	141,090	7,145	94	2,105,100
Total Assets	8,525,225	11,997,388	156,209	1,447,994	74,226	890	22,201,932
Liabilities							
Securities Lending Obligation	813,091	1,127,976	15,704	141,090	7,145	94	2,105,100
Due to Other Funds	29,681	17,365	-	-	25	-	47,071
Total Liabilities	842,772	1,145,341	15,704	141,090	7,170	94	2,152,171
Net Assets							
Held in Trust For Employee Pension Benefits	7,682,453	10,852,047	140,505	1,306,904	67,056	796	20,049,761
Total Net Assets	$ 7,682,453	$ 10,852,047	$ 140,505	$ 1,306,904	$ 67,056	$ 796	$ 20,049,761

Statement of Changes in Fiduciary Net Assets (000's)

	State Employees	State Teachers	Judicial	Connecticut Municipal Employees	Probate Judges	Other	Total
Additions							
Contributions:							
Plan Members	$ 47,632	$ 210,227	$ 1,367	$ 12,009	$ 269	$ 26	$ 271,530
State	470,333	185,348	11,598	-	-	-	667,279
Municipalities	-	1,019	-	16,271	-	-	17,290
Total Contributions	517,965	396,594	12,965	28,280	269	26	956,099
Investment Income	1,060,852	1,518,735	17,055	170,045	9,002	81	2,775,770
Less: Investment Expenses	(25,103)	(35,937)	(403)	(4,024)	(213)	(2)	(65,682)
Net Investment Income	1,035,749	1,482,798	16,652	166,021	8,789	79	2,710,088
Transfers In	-	-	-	-	1,705	-	1,705
Other	800	295	-	-	2	-	1,097
Total Additions	1,554,514	1,879,687	29,617	194,301	10,765	105	3,668,989
Deductions							
Administrative Expense	339	-	7	9	-	-	355
Benefit Payments and Refunds	868,165	879,797	14,346	64,709	2,241	3	1,829,261
Other	-	-	-	-	1,967	13	1,980
Total Deductions	868,504	879,797	14,353	64,718	4,208	16	1,831,596
Changes in Net Assets	686,010	999,890	15,264	129,583	6,557	89	1,837,393
Net Assets Held in Trust For Employee Pension Benefits:							
Beginning of Year	6,996,443	9,852,157	125,241	1,177,321	60,499	707	18,212,368
End of Year	$ 7,682,453	$ 10,852,047	$ 140,505	$ 1,306,904	$ 67,056	$ 796	$ 20,049,761

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, 2004, 38,078 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, 2004, $320.8 million was paid in postretirement benefits.

Note 15 Capital and Operating Leases

a. State as Lessor

The State leases building space, land, and equipment to private individuals. The minimum future lease revenues for the next five years and thereafter are as follows (amounts in thousands):

2005	$	30,126
2006		25,261
2007		27,101
2008		27,616
2009		27,909
Thereafter		22,345
Total	$	160,358

Contingent revenues for the year ended June 30, 2004, were $2.4 million.

State as Lessee

Obligations under capital and operating leases as of June 30, 2004, were as follows (amounts in thousands):

	Noncancelable Operating Leases	Capital Leases
2005	$ 26,583	$ 7,076
2006	17,903	6,336
2007	12,638	6,037
2008	9,287	5,652
2009	915	5,248
2010-2014	19,073	27,110
2015-2019	-	6,156
2020-2024	-	6,142
2025-2029	-	6,110
2030-2034	-	2,432
Total minimum lease payments	$ 86,399	78,299
Less: Amount representing interest costs		24,538
Present value of minimum lease payments		$ 53,761

Minimum capital lease payments were discounted using an interest rate of approximately 6 percent.

Rental and lease payments for equipment charged to expenditures during the year ended June 30, 2004, totaled $11.1 million.

Lease/Lease Back Transaction (amounts in thousands)

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.

In connection with the transaction, the State received net proceeds for $29,357 representing the consideration paid for the tax benefits received by the equity investors. The net proceeds received were calculated as follows:

Prepayment of head lease rent	$	366,405
Less: deposit to irrevocable trust		334,590
Less: lease executory costs		2,458
Net proceeds received	$	29,357

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. With respect to payments made to custodians, the State pledged assets as collateral to the custodians for the benefit of the lessors, and granted a first security interest is such assets. The pledged assets will primarily be used to pay the end of lease term purchase options. Payments made by the State to the debt payment undertakers are irrevocable once made and will not be subject to avoidance or recapture by the State or any creditor's of the State. Further, the State has no right, title, or interest in or to the amounts paid to the debt payment undertakers upon the payment thereof and accordingly, the amounts so paid cease to be assets of the State, but are assets solely of the debt payment undertakers. In addition, per the terms of Debt Payment Undertaking Agreement Guarantees, the debt payment undertaker guarantors have unconditionally guaranteed the full and prompt payment of any and all obligations of the debt payment undertakers. The assets held by the debt payment undertakers and the custodians, as well as any related lease obligation liability, are not reflected as assets or liabilities in the accompanying financial statements. 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 $343 million at June 30, 2004.

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, 2004, (amounts in thousands):

Governmental Activities	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Amounts due within one year
Bonds:					
General Obligation	$ 9,216,354	$ 2,720,294	$ 2,330,037	$ 9,606,611	$ 743,236
Transportation	3,205,815	539,534	591,400	3,153,949	240,065
	12,422,169	3,259,828	2,921,437	12,760,560	983,301
Plus/(Less) premiums and deferred amounts	105,119	104,044	27,796	181,367	-
Total Bonds	12,527,288	3,363,872	2,949,233	12,941,927	983,301
Economic Recovery Notes	219,235	97,700	43,720	273,215	240,065
Other Liabilities:					
Net Pension Obligation	3,256,597	851,036	667,279	3,440,354	-
Compensated Absences	347,933	28,447	5,464	370,916	14,682
Workers' Compensation	265,645	86,184	75,148	276,681	74,926
Capital Leases	67,988	-	14,227	53,761	9,768
Claims and Judgements	7,612	8,818	3,247	13,183	5,962
Contracts Payable and Other	7,186	4,335	5,960	5,561	-
Total Other Liabilities	3,952,961	978,820	771,325	4,160,456	105,338
Governmental Activities Long-Term Liabilites	$ 16,699,484	$ 4,440,392	$ 3,764,278	$ 17,375,598	$ 1,328,704
In prior years, the General and Transportation funds have been used to liquidate other liabilities.					
Business-Type Activities					
Revenue Bonds	$ 1,547,526	$ 610,904	$ 444,625	$ 1,713,805	$ 76,321
Plus/(Less) premiums, discounts and deferred amounts	5,717	30,663	31	36,349	-
Total Revenue Bonds	1,553,243	641,567	444,656	1,750,154	76,321
Lottery Prizes	435,185	-	49,956	385,229	50,661
Compensated Absences	87,456	18,515	1,742	104,229	25,246
Other	48,565	55,798	7,259	97,104	18,884
Total Other Liabilities	571,206	74,313	58,957	586,562	94,791
Business-Type Long-Term Liabilities	$ 2,124,449	$ 715,880	$ 503,613	$ 2,336,716	$ 171,112

b) As of June 30, 2004, long-term debt of component units consisted of the following (amounts in thousands):

Long-Term Debt	Balance June 30, 2004	Amounts due within year
Bonds Payable	$ 3,567,717	$ 146,263
Escrow Deposits	115,071	19,325
Closure of Landfills	27,149	1,433
State Loan	12,090	1,484
Deferred Revenue	6,524	834
Other	5,926	30
Total	$ 3,734,477	$ 169,369

Note 17 Long-Term Notes and Bonded Debt

a. Economic Recovery Notes

In December 2002, $219.2 million of General Obligation Economic Recovery Notes were issued to fund the deficit for the 2001-2002 fiscal year. As of June 30 2004, the amount of Economic Recovery Notes outstanding was $273.2 million. These notes mature on various dates through 2008 and bear interest rates from 2.0% to 4.0%.

Future amounts needed to pay principal and interest on economic recovery notes outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	$ 63,655	$ 8,929	$ 72,584
2006	63,470	6,548	70,018
2007	63,270	4,247	67,517
2008	63,270	2,017	65,287
2009	19,550	664	20,214
Total	$ 273,215	$ 22,405	$ 295,620

b. Primary Government – Governmental Activities General Obligation Bonds

General Obligation bonds are those bonds that are paid out of the revenues of the General fund and that are supported by the full faith and credit of the State. General obligation bonds outstanding and bonds authorized but unissued at June 30, 2004, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital improvements	2004-2023	2-8%	$ 2,183,763	$ 220,557
School Construction	2004-2022	2-7.441%	1,559,412	75,951
Municipal & Other Grants & Loans	2004-2022	2-8.4%	1,580,427	582,200
Elderly Housing	2005-2018	4.25-7 026%	9,605	-
Elimination of Water Pollution	2004-2023	3-7.525%	267,667	252,010
General Obligation Refunding	2004-2020	2-6.14%	3,346,721	-
Miscellaneous	2004-2031	2.5-6.75%	140,125	7,737
			9,087,720	$ 1,138,455
Accretion-Various Capital Appreciation Bonds			518,891	-
		Total	$ 9,606,611	

Future amounts (in thousands) needed to pay principal and interest on general obligation bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	$ 743,236	$ 489,901	$ 1,233,137
2006	705,308	462,784	1,168,092
2007	694,952	439,494	1,134,446
2008	699,003	415,578	1,114,581
2009	663,763	425,085	1,088,848
2010-2014	2,844,095	1,293,580	4,137,675
2015-2019	1,851,761	454,597	2,306,358
2020-2024	872,082	99,193	971,275
2025-2029	11,325	2,172	13,497
2030-2034	2,195	109	2,304
Total	$ 9,087,720	$ 4,082,493	$ 13,170,213

Transportation Related Bonds

Transportation related bonds include special tax obligation bonds and general obligation bonds that are paid out of revenues pledged or earned in the Transportation Fund. The revenue pledged or earned in the Transportation Fund to pay special tax obligation bonds is transferred to the debt service fund for retirement of principal and interest.

Transportation related bonds outstanding and bonds authorized but unissued at June 30, 2004, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Specific Highways	2017	4.25-5.50%	$ 2,653	$ 4,066
Infrastructure Improvements	2004-2024	2.5-8.0%	3,142,057	432,863
General Obligation Other	2008	7.513-7.525%	344	-
			3,145,054	$ 436,929
Accretion-Various Capital Appreciation Bonds			8,895	
		Total	$ 3,153,949	

Future amounts (in thousands) required to pay principal and interest on transportation related bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	$ 240,065	$ 145,706	$ 385,771
2006	265,635	133,849	399,484
2007	253,218	127,854	381,072
2008	261,693	115,882	377,575
2009	259,643	97,836	357,479
2010-2014	1,093,255	299,826	1,393,081
2015-2019	546,145	104,179	650,324
2020-2024	225,400	22,195	247,595
Total	$ 3,145,054	$ 1,047,327	$ 4,192,381

Variable-Rate Demand Bonds

As of June 30, 2004, variable-rate demand bonds included in bonded debt were as follows (amounts in thousands).

Bond Type	Outstanding Principal	Issuance Year	Maturity Year
Special Tax Obligation	$ 128,900	1990	2010
General Obligation	99,235	1997	2014
Special Tax Obligation	100,000	2000	2020
General Obligation	100,000	2001	2021
Special Tax Obligation	419,060	2003	2022
Total	$ 847,195		

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

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

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

The Standby Bond Purchase agreements expire as follows:

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

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

Interest Rate Swaps

Objective of the swaps

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

Terms, fair values, and credit risk

The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2004, are as follows. The notional amount of the swaps matches the principal amount of the associated debt. The State's swap agreements, except for the June 2001 swap, contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated debt. For the June 2001 swap, the swap agreement and associated debt are non-amortizing and mature on June, 2012.

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	$ 77,400	12/19/1990	5.746%	65% of LIBOR (1)	$ (8,159)	12/1/2010	Aaa/AAA/AAA
1990 STO	51,500	12/19/1990	5.709%	65% of LIBOR (1)	(5,346)	12/1/2010	A3/BBB
2001 GO	20,000	6/28/2001	4.330%	CPI (3) plus 1.43%	(483)	6/15/2012	Aa3/A+/AA-
2003 STO	119,530	1/23/2003	3.293%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	429	2/1/2022	Aa1/AA-/AA
2003 STO	99,315	1/23/2003	3.288%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	397	2/1/2022	Aa1/AA/AA+
2003 STO	200,215	1/23/2003	3.284%	BMA(2) monthly weighted average less 10bp (through 1/3/07); 55% LIBOR (1) plus 50 bp thereafter	914	2/1/2022	Aa2/AA+/AA+
Total	$ 567,960				$ (12,248)		

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

Fair value
As of June 30, 2004, the 2003 swaps had a positive fair value because interest rates have increased since January 2003; the 1990 swaps had a negative fair value because interest rates have declined since 1990. The negative fair values may be countered by reductions in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the State's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payment required under the swaps, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date each future net settlement on the swaps.

As of June 30, 2004, the State had a minor exposure to credit risk on the 2003 swaps, but it had no credit risk exposure on the other outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the State would be exposed to credit risk in the amount of the swaps' fair value.

The swap agreements contain varying collateral agreements with the counterparties. All three of the swap agreements executed in 2004 require collateralization of the fair value of the swap in cash or government securities should the counterparty's credit rating fall below Aa3 as issued by Moody's Investors Service or AA- as issued by Standard & Poor's Ratings or Fitch Ratings. One of the swaps executed in 1990 requires collateral of cash or securities if the counterparty credit rating falls below A1/A+. The other swap agreements do not have any provisions for posting of collateral. The State is not required to post collateral for any of the swaps.

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

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

Basis Risk
The State's variable-rate bond coupon payments are equivalent to the BMA index rate, or the CPI plus 1.43% rate (2001 GO bonds only). For those swaps for which the State receives a variable-rate payment other than BMA or CPI, the State is exposed to basis risk should the relationship between LIBOR and BMA converge. If a change occurs that results in the rates' moving to convergence, the expected cost savings may not be realized. As of June 30, 2004, the BMA rate was 1.06 percent, whereas 65 percent of LIBOR was 0.72 percent. The State recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal 2004, the state budgeted $1,500,000 in basis risk for all six swap agreements.

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

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

Swap Payments and Associated Debt
Using rates as of June 30, 2004, debt service requirements of the State's outstanding variable-rate bonds and net swap payments are as follows (amounts in thousands). As rates

vary, variable-rate bond interest payments and net swap payments will vary.

Fiscal Year Ending June 30,	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate SWAP, Net	Total
2005	$ 18,025	$ 6,628	$ 15,759	$ 40,412
2006	19,135	6,429	14,907	40,471
2007	20,350	6,219	13,747	40,316
2008	21,665	5,994	12,427	40,086
2009	22,985	5,756	11,401	40,142
2010-2014	176,295	23,311	43,135	242,741
2015-2019	258,185	8,040	16,211	282,436
2020-2022	31,320	363	732	32,415
Total	$ 567,960	$ 62,740	$ 128,319	$ 759,019

c. Primary Government – Business–Type Activities Revenue Bonds

Revenue bonds are those bonds that are paid out of resources pledged in the enterprise funds and component units.

Enterprise funds' revenue bonds outstanding at June 30, 2004, were as follows (amounts in thoudands):

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
Higher Education	2009-2030	2.1-7%	$ 537,126
Bradley International Airport	2012-2031	3.25-7.65%	252,020
Second Injury	2011	4.5-5.25%	54,255
Clean Water	2006-2025	2-10%	560,176
Other:			
Bradley Parking Garage	2006-2024	6.125-8%	53,800
Drinking Water	2022	4-5.5%	51,083
Rate Reduction Bonds	2004-2011	2.5-5%	205,345
Total Revenue Bonds			1,713,805
Plus/(Less) premiums, discounts and deferred amounts:			
Bradley International Airport			(726)
Clean Water			21,371
Other			15,704
Revenue Bonds, net			$ 1,750,154

Bradley Airport has issued various revenue bonds to finance costs of improvements to the airport. As of June 30, 2004, the following bonds were outstanding:

a) Airport Revenue Refunding Bonds in the amount of $42.1 million. These bonds were issued in October, 1992, to redeem the 1982 revenue bonds, and are secured by and payable solely from the gross operating revenues generated by the State from the operations of the airport and other receipts, funds or monies pledged in the bond indenture.

b) Bradley International Airport Revenue Bonds in the amount of $191.2 million and Bradley International Airport Refunding Bonds in the amount of $18.7 million. Both bond series are secured by and payable solely from the gross operating revenues generated by the state from the operation of the airport and other receipts, funds or monies pledged in the bond indenture.

In November 1996 and in October 2000, the State issued $100 million and $124.1 million of Second Injury Special Assessment Revenue Bonds, respectively. The bonds were issued to reduce long-term liabilities of the fund by settling claims on a one-time lump sum basis. Additionally, the bond indenture allows for the periodic issuance of subordinated bond anticipation notes (BANs) in the form of commercial paper.

In 1994, the State of Connecticut began issuing Clean Water Fund revenue bonds. The proceeds of these bonds are to be used to provide funds to make loans to Connecticut municipalities for use in connection with the financing or refinancing of wastewater treatment projects.

Bradley Parking Garage bonds were issued in 2000 in the amount of $53.8 million to build a parking garage at the airport.

In 2004, the State of Connecticut issued $205.3 million of Special Obligation Rate Reduction Bonds. These bonds were issued to sustain for two years the funding of energy conservation and load management and renewable energy investment programs by providing money to the State's General Fund.

Future amounts (in thousands) needed to pay principal and interest on revenue bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	$ 118,043	$ 89,385	$ 207,428
2006	108,827	74,346	183,173
2007	102,776	67,657	170,433
2008	118,851	63,852	182,703
2009	173,863	95,024	268,887
2010-2014	402,595	205,784	608,379
2015-2019	270,088	134,546	404,634
2020-2024	226,750	74,118	300,868
2025-2029	149,654	29,315	178,969
2030-2034	42,358	2,856	45,214
Total	$ 1,713,805	$ 836,883	$ 2,550,688

d. Component Units

Component units' revenue bonds outstanding at June 30, 2004, were as follows:

Component Unit	Final Maturity Date	Interest Rates	Amount Outstanding (000's)
CT Development Authority	2004-2019	4.75-8.75%	$ 42,820
CT Housing Finance Authority	2003-2045	1.37-9.36%	3,199,620
CT Resources Recovery Authority	2004-2016	3.9-7.7%	205,409
Other:			
CT Higher Education Supplemental Loan Authority	2004-2021	4-7.5%	115,115
UConn Foundation	2029	3.6-5.375%	7,495
Total Revenue Bonds			3,570,459
Plus/(Less) premiums, discounts, and deferred amounts:			
CDA			(50)
CRRA			(2,797)
CHESLA			105
Revenue Bonds, net			$ 3,567,717

Revenue bonds issued by the component units do not constitute a liability or debt of the State. The State is only contingently liable for those bonds as discussed below.

Connecticut Development Authority's revenue bonds are issued to finance such projects as the acquisition of land or the construction of buildings, and the purchase and

installation of machinery, equipment, and pollution control facilities. The Authority finances these projects through its Self-Sustaining Bond Program and Umbrella Program. Under the Umbrella Program, bonds outstanding at June 30, 2004 were $4.8 million. Assets totaling $3.4 million are pledged under the terms of the bond resolution for the payment of principal and interest on these bonds until such time as it is determined that there are surplus funds as defined in the bond resolution. Bonds issued under the Self-Sustaining Bond Program are discussed in the no-commitment debt section of this note. In addition, the Authority had $38.0 million in general obligation bonds outstanding at year-end. These bonds were issued to finance the lease of an entertainment/sports facility and the purchase of a hockey team.

Connecticut Housing Finance Authority's revenue bonds are issued to finance the purchase, development and construction of housing for low and moderate-income families and persons throughout the State. The Authority has issued bonds under a bond resolution dated 9/27/72 and an indenture dated 9/25/95. As of December 31, 2003, bonds outstanding under the bond resolution and the indenture were $3,154.0 million and $45.6 million, respectively. According to the bond resolution, the following assets of the Authority are pledged for the payment of the bond principal and interest (1) the proceeds from the sale of bonds, (2) all mortgage repayments with respect to long-term mortgage and construction loans financed from the Authority's general fund, and (3) all monies and securities of the Authority's general and capital reserve funds. The capital reserve fund is required to be maintained at an amount at least equal to the amount of principal, sinking fund installments, and interest maturing and becoming due in the next succeeding calendar year ($261.5 million at 12/31/03) on all outstanding bonds. As of December 31, 2003, the Authority has entered into interest rate swap agreements for $730.6 million of its variable rate bonds. These agreements are similar in nature to agreements discussed in the interest rate swaps section of this note.

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

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

Each Authority has established special capital reserve funds that secure all the outstanding bonds of the Authority at year-end, except as discussed next. These funds are usually maintained at an amount equal to next year's bond debt service requirements. The State may be contingently liable to restore any deficiencies that may exist in the funds in any one year in the event that the Authority is unable to do so. For the Connecticut Resources Recovery Authority, the amount of bonds outstanding at year-end that were secured by the special capital reserve funds was $178.7 million.

Future amounts (in thousands) needed to pay principal and interest on revenue bonds outstanding at June 30, 2004, were as follows:

Year Ending June 30,	Principal	Interest	Total
2005	$ 260,926	$ 259,257	$ 520,183
2006	137,874	131,749	269,623
2007	132,622	126,007	258,629
2008	140,220	120,658	260,878
2009	32,353	12,648	45,001
2010-2014	698,959	508,555	1,207,514
2015-2019	647,372	370,498	1,017,870
2020-2024	568,016	247,041	815,057
2025-2029	534,767	135,863	670,630
2030-2034	360,290	53,728	414,018
2035-2039	40,470	7,548	48,018
2040-2044	15,335	2,474	17,809
2045-2049	1,255	63	1,318
Total	$ 3,570,459	$ 1,976,089	$ 5,546,548

No-commitment debt

Under the Self-Sustaining Bond program, The Connecticut Development Authority issues revenue bonds to finance such projects as described previously in the component unit section of this note. These bonds are paid solely from payments received from participating companies (or from proceeds of the sale of the specific projects in the event of default) and do not constitute a debt or liability of the Authority or the State. Thus, the balances are not included in the Authority's financial statements. Total bonds outstanding for the year ended June 30, 2004 were $993.2 million.

The Connecticut Resources Recovery Authority has issued several bonds to fund the construction of waste processing facilities by independent contractors/operators. These bonds are payable from a pledge of revenues derived primarily under lease or loan arrangements between the Authority and the operators. Letters of credit secure some of these bonds. The Authority does not become involved in the construction activities or the repayment of the debt (other than the portion allocable to Authority purposes). In the event of a default, neither the authority nor the State guarantees payment of the debt, except for the State contingent liability discussed below. Thus, the assets and liabilities that relate to these bond issues are not included in the Authority's financial statements. Total bonds outstanding at June 30, 2004 were $203.9 million. Of this amount, $61.5 million was secured by a special capital reserve fund.

The Connecticut Health and Educational Facilities Authority has issued special obligation bonds for which the principal and interest are payable solely from the revenues of the institutions. Starting in 1999, the Authority elected to remove these bonds and related restricted assets from its

financial statements, except for restricted assets for which the Authority has a fiduciary responsibility. Total special obligation bonds outstanding at June 30, 2004, were $4,666.7 million, of which $374.4 million was secured by special capital reserve funds.

The State may be contingently liable for those bonds that are secured by special capital reserve funds as discussed previously in this section.

e. Debt Refundings

During the year, the State issued $1,967.5 million of general obligation and special tax obligation refunding bonds with an average interest rate of 4.35% to advance refund $1,996.8 million of general obligation and special tax obligation refunding bonds with an average interest rate of 5.15%. The proceeds of the refunding bonds were used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. Thus, the refunded bonds are considered defeased and the liability for those bonds have been removed from the statement of net assets. The reacquisition price exceeded the carrying amount of the old debt by $165 million. This amount is being netted against the new debt and amortized over the life of the new or old debt, whichever is shorter.

The State advance refunded these bonds to reduce its total debt service payments over the next fifteen years by $115.7 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of $93.9 million. As of June 30, 2004, $3,660.8 million of outstanding general obligation, special tax obligation, and revenue bonds are considered defeased.

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 6-30-02	$ 245,183	$ 9,355
Incurred claims	95,707	351
Paid claims	(75,245)	(1,206)
Balance 6-30-03	265,645	8,500
Incurred claims	86,184	6,227
Paid claims	(75,148)	(4,387)
Balance 6-30-04	$ 276,681	$ 10,340

Note 19 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2004, were as follows (amounts in thousands):

	Balance due to fund(s)										
	General	Transportation	Other Governmental	Uconn	State Universities	Other Proprietary	Employment Security	Internal Services	Fiduciary	Component Units	Total
Balance due from fund(s)											
General	$ -	$ -	$ 174,327	$ 40,039	$ 14,663	$ 10,115	$ 1,474	$ 5,474	$ 4,683	$ -	$ 250,775
Transportation	-	-	-	-	-	-	-	534	-	-	534
Other Governmental	8,879	5,964	3,896	10,165	22,020	53,242	-	-	-	22,179	126,345
Uconn	8,908	-	-	-	-	-	-	-	-	-	8,908
State Universities	1,636	-	-	-	-	-	-	-	-	-	1,636
Employment Security	-	-	4,687	-	-	-	-	-	-	-	4,687
Other Proprietary	317	-	1,754	-	-	-	-	-	-	-	2,071
Internal Services	4,700	-	63,387	-	-	-	-	-	-	-	68,087
Fiduciary	-	-	40,604	-	-	-	-	-	8,100	-	48,704
Component Units	12,090	-	-	-	-	-	-	-	-	-	12,090
Total	$ 36,530	$ 5,964	$ 288,655	$ 50,204	$ 36,683	$ 63,357	$ 1,474	$ 6,008	$ 12,783	$ 22,179	$ 523,837

Interfund receivables and payables arose because of interfund loans and other interfund balances outstanding at year end. $174 million owed to other governmental funds by the General fund resulted from a loan made by governmental funds to eliminate a cash overdraft in the General fund.

Note 20 Interfund Transfer

Interfund transfers for the fiscal year ended June 30, 2004, consisted of the following (amounts in thousands):

	Amount transferred to fund(s)								
	General	Debt Service	Transportation	Other Governmental	Uconn	State Universities	Other Proprietary	Fiduciary	Total
Amount transferred from fund(s)									
General	$ -	$ 13,665	$ -	$ 495,792	$ 375,535	$ 190,450	$ 167,039	$ -	$ 1,242,481
Debt Service	-	-	25,430	1,175	-	-	-	-	26,605
Transportation	-	399,413	-	41,376	-	-	-	-	440,789
Other Governmental	132,693	15,250	1,476	71,006	103,932	16,255	46,433	1,705	388,750
Connecticut Lottery	280,763	-	-	-	-	-	-	-	280,763
Other Proprietary	194,000	-	-	7,819	-	-	13,889	-	215,708
Total	$ 607,456	$ 428,328	$ 26,906	$ 617,168	$ 479,467	$ 206,705	$ 227,361	$ 1,705	$ 2,595,096

Transfers were made to (1) move revenues from the fund that budget or statute requires to collect them to the fund that budget or statute requires to expend them and (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due.

Note 21 Restatement of Net Assets/Fund Balances

As of June 30, 2004, the beginning net assets/fund balances for the following funds and activities were restated as follows (amounts in thousands):

	Balance 6-30-03 Previously Reported	Fund Reclass	Correction of Reported Assets/ Liabilities	Balance 6-30-03 as Restated
Governmental Funds and Activities				
Major Funds:				
General	$ (401,499)	$ -	$ 19,656	$ (381,843)
Transportation	158,277	-	10,026	168,303
Nonmajor Funds:				
Environmental Programs	119,603	26,934	-	146,537
Total Governmental Funds	$ (123,619)	$ 26,934	$ 29,682	$ (67,003)
Governmental Activities				
Capitalization of Software Costs	-	-	70,422	70,422
Net Assets of Governmental Activities	$ (5,346,984)	$ 26,934	$ 100,104	$ (5,219,946)
Proprietary Funds and Business-Type Activities				
Major Funds:				
Higher Education	$ 2,535,973	$ (2,535,973)	$ -	$ -
University of Connecticut	-	1,525,227	-	1,525,227
State Universities	-	464,000	(9,750)	454,250
Non-Major Funds:				
Community Technical Colleges	-	304,775	-	304,775
Total Proprietary Funds	$ 2,535,973	$ (241,971)	$ (9,750)	$ 2,284,252
Net Assets of Business-Type Activities	$ 3,875,072	$ (241,971)	$ (9,750)	$ 3,623,351
Component Units				
Connecticut Health & Educational Facilities Authority	$ -	$ 19,975	$ -	$ 19,975
Connecticut Resources Recovery Authority	117,489	(117,489)	-	-
Other Component Units				
Connecticut Resources Recovery Authority	-	117,489	-	117,489
Connecticut Health & Educational Facilities Authority	19,975	(19,975)	-	-
Connecticut Higher Education Supplemental Loan Authority	6,438	-	(1,220)	5,218
Connecticut Innovations, Incorporated	136,683	(31,900)	-	104,783
Uconn Foundation	-	241,970	(29,522)	212,448
Total Component Units	$ 280,585	$ 210,070	$ (30,742)	$ 459,913
Net Assets of Component Units	$ 1,112,011	$ 210,070	$ (30,742)	$ 1,291,339

In July 2003 the State implemented a new Internet-based financial management and human resources system. As of 6-30-04, the State had spent $101.9 million in implementation costs. Of this amount, $85.9 million represents costs incurred in developing the software for its intended use. For example, software and license fees, equipment, consulting fees, etc. These costs, of which $70.4 million were incurred prior to fiscal year 2004, are being capitalized and amortized over their estimated useful life in the government-wide financial statements, governmental activities. Other implementation costs, such as planning and training and support, were expensed when incurred.

During the year, the State implemented GASB Statement No.39, "Determining Whether Certain Organizations Are Component Units." This Statement requires the State to report certain organizations (mainly fund-raising foundations) as component units (discrete presentation). Thus, the State reclassified this year the University of Connecticut Foundation, Inc. as a discretely-presented component unit. In prior years, the Foundation was reported as a component unit of the Higher Education fund, an enterprise fund.

Also, the following reclassifications were made this year to improve financial reporting of enterprise funds and component units:

1) The University of Connecticut, the State Universities, and the Community/Technical colleges were reclassified as separate enterprise funds. In prior years, these funds were reported as part of the Higher Education fund, an enterprise fund.

2) The Clean Energy fund was reclassified as a special revenue fund. In prior years, this fund was reported as part of the Connecticut Innovations, Inc. fund, a component unit.

The beginning fund balance of the General fund was adjusted to correct understatements of cash ($2.8 million) and taxes receivable ($16.9 million). For the Transportation fund, the adjustment reflects a reduction of $10 million to deferred revenue because revenue recognition requirements on related resources had been met in the prior year. For the University of Connecticut Foundation, Inc., the adjustment reflects a reduction of $29.5 million to pledges receivable because such pledges should not be recognized as an asset until the resources are received by the Foundation.

Note 22 Related Organizations

Related organizations are legally separate organizations that are not financially accountable to the State. However, these organizations are still related to the State as discussed next.

The State appoints a voting majority of the following organizations' governing boards, the Community Economic Development Fund and the Connecticut Student Loan Foundation. The State's accountability for these organizations does not extend beyond making the appointments.

Note 23 Commitments and Contingencies

A. Commitments

At June 30, 2004, the State, including its component units, had the following outstanding commitments:

1) Infrastructure (highways, roads, etc.) and other construction contracts and miscellaneous contracts with various vendors totaling approximately $1,962.8 million of which $1,447.7 million is expected to be reimbursed by federal grants or other payments.

2) School construction and alteration grants with various towns for $2,900 million and interest costs of $190 million for a total of $3,090 million. Funding for these projects is expected to come from bond sales.

3) Loan commitments, mortgage and grant programs, and loan guarantees total approximately $553.4 million. Funding for these programs is expected to come from bond sales.

4) The State has authorized a loan to the Connecticut Resources Recovery Authority (a component unit) 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, 2004, the Authority had drawn $12.8 million on these funds.

B. Contingent Liabilities

The State entered into a contractual agreement with H.N.S. Management Company, Inc. and ATE Management and Service Company, Inc. to manage and operate the bus transportation system for the State. The State shall pay all expenses of the system including all past, present and future pension plan liabilities of the personnel employed by the system and any other fees as agreed upon. When the agreement is terminated the State shall assume or make arrangements for the assumption of all the existing obligations of the management companies including but not limited to all past, present and future pension plan liabilities and obligations.

In 2002 the City of Waterbury issued $97.5 million of General Obligation Special Capital Reserve Fund Bonds. These bonds are secured by a Special Capital Reserve Fund for which the State may be contingently liable as explained previously in Note 17 – Component Units.

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, 2004, 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 and Extraordinary Items

Special items are significant transactions or other events within management's control that are either unusual in nature or infrequent in occurrence. Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Transfers to the General fund from the State's component units were as follows (amounts in million):

Connecticut Innovations, Incorporated	$ 5.0
Connecticut Development Authority	$10.0
Connecticut Housing Finance Authority	$ 2.5

The State, also, transferred mortgage loans with a carrying amount of $204 million from the Housing Programs fund, a special revenue fund, to the Connecticut Housing Finance Authority, a component unit. The loans were recorded by the Authority at a net realizable value of $65 million. In exchange, the State received $85 million in cash in the prior year.

As explained in Note 15, the State entered into a lease/lease-back transaction for some of its rail cars and locomotives. As a result of this transaction, the State received a payment of $29.3 million, which was deposited in the Infrastructure fund (a capital projects fund).

Note 25 Subsequent Events

In July, the State issued $72.5 million of parking and energy fee revenue bonds. The bonds are special obligations of the Capital City Economic Development Authority, a component unit. However, the State is contractually obligated to pay annual debt service requirements on the bonds, such payment not to exceed $6.7 million.

In November, $200 million of special tax obligation bonds for transportation infrastructure programs and $89.7 million special tax obligation refunding bonds were issued. These bonds will mature through July, 2024 and July, 2019 respectively and bear interest rates ranging from 2.125% to 5% and 3% to 5.25% respectively.

In December, $300 million of general obligation bonds were issued. The bonds will mature in years 2005 through 2024 and bear interest rates ranging from 2.15% to 5%.

In March 2005, $300 million of variable rate general obligation bonds were issued. The bonds will mature in years 2006 through 2023.

In March 2005, $98 million of general obligation bonds were issued. The bonds will mature in years 2006 through 2025 and bear interest rates ranging from 3% to 5%.

In March 2005, $335.5 million of general obligation refunding bonds were issued. The bonds will mature in years 2005 through 2021 and bear interest rates ranging from 3% to 5.25%.

In June 2005, $315 million of general obligation bonds were issued. The bonds will mature in years 2006 through 2025 and bear interest rates ranging from 3% to 5%.

In November 2005, $300 million of general obligation bonds were issued. The bonds will mature in years 2006 through 2025 and bear interest rates ranging from 4% to 5%.

In December 2005, $250 million of special tax obligation bonds for transportation infrastructure programs were issued. These bonds will mature in years 2006 through 2015 and bear interest rates ranging from 4% to 5%.

Required PERS Supplementary Information

Required Supplementary Information
Schedules of Funding Progress
(Expressed in Millions)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a Percentage of Covered Payroll
SERS						
6/30/1998	$5,669.9	$9,592.4	$3,922.5	59.1%	$2,339.0	167.7%
6/30/1999 *	-	-	-	-	-	-
6/30/2000	$7,196.0	$11,512.1	$4,316.1	62.5%	$2,651.9	162.8%
6/30/2001	$7,638.9	$12,105.4	$4,466.5	63.1%	$2,784.5	160.4%
6/30/2002	$7,893.7	$12,806.1	$4,912.4	61.6%	$2,852.1	172.2%
6/30/2003	$8,058.6	$14,223.8	$6,165.2	56.7%	$2,654.3	232.3%
6/30/2004	$8,238.3	$15,128.5	$6,890.2	54.5%	$2,816.7	244.6%
*No actuarial valuations were performed as of June 30, 1999.						
TRS						
6/30/1998	$7,721.1	$10,970.1	$3,249.0	70.4%	$2,298.9	141.3%
6/30/1999 *	-	-	-	-	-	-
6/30/2000	$9,605.9	$11,797.6	$2,191.7	81.4%	$2,501.5	87.6%
6/30/2001 *	-	-	-	-	-	-
6/30/2002	$10,387.3	$13,679.9	$3,292.6	75.9%	$2,698.3	122.0%
6/30/2003 *	-	-	-	-	-	-
6/30/2004	$9,846.7	$15,070.5	$5,223.8	65.3%	$2,930.8	178.2%
*No actuarial valuations were performed as of June 30, 1999, 2001 and 2003						
JRS						
6/30/1998	$98.1	$168.1	$70.0	58.4%	$21.2	330.2%
6/30/1999	$110.7	$172.5	$61.8	64.2%	$21.9	282.2%
6/30/2000	$123.4	$181.7	$58.3	67.9%	$24.1	241.9%
6/30/2001	$133.1	$193.8	$60.7	68.7%	$26.3	230.8%
6/30/2002	$138.4	$209.4	$71.0	66.1%	$28.9	245.7%
6/30/2003	$142.8	$211.1	$68.3	67.6%	27.84	245.3%
6/30/2004	$150.9	$219.8	$69.0	68.7%	28.90	238.8%
MERS						
6/30/1997	$872.0	$731.1	$(140.9)	119.3%	$246.0	(57.3)%
6/30/1998	$980.4	$814.1	$(166.3)	120.4%	$258.2	(64.4)%
6/30/1999	$1,100.7	$860.1	$(240.6)	128.0%	$269.4	(89.3)%
6/30/2000	$1,251.6	$1,153.2	$(98.4)	108.5%	$290.3	(33.9)%
6/30/2001	$1,353.1	$1,238.1	$(115.0)	109.3%	$311.2	(37.0)%
6/30/2002	$1,403.4	$1,319.7	$(83.7)	106.3%	$321.8	(26.0)%
7/1/2003	$1,417.7	$1,378.2	$(39.5)	102.9%	$326.4	(12.1)%

PJRS

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

Required Supplementary Information
Schedules of Employer Contributions
(Expressed in Millions)

	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%	$-	-

Note: During the years 2000 thru 2004 the only contributions to the Probate Judges Retirement System were the required member contributions.

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

	SERS	TRS	JRS	MERS	PJRS
Valuation date	6/30/2004	6/30/2004	6/30/2004	7/1/2003	12/31/2002
Actuarial cost method	Projected unit credit	Entry age	Projected unit credit	Entry age	Entry Age
Amortization method	Level percent of pay, closed	Level percent of pay, closed	Level percent of pay, closed	Level percent of pay, closed	-
Remaining amortization period	28 Years	8-27 Years	26 Years	3-21 Years	-
Asset valuation method	5 year smoothed market	4 year smoothed market	5 year smoothed market	5 year smoothed market	Asset smoothing
Actuarial assumptions:					
Investment rate of return	8.5%	8.5%	8.5%	8.5%	8.5%
Projected salary increases	4.25-15%	4-8%	5.5%	4.5-11.25%	6%
Includes inflation at	5%	4%	5.5%	3.75%	3.5%
Cost-of-living adjustments	2.75-3.75%	3%	3-5.5%	2.5-5.0%	3%

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APPENDIX III-D

NANCY WYMAN
COMPTROLLER

STATE OF CONNECTICUT

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

MARK E. OJAKIAN
DEPUTY COMPTROLLER

January 30, 2006

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, 2001-2004. This review also covered the accompanying statements of unappropriated surplus, revenues and expenditures for the years ended 2001-2005. The 2001-2004 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, 2001-2004. The statements for the fiscal year ending June 30, 2005 are based on preliminary projections as of January 23, 2006 which are subject to additional updates and adjustments.

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. The 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

An Equal Opportunity Employer

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, 2001, 2002, 2003 and 2004, 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, 2001, 2002, 2003 and 2004, and the results of its operations for the years then ended, in conformity with the basis of accounting described in Note (a) to Appendix III-D-4.

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

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

December 30, 2005
State Capitol
Hartford, Connecticut

GENERAL FUND[a]

Balance Sheet
As of June 30
(In Thousands)

	2001	2002	2003	2004	2005[c] (preliminary)
Assets					
Cash and Short-Term Investments	$ 178,428	$ --	$ --	$ --	
Accrued Taxes Receivable	751,329	731,462	759,320	811,239	
Accrued Accounts Receivable	30,897	31,726	35,139	33,593	
Federal and Other Grants Receivable and Unexpended	745,655	839,676	886,205	12,089	
Investments	50,460	40,813	--	--	
Due from Other Funds	4,499	594,698	--	1,000	
Total Assets	$ 1,761,268	$ 2,238,375	$ 1,680,664	$ 857,921	
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	301,801	320,716	333,324	--	
Due to Other Funds	15,254	16,656	1,029	1,346	
Total Liabilities	$ 317,055	$ 1,494,286	$ 888,010	$ 191,608	
Reserves					
Petty Cash Funds	$ 1,043	$ 1,031	$ 991	$ 996	
Statutory Surplus Reserves	30,660	--	--	452,455	
Appropriations Continued to Following Year	1,412,510	965,446	888,278	212,862	
Total Reserves	$ 1,444,213	$ 966,477	$ 889,269	$ 666,313	
Unappropriated Surplus (Deficit)	0	(222,388)	(96,615)	0	
Total Liabilities, Reserves and Surplus	$ 1,761,268	$ 2,238,375	$ 1,680,664	$ 857,921	

(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.

(c) Since the financial statements for fiscal year ending June 30, 2005 are not yet available, figures for this column could not be determined.

GENERAL FUND

Statement of Revenues, Expenditures and Changes in Unappropriated Surplus
Fiscal Year Ended June 30
(In Thousands)

	2001	2002	2003	2004	2005 (preliminary)[m]
Unappropriated Surplus (Deficit), July 1	$ -0-	$ -0-	$ (222,388)	$ (96,615)	$ --
Resources from Reserve for Debt Avoidance/ERN	265,474	-0-	222,388	96,615	
Total Revenues (per Appendix III-D-6)	12,885,980[c]	11,943,683[e]	13,278,035 [h]	13,123,775[k]	14,070,055[k]
Total Expenditures (per Appendix III-D-7)	12,783,210[d]	13,285,284[f]	13,465,043 [i]	12,546,919[l]	13,332,349[n]
Operating Balance	368,244	(1,341,601)	(187,008)	576,856	737,706
Reserved for Prior Year Appropriations Less Appropriations Carried Forward	(333,999)	543,806	81,977	(126,216)	(481,560)
Transferred (Out) or Reserved for:					
Budget Reserve Fund	(30,660)	-0-	-0-	(302,155)	(371,850)
Reserve for Debt Retirement/Avoidance	-0-	-0-	-0-	(150,300)	(15,852)
Other Adjustments	(3,585)	(19,291)	8,416	1,815	(18,744)
Reserved from Fiscal Year 2004	-0-	-0-	-0-	-0-	150,300
Subtotal	-0-	(817,086)	(96,615)	-0-	-0-
Transferred from Budget Reserve Fund	-0-	594,698	-0-	-0-	-0-
Unappropriated Surplus (Deficit), June 30	$ - 0 -	$(222,388)[g]	$(96,615) [j]	$ - 0 -	$ -0-

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

(b) Total Expenditures includes Restricted Accounts and Federal and Other Grants in the amount of $937,641 and prior year appropriations less appropriations carried forward to the next fiscal year in the amount of $289,764.

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

(d) Total Expenditures includes Restricted Accounts and Federal and Other Grants in the amount of $900,510 and prior year appropriations less appropriations carried forward to the next fiscal year in the amount of $(333,999).

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

(f) Total Expenditures includes Restricted Accounts and Federal and Other Grants in the amount of $1,098,258 and prior year appropriations less appropriations carried forward to the next fiscal year in the amount of $543,806.

(g) Under the provisions of Special Act 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).

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

(i) Total Expenditures includes Restricted Accounts and Federal and Other Grants in the amount of $1,254,709 and prior year appropriations less appropriations carried forward to the next fiscal year in the amount of $81,977.

(j) 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).

(k) 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.

(l) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of ($126,216).

(m) Based on information obtained from the State Comptroller's preliminary estimates as of January 23, 2006 for the period ending June 30, 2005. ***These are preliminary estimates and are subject to further adjustments***. See discussion on **Page III-13**, **paragraph one**.

(n) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of ($481,560).

GENERAL FUND

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

	2001	2002	2003	2004	2005[e] (preliminary)
Taxes:					
Personal Income	$ 4,744,233	$ 4,265,912	$ 4,263,070	$ 4,943,430	$ 5,570,724
Sales and Use	3,125,078	2,997,766	3,025,743	3,133,888	3,290,362
Corporations	550,509	380,985	507,975	518,009	678,668
Insurance Companies	191,107	217,371	239,358	233,412	257,152
Inheritance and Estate	252,802	153,092	184,320	147,614	254,208
Alcoholic Beverages	41,145	41,619	42,490	44,044	44,236
Cigarettes	119,476	160,904	256,052	279,572	273,979
Admissions, Dues, Cabaret	25,811	26,905	31,696	31,662	31,699
Oil Companies	64,497	24,309	117,451	106,894	143,548
Public Service Corporations	180,547	166,597	197,959	193,643	196,819
Real Estate Conveyance	112,282	120,717	149,317	176,743	207,631
Hospital Gross Receipts	--	--	--	--	--
Miscellaneous	35,088	26,267	33,731	34,822	39,028
Refunds of Taxes	(735,482)	(829,558)	(808,209)	(650,800)	(681,279)
R&D Credit Exchange	--	(21,933)	(11,148)	(10,378)	(8,850)
Other Revenue:					
Licenses, Permits, Fees	124,331	137,518	125,179	154,593	143,246
Sales of Commodities and Services	31,312	30,479	32,869	40,991	35,305
Transfer – Special Revenue	258,181	277,589	262,776	286,699	273,894
Investment Income	67,868	23,828	7,083	1,779	15,218
Transfers — To Other Funds	(85,400)	(147,685)	(93,009) [a]	(85,000)	(85,000)
Fines, Escheats and Rents	48,228	47,620	81,490	117,719	170,775
Miscellaneous	125,594	114,273	182,364	111,255	145,843
Refunds of Payments	--	(373)	(397)	(574)	(374)
Federal Grants	2,237,045	2,142,269	2,318,421	2,564,105	2,514,085
Indian Gaming Payments	332,418	368,954	387,256	402,733	417,838
Statutory Transfers From Other Funds	138,800	120,000[b]	489,486	346,883	141,300
Total Unrestricted Revenue	11,985,470	10,845,425	12,023,326	13,123,738	14,070,055
Restricted Accounts and Federal and Other Grants	900,510	1,098,258	1,254,709	0[d]	0[d]
Total Revenues[c]	$ 12,885,980	$ 11,943,683	$ 13,278,035	$ 13,123,738	$ 14,070,055

(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.

(e) Based on information obtained from the State Comptroller's preliminary estimates as of January 23, 2006 for the period ending June 30, 2005. ***These are preliminary estimates and are subject to further adjustments***. See discussion on **Page III-13**, **paragraph one**.

GENERAL FUND

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

	2001	2002	2003	2004	2005[c] (preliminary)
Legislative	$ 55,406	$ 58,095	$ 57,340	$ 57,221	$ 63,220
General Government					
Executive	10,018	9,569	8,650	9,286	9,558
Financial Administration	438,800	451,738	346,282	321,723	332,329
Legal	62,612	65,980	65,309	63,184	66,930
Total General Government	511,430	527,287	420,241	394,193	408,817
Regulation and Protection of Persons and Property					
Public Safety	130,051	141,830	138,450	129,845	138,672
Regulative	73,427	80,660	73,881	69,100	74,310
Total Regulation and Protection	203,478	222,490	212,331	198,945	212,982
Conservation and Development					
Agriculture	10,500	11,015	10,521	9,435	10,283
Environment	47,668	42,716	40,837	34,648	35,221
Historical Sites, Commerce and Industry	25,486	24,733	22,117	37,497	47,958
Total Conservation and Development	83,654	78,464	73,475	81,580	93,462
Health and Hospitals					
Public Health	82,225	85,058	80,171	67,878	77,481
Mental Retardation	654,698	701,343	719,964	718,858	752,457
Mental Health	355,438	411,934	422,843	420,206	453,062
Total Health and Hospitals	1,092,361	1,198,335	1,222,978	1,206,942	1,283,000
Transportation	34,857	37,653	5,731	5,931	1,203
Human Services	3,537,462	3,589,653	3,724,789	3,776,416	3,908,030
Education, Libraries and Museums					
Department of Education	2,169,762	1,995,545	1,989,531	1,999,613	2,091,313
Education of the Blind and Deaf	16,757	15,978	14,864	14,887	14,195
University of Connecticut	271,378	265,854	265,450	263,748	197,039
Higher Education and the Arts	61,888	66,425	47,511	42,180	69,089
Libraries	14,800	17,439	13,126	10,204	10,155
Teachers Retirement	226,663	217,762	193,780	199,394	199,993
Community—Technical Colleges	115,587	129,262	126,664	123,302	126,921
State University	130,556	139,276	138,125	136,039	213,837
Total Education, Libraries and Museums	3,007,391	2,847,541	2,789,051	2,789,367	2,922,542
Corrections	999,052	1,068,183	1,111,416	1,165,656	1,239,562
Judicial	338,568	376,813	368,143	368,326	405,818
Non-Functional					
Debt Service	973,554	992,071	986,130	1,125,095	1,256,859
Miscellaneous	1,045,487	1,190,441	1,238,708	1,377,257	1,536,854
Total Non-Functional	2,019,041	2,182,512	2,224,838	2,502,342	2,793,713
Totals	11,882,700	12,187,026	12,210,333	12,546,919	13,332,349
Restricted Accounts and Federal and Other Grants	900,510	1,098,258	1,254,709	0[b]	0[b]
Total Expenditures[a]	$ 12,783,210	$13,285,284	$13,465,043	$12,546,919	$13,332,349

(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.

(c) Based on information obtained from the State Comptroller's preliminary estimates as of January 23, 2006 for the period ending June 30, 2005. ***These are preliminary estimates and are subject to further adjustments***. See discussion on **Page III-13**, **paragraph one**.

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GENERAL FUND REVENUES AND EXPENDITURES
PRELIMINARY ESTIMATE OF FINAL BUDGET FOR FISCAL YEAR 2004-05
ADOPTED BUDGET AND ESTIMATED BUDGET FOR FISCAL YEAR 2005-06
ADOPTED BUDGET FOR FISCAL YEAR 2006-07

(In Millions)

	Preliminary Estimate of Final Budget 2004-05[g] Unaudited	Adopted Budget 2005-06[i]	Estimated Budget 2005-06[p]	Adopted Budget 2006-07[i]
Revenues				
Taxes				
Personal Income Tax	$ 5,570.7	$ 5,786.0[j]	$ 6,000.0	$ 6,065.0[j]
Sales & Use	3,290.4	3,432.2	3,385.0	3,592.0
Corporation[a]	678.7	646.3	676.3	674.8
Public Service	196.8	197.1	211.8	197.1
Inheritance & Estate[b]	254.2	133.2	149.8	158.8
Insurance Companies	257.2	247.2	265.3	259.6
Cigarettes	274.0	266.0	270.0	262.0
Real Estate Conveyance	207.6	175.5	199.0	166.7
Oil Companies	143.5	132.3	172.3	135.8
Alcoholic Beverages	44.2	44.0	44.0	44.0
Admissions and Dues	31.7	32.6	32.6	33.3
Miscellaneous	39.0	144.0[k]	146.4	145.4[k]
Total Taxes	$ 10,988.0	$ 11,236.4	$ 11,552.5	$ 11,734.5
Less Refunds of Taxes	(681.3)	(766.0)	(736.0)	(834.3)
Less R&D Credit Exchange	(8.8)	(15.0)	(13.0)	(18.0)
Net Taxes	$ 10,297.9	$ 10,455.4	$ 10,803.5	$ 10,882.2
Other Revenues				
Transfers- Special Revenues	273.9	277.5	277.5	280.0
Indian Gaming Payments	417.8	430.0	425.0	445.4
Licenses, Permits, Fees	143.2	147.3	157.1	137.3
Sales of Commodities & Services	35.3	35.0	33.0	35.0
Rents, Fines & Escheats	170.8[h]	70.0[l]	53.0[l]	60.0[l]
Investment Income	15.2	23.0	40.0	25.0
Miscellaneous	145.9	125.0	133.0	133.0
Less Refunds of Payments	(0.4)	(0.6)	(0.6)	(0.6)
Total Other Revenue	$ 1,201.7	$ 1,107.2	$ 1,118.0	$ 1,115.1
Other Sources				
Federal Grants	2,514.1	2,601.4[m]	2,592.3	2,675.5[m]
Transfers to the Resources of the G.F. [c]	28.3	(41.0)	(41.0)	53.0
Transfers from Tobacco Settlement Funds	113.0	97.0	96.4	109.0
Transfers to Other Funds[d]	(85.0)	(86.3)	(86.3)	(86.3)
Total Other Sources	$ 2,570.4	$ 2,571.1	$ 2,561.4	$ 2,751.2
Total Unrestricted Revenues[e]	$ 14,070.0	$ 14,133.7	$ 14,482.9	$ 14,748.5

	Preliminary Estimate of Final Budget 2004-05[g] Unaudited	Adopted Budget 2005-06[i]	Estimated Budget 2005-06[p]	Adopted Budget 2006-07[i]
Appropriations/Expenditures				
Legislative	$ 59.6	$ 69.7	$ 69.7	$ 73.6
General Government	462.9	434.5	458.6	449.2
Regulation & Protection	217.1	228.6	232.7	229.9
Conservation & Development	100.1	84.7	84.7	87.9
Health & Hospitals	1,288.8	1,374.4	1,376.1	1,414.3
Human Services	3,914.9[i]	4,237.4	4,240.4[q]	4,364.0
Education, Libraries & Museums	3,091.4	3,062.2	3,062.2	3,130.0
Corrections	1,254.6	1,314.2	1,314.2	1,370.6
Judicial	409.5	430.7	436.3	442.8
Non- Functional				
Debt Service	1,396.8[n]	1,273.4[n]	1,273.4[n]	1,388.3[n]
Miscellaneous	1,618.0	1,727.3	1,727.3	1,909.3
Subtotal	$ 13,813.8	$ 14,237.1	$ 14,275.5	$ 14,859.9
Unallocated Lapse	-	(105.4)	(130.3)	(114.7)
Net Appropriations/Expenditures[e]	$ 13,813.8	$ 14,131.7	$ 14,145.2	$ 14,745.2
Surplus (or Deficit) from Operations	256.2	2.0	337.6	3.3
Miscellaneous Adjustments	(18.7)	-	(9.8)	-
Reserve for Fiscal Year 2004-05	(15.9)	-	-	-
Transfers from Previous Year Surplus	150.3	-	-	-
Balance[f]	$ 371.9	$ 2.0[o]	$ 327.8	$ 3.3[r]

NOTE: Columns may not add due to rounding.

(a) Public Act No. 05-251 imposes a 20% surcharge on corporate entities for income year 2006 and a 15% surcharge for income year 2007. They are expected to yield $43.4 million in fiscal year 2005-06 and $50.8 million in fiscal year 2006-07.

(b) Reflects the combination of the phase-out in the Connecticut Succession Tax pursuant to Public Act No. 95-256, Public Act No. 01-1 of the November Special Session, Public Act No. 03-1 of the June Special Session, and changes to the federal estate pick-up tax pursuant to federal law P.L. 107-16. The imposition of a temporary estate tax is estimated to 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 are expected to yield $32.3 million in fiscal year 2005-06 and $86.2 million in fiscal year 2006-07.

(c) Funds transferred in fiscal year 2004-05 included $17.5 million from quasi-public agencies, and approximately $12 million from miscellaneous accounts. Public Act No. 05-251 includes a transfer of $12 million from the Energy Conservation & Load Fund for fiscal year 2006-07. Per Public Act No. 05-251, the Comptroller shall transfer $41 million of fiscal year 2005-06 General Fund revenues for use in fiscal year 2006-07.

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

(e) 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.

(f) Per Section 4-30a of the Connecticut General Statutes, any unappropriated surplus, up to ten percent of General Fund expenditures, shall be deposited into the Budget Reserve Fund. When in any fiscal year the Comptroller has determined the amount of a deficit applicable with respect to the immediately preceding fiscal year, to the extent necessary, the amount of funds credited to the Budget Reserve Fund shall be deemed to be appropriated for purposes of funding such deficit.

(g) Based on information obtained from the State Comptroller's preliminary estimates as of January 23, 2006 for the period ending June 30, 2005, with presentation modifications as to certain line items as determined by the Office of Policy and Management. ***These are preliminary estimates and are subject to further adjustments.*** See discussion on **Page III-13**, **paragraph one** of this Annual Information Statement. Includes the additional appropriations as follows: (i) $7.5 million, per Public Act No. 05-1 to extend Husky Plan, Part A benefits for parents and needy caretaker relatives, (ii) per Public Act No. 05-251, $546.8 million to fund expenditures over the 2005-06 and 2006-07 fiscal years that are primarily one-time in nature, including $137.7 million to pay the debt service costs in fiscal years 2005-06 and 2006-07 on the outstanding Economic Recovery Notes, (iii) $15.9 million to fund payments for private providers, (iv) $57.1 million to fund expenditures that were projected to lapse at the end of the fiscal year to be carried forward to fund expenditures in fiscal year 2005-06, and (v) $20 million per Public Act No. 05-149 to fund the Governor's Stem Cell initiative.

(h) Per Public Act No. 04-216, the Treasurer's office transferred to the State's General Fund a sum in excess of $88.0 million related to escheats, which exceeds the projected revenue by just over $38.0 million.

(i) Per Public Act No. 05-251 for the fiscal years ending June 30, 2006 and June 30, 2007.

(j) Public Act No. 05-251 (i) increases the property tax credit from $350 to $400 instead of the scheduled $500, (ii) delays increase in the singles exemption for 2 years, (iii) exempts 50% of military pensions, and (iv) enhances DRS audit capabilities. They are estimated to bring in an additional $124 million in fiscal year 2005-06 and $115 million in fiscal year 2006-07.

(k) Per Public Act No. 05-251, repealing the gift tax is 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 is expected to yield $134.7 million in both fiscal year 2005-06 and fiscal year 2006-07.

(l) 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 is 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.

(m) Per Public Act No. 05-251, instituting a 6% nursing home provider tax is expected to garner $105.7 million in additional federal funds in each year of the biennium.

(n) 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.

(o) Per footnote (l), this budgeted balance will be reduced by $17 million.

(p) Per the Office of Policy and Management's monthly report dated December 20, 2005. While the Comptroller was in general agreement with the Office of Policy and Management's estimate based on the fiscal trends at the time of her January 3, 2005 letter, the Comptroller's estimates indicated that General Fund revenues for the 2005-06 fiscal year were estimated at $14,482.9 million, General Fund expenditures and miscellaneous adjustments were estimated at $14,170.9 million and the General Fund balance for the 2005-06 fiscal year was estimated to have a surplus of $312.0 million, as of the period ending November 30, 2005.

(q) Per Public Act No. 05-2 of the October 25 Special Session, $3 million is appropriated for emergency home heating assistance.

(r) Per footnote (l), this budgeted balance will be reduced by $16 million.

NOTE: The information in **Appendix III-E** of this **Annual Information Statement** contains only projections and no assurances can be given that subsequent projections 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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