

*In the opinion of Bond Counsel, under existing law and based upon and assuming the accuracy of and continuing compliance by the Authority with its representations and covenants relating to certain requirements contained in the Internal Revenue Code of 1986, as amended, interest on the 2010 Series A Bonds is excluded from gross income of the owners thereof for federal income tax purposes and is not treated as a preference item for purposes of calculating the federal alternative minimum tax and is not taken into account in the calculation of adjusted current earnings for purposes of the alternative minimum tax imposed on corporations. In the opinion of Bond Counsel, under existing statutes, interest on the 2010 Series A Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax. See the caption **TAX EXEMPTION** herein for a discussion of additional federal tax law consequences.*

\$45,000,000

**CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
REVENUE BONDS
(CHESLA Loan Program)
2010 SERIES A**

Dated: Date of Delivery

Due: As Shown on Inside Cover

The \$45,000,000 Revenue Bonds (CHESLA Loan Program) 2010 Series A (the "2010 Series A Bonds") of the Connecticut Higher Education Supplemental Loan Authority (the "Authority") are special obligations of the Authority, a body politic and corporate constituting a public instrumentality of the State of Connecticut. Principal and interest payments on the 2010 Series A Bonds are expected to be funded only from the Trust Estate. See "SECURITY FOR THE BONDS".

THE AUTHORITY HAS NO TAXING POWER. THE 2010 SERIES A BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FULL FAITH AND CREDIT OR TAXING POWER OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF.

The 2010 Series A Bonds shall mature and bear interest as set forth on the inside cover. Interest on the 2010 Series A Bonds shall be payable on May 15, 2011 and on each May 15 and November 15 thereafter until maturity or earlier redemption. The 2010 Series A Bonds will be issued by means of a book-entry system and registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. Ownership of the 2010 Series A Bonds may be in principal amounts of \$5,000 or integral multiples thereof. See "BOOK-ENTRY-ONLY SYSTEM" herein. **THE 2010 SERIES A BONDS MATURING AFTER NOVEMBER 15, 2020 ARE SUBJECT TO REDEMPTION PRIOR TO MATURITY AS MORE FULLY SET FORTH HEREIN.**

The 2010 Series A Bonds are issued pursuant to the Authority's Revenue Bond Resolution adopted June 12, 1990, as supplemented, amended and restated, including as supplemented by the 2010 Series A Supplemental Revenue Bond Resolution (collectively, the "1990 Resolution"). The 2010 Series A Bonds are equally and ratably secured with the Authority's 1998 Bonds, the 1999 Bonds, the 2000 Bonds, the 2001 Bonds and the 2009 Bonds also issued under the 1990 Resolution.

The 2010 Series A Bonds are being issued to: (i) provide the Authority with funds to originate Education Loans under its CHESLA Loan Program, (ii) fund certain accounts under the 1990 Resolution, including a Special Capital Reserve Fund, and (iii) pay a portion of the cost of issuing the 2010 Series A Bonds.

The 2010 Series A Bonds are offered by the Underwriters, subject to prior sale, when, as and if issued and received by the Underwriters, subject to approval of legality and certain other legal matters by Day Pitney LLP, Hartford, Connecticut, Bond Counsel to the Authority, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Ballard Spahr LLP, Salt Lake City, Utah. Public Financial Management, Inc., Boston, Massachusetts is the Authority's Financial Advisor. It is expected that the 2010 Series A Bonds will be available for delivery in book-entry-only form through the Depository Trust Company, New York, New York on or about October 19, 2010.

RBC Capital Markets

BofA Merrill Lynch

\$45,000,000

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

REVENUE BONDS (CHESLA LOAN PROGRAM) 2010 SERIES A

The 2010 Series A Bonds shall be dated the date of delivery, shall bear interest from such date at the rates and mature on the dates and in the principal amounts as follows:

<u>November 15,</u>	<u>Maturity Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u>
2014	\$1,120,000	2.000%	1.54%	101.808%	207743NP6
2015	1,585,000	3.000	1.94	105.096	207743NQ4
2016	925,000	3.000	2.30	103.944	207743NR2
2016	1,385,000	5.000	2.30	115.218	207743NN1
2017	2,310,000	4.000	2.58	109.124	207743NS0
2018	2,350,000	3.750	2.84	106.521	207743NT8
2019	2,425,000	3.000	3.07	99.447	207743NU5
2020	2,500,000	4.500	3.28	110.390	207743NV3
2021	2,450,000	3.250	3.42	98.442	207743NW1
2022*	2,345,000	5.250	3.52	114.561	207743NX9
2023	725,000	3.500	3.60	98.962	207743NY7
2023*	1,560,000	5.250	3.60	113.833	207743PD1
2024*	2,175,000	5.250	3.69	113.021	207743NZ4
2025	2,195,000	3.625	3.80	98.003	207743PA7

\$10,440,000 4.00% Term Bonds Due November 15, 2030; Price 98.101%; CUSIP 207743PB5

\$ 8,510,000 4.25% Term Bonds Due November 15, 2035; Price 98.180%; CUSIP 207743PC3

*Priced at the stated yield to the November 15, 2020 optional redemption date at a redemption price of 100%; however any such redemption is at the election of the Authority.

The 2010 Series A Bonds maturing November 15, 2030 and November 15, 2035 are subject to mandatory sinking fund redemption. See "REDEMPTION OF THE 2010 SERIES A BONDS - Sinking Fund Redemptions"

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY

21 Talcott Notch Road, Suite 1
Farmington, Connecticut 06032
(860) 678-7788

AUTHORITY MEMBERS

Delores P. Graham
Michael E. McKeeman, Chairman
William J. Pizzuto
Julie B. Savino, Vice Chairman
Kathleen D. Woods

Brenda L. Sisco (ex-officio)
Michael P. Meotti (ex-officio)
Denise L. Nappier (ex-officio)

EXECUTIVE DIRECTOR

Gloria F. Ragosta

DEPUTY DIRECTOR

Samuel E. Rush

BOND COUNSEL AND GENERAL COUNSEL

Day Pitney LLP
Hartford, Connecticut

FINANCIAL ADVISOR

Public Financial Management, Inc.
Boston, Massachusetts

UNDERWRITERS

Lead Manager
RBC Capital Markets

Co-Manager

Merrill Lynch, Pierce, Fenner & Smith, Inc

TRUSTEE

U.S. Bank National Association
Hartford, Connecticut

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TABLE OF CONTENTS

PART I INFORMATION CONCERNING THE AUTHORITY AND THE 2010 SERIES A BONDS	1
INTRODUCTION	1
DESCRIPTION OF THE 2010 SERIES A BONDS	2
REDEMPTION OF THE 2010 SERIES A BONDS	2
Mandatory Redemption of 2010 Series A Bonds from Unexpended Proceeds	2
Special Mandatory Redemption	2
Optional Redemption of 2010 Series A Bonds	2
Optional Redemption from Excess Receipts	2
Taxability Redemption	2
Sinking Fund Redemptions	3
Selection of Bonds to be Redeemed	4
Notice of Redemption	4
SECURITY FOR THE BONDS	4
The Special Capital Reserve Fund	5
Covenants as to Special Capital Reserve Fund	6
Revenues	6
ADDITIONAL PARITY BONDS	6
SOURCES AND USES OF BOND PROCEEDS	7
RISK FACTORS	7
The Special Capital Reserve Fund	7
Reliance on Rating Confirmations for Certain Actions	8
Nature of the Bonds; Limited Assets	8
Loans Not Guaranteed	9
Liability for Excess Loan Yield	9
Dependence Upon Cash Flow Projections	9
Redemption of Bonds Prior to Stated Maturity	10
General Economic Conditions	10
Dependence Upon Third-Party Servicers and Originators	10
2010 Series A Bonds are Not Suitable Investments for All Investors	11
Consumer Protection Lending Laws	11
Inability of Trustee to Liquidate the Trust Estate	11
Prepayment Considerations	11
Issuance of Additional Bonds	12
Limitations Imposed by the Servicemembers' Civil Relief Act	12
Change of Rating	12
Enforceability of Remedies	12
Competition From Other Student Loan Programs	12
Preferred Lender Lists	13
BOOK-ENTRY-ONLY SYSTEM	13
Use of Certain Terms in Other Sections of This Official Statement	15
TAX EXEMPTION	15
Federal Income Taxes	15
Opinion of Bond Counsel	15
Original Issue Discount	16
Original Issue Premium	16
Connecticut Tax	16
Certain Additional Tax Matters	17
RATINGS	17
LEGALITY OF BONDS FOR INVESTMENT AND DEPOSIT	18
STATE NOT LIABLE ON BONDS	18

NO LITIGATION; LEGAL MATTERS	18
CONTINUING DISCLOSURE.....	18
THE AUTHORITY	19
Purpose and Organization.....	19
Powers.....	20
Outstanding Obligations of the Authority	20
THE PROGRAM.....	22
General.....	22
Eligibility Requirements.....	23
Program Covenants.....	23
THE EDUCATION LOANS	24
Loan Portfolios	25
Loan Terms.....	27
Loan Origination, Servicing, and the Servicer	27
The Servicer.....	27
AVAILABILITY OF FINANCIAL AND OTHER INFORMATION.....	28
FINANCIAL ADVISOR	28
UNDERWRITING	28
OPINIONS OF COUNSEL	28
MISCELLANEOUS	29

PART I APPENDICES

Appendix I-A - Opinion of Bond Counsel.....	I-A-1
Appendix I-B - Form of Authority Continuing Disclosure Agreement.....	I-B-1
Appendix I-C - Form of State Continuing Disclosure Agreement.....	I-C-1
Appendix I-D - Summary of Certain Provisions of the 1990 Resolution and 2010 Series A Supplemental Revenue Bond Resolution.....	I-D-1
Appendix I-E - Audited Financial Statements of the Authority	I-E-1

**PART II
INFORMATION
SUPPLEMENT TO
ANNUAL INFORMATION
STATEMENT OF THE STATE OF CONNECTICUT
DATED OCTOBER 5, 2010**

Information Supplement	II-1
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**PART III
ANNUAL INFORMATION STATEMENT
OF THE STATE OF CONNECTICUT
DATED FEBRUARY 24, 2010**

Table of Contents to Part III	III-2
Introduction.....	III-3
The State of Connecticut.....	III-4
Financial Procedures.....	III-5
State General Fund.....	III-14

State Debt	III-33
Other Funds, Debt and Liabilities.....	III-47
Pension and Retirement Systems.....	III-60
Litigation.....	III-68

PART III APPENDICES

Index to Appendices	III-73
Appendix III-A – Governmental Organization and Services	III-A-1
Appendix III-B - State Economy.....	III-B-1
Appendix III-C - June 30, 2009 Basic (GAAP-Based) Financial Statements.....	III-C-1
Appendix III-D - June 30, 2005 - June 30, 2009 Budgetary (Modified Cash Basis) General Fund Financial Statements.....	III-D-1
Appendix III-E – June 30, 2009 Final Budget, June 30, 2010 Revised Adopted and Estimated Budget and June 30, 2011 Revised Adopted Budget.....	III-E-1

No dealer, broker, salesman or other person has been authorized by the Authority, the Underwriters or the Financial Advisor to give any information or to make any representations with respect to the 2010 Series A Bonds other than the information and representations contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be a sale of the 2010 Series A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement is not to be construed as a contract with purchasers or registered owners of the 2010 Series A Bonds.

Certain information in this Official Statement has been obtained by the Authority from other sources. Neither the Authority, the Underwriters, nor the Financial Advisor guarantee the accuracy or completeness of such information, however, and such information is not to be construed as a representation of any of the foregoing.

References in this Official Statement to the Act, the 1990 Resolution, the Education Loans, the Firstmark Servicing Agreement and the Program Manual do not purport to be complete. Reference should be made to the Act, the 1990 Resolution, the Firstmark Servicing Agreement, the form of promissory note in connection with the Education Loans, and the Program Manual, copies of which are on file with the Authority and the Trustee, for full and complete details of their provisions.

The order and placement of material in this Official Statement, including its appendices, are not to be deemed a determination of relevance, materiality or importance. All material in this Official Statement, including its appendices, must be considered in its entirety.

Under no circumstances shall the delivery of this Official Statement or any sale made after its delivery create any implication that the affairs of the Authority have remained unchanged after the date of this Official Statement.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guaranty the accuracy or completeness of such information.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute “forward-looking statements.” In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Authority’s business and financial results could cause actual results to differ materially from those stated in the forward-looking statements. See “RISK FACTORS — Dependence Upon Cash Flow Projections”, “— General Economic Conditions”, and “— Competition From Other Student Loan Programs”.

The forward-looking statements on this Official Statement are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

IN CONNECTION WITH THE OFFERING OF THE 2010 SERIES A BONDS, THE UNDERWRITERS MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF, AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH, APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.

**CONNECTICUT
HIGHER EDUCATION SUPPLEMENTAL LOAN
AUTHORITY**

OFFICIAL STATEMENT

Relating To

**\$45,000,000 REVENUE BONDS
(CHESLA LOAN PROGRAM) 2010 SERIES A**

**PART I
INFORMATION CONCERNING
THE AUTHORITY AND THE 2010 SERIES A BONDS**

INTRODUCTION

The purpose of this Official Statement, including the cover page, this Introduction, Part I, the Introduction to Parts II and III, Part II and Part III and the Appendices thereto, is to set forth certain information concerning the Connecticut Higher Education Supplemental Loan Authority (the "Authority"), the Authority's CHESLA Loan Program (the "Student Loan Program"), the education loans made or acquired by the Authority pursuant to the Student Loan Program (the "Education Loans"), and the Authority's \$45,000,000 Revenue Bonds (CHESLA Loan Program) 2010 Series A (the "2010 Series A Bonds"). The 2010 Series A Bonds are authorized by the Revenue Bond Resolution adopted by the Authority on June 12, 1990, as supplemented, amended and restated, including as supplemented, amended and restated by resolution adopted July 19, 1996, and as further supplemented and amended, including as supplemented by the 2010 Series A Supplemental Revenue Bond Resolution adopted by the Authority on October 5, 2010 (the "2010 Series Supplemental Resolution") (collectively, the "Resolution" or the "1990 Resolution").

The 2010 Series A Bonds are issued on a parity with (1) prior bonds of the Authority issued and outstanding under the 1990 Resolution (See "Table I-A, Bonds Outstanding Under the 1990 Resolution as of June 30, 2010") and (2) any additional series of bonds which may be issued under the 1990 Resolution. Currently, the Authority also has outstanding other bonds issued pursuant to the Authority's 2003 Master Revenue Bond Resolution adopted June 10, 2003 as supplemented, amended and restated (the "2003 Resolution"). The assets held under the 2003 Resolution will not secure the 2010 Series A Bonds, nor will the assets held under the 1990 Resolution secure bonds issued under the 2003 Resolution. The Authority may issue additional bonds pursuant to the 1990 Resolution ("Additional Bonds" and, collectively, with the 2010 Series A Bonds and all other bonds presently outstanding under the 1990 Resolution, the "Bonds"). See "ADDITIONAL PARITY BONDS" and "THE AUTHORITY - Outstanding Obligations of the Authority." In addition, the Authority expressly reserves the right to adopt additional resolutions, to issue indebtedness thereunder, and to pledge other assets not in the Trust Estate (as defined under "SECURITY FOR THE BONDS") to the payment of such indebtedness.

Certain terms used in this Official Statement and not otherwise defined herein are defined in the 1990 Resolution. All references herein to documents and agreements are qualified in their entirety by reference to such documents or agreements, and references herein to the 2010 Series A Bonds are qualified in their entirety by reference to the form thereof. Until the issuance and delivery of the 2010 Series A Bonds, copies of the 1990 Resolution and the 2010 Series A Supplemental Resolution in reasonable quantity may be obtained from the Authority. Copies of such documents will be available for inspection at the office of the U.S. Bank National Association, Hartford, Connecticut, trustee for the 2010 Series A Bonds (the "Trustee") after delivery of the 2010 Series A Bonds.

DESCRIPTION OF THE 2010 SERIES A BONDS

The 2010 Series A Bonds shall be dated as of the date of delivery, shall bear interest from such date, payable on May 15, 2011 and semiannually thereafter on each May 15 and November 15, computed on the basis of a 360 day year of twelve (12) thirty (30) day months, shall be issued in fully registered form, shall be in denominations of \$5,000 or any integral multiple thereof, and shall bear the rate or rates of interest per annum and mature on the dates, in the years and in the principal amounts as set forth on the inside cover of this Official Statement. The 2010 Series A Bonds are issued on a parity with the 1998 Bonds, the 1999 Bonds, the 2000 Bonds, the 2001 Bonds and the 2009 Bonds. See “ADDITIONAL PARITY BONDS” and “THE AUTHORITY - Outstanding Obligations of the Authority”.

Principal of and interest on the 2010 Series A 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 Registered Owner. See “BOOK-ENTRY-ONLY SYSTEM”.

The 2010 Series A Bonds are to be issued in accordance with the provisions of the 1990 Resolution, as restated, amended and supplemented, and the Connecticut Higher Education Supplemental Loan Authority Act, being Chapter 187b of the General Statutes of Connecticut, Sections 10a-221 through 10a-246, inclusive, as amended (the “Act”). The 2010 Series A Bonds are special obligations of the Authority, issued for the purposes of funding Education Loans by the Authority (the “2010 Loans”), funding certain Funds and Accounts under the 1990 Resolution, including a Special Capital Reserve Fund, and paying a portion of the costs of issuing the 2010 Series A Bonds.

REDEMPTION OF THE 2010 SERIES A BONDS

Mandatory Redemption of 2010 Series A Bonds from Unexpended Proceeds. The 2010 Series A Bonds maturing on and after November 15, 2026 shall be subject to mandatory redemption prior to maturity, in whole or in part, at a Redemption Price equal to 100% of the principal amount of the 2010 Series A Bonds or portion thereof to be redeemed and interest accrued thereon to the date specified for redemption, on May 15, 2013.

Special Mandatory Redemption. The 2010 Series A Bonds maturing on and after November 15, 2026 shall be subject to mandatory redemption prior to maturity in whole at any time, or in part on any May 15 or November 15, at a Redemption Price equal to the principal amount thereof, plus interest accrued thereon to the date specified for redemption, from excess Loan repayments, as determined by the Authority. Special mandatory redemptions of portions of the Authority’s approximately \$215.8 million Bonds issued to provide loans under the 1990 Resolution from excess loan repayments have occurred each May 15 and November 15 since November 15, 1992, aggregating approximately \$92.9 million through May 15, 2010. The Authority expects that such special mandatory redemptions will continue to occur.

Optional Redemption of 2010 Series A Bonds. At the option of the Authority, the 2010 Series A Bonds maturing on and after November 15, 2021 shall be subject to redemption prior to maturity, in whole or in part, at any time on or after November 15, 2020 at the Redemption Price of 100% of the principal amount thereof, plus interest accrued thereon to the date specified for redemption.

Optional Redemption from Excess Receipts. The 2010 Series A Bonds maturing on and after November 15, 2026 also shall be subject to redemption prior to maturity at the option of the Authority, in whole or in part, at any time from and to the extent of excess amounts in the 2010 Series A Loan Account which do not represent original sale proceeds of the 2010 Series A Bonds and from amounts in the 2010 Series A Revenue Account, at a Redemption Price equal to the principal amount of the 2010 Series A Bonds, or portion thereof, to be redeemed, plus interest accrued thereon to the date specified for redemption, unless the Authority has determined that such moneys shall continue to be disbursed for the purpose of making or acquiring Education Loans.

Taxability Redemption. In the event of a Determination of Taxability with respect to any of the 2010 Series A Bonds, such Bonds shall be subject to redemption on the earliest date practicable to the extent of moneys held in the 2010 Series A Loan Account within the Loan Fund at a Redemption Price equal to the principal amount of such

Bonds, plus interest accrued thereon to the date specified for redemption. In the event that there are funds in the Special Capital Reserve Fund in excess of the sum of the Series Special Capital Reserve Fund Requirements applicable to all other Outstanding Series of Bonds such that such excess funds, when added to all amounts in the 2010 Series A Loan Account are sufficient to redeem all Outstanding Bonds of such Series upon a Determination of Taxability with respect to such Series of Bonds, the Trustee shall redeem all Bonds of such Series at a Redemption Price equal to the principal amount thereof, plus interest accrued thereon to the date specified for redemption.

Following a Determination of Taxability in connection with a Series of Bonds, the Authority may, from time to time, direct the Trustee to redeem Bonds of such Series at a Redemption Price equal to the principal amount thereof, plus interest accrued thereon to the date specified for redemption, from moneys in the Revenue Fund.

The term “Determination of Taxability” means with respect to the 2010 Series A Bonds (1) the ruling by the Internal Revenue Service, (2) the receipt by any Bondowner from the Internal Revenue Service of a notice of assessment and demand for payment and the expiration of the appeal period provided therein if no appeal is taken or, if an appeal is taken by any Bondowner within the applicable appeal period which has the effect of staying the demand for payment, a final unappealable decision by a court of competent jurisdiction, or (3) the admission in writing by the Authority, in any case, to the effect that the interest on any of the 2010 Series A Bonds issued pursuant to the 1990 Resolution is, or that but for the redemption of such 2010 Series A Bonds interest thereon would be, includable in the gross income for Federal income tax purposes of an owner or former owner thereof; provided that no Determination of Taxability shall occur for a period of sixty (60) days after notice of an event described in clause (1) or clause (2) has been mailed to the Authority and the Authority has failed to challenge such ruling or notice of assessment and demand for payment.

Sinking Fund Redemptions. (i) The 2010 Series A Bonds due on November 15, 2030 are subject to mandatory sinking fund redemption in part by lot at a Redemption Price equal to 100% of the principal amount of the 2010 Series A Bonds to be redeemed, plus interest accrued thereon to the date specified for redemption, on November 15 in each of the years set forth in the following table, in the principal amount specified in each of such years:

<u>Year</u>	<u>Sinking Fund Redemption</u>
2026	\$2,135,000
2027	2,130,000
2028	2,110,000
2029	2,085,000
2030	1,980,000 (final maturity)

(ii) The 2010 Series A Bonds due on November 15, 2035 are subject to mandatory sinking fund redemption in part by lot at a Redemption Price equal to 100% of the principal amount of the 2010 Series A Bonds to be redeemed, plus interest accrued thereon to the date specified for redemption, on November 15 in each of the years set forth in the following table, in the principal amount specified in each of such years:

<u>Year</u>	<u>Sinking Fund Redemption</u>
2031	\$1,870,000
2032	1,815,000
2033	1,815,000
2034	1,565,000
2035	1,445,000 (final maturity)

(iii) Upon any redemption (other than a sinking fund redemption), whether permissive or required, of any 2010 Series A Bond for which mandatory sinking fund redemptions have been established, an amount equal to the redeemed principal amount of such Bond shall reduce the amount of such mandatory sinking fund redemptions in the same manner and to the same extent that the redeemed Bond was selected for redemption, treating each 2010 Series A Bond subject to Sinking Fund Payment as a maturing Bond for this purpose. The portion of any mandatory sinking fund redemptions remaining after the reduction provided in the preceding sentence (or the original amount of any such mandatory sinking fund redemptions if no such amounts shall have reduced the same) shall constitute the unsatisfied balance of such mandatory sinking fund redemptions. The Authority shall provide to the Trustee a written determination with respect to any such reduction in mandatory sinking fund redemptions.

Selection of Bonds to be Redeemed. In the case of any redemption of 2010 Series A Bonds at the election or direction of the Authority, the Redemption Date, Series, maturities and principal amounts thereof to be redeemed shall be determined by the Authority in its sole discretion. Whenever the Trustee is required to redeem 2010 Series A Bonds otherwise than at the election or direction of the Authority, and subject to and in accordance with the terms of the 2010 Series Supplemental Resolution, the Trustee shall select the Redemption Date and the Bonds to be redeemed.

Notice of Redemption. Notice of redemption of the 2010 Series A Bonds is to be given not more than forty-five (45) and not less than thirty (30) days prior to the redemption date, by mailing a copy of such notice to the registered Owners of all 2010 Series A Bonds or portions thereof to be redeemed at the address appearing on the registration books of the Authority. If on the redemption date moneys for the redemption of all 2010 Series A Bonds or portions thereof to be redeemed, together with interest to the redemption date, shall be available for such payment, then from and after the redemption date interest on such 2010 Series A Bonds or portions thereof shall cease to accrue and become payable.

The Authority and the Trustee, so long as a book-entry system is used for the 2010 Series A Bonds being called for redemption, will send any notice of redemption only to DTC (or a successor securities depository) or its nominee. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or indirect Participant to notify any indirect Participant or Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of such Bonds called for redemption. Redemption of portions of the 2010 Series A Bonds of any maturity by the Authority will reduce the outstanding principal amount of such maturity held by DTC. In such event it is the current practice of DTC to allocate by lot, through its book-entry system, among the interests held by DTC Participants in the Bonds to be redeemed, the interests to be reduced by such redemptions in accordance with its own rules or other agreements with DTC Participants. The DTC Participants and indirect Participants may allocate reductions of the interests in the 2010 Series A Bonds to be redeemed held by the Beneficial Owners. Any such allocations of reductions of interests in the 2010 Series A Bonds to be redeemed will not be governed by the 1990 Resolution authorizing the issuance of the 2010 Series A Bonds and will not be conducted by the Authority, the Trustee or Paying Agent.

SECURITY FOR THE BONDS

The 2010 Series A Bonds are special obligations of the Authority payable solely from, and secured by a pledge of, (i) the Revenues derived by or on behalf of the Authority from the Education Loans, (ii) all amounts deposited in the Funds and Accounts held by the Trustee under the 1990 Resolution, other than the Rebate Fund, including the Revenue Fund and the Special Capital Reserve Fund (to which, under certain circumstances described below, amounts may be paid from the State general fund pursuant to the Act), subject to the application of such amounts as provided in the 1990 Resolution, and (iii) the rights and interests of the Authority in the Education Loans, subject, however, to the right of the Authority, except upon the happening of an Event of Default, to exercise its rights thereto (the "Trust Estate"). See "APPENDIX I-D - Summary of Certain Provisions of the 1990 Resolution and the 2010 Series A Supplemental Revenue Bond Resolution – The 1990 Revenue Bond Resolution – Application of Moneys in the General Account, and Summary of the 2010 Series A Supplemental Revenue Bond Resolution– Application of Moneys in the General Account" for a description of the application of the Revenues.

The 2010 Series A Bonds shall not be deemed to constitute a debt or liability of the State or of any political subdivision thereof or a pledge of the full faith and credit of the State or any such political subdivision thereof, but shall be payable solely from the Revenues (as defined in the 1990 Resolution) and other receipts, funds or moneys pledged therefor pursuant to the 1990 Resolution. The State shall not be obligated to pay the 2010 Series A Bonds or the interest thereon, nor shall the Authority be obligated to pay the 2010 Series A Bonds or the interest thereon except from the Revenues and other receipts, funds and moneys pledged therefor. Neither the full faith and credit nor the taxing power of the State or of any political subdivision thereof (including, for purposes of this sentence, the Authority) is pledged to the payment of the principal, interest, or premium, if any, on this Bond. THE AUTHORITY HAS NO TAXING POWER. The issuance of the 2010 Series A Bonds shall not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriations for their payment, except as provided in the 1990 Resolution.

The Special Capital Reserve Fund. The Act authorizes the Authority to establish one or more special capital reserve funds for its bonds. The 1990 Resolution establishes the Special Capital Reserve Fund for the Bonds, including the 2010 Series A Bonds, and provides that the 2010 Series A Bonds shall not be issued unless the full amount of the Special Capital Reserve Fund Requirement is deposited to the Special Capital Reserve Fund. The 1990 Resolution establishes the Special Capital Reserve Fund Requirement as the lesser of the sum of the Series Special Capital Reserve Fund Requirements for all Series of Outstanding Bonds secured by the Special Capital Reserve Fund, or the maximum amount of principal and interest becoming due on the Bonds secured by the Special Capital Reserve Fund by reason of maturity or required sinking fund payment in any Bond Year. The Authority may issue Additional Bonds secured by the Special Capital Reserve Fund in addition to the 2010 Series A Bonds.

Pursuant to the 2010 Series Supplemental Resolution, the 2010 Series A Special Capital Reserve Fund Requirement will be established at the maximum amount of principal and interest becoming due on the Outstanding 2010 Series A Bonds by reason of maturity or required sinking fund redemption in any succeeding Bond Year. Notwithstanding the Special Capital Reserve Fund Requirement for any particular Series of Bonds, funds in the Special Capital Reserve Fund secure all Bonds Outstanding under the 1990 Resolution and also will secure any Additional Bonds. The Special Capital Reserve Fund has been funded in connection with the issuance of the 1998 Bonds, the 1999 Bonds, the 2000 Bonds, 2001 Bonds and the 2009 Bonds in the amounts of \$300,000, \$600,000, \$600,000, \$600,000 and \$2,740,000, respectively. On the date of delivery of the 2010 Series A Bonds, bond proceeds in the amount of the Special Capital Reserve Fund Requirement, \$4,055,818, will be deposited in the Special Capital Reserve Fund. Upon issuance of the 2010 Series A Bonds, the Special Capital Reserve Fund Requirement for all Bonds outstanding under the 1990 Resolution will be \$8,895,818, **which will be less than the maximum amount of principal and interest becoming due on all the Outstanding Bonds by reason of maturity, including scheduled sinking fund redemptions, in any succeeding Bond Year.** See “THE AUTHORITY — Table I-B”.

If at any time any interest on any Bonds secured by the Special Capital Reserve Fund or the principal or Redemption Price of any such Bonds has become due and payable and payment thereof in full has not been made or provided for, the Trustee shall withdraw from the Special Capital Reserve Fund, to the extent of moneys therein, an amount which, together with other amounts available for such payment, shall be sufficient to provide for such payment in full.

The Act states that:

The authority may, as part of the contract of the authority with the owners of such bonds, provide that on or before December first, annually, there is deemed to be appropriated from the state general fund such sums, if any, as shall be certified by the chairman of the authority to the secretary of the office of policy and management and the treasurer of the state, as necessary to restore each such special capital reserve fund to the amount equal to the required minimum capital reserve of such fund, and such amounts shall be allotted and paid to the authority.

The foregoing covenant is part of the 1990 Resolution. In the opinion of Bond Counsel, such appropriation and payment from the general fund of the State does not require further legislative approval. The 1990 Resolution provides that it will be an Event of Default if (i) the Authority fails to comply with the provisions of the Act regarding such certification or (ii) the amounts so certified have not been paid by the State prior to the later of (a) the second day succeeding the final adjournment of the session of the General Assembly of the State during which such certification was made or the session next following such certification if not made during any session or (b) the rendering of a final decision or order in any proceeding by the Authority to compel performance on the part of the State.

In the opinion of Bond Counsel, the 1990 Resolution constitutes a valid and binding agreement of the Authority, enforceable in accordance with its terms. The pledges and covenants made in the 1990 Resolution, including those relating to the Special Capital Reserve Fund, are for the equal and ratable benefit and security of the Registered Owners of all Bonds secured by the Special Capital Reserve Fund. Pursuant to the Act, the aggregate amount of outstanding bonds which may be secured by special capital reserve funds is \$300 million and upon issuance of the 2010 Series A Bonds, the aggregate amount of bonds of the Authority so secured will be

approximately \$202,035,000. This amount includes \$98,975,000 Bonds outstanding under the 1990 Resolution and \$103,060,000 bonds outstanding under the 2003 Resolution.

In addition to the Authority, certain other political subdivisions of the State of Connecticut are authorized to issue and have issued or expect to issue bonds secured by special capital reserve funds separate from those of the Authority for which amounts may be deemed appropriated from the State's general fund under similar circumstances. See PART II and PART III "— OTHER FUNDS, DEBT AND LIABILITIES — Contingent Liability Debt".

Covenants as to Special Capital Reserve Fund. The Authority covenants that it shall at all times maintain the Special Capital Reserve Fund at the Special Capital Reserve Fund Requirement and do and perform or cause to be done and performed each and every act and thing with respect to the Special Capital Reserve Fund provided to be done or performed by or on behalf of the Authority or the Trustee or the Paying Agent under the terms and provisions of the 1990 Resolution or the Act.

The Authority further covenants that it shall cause its Chairman annually, after November 15 and after the transfers provided for in Article IV of the 1990 Resolution and on or before December 1 of each year, to make and deliver to the Secretary of the Office of Policy and Management and the Treasurer of the State a Certificate stating such sums, if any, as are necessary to restore the Special Capital Reserve Fund to an amount equal to the Special Capital Reserve Fund Requirement and to accompany such Certificate with a request that such sums be paid directly to the Trustee for the account of the Authority for deposit in the Special Capital Reserve Fund. The Authority shall cause all moneys due the Authority from the State in accordance with the provisions of the Act pursuant to any such certification to be paid directly to the Trustee for deposit and credit to the Special Capital Reserve Fund in accordance with the 1990 Resolution. See "APPENDIX I-D - Summary of Certain Provisions of the 1990 Resolution and the 2010 Series A Supplemental Revenue Bond Resolution – The 1990 Resolution – Application of Moneys in the Special Capital Reserve Fund".

Revenues. The Authority projects that Revenues and other available moneys held in the Funds and Accounts under the 1990 Resolution (other than the Rebate Fund) will be sufficient (i) to pay when due the principal, Redemption Price, if any, of and interest on the 2010 Series A Bonds and (ii) to pay when due anticipated Program costs. The Authority has determined, as required by the Act, prior to issuance of the 2010 Series A Bonds, that the Revenues will be sufficient (1) to pay the principal of and interest on the Outstanding Bonds, (2) to establish, increase and maintain any reserves deemed by the Authority to be advisable to secure payment of principal and interest on the Bonds, (3) to pay the cost of maintaining and servicing the Program and (4) to pay such other costs of the Program as may be required. The accuracy of this projection is based upon assumptions which the Authority has made with respect to factors which include the schedule of Education Loan origination, average Education Loan size, Education Loan repayments and prepayments, delinquency and default experience, the rate and timely receipt of investment earnings, the timely receipt of other Revenues and the Authority's projections regarding Program Costs. Although the Authority believes such assumptions to be reasonable, no assurance can be given that its actual Student Loan Program experience will not vary from these expectations. To the extent that Education Loans are not made at the times or in the amounts anticipated by the Authority, that the Authority suffers greater than expected losses on Education Loans, through delinquencies or otherwise, not covered by any applicable reserves, or Program Expenses or investment income differs from the amounts thereof anticipated by the Authority, the sufficiency of Revenues and other moneys available under the 1990 Resolution may be affected. Furthermore, other future events over which the Authority has no control may adversely affect the Authority's receipt of Revenues and other moneys available under the 1990 Resolution. As of June 30, 2010, there were approximately \$30.4 million in loans outstanding under the Authority's Student Loan Program which are part of the Trust Estate. See "REDEMPTION OF THE 2010 SERIES A BONDS", "RISK FACTORS – Dependence Upon Cash Flow Projections".

ADDITIONAL PARITY BONDS

The 2010 Series A Bonds are issued on a parity with the other Bonds outstanding issued pursuant to the 1990 Resolution (See "Table I-A, Bonds Outstanding Under the 1990 Resolution as of June 30, 2010"). Additional Bonds may be issued under the 1990 Resolution on a parity with the Bonds outstanding, including the 2010 Series A Bonds, upon satisfaction of the following terms and conditions:

(1) The Authority shall have adopted a Supplemental Resolution, which shall not require the approval of any person including Bondowners and the Trustee, providing for the issue of such additional Bonds in accordance with the Act and the applicable provisions of the 1990 Resolution.

(2) The Rating Agencies then rating the Bonds shall have issued the same or higher rating on the additional Series of Bonds as then in effect on the Outstanding Bonds.

The Authority also expressly reserves the right to adopt additional resolutions, to issue indebtedness under the 2003 Resolution or under any such additional resolutions, and to pledge other assets not in the Trust Estate to payment of such indebtedness. See “RISK FACTORS – Issuance of Additional Bonds”.

SOURCES AND USES OF BOND PROCEEDS

Proceeds of the 2010 Series A Bonds are to be applied as follows:

<u>Sources:</u>		
Par Amount of 2010 Series A Bonds:		\$45,000,000.00
Plus Net Original Issue Premium:		<u>1,356,408.90</u>
TOTAL SOURCES		\$46,356,408.90
<u>Uses:</u>		
Deposit to 2010 Cost of Issuance Account:		\$404,839.98
Deposit to 2010 Series A Loan Account:		37,761,823.80
Deposit to 2010 Series A Capitalized Interest Reserve Subaccount ¹ :		3,762,676.37
Deposit to 2010 Series A Special Capital Reserve Account:		4,055,818.75
Underwriter’s Discount:		<u>371,250.00</u>
TOTAL USES		\$46,356,408.90

¹ Amounts in the 2010 Series A Capitalized Interest Reserve Subaccount will be used to pay capitalized interest on the 2010 Series A Bonds, and, to the extent not used for such purpose, will be used to originate loans.

RISK FACTORS

In connection with the 2010 Series A Bonds offered hereby, prospective investors should consider, among other things, the following factors regarding the purchase of the 2010 Series A Bonds. The following is not a complete listing of all matters which may affect the Authority’s ability to make payment on the 2010 Series A Bonds or could otherwise affect the 2010 Series A Bonds. Nor is the following discussion intended to be dispositive, but rather it is intended to summarize certain matters that could adversely affect the Authority’s ability to make payment on the 2010 Series A Bonds or could otherwise affect the 2010 Series A Bonds. Investors should read this Official Statement in its entirety, including the Appendices hereto.

The Special Capital Reserve Fund.

Upon issuance of the 2010 Series A Bonds, the Special Capital Reserve Fund Requirement for all Bonds outstanding under the 1990 Resolution will be \$8,895,818, which will be less than the maximum amount of principal and interest becoming due on all the Outstanding Bonds by reason of maturity, including scheduled sinking fund redemptions, in any succeeding Bond Year. See “THE AUTHORITY — Table I-B”.

Reliance on Rating Confirmations for Certain Actions

The 1990 Resolution provides that with respect to the 2010 Series A Bonds the Authority and the Trustee may undertake various actions based upon receipt by the Trustee of confirmation from Moody's that the outstanding ratings assigned by such Rating Agency to the 2010 Series A Bonds are not thereby impaired (a "Rating Confirmation"). Such actions include, but are not limited to, amending the 1990 Resolution and the Education Loan Notes (which in certain cases may be done without the consent of the Registered Owners of the Bonds), the issuance of Additional Bonds, the acquisition of certain investments and material changes to the Program Manual and to the Student Loan Program. To the extent such actions are taken after issuance of the 2010 Series A Bonds, investors in the 2010 Series A Bonds will be relying on the evaluation by such Rating Agency of such actions and their impact on credit quality.

The 1990 Resolution also provides that The Authority, without the consent of or notice to the Bondowners, may amend any Education Loan Note which may be (i) required by the 1990 Resolution, the Act or Internal Revenue Code of 1986, as amended (ii) required for the purpose of curing any ambiguity or formal defect or omission, (iii) necessary to add additional rights acquired in accordance with the provisions of such note, (iv) determined by the Authority to be not to the material prejudice of the Bondowners and which the Rating Agencies then rating the Bonds have indicated will not result in any rating of the Bonds following such amendment being lower than the rating of the Bonds without giving effect to such amendment, and (v) in connection with any other change therein which, in the judgment of the Trustee, is not to the material prejudice of the Trustee or the owners of the Bonds or which is required by law.

Nature of the Bonds; Limited Obligations

The Authority is structured to be a limited purpose authority and the Bonds represent limited obligations of the Authority, which are payable solely from the assets held therefor under the 1990 Resolution and other sources expressly described therein as available to fund such payment. The Bonds do not constitute general obligations of the Authority. The Authority has no taxing power. The 2010 Series A Bonds are not a debt or liability of the State or any political subdivision of the State and neither the faith or credit nor the taxing power of the State or any such political subdivision is pledged to the payment of the principal of or interest on the 2010 Series A Bonds. Payments on the Bonds from amounts on deposit in the Funds and Accounts will depend solely on the amount and timing of payments and collections in respect of the Education Loans, interest paid or earnings on the various Funds and Accounts established pursuant to the 1990 Resolution, the payment of any Additional Bonds or other obligations to be issued or entered into in the future, and amounts on deposit in the Special Capital Reserve Fund and other Funds and Accounts. There will be no additional recourse to the Authority or any other Person if such proceeds are insufficient.

The 2010 Education Loans, along with the other Education Loans held under the 1990 Resolution (See Table I-C, "1990 Resolution Loan Portfolio") will be the only Education Loans pledged to the Bonds issued under the 1990 Resolution. Loans held under the 2003 Resolution will not be assets of the Trust Estate and will not be pledged to the payment of the 2010 Series A Bonds.

The Authority's audited financial statements for the period ending June 30, 2010 are included herein as Appendix I-E for informational purposes only and such inclusion should not be interpreted to imply that any assets other than the Trust Estate are available to pay the 2010 Series A Bonds or any other payments required under the 1990 Resolution. The overall financial status of the Authority or of its Student Loan Program does not indicate or necessarily affect whether Revenues and other assets so pledged will be sufficient to fund the timely payment of the Bonds.

The Authority is obligated to pay certain Program Expenses from the Trust Estate, and the 1990 Resolution grants to the Trustee a lien upon the Trust Estate prior to that of the Registered Owners for certain costs and expenses incurred by the Trustee under the 1990 Resolution.

Loans Not Guaranteed

The Education Loans will not be insured or guaranteed by the Authority or any third party. The Education Loans will not be originated under, and in no event will they be insured or guaranteed under, the Higher Education Act of 1965.

Liability for Excess Loan Yield

The 1990 Resolution includes an agreement of the Authority to forgive the repayment of loans to the extent necessary to maintain the tax-exempt status of interest on the bonds issued thereunder. Currently, the loan yield is calculated separately for each series of bonds. The loan yield on one such loan portfolio held under the 1990 Resolution is in excess of that required to maintain the tax-exempt status of the interest on such bonds. In September 2004 the Authority filed with the Internal Revenue Service a private letter ruling request seeking to calculate a single loan yield for all outstanding series of bonds under the 1990 Resolution. The Service had previously granted a similar ruling request for an unrelated issuer of student loan bonds. In September 2007, the Service published proposed regulations which would remove the IRS Commissioner's authority to permit the calculation of a single yield as had been requested by the Authority. The Authority submitted comments to the Service requesting reconsideration of this provision of the proposed regulation. At the request of the Service, the Authority withdrew its private letter ruling request. Effective May 1, 2009, the Authority reduced the interest rate on certain loans held under the 1990 Resolution. This reduction was done to maintain the tax-exempt status of interest on the related bonds. If regulations permitting an issuer to calculate a single loan yield are not adopted, the Authority will be obligated to forgive loan payments in connection with certain Education Loans held under the 1990 Resolution, estimated as of June 1, 2010 to be in the approximate amount of \$486,000. The Authority will continue to monitor the loan yield of each loan portfolio and may adjust the level of loan forgiveness to the extent the Authority deems necessary to maintain the tax-exempt status of interest on the related bonds.

Dependence Upon Cash Flow Projections

The Authority expects that the Revenues and other moneys held in certain Funds and Accounts under the 1990 Resolution will be sufficient to pay when due the principal of and interest on the 2010 Series A Bonds and the other Bonds issued pursuant to the 1990 Resolution, along with the Program Expenses. This expectation is based upon cash flow projections and assumptions, which the Authority believes are reasonable, regarding the financing and repayment performance of Education Loans to be held pursuant to the 1990 Resolution, and the occurrence of certain future events and conditions. Such cash flow projections and assumptions do not rely on the obligation of the State to replenish any amounts drawn from the Special Capital Reserve fund.

There can be no assurance, however, that the Education Loans will be originated as anticipated, that interest and principal payments from the Education Loans will be received as anticipated, that the projected yield on the Education Loans will be realized, that the reinvestment rates assumed with respect to the investment of various funds and accounts will be realized, or that Program Costs, including without limitation, origination and servicing costs, will be incurred at the levels and on the schedule anticipated. Furthermore, future events over which the Authority has no control may adversely affect the Authority's actual receipts pursuant to the 1990 Resolution. As of September 24, 2010, the Authority had original proceeds of its 2009 Series A Bonds in the aggregate amount of \$14,456,663 available for the origination of Education Loans bearing an interest of 6.80%, of which \$4,467,782 is reserved for disbursement in early 2011. A portion of those funds will be used for the origination of Education Loans prior to the use of proceeds of the 2010 Series A Bonds, and a portion may be used for the origination of Education Loans concurrently with the use of proceeds of the 2010 Series A Bonds. As of September 24, 2010, pending loan applications totaled \$8,438,747.

Receipt of principal and interest on Education Loans may be accelerated, causing an unanticipated redemption of the 2010 Series A Bonds, due to various factors, including, without limitation: (i) faster than anticipated Student Loan origination; (ii) actual principal amortization periods which are shorter than those assumed; (iii) the commencement of principal repayment by Borrowers on dates earlier than are assumed; (iv) a less than assumed incidence of election to capitalize interest or default; and (v) economic conditions that induce Borrowers to refinance or repay their loans prior to maturity.

Delay in the receipt of principal of and interest on Education Loans may adversely affect payment when due of the principal of and interest on the 2010 Series A Bonds and Program Expenses. Principal of and interest on Education Loans may be delayed due to numerous factors, including, without limitation: (i) slower than assumed, or less than full, Student Loan origination; (ii) Education Loans being in delinquency more frequently and/or for periods longer than assumed; (iii) the commencement of principal repayment by Borrowers at dates later than those assumed; and (iv) a greater than assumed incidence of election to capitalize interest or of default. Additional factors which may have a material effect on the sufficiency of Revenues include, but are not limited to, Program Expenses or investment results which vary materially from those projected by the Authority.

Revenues actually received with respect to Education Loans may vary greatly in both timing and amount from the payments due on such Education Loans as a result of a variety of economic, social and other factors, including both individual factors, such as additional periods of deferment prior to or after a Borrower's commencement of repayment, loan consolidations, and general factors, such as a general economic downturn which could increase the amount of defaulted Education Loans. The effect of these factors, including the effect on the timing and amount of available Revenues and on the payment of principal of and interest on the 2010 Series A Bonds and Program Expenses, is impossible to predict, but include the possibility that Revenues may be insufficient to pay the principal and interest on the 2010 Series A Bonds and the other Bonds issued pursuant to the 1990 Resolution when due. See "RISK FACTORS" - "General Economic Conditions", "Enforceability of Remedies", and "Competition From Other Student Loan Programs", "Inability of Trustee to Liquidate Trust Estate" and "Enforceability of Remedies".

Redemption of Bonds Prior to Stated Maturity

Education Loans to be originated by the Authority with the proceeds of the 2010 Series A Bonds are expected to bear, upon origination, an effective interest rate competitive with loans which are currently made available by other lenders. However, prevailing interest rates may decline significantly during the loan origination period or other material changes may occur in competing loan programs. The Education Loans also compete with variable rate loans as well as grants and other forms of student assistance. There is no assurance that the Authority will be able to apply the full amount of 2010 Series A Bond proceeds and Revenues which are currently expected to be made available therefor to the origination of Education Loans. In this event, unexpended moneys would be used to redeem 2010 Series A Bonds eligible for redemption. See "REDEMPTION OF THE 2010 SERIES A BONDS". See also "Prepayment Considerations" in this Section below.

General Economic Conditions

The Authority's current projections of the performance of Education Loans are based upon the historical performance of Education Loans financed as part of its Program. Future performance of Education Loans may be adversely affected by a continued or further downturn in the economy. Increasing or sustained unemployment, either regionally or nationally, may result in increased Borrower delinquency and default. Failures by Borrowers to pay timely the principal of and interest on the Education Loans could affect the timing and amount of available funds for any collection period and the ability of the Authority to pay the principal of and interest on the 2010 Series A Bonds and Program Expenses. The effect of these factors, including the effect on the timing and amount of available funds for any collection period on the ability of the Authority to pay the principal of and interest on the 2010 Series A Bonds and Program Expenses, is impossible to predict.

Dependence Upon Third-Party Servicers and Originators

The Authority is currently dependent upon third parties to originate and service Education Loans. As of the date of this Official Statement, Firstmark Services, LLC ("Firstmark" or, with any successor to Firstmark, the "Servicer") is acting as originator and servicer with respect to Education Loans pursuant to an agreement that is currently scheduled to expire in October 2014. Under the 1990 Resolution, the Authority has the right to appoint successor servicers and enter into servicing agreements. The cash flow projections relied upon by the Authority and the Underwriters in sizing and structuring the principal amortization of the 2010 Series A Bonds were based, in part, upon assumptions with respect to servicing costs based upon the existing agreement. No assurance can be given that the Authority will be able to extend the term of the current servicing agreement, or to enter into agreements with other servicers at the assumed level of servicing cost upon scheduled expiration of the current agreement. Although Firstmark is obligated to cause the Education Loans to be originated and serviced in accordance with the terms of

the current servicing agreement, the timing of payments will be directly affected by the ability of the Servicer to adequately service the Education Loans. In addition, investors will be relying on the Servicer's compliance with applicable federal and state laws and regulations.

In the event of default by any servicer resulting solely from the insolvency or bankruptcy of such servicer, a court, conservator, receiver or liquidator may have the power to prevent either the Trustee or the Bondholders from appointing a successor servicer or originator, as the case may be, and delays in collections in respect of the Education Loans may occur. Delays in the receipt of payments with respect to Education Loans in excess of the delinquency and default assumptions adopted by the Authority for cash flow projection purposes may delay the timely payment of principal of and interest on the 2010 Series A Bonds and Program Expenses.

2010 Series A Bonds are Not Suitable Investments for All Investors

The 2010 Series A Bonds are complex investments that should be considered only by investors who, either alone or with their financial, tax and legal advisors, have the expertise to analyze the prepayment, reinvestment, default and market risk, the tax consequences of such an investment, and the interaction of these factors.

Consumer Protection Lending Laws

Numerous federal and state consumer protection laws and related regulations impose substantial requirements upon lenders and servicers involved in consumer finance. Also, some state laws impose finance charge ceilings and other restrictions on certain consumer transactions and require contract disclosures in addition to those required under federal law. These requirements impose specific statutory liabilities upon creditors who fail to comply with their provisions. In some cases, this liability could affect the Authority's ability to enforce consumer finance contracts such as the Education Loans.

Inability of Trustee to Liquidate the Trust Estate

If an Event of Default occurs under the 1990 Resolution, subject to certain conditions, the Trustee is authorized to sell the Trust Estate. There can be no assurance, however, that the Trustee will be able to find a purchaser for the Education Loans comprising the Trust Estate in a timely manner or that the market value of such Education Loans and related assets would, at any time, be equal to the aggregate principal amount of the Bonds then Outstanding and accrued interest thereon. If the net proceeds of any such sale, together with amounts then on deposit in the Special Capital Reserve Fund and other Funds and Accounts, do not exceed the aggregate principal amount of Bonds then Outstanding and accrued interest thereon, Registered Owners of the 2010 Series A Bonds not paid in full will likely be unable to recover the full amount of their investment.

Prepayment Considerations

Principal prepayments with respect to the 2010 Series A Bonds may be influenced by a variety of economic, geographic, social and other factors. **Since 1996, it has been the Authority's practice to permit its Education Loans to be prepaid at any time without penalty. The 2010 Education Loans will not be subject to a prepayment penalty.** The Authority believes that a factor affecting the prepayment rate on a large pool of loans similar to the Education Loans is the difference between the interest rates on the loans (giving consideration to the cost of any refinancing) and prevailing interest rates generally. In general, if interest rates fall below the interest rates on the Education Loans, the rate of prepayment would be expected to increase. Conversely, if interest rates rise above the interest rates on the Education Loans, the rate of prepayment would be expected to decrease. Other factors affecting prepayment of loans include changes in the borrower's job, transfers, unemployment and servicing decisions, and refinancing opportunities which may provide more favorable repayment terms such as those offered under various consolidation loan programs. Due to the variable nature of the factors which affect the rate of prepayment on the Education Loans, the Authority cannot determine the rate of future prepayments with respect to the Education Loans to be financed by the 2010 Series A Bonds. In addition, the rate of the payments of principal on the Bonds could be affected by the actual amortization schedule of the Education Loans. See "REDEMPTION OF THE 2010 Series A BONDS".

Issuance of Additional Bonds

The Authority may, pursuant to the provisions of the 1990 Resolution, authenticate and deliver from time to time Additional Bonds secured by the Trust Estate on a parity with the 2010 Series A Bonds. Additional Bonds may have scheduled payments or distributions of principal earlier than payments or distributions of principal of the 2010 Series A Bonds. Any Additional Bonds may be issued without the consent or approval of the Registered Owners of any Bonds then Outstanding, but subject to among other things, a Rating Confirmation. See “ADDITIONAL PARITY BONDS”.

Limitations Imposed by the Servicemembers’ Civil Relief Act

The Servicemembers’ Civil Relief Act of 2003 (the “Relief Act”) which replaced and clarified certain benefits extended to military persons under the Soldiers’ and Sailors’ Civil Relief Act of 1940, provides relief to borrowers who enter active military service and to borrowers in reserve status who are called to active duty after the origination of their Education Loan. Military action of the United States may increase the number of individuals in active military service, including those in reserve status who have been called or will be called to active duty. The Relief Act provides that persons on active duty in military service who have incurred loans prior to their period of active duty may request to have the interest on their loans in excess of 6% per year forgiven under certain circumstances. The Relief Act also limits the ability of lenders to take legal action against a borrower during the borrower’s period of active duty and, in some cases, during an additional ninety-day period thereafter. As a result, there may be delays in payment and increased losses on the Education Loans. Congress has periodically adopted legislation, and may consider additional legislation, that provides for, among other things, interest rate caps and additional periods of deferment with respect to loans made to members of the military, including reservists. There can be no assurance that additional legislation of this type will not be adopted in the future. Accordingly, payments in connection with a Student Loan to a borrower who qualifies for such relief may be subject to limitations during the borrower’s period of active military duty. As of June 30, 2010, the principal balance of Education Loans held under the 1990 Resolution classified as “military” and “military repayment” was approximately \$35,840. The number and aggregate principal balances of Education Loans that may be affected hereafter by the application of such legislation cannot be predicted by the Authority.

Change of Rating

It is expected that upon the issuance of the 2010 Series A Bonds, Moody’s Investors Service (“Moody’s”), and Fitch Ratings (“Fitch”) will assign to the 2010 Series A Bonds their long-term ratings of “Aa2” and “AA-”, as applicable. A rating is not a recommendation to purchase, hold or sell the 2010 Series A Bonds, inasmuch as such rating does not comment as to market price or suitability to a particular investor. See “RATINGS”. There is no assurance that the ratings will remain for any given period of time or that either rating will not be lowered or withdrawn entirely.

Enforceability of Remedies

The 2010 Series A Bonds are payable from the moneys and investments held under the 1990 Resolution and available for such purpose. The ability to compel payment under the 1990 Resolution and otherwise to enforce the terms and agreements of the 1990 Resolution will depend upon the exercise of various remedies specified by the 1990 Resolution. The exercise of these remedies may in many instances require judicial actions, which are often subject to discretion and delay. Under existing law, the remedies specified in the 1990 Resolution may not be readily available or may be limited.

Competition From Other Student Loan Programs

Other education loan programs are available to fund the costs of education of Eligible Students, including federally funded programs and state and other alternative education loan programs. Some of these loan programs, like that of the Authority, are intended to supplement loans available under other programs. These other loan programs, including other supplemental loan programs, from time to time may be more attractive to certain borrowers than Education Loans available under the Authority’s Student Loan Program. The federally funded

Parents Loan for Undergraduate Students (“PLUS”) program currently provides loans for graduate students and parents of eligible dependant students up to the cost of attendance less other financial aid received with no aggregate limit. For all Federal Direct Loans first disbursed after July 1, 2010 the Direct PLUS Loan program offers fixed rate loans at an interest rate of 7.9%. PLUS loans carry a 1% federal default fee, and an origination fee of 3% on each loan disbursed. In addition, the up-front interest rebate amount is 1.5% for all Direct PLUS Loans. Unsubsidized Stafford Loans are available for any income level. Effective July 1, 2009 Unsubsidized Stafford Loans are fixed rate loans at an interest rate of 6.8%. Unsubsidized Stafford Loans carry a 1% origination fee, with an up-front interest rebate of 0.5% and up to a 1% federal default fee. Dependent undergraduate students may borrow a lifetime maximum of \$31,000, independent undergraduate students may borrow a lifetime maximum of \$57,500 and certain graduate students may borrow a lifetime maximum of \$138,500 for undergraduate and graduate loans under the Unsubsidized Stafford Loan Program. Any expanded lending activity through the PLUS program, the Unsubsidized Stafford Loan program, and other federal student loan programs, including any new student loan programs, as well as through any of the many non-federal alternative loan programs could adversely affect the Authority’s loan volume and the rate at which the proceeds of the 2010 Series A Bonds are used to make loans.

Preferred Lender Lists

It is the policy of the Authority to provide no compensation or gifts of more than nominal value to any educational institution, within or outside of the State, or to the officials or employees of such institutions, in order to secure a listing as a preferred lender or in any other connection with the CHESLA Loan Program. The officials and employees of colleges and universities serving on the Authority’s Board of Directors and Advisory Board receive no compensation or gifts of more than nominal value for such service. The Authority’s enabling legislation requires that three members of its eight member board be active or retired officials or employees of such schools, one of whom must have knowledge in the field of education loan finance. It also requires the appointment of an advisory committee to consist of not more than fifteen persons including representatives of the various interests of the Authority from the public and private sector.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the 2010 Series A Bonds. The 2010 Series A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered bond certificates will be issued for each maturity of the 2010 Series A 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 3.5 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 2010 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2010 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2010 Series A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written 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 2010 Series A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2010 Series A Bonds, except in the event that use of the book-entry system for the 2010 Series A Bonds is discontinued.

To facilitate subsequent transfers, all 2010 Series A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 2010 Series A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2010 Series A 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 2010 Series A 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 any other DTC nominee) will consent or vote with respect to the 2010 Series A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI 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 2010 Series A 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 2010 Series A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, 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 Trustee, or the Authority, 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 Authority or the Trustee, 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 Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority 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 to DTC.

The information in this section "Book-Entry-Only System" concerning DTC and DTC's book-entry system has been provided by DTC. The Authority takes no responsibility for the accuracy thereof.

The foregoing discussion will not apply to the 2010 Series A Bonds if issued in physical form due to the discontinuance of the Book-Entry-Only System. **No representation is made by any person, including the Authority, the Underwriters, the Financial Advisor or the Trustee, other than DTC as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.**

THE AUTHORITY AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, INDIRECT PARTICIPANTS OR ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE 2010 SERIES A BONDS; (III) ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS UNDER THE 1990 RESOLUTION; (IV) THE SELECTION BY DTC OR ANY PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE 2010 SERIES A BONDS; OR (V) ANY CONSENT GIVEN OR ANY OTHER ACTION TAKEN BY DTC AS BOND OWNER.

Use of Certain Terms in Other Sections of This Official Statement

In reading this Official Statement it should be understood that while the 2010 Series A Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to mean only DTC or its nominee, and (i) all rights of beneficial ownership must be exercised through DTC, its Participants and the Book-Entry System and (ii) notices that are to be given to registered owners by the Borrower or the Trustee will be given only to DTC or its nominee. DTC will forward (or cause to be forwarded) the notices to the Participants by its usual procedures, so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

TAX EXEMPTION

Federal Income Tax

Opinion of Bond Counsel

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met at and subsequent to the issuance of the 2010 Series A Bonds in order that interest on the 2010 Series A Bonds be and remain excluded from gross income of their owners for federal income tax purposes. Failure to comply with these continuing requirements may cause interest on the 2010 Series A Bonds to be includable 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 2010 Tax Compliance Agreement, which will be delivered concurrently with the issuance of the 2010 Series A Bonds, the Authority will covenant to comply with certain procedures, and will make certain representations and covenants, designed to assure compliance with such requirements of the Code.

In the opinion of Bond Counsel, based on and assuming the accuracy of, and continuing compliance by the Authority with, its representations and covenants in the 1990 Resolution and the 2010 Tax Compliance Agreement, under existing law, interest on the 2010 Series A Bonds is excluded from gross income of the owners thereof for federal income tax purposes, is not treated as a preference item for purposes of calculating the federal alternative minimum tax, and is not taken into account in the calculation of adjusted current earnings for purposes of the alternative minimum tax imposed on corporations. Bond Counsel expresses no other opinion regarding the federal tax consequences of the ownership of, or the receipt or accrual of interest on, the 2010 Series A Bonds.

Prospective owners of the 2010 Series A Bonds should be aware that ownership of the 2010 Series A Bonds may result in collateral federal income tax consequences to various categories of persons, such as entities classified as corporations for federal income tax purposes (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad

retirement benefits, individuals otherwise eligible for the earned income credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for federal income tax purposes.

Original Issue Discount

The initial public offering price of certain of the 2010 Series A Bonds may be less than their stated principal amounts (the “OID Bonds”). The excess of the amount payable at maturity over the initial public offering price of each maturity of OID Bonds to the public (other than bond houses or brokers) at which a substantial amount of such maturity is sold constitutes original issue discount. The offering prices relating to the yields for the OID Bonds set forth on the inside front cover of this Official Statement 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, original issue discount accrued and properly allocable to OID Bond owners is not included in gross income for federal income tax purposes if interest on the 2010 Series A Bonds is not included in gross income for federal tax purposes. Original issue discount will accrue on a constant-yield-to-maturity method based on regular compounding using the yield to maturity on such OID Bond. For purposes of determining an owner’s adjusted basis in an OID Bond, original issue discount treated as having accrued during ownership of the OID Bond will be added to the owner’s basis. The owner’s adjusted basis will be used to determine taxable gain or loss upon sale or other disposition (including redemption or payment at maturity) of an OID Bond.

Owners of OID Bonds, and especially owners who are not original OID Bond owners who bought an OID Bond at its initial public offering price, should consult their tax advisors with respect to the federal and state income tax consequences of ownership or disposition of OID Bonds.

Original Issue Premium

The initial public offering prices of certain of the 2010 Series A Bonds may be higher than the amount payable on such 2010 Series A Bonds at maturity (the “OIP Bonds”). The excess of the initial public offering price of each maturity of OIP Bonds to the public (other than bond houses or brokers) at which a substantial amount of such maturity of OIP Bonds is sold over the stated redemption price of such maturity of OIP Bonds constitutes original issue premium. The offering prices relating to the yields for the OIP Bonds set forth on the inside front cover of this Official Statement are expected to be the initial offering prices to the public at which a substantial amount of each maturity of the OIP Bonds are sold.

An OIP Bond owner must amortize the premium as provided in applicable Treasury Regulations. In general, original issue premium amortizes on the basis of the owner’s yield to maturity on such OIP Bond, using the owner’s cost basis and a constant semiannual compounding method. Amortized premium reduces the owner’s basis in the OIP Bond for federal income tax purposes, which, under certain circumstances, may cause such owner to realize a taxable gain upon its disposition even though the OIP Bond is sold or redeemed for an amount equal to or less than such OIP Bond owner’s original acquisition cost. Amortized original issue premium is not allowed as a deduction from gross income for federal income tax purposes.

Owners of OIP Bonds, especially owners who are not original OIP Bond owners who bought an OIP Bond at its initial public offering price, should consult their tax advisors with respect to the federal and state income tax consequences of the ownership or disposition of OIP Bonds.

Connecticut Tax

In the opinion of Bond Counsel, under existing statutes, interest on the 2010 Series A Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts, and estates, and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts, and estates required to pay the federal alternative minimum tax.

Interest on the 2010 Series A Bonds is included in gross income for purposes of the Connecticut corporation business tax.

Accrued original issue discount on an OID 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, for state or local income tax purposes, should consult their tax advisors with respect to the determination of original issue discount or original issue premium accrued upon sale or redemption of such 2010 Series A Bonds, and with respect to the ownership or disposition of OID Bonds or OIP Bonds.

Owners of the 2010 Series A Bonds should consult their tax advisors with respect to other applicable state and local tax consequences of the ownership and disposition of 2010 Series A Bonds.

Certain Additional Tax Matters

The discussion above of certain federal and Connecticut income tax matters with respect to the 2010 Series A Bonds does not purport to address all aspects of federal, state, and local taxation that may be relevant to a particular owner of a Bond. Prospective owners of the 2010 Series A Bonds, particularly those who may be subject to special rules, are advised to consult their tax advisors regarding the federal, state, and local tax consequences of owning and disposing of the 2010 Series A Bonds, including without limitation, the extent to which gains and losses from the sale or exchange of 2010 Series A Bonds held as capital assets reduce and increase, respectively, amounts taken into account in computing the Connecticut income tax on individuals, trusts, and estates and may affect the net Connecticut minimum tax of such taxpayers who are required to pay the federal alternative minimum tax.

Legislation affecting municipal bonds is regularly under consideration by the United States Congress and the Connecticut General Assembly. No assurance can be given that legislation enacted or proposed after the date of issuance of the 2010 Series A Bonds will not have an adverse effect on the federal or Connecticut tax status or market price of the 2010 Series A Bonds, or will not change the effect of other tax law consequences discussed above of owning and disposing of the 2010 Series A Bonds.

The opinion of Bond Counsel is dated and given on, and will speak only as of, the date of delivery of the 2010 Series A Bonds to their initial purchasers. Bond Counsel has not undertaken to advise in the future whether any events after the issuance date of the 2010 Series A Bonds, or any facts or circumstances that may come to its attention, or any changes in law or its interpretation, may affect the tax status of interest on the 2010 Series A Bonds. The opinion of Bond Counsel is based on existing statutes, regulations, and court decisions as of the date of the opinion, and does not cover any changes in law or its interpretation that may occur after the date of the opinion.

The proposed form of Bond Counsel opinion of Day Pitney LLP is attached hereto as Appendix I-A.

RATINGS

The Authority has requested Moody's and Fitch to assign ratings to the 2010 Series A Bonds. Moody's and Fitch are expected to assign their bond ratings of "Aa2" and "AA-", as applicable, to the 2010 Series A Bonds. Such ratings reflect only the views of such rating agencies, and an explanation of the significance of such ratings may be obtained from Moody's at 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, and from Fitch at One State Street Plaza, New York, New York 10004. Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions of their own. 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 either rating agency, if, in the judgment of such agency, circumstances so warrant. A downward revision or withdrawal of a rating may have an adverse effect on the market price of the 2010 Series A Bonds. Neither the Authority nor the Underwriters have agreed to take any action with respect to any proposed

rating change or to bring such change, if any, to the attention of owners of the 2010 Series A Bonds, other than as required by the Authority's Continuing Disclosure Agreement.

LEGALITY OF BONDS FOR INVESTMENT AND DEPOSIT

The Act provides that bonds of the Authority are securities in which all public offices and public bodies of the State of Connecticut and its political subdivisions, all insurance companies, trust companies, savings banks, cooperative banks, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly invest funds, including capital in their control or belonging to them. The Act further provides that bonds of the Authority are securities which may properly be deposited with and received by any state or municipal officer or any agency or political subdivision of the State of Connecticut for any purpose for which the deposit of bonds or other obligations of the State of Connecticut is now or may hereafter be authorized by law.

STATE NOT LIABLE ON BONDS

The State of Connecticut is not liable for the payment of the principal of or interest on the 2010 Series A Bonds, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Authority, and none of the 2010 Series A Bonds, nor any of the Authority's agreements or obligations shall be construed to constitute an indebtedness of the State of Connecticut within the meaning of any constitutional or statutory provision whatsoever, nor shall the 2010 Series A Bonds directly or indirectly or contingently obligate the State of Connecticut or any municipality or political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment.

NO LITIGATION; LEGAL MATTERS

There is not now pending or threatened against the Authority any litigation restraining or enjoining the issuance or delivery of the 2010 Series A Bonds or questioning or affecting the validity of such Bonds, the 1990 Resolution, or the proceedings and authority under which such Bonds are to be issued. Neither the creation, organization or existence of the Authority, nor the title of the present members or other officers of the Authority to their respective offices, is being contested in any proceeding against the Authority. There is no litigation pending or threatened against the Authority which in any manner questions the right of the Authority to make Education Loans and conduct the Program in accordance with the provisions of the Act and the 1990 Resolution, or which would have a materially adverse impact on the financial condition of the Authority.

All legal matters incidental to the authorization and issuance of the 2010 Series A Bonds by the Authority are subject to the approval of Day Pitney LLP of Hartford, Connecticut, Bond Counsel, whose approving opinions in connection with the 2010 Series A Bonds, in substantially the form of Appendix I-A, will be delivered with the 2010 Series A Bonds. Day Pitney LLP also acts as general counsel to the Authority.

CONTINUING DISCLOSURE

Section 3-20e of the General Statutes of Connecticut gives the State and political subdivisions of the State such as the Authority 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 Authority and the State will each enter into a Continuing Disclosure Agreement with respect to the Bonds, substantially in the forms attached as Appendix I-B and I-C, respectively, to this Official Statement (the "Continuing Disclosure Agreements"), to provide or cause to be provided, in accordance with the requirements of SEC Rule 15c2-12, (i) annual financial information and operating data, (ii) timely notice of a failure by the Authority or the State, respectively, to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement for Bonds, and (iii) with respect to the Authority, timely notice of the occurrence of certain material events with respect to the Bonds. With the exception of a late filing in March 2007, the Authority has never defaulted in its obligation to provide annual financial information pursuant to a continuing disclosure agreement.

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 general obligation bonds, except for

(i) a failure to make a timely provision to the nationally recognized municipal securities information repositories (the “NRMSIRs”) by February 28, 2005 and February 28, 2006 of audits of its financial statements and certain operating data comparing operating results and unreserved fund balances on a budgetary and GAAP basis for the fiscal years ending June 30, 2004 and June 30, 2005, respectively, and (ii) failure to make a timely provision to the NRMSIRs by February 28, 2007 of the audit of its financial statements on a GAAP basis for the fiscal year ending June 30, 2006, as required under the State’s various continuing disclosure agreements in connection with certain of its prior bond issues. The State experienced delays in completing its financial statements due to implementation of a new financial management software system, which resulted in delays in completing its audits, as explained in **Part III** to this Official Statement. On or prior to February 28, 2005, the State filed with the NRMSIRs its financial statements and certain other operating data for the fiscal year ending June 30, 2004, which had not been audited but which the State believed to be accurate in all material respects. Thereafter, the State filed with the NRMSIRs its audited financial statements and certain other operating data for the fiscal year ending June 30, 2004 promptly after they became available. On or prior to February 28, 2006, the State filed with the NRMSIRs the preliminary estimated financial statements, which had not been audited but which the State believed to be accurate in all material respects, and certain operating data, in each case for the fiscal year ending June 30, 2005. Thereafter the State filed with the NRMSIRs its audited financial statements on a GAAP basis for the fiscal year ending June 30, 2005 promptly after they became available. On February 28, 2007, the State filed certain operating data, audited budgetary basis financial statements and unaudited GAAP basis financial statements, each for the fiscal year ending June 30, 2006. On May 4, 2007, the State filed its audited financial statements on a GAAP basis for the fiscal year ending June 30, 2006. The State complied with its annual information filing requirements for the fiscal years ended June 30, 2007, June 30, 2008 and June 30, 2009.

The Underwriters’ obligation to purchase the 2010 Series A Bonds shall be conditioned upon its receiving, at or prior to the delivery of such Bonds, executed copies of the Continuing Disclosure Agreements of the Authority and the State.

THE AUTHORITY

Purpose and Organization

The Authority was established by the Act as a body politic and corporate and constitutes a public instrumentality of the State.

The Act states that the costs of collegiate education are becoming increasingly burdensome and that the provision of lower cost financial assistance to students from, as well as in, the State of Connecticut attending institutions of higher education and to parents or others responsible for paying the costs thereof is essential. Among the purposes of the Act is the provision of a measure of financial assistance to such persons through the financing of education loans in amounts not exceeding the cost of such attendance less other forms of student assistance.

The Authority’s Board of Directors consists of eight members who serve without compensation. The State Treasurer, the Secretary of the Office of Policy and Management of the State, and the Commissioner of Higher Education are ex-officio members. The remaining five Authority members are appointed by the Governor based upon their qualifications in the areas of higher education and public finance. The Governor also appoints the Authority’s chairman.

Present members include:

<u>Name</u>	<u>Term Expires July 1,</u>	<u>Occupation</u>
Delores P. Graham	2015	Director, Office of Educational Opportunity, Connecticut Dept. of Higher Education, Retired
Michael E. McKeeman, Chairman	2014	Senior Vice President, Government Banking, Wells Fargo Bank, N. A.

<u>Name</u>	<u>Term Expires July 1,</u>	<u>Occupation</u>
William J. Pizzuto	2012	Director, University of Connecticut Waterbury Campus
Julie B. Savino, Vice Chairman	2011	Dean of University Financial Aid Sacred Heart University
Kathleen D. Woods	2011	Vice President First National Bank of Litchfield, Retired
Michael P. Meotti	(ex-officio)	Commissioner of Higher Education, State of Connecticut
Denise L. Nappier	(ex-officio)	Treasurer, State of Connecticut
Brenda L. Sisco	(ex-officio)	Secretary, Office of Policy and Management, State of Connecticut

The Act authorizes the Authority to appoint an Executive Director. Gloria F. Ragosta is presently serving as the Authority's Executive Director. Ms. Ragosta is a paid employee of the Connecticut Conference of Independent Colleges ("CCIC"), a non-profit organization, including 16 Connecticut independent colleges and universities as members, of which Ms. Ragosta is Vice President. Ms. Ragosta receives no separate compensation from the Authority. CCIC is reimbursed by the Authority for her services pursuant to a contract between the Authority and CCIC. Ms. Ragosta has announced her intention to retire from both her position as Executive Director of the Authority and as Vice President of CCIC during the first quarter of 2011. The Authority's contract with CCIC runs through June 30, 2012. The Authority has two staff positions: a Deputy Director and a Loan Portfolio Analyst.

The Authority's fiscal year ends on June 30th. Under the Act, each December the Authority must submit an annual report to its Board of Directors, the Governor, the State's Auditors of Public Accounts, and the Legislative Program Review and Investigations Committee and the Joint Standing Committees of the Connecticut General Assembly having cognizance of matters relating to education and finance, revenue, and bonding. The report must include: (i) summaries of all applications by borrowers for education loan financing assistance presented to the Authority during such fiscal year; (ii) summaries of all education loan programs which have received any form of financial assistance from the Authority during such year; (iii) the nature and amount of all such assistance; (iv) a report concerning the financial condition of the various education loan series portfolios; (v) a statement of the number of students assisted by education loans who attended Connecticut institutions of higher education and the number of such students who attended institutions of higher education outside of the State and the amount loaned for each category of students; and (vi) projected activities of the Authority for the next fiscal year, including projections of the total amount of financial assistance anticipated and the amount of revenue bonds or notes or other evidences of indebtedness that will be necessary to provide the projected levels of assistance during the next fiscal year.

Powers

The Act empowers the Authority to issue revenue bonds for the purposes of the Student Loan Program and to issue refunding bonds. The Authority is also empowered to establish guidelines, criteria, and procedures with respect to education loan financings and to contract in connection with the origination and servicing of education loans.

Pursuant to the Act, the Authority is further empowered to establish the Special Capital Reserve Fund to further secure the Bonds. See "SECURITY FOR THE BONDS — *The Special Capital Reserve Fund*".

Outstanding Obligations of the Authority

The 2010 Series A Bonds are being issued on a parity with the 1998 Bonds, the 1999 Bonds, the 2000 Bonds, the 2001 Bonds, the 2009 Bonds and any additional Bonds which may be issued in the future pursuant to the 1990 Resolution. As of June 30, 2010, the Authority also has outstanding bonds in the aggregate amount of

approximately \$103 million issued pursuant to the 2003 Resolution. The assets held under the 2003 Resolution are not pledged to, do not secure, and are not expected to be available to pay debt service on, the 2010 Series A Bonds or any other payments required under the 1990 Resolution.

Table I-A sets forth the obligations of the Authority outstanding under the 1990 Resolution.

TABLE I-A
Bonds Outstanding under the 1990 Resolution
As of June 30, 2010

	<u>Original Amount of Bonds Issued</u>	<u>Amount of Bonds Outstanding</u>	<u>Amount in Special Capital Reserve Fund</u>
1998 Series A	\$15,000,000	\$810,000	\$300,000
1998 Series B	3,560,000	395,000	0
1999 Series A	12,500,000	1,920,000	600,000
1999 Series B	4,390,000	1,120,000	0
2000 Series A	16,410,000	2,760,000	600,000
2000 Series B	5,975,000	1,725,000	0
2001 Series A	25,000,000	15,245,000	600,000
2009 Series A	<u>30,000,000</u>	<u>30,000,000</u>	<u>2,740,000</u>
Totals	<u>\$112,835,000</u>	<u>\$53,975,000</u>	<u>\$4,840,000¹</u>

¹ The Special Capital Reserve Fund secures all Bonds issued pursuant to the 1990 Resolution. Upon final maturity of a Series of Bonds, the balance in the related Special Capital Reserve Fund account is released from the pledge of the 1990 Resolution.

Table I-B sets forth the debt service schedule for Bonds outstanding under the 1990 Resolution.

TABLE I-B
1990 Resolution Debt Service Schedule
Pro Forma as of October 19, 2010

Date	Outstanding Debt			2010 Series A Bonds			Total
	Maturing Principal	Interest Payments	Total Payments	Maturing Principal	Interest Payments	Total 2010 Series A	Total Payments
11/15/2010	3,775,000	1,234,821	5,009,821		0	0	5,009,821
11/15/2011	3,980,000	2,287,399	6,267,399	0	1,946,908	1,946,908	8,214,306
11/15/2012	5,330,000	2,127,055	7,457,055	0	1,815,769	1,815,769	9,272,824
11/15/2013	4,450,000	1,890,890	6,340,890	0	1,815,769	1,815,769	8,156,659
11/15/2014	3,995,000	1,709,915	5,704,915	1,120,000	1,815,769	2,935,769	8,640,684
11/15/2015	3,860,000	1,538,959	5,398,959	1,585,000	1,793,369	3,378,369	8,777,328
11/15/2016	3,305,000	1,364,153	4,669,153	2,310,000	1,745,819	4,055,819	8,724,971
11/15/2017	2,740,000	1,213,813	3,953,813	2,310,000	1,648,819	3,958,819	7,912,631
11/15/2018	2,460,000	1,091,525	3,551,525	2,350,000	1,556,419	3,906,419	7,457,944
11/15/2019	2,105,000	980,438	3,085,438	2,425,000	1,468,294	3,893,294	6,978,731
11/15/2020	2,170,000	885,838	3,055,838	2,500,000	1,395,544	3,895,544	6,951,381
11/15/2021	2,205,000	780,763	2,985,763	2,450,000	1,283,044	3,733,044	6,718,806
11/15/2022	2,000,000	674,500	2,674,500	2,345,000	1,203,419	3,548,419	6,222,919
11/15/2023	2,100,000	579,500	2,679,500	2,285,000	1,080,306	3,365,306	6,044,806

Date	Outstanding Debt			2010 Series A Bonds			Total
	Maturing Principal	Interest Payments	Total Payments	Maturing Principal	Interest Payments	Total 2010 Series A	Total Payments
11/15/2024	2,200,000	479,750	2,679,750	2,175,000	973,031	3,148,031	5,827,781
11/15/2025	2,300,000	368,650	2,668,650	2,195,000	858,844	3,053,844	5,722,494
11/15/2026	2,400,000	252,500	2,652,500	2,135,000	779,275	2,914,275	5,566,775
11/15/2027	2,600,000	131,300	2,731,300	2,130,000	693,875	2,823,875	5,555,175
11/15/2028	0	0	0	2,110,000	608,675	2,718,675	2,718,675
11/15/2029	0	0	0	2,085,000	524,275	2,609,275	2,609,275
11/15/2030	0	0	0	1,980,000	440,875	2,420,875	2,420,875
11/15/2031	0	0	0	1,870,000	361,675	2,231,675	2,231,675
11/15/2032	0	0	0	1,815,000	282,200	2,097,200	2,097,200
11/15/2033	0	0	0	1,815,000	205,063	2,020,063	2,020,063
11/15/2034	0	0	0	1,565,000	127,925	1,692,925	1,692,925
11/15/2035	0	0	0	1,445,000	61,413	1,506,413	1,506,413
	\$53,975,000	\$19,591,766	\$73,566,766	\$45,000,000	\$26,486,370	\$71,486,370	\$145,053,137

THE PROGRAM

General

The CHESLA Loan Program (the “Student Loan Program”) was initially established in 1985. The Authority designed the Student Loan Program to provide long-term education loans to Borrowers for the benefit of Eligible Students attending Eligible Colleges and Universities in amounts not exceeding their total cost of attendance less other available assistance in accordance with the Act and the requirements of the Program. Under the Student Loan Program as created in 1985, Education Loans were initially available only to students attending Eligible Colleges and Universities in Connecticut. The Program Manual was amended in January 1988 to permit origination of Education Loans to fund the costs of education of students from Connecticut attending Eligible Colleges and Universities outside Connecticut.

Under the Student Loan Program as readopted by the Authority in 1990, as amended, the Authority makes Education Loans to Eligible Students and their parents or sponsors who meet the credit requirements of the Authority. Certain provisions relating to the eligibility requirements for Education Loans made by the Authority pursuant to the Student Loan Program, the Servicer, the Loan servicing procedures, and Eligible Colleges and Universities, are set forth in the Program Manual.

Proceeds of the 2010 Series A Bonds will be used, as described in this Official Statement, in part to originate Education Loans under the Student Loan Program. The 2010 Education Loans will be originated and serviced as set forth in the Program Manual. In 2008 the Authority approved the disbursement of loan proceeds on multiple dates, if so requested by the colleges or universities (dual disbursements).

No Education Loan shall be made by the Authority unless it receives certification by the Servicer or other appropriate evidence that: (i) an Education Loan Note shall have been executed by the Borrower to evidence the obligation to repay the Education Loan, (ii) the Education Loan constitutes an Education Loan within the meaning of the 1990 Resolution and the Act, (iii) such Education Loan is made only to a Borrower who meets the requirements established by the Authority as specified in the Program Manual, (iv) such Education Loan, if a Capitalized Interest Loan, is made only to a Borrower who is an Eligible Graduate Student who meets the requirements established by the Authority as specified in the Program Manual, (v) the Education Loan complies with the requirements established by the Authority as specified in the Program Manual, (vi) the Capitalized Interest Loan complies with the requirements established by the Authority as specified in the Program Manual, and (vii) the proceeds of such Education Loan will be disbursed to the Borrower or an Eligible College or University or any combination thereof, in the manner set forth in the Program Manual.

The Authority, upon notice to the Trustee and, with respect to the 2010 Series A Bonds, the Rating Agencies, but without the consent of or notice to the Registered Owners, may amend the Servicing Agreement, Program

Manual, Truth-in-Lending Disclosure Statement, Application (as defined in the Program Manual), or any Loan Note which may be (i) required by the provisions of such document, the 1990 Resolution, the Act or the Code, (ii) required for the purpose of curing any ambiguity or formal defect or omission, (iii) necessary to add additional rights acquired in accordance with the provisions of such document, (iv) determined by the Authority to be not to the material prejudice of the Registered Owners, and (v) in connection with any other change therein which, in the judgment of the Trustee, is not to the material prejudice of the Trustee or the Owners of the Bonds, or which is required by law. The 1990 Resolution specifically provides that the Authority reserves the right to replace the Servicer and to effect a new Servicing Agreement containing provisions not inconsistent with the restrictions upon amendment provided in the 1990 Resolution without the consent of or notice to the Registered Owners and the right, so long as no Event of Default shall have occurred and be continuing, to enforce the provisions of the Servicing Agreement by suit or otherwise.

In the opinion of Day Pitney LLP, general counsel to the Authority, duly executed and delivered Loan Notes, after disbursement of loan funds, create valid and binding obligations on the part of the Borrowers, enforceable in accordance with their terms, except as enforcement may be limited by the Servicemembers' Civil Relief Act of 2003, bankruptcy, insolvency, reorganization, moratorium, the defense of minority and other laws affecting the enforceability of creditors' rights generally and provided that the availability of equitable remedies is within the discretion of the enforcing court.

Eligibility Requirements

The Servicer is to request and review credit reports on the Borrowers and verify the Borrower's employment status. Each Eligible College or University must have certified that the Eligible Student is enrolled or accepted for enrollment on at least a half-time basis and, if enrolled, is maintaining satisfactory progress in such student's course of study.

In its credit analysis of applications received, the Servicer is to calculate (i) the aggregate monthly payments for all installment debt, including the Education Loan applied for, which are expected to continue during the repayment period of the Education Loan and (ii) gross monthly income. The Servicer, in general, may not recommend approval of the application to the Authority if the aggregate monthly payments for all installment debt of the Borrower exceeds 40% of gross monthly income. If the Servicer determines that the Borrower is eligible for an Education Loan in an amount lower than that applied for, it is to recommend that the Authority approve a lesser loan amount.

The Authority may review applications which exceed the debt-to-income ratio and decide whether such applications can be found to support the creditworthiness of the Borrower. The total amount of Education Loans which may be approved under this process is limited by the Authority. See "THE LOANS — Table I-E" for information regarding the Authority's prior experience with its special approval process. The Authority has set a limit of \$600,000 for the amount of 2010 Education Loans which may be approved pursuant to this process.

The Servicer is to perform a credit analysis in keeping with normal industry standards and shall consider such factors as it shall mutually agree upon with the Authority. No Borrower may currently be in default or be delinquent on any Stafford Loan (subsidized or unsubsidized), formerly known as Guaranteed Student Loan (GSL), Parents Loan for Undergraduate Students (PLUS), Perkins Loan (formerly known as National Direct Student Loan (NDSL), Supplemental Loan for Students (SLS), or any other education loan or owe refunds on a Pell Grant or Supplemental Education Opportunities Grant (SEOG). Delinquencies and other factors that would be cause for rejection by other grantors of consumer credit generally will also be cause for rejection in the Student Loan Program.

Program Covenants

In the 1990 Resolution the Authority covenants that:

(A) The Authority shall, in a manner consistent in all respects with the Act and with the provisions of the 1990 Resolution, use and apply the proceeds of the Bonds, to the extent provided in the 1990 Resolution, to make or acquire Education Loans in compliance with the terms, conditions, provisions and limitations of the Act, the 1990

Resolution and the Program Manual, and shall do or cause to be done, all such acts and things necessary to receive and collect Revenues and shall diligently enforce or cause to be enforced, and take all steps, actions and proceedings reasonably necessary in the judgment of the Authority for the enforcement of all terms, covenants and conditions of the Education Loans, and the Education Loan Notes;

(B) No 2010 Education Loan shall be made by the Authority unless it receives certification by the Servicer or other appropriate evidence that: (i) an Education Loan Note shall have been executed by the Borrower to evidence the obligation to repay the Education Loan, (ii) the loan constitutes an Education Loan within the meaning of the 1990 Resolution and the Act, (iii) such Education Loan is made only to a Borrower who meets the requirements established by the Authority as specified in the Program Manual, (iv) the Education Loan, if a Capitalized Interest Loan, is made only to a Borrower who is an Eligible Graduate Student who meets the requirements established by the Authority as specified in the Program Manual, (v) the Education Loan complies with the requirements established by the Authority as specified in its Program Manual, (vi) the Capitalized Interest Loan complies with the requirements established by the Authority as specified in the Program Manual, and (vii) the proceeds of the Education Loan will be disbursed to the Borrower or Eligible College or University or any combination thereof, in the manner set forth in the Program Manual;

(C) The Authority shall cause all Education Loans to be properly serviced and enforce the payment and collection of all payments thereon or shall cause such servicing to be done pursuant to a Servicing Agreement between the Authority and a Servicer evidencing, in the judgment of the Authority, the capability and experience necessary to adequately service Education Loans;

(D) The Authority shall diligently enforce and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of the Servicing Agreement and of all Education Loans and Education Loan Notes, including the prompt payment of all Education Loan payments and all other amounts due the Authority under such agreements. The Authority shall at all times, to the extent permitted by law and to the extent pledged assets are available to pay the costs thereof, defend, enforce, preserve and protect the rights and privileges of the Authority and the Bondowners under or with respect to the Servicing Agreement and each Education Loan, provided that the Authority shall have the power and authority to (i) release the Servicer from its duties and responsibilities under such agreement on such terms as the Authority shall determine to be in the best interests of the Authority and the Bondowners and (ii) settle a default on any Education Loan including discharging, liquidating or selling such Education Loan on such terms as the Authority shall determine to be in the best interest of the Authority and the Bondowners, including releasing such Education Loans from the lien and pledge of the 1990 Resolution, and to forbear from taking action with respect to enforcement of an Education Loan if it determines such forbearance to be in the best interests of the Authority and the Bondowners;

(E) Notwithstanding the provisions of paragraphs (A) through (D) above, the Authority shall forgive repayment of Education Loans to the extent necessary to maintain the tax-exempt status of the Bonds.

THE EDUCATION LOANS

The material included under this caption describes the origination and performance experience of the Authority with respect to Education Loans originated by the Authority. Certain assumptions which have been used for cash flow projection purposes in connection with the sizing and structuring of the principal amortization of the 2010 Series A Bonds are based, in part, upon such experience. There can be no assurance, however, that the actual origination and performance experience of the Authority with respect to the 2010 Education Loans will be consistent with the Authority's experience with respect to previously originated Education Loans. See "RISK FACTORS" — "Dependence Upon Cash Flow Projections," "General Economic Conditions" and "Competition From Other Student Loan Programs".

Loan Portfolios

Table I-C below shows Education Loans which are part of the Trust Estate.

TABLE I-C
1990 Resolution Loan Portfolio
As of June 30, 2010¹

	Stated Fixed Interest Rate	Total Loans Originated	Aggregate Amount of Loans Originated	Average Loan Amount	Amount of Loans Outstanding ¹	Average Borrower Indebtedness ²
1998 Series A	7.50	1,883	\$19,989,330	\$10,616	\$2,709,907	\$7,265
1999 Series A	7.50	1,014	12,283,780	12,114	2,544,463	10,781
1999 Series B	7.50	475	4,628,969	9,745	785,978	8,831
2000 Series A	7.25	1,360	15,853,387	11,657	4,198,992	13,858
2000 Series B	7.25	564	6,200,067	10,993	1,372,271	9,872
2001 Series A	6.70	1,634	20,433,303	12,505	8,494,318	21,780
2009 Series A	6.80	<u>1,026</u>	<u>8,458,989</u>	<u>8,245</u>	<u>8,254,577</u>	<u>13,400</u>
Totals		<u>7,956</u>	<u>\$87,847,825</u>	<u>\$11,041</u>	<u>\$28,360,506.</u>	<u>\$13,215</u>

¹ Does not include loans in collection. See Table I-E for delinquency information on loans held under the 1990 Resolution.

² Average outstanding Education Loan balances of Borrowers making loan repayments to the Servicer, as of June 30, 2010.

Table I-D sets forth information pertaining to loans originated pursuant to the Authority's special approval process for applications which exceed the prescribed debt-to-income ratio with proceeds of bonds issued under the 1990 Resolution.

TABLE I-D
Loans Originated Pursuant to Special Approval
As of June 30, 2010

<u>Bond Series</u>	<u>Limit on Loans Originated Pursuant to Review</u>	<u>Aggregate Loan Amount Approved by Authority Pursuant to Review</u>
1990	\$600,000	\$479,182
1991	900,000	243,319
1993	300,000	20,000
1994	600,000	116,656
1996	600,000	0
1998	600,000	28,000
1999	600,000	16,000
2000	600,000	7,811
2001	600,000	196,413
2009	<u>600,000</u>	<u>38,500</u>
Totals	\$8,400,000	\$1,232,731

Table I-E provides information about the repayment history of loans originated under the Program which are part of the Trust Estate.

TABLE I-E
1990 Resolution Loan Portfolios — Delinquency and Repayment
As of June 30, 2010

	<u>Principal Amount of Loans originated</u>	<u>Principal amount of Loans ever Non-performing¹</u>	<u>Gross Non-performing Rate²</u>	<u>Principal Amount of Loans Outstanding</u>	<u>Principal Amount of Retained Collection Fees and Non-performing Loans³</u>	<u>Net Non-performing Rate²</u>
1990 Loans	\$16,978,127	\$2,109,590	12.43%	NA	NA	NA
1998 Loans	19,989,330	1,868,224	9.35	\$3,100,067	\$529,283	2.65%
1999 A Loans	12,283,780	1,241,039	10.10	2,849,577	389,412	3.17
1999 B Loans	4,628,969	769,363	16.62	1,005,777	286,645	6.19
2000 A Loans	15,853,387	1,230,529	7.76	4,662,070	491,418	3.10
2000 B Loans	6,200,067	514,638	8.30	1,505,551	167,889	2.71
2001 A Loans	20,433,303	1,430,156	7.00	9,126,079	605,030	2.96
2009 A Loans	8,458,989	0	0.00	8,254,577	0	0.00

¹ Principal was at one time more than 120 days past due.

² Rate based on principal amounts of loans originated.

³ Consecutive payments have not been received for the most recent three months. Includes fees retained by collection companies which will not be paid to the Authority and amounts which may be uncollectible by the Authority.

Loan Terms

Under the Student Loan Program, an Education Loan for each academic year may not exceed the Eligible Student's need for such year, which shall be determined by calculating the costs of education, as determined by the college or university, and subtracting all other financial assistance. Currently, Education Loans may be made to finance such need in principal amounts between \$2,000 and the Eligible Student's costs of education less other financial assistance awarded, subject to a limitation of \$125,000 aggregate principal amount of Education Loans, or to fund tuition prepayment plans with respect to any Eligible Student.

The Program Manual provides that payment of interest only on each Education Loan, other than Capitalized Interest Loans, shall be paid monthly beginning no later than sixty (60) days after disbursement. Interest only payments shall be paid while the student is in school and for a six-month period after the student is no longer enrolled in school, for a maximum period of five (5) years (the "Interest-Only Period").

A portion of the proceeds of the 2010 Series A Bonds may be used to originate Capitalized Interest Loans to Eligible Graduate Students. These loans provide for the capitalization of interest during the in-school period plus six months, up to a maximum of five (5) years, or such lesser period at the Borrower's option (the "Capitalized Interest Period"). The deferred interest is added to the principal loan balance annually and is subject to additional interest.

Upon expiration of the Interest-Only Period or the Capitalized Interest Period, as the case may be, principal and interest on all Education Loans shall be paid monthly until their maturity, which is 140 months after the commencement of principal payment, or earlier prepayment subject to a four percent (4%) prepayment fee which may be waived at the discretion of the Authority. The 4% prepayment fee has been waived for all Education Loans made with proceeds of all bonds of the Authority issued since 1996.

Initially, a non-refundable reserve fee of up to three percent (3.0%) of each 2010 Loan will be payable from Education Loan proceeds upon disbursement. The reserve fee may be increased or decreased by resolution of the Authority.

In the event that the payment upon any Education Loan becomes delinquent (payment is 30 days past due) for a period of 90 days (payment is 120 days past due), such Education Loan will be deemed to be in default. An Education Loan which remains delinquent for 90 days after being deemed to be in default (payment is 210 days past due) is deemed to be non-performing. Such a loan is deemed to have returned to performing status when consecutive payments have been made for the most recent three months.

Loan Origination, Servicing, and the Servicer

Firstmark Services, LLC ("Firstmark") is responsible for loan origination and for servicing Education Loans originated under the Student Loan Program. Firstmark reports information to the Authority, the Authority's auditor, the Authority's accountant and the Trustee on a regular basis. The Pennsylvania Higher Education Assistance Agency was responsible for loan origination and servicing of Education Loans originated under the Student Loan Program during the period June 27, 1990 through August 31, 1998. Thereafter, the Connecticut Student Loan Foundation was responsible for loan origination and servicing until December 31, 2004. Effective January 1, 2005, the servicing of the entire portfolio of Education Loans was transferred to Firstmark. The Authority's origination and servicing contract with Firstmark (the "Firstmark Servicing Agreement") runs until October 2014. The Firstmark Servicing Agreement may be terminated prior to that time, however, if either party has failed to meet any obligation thereunder and has not corrected such deficiency within 60 days of notification.

The Servicer

Firstmark Services, LLC, a Colorado limited liability company, is a wholly owned subsidiary of Nelnet Inc. Firstmark began performing third-party alternative education loan origination and servicing operations under the Firstmark brand on March 2, 2002. From 1997 to March 2002 Firstmark performed alternative loan servicing as a division of Nelnet, Inc. Firstmark specializes in the origination and servicing of alternative loans and offers its services to lending institutions. With offices in Lincoln, Nebraska and Woodbury, Minnesota, as of June 30, 2010,

Firstmark was servicing more than \$1.3 billion in alternative student loan volume. When Firstmark was formed in 2002, Nelnet held a 50% ownership stake in the company. On November 1, 2005 Nelnet purchased the remaining 50% of Firstmark Services.

The foregoing information was provided by Firstmark and has not been independently verified by the Authority.

AVAILABILITY OF FINANCIAL AND OTHER INFORMATION

The financial statements of the Authority as of and for the year ended June 30, 2010 are included in APPENDIX I-E and have been audited by Simone Macca & Larow LLP, independent public accountants, as stated in their report. The report speaks only as of its date, and only to the matters expressly set forth therein. The auditors have not been engaged to review this Official Statement or to perform audit procedures regarding the post-audit period. Except as stated in their report, the auditors have not been engaged to verify the financial information set out in Appendix I-E and are not passing upon and do not assume responsibility for the sufficiency, accuracy or completeness of the financial information presented in that appendix.

Such financial statements include information with respect to the Student Loan Program generally. Since the 2010 Series A Bonds are special obligations of the Authority, payable only from the Revenues and other assets pledged under the 1990 Resolution, the overall financial status of the Authority, or that of its Student Loan Program, does not indicate and does not necessarily affect whether the Revenues and other assets so pledged will be sufficient to fund the timely payment of principal installments, premium, if any, and interest on the 2010 Series A Bonds and Program Expenses. See "SECURITY FOR THE BONDS".

FINANCIAL ADVISOR

Public Financial Management, Inc. has been retained by the Authority to serve as financial advisor with respect to the 2010 Series A Bonds. The financial advisor has assisted the Authority in matters relating to the planning, structuring and issuance of the 2010 Series A Bonds, including, through its affiliate, PFM Asset Management LLC, the investment of proceeds of the 2010 Series A Bonds, and various other debt related matters.

UNDERWRITING

The aggregate initial offering price of the 2010 Series A Bonds to the public is \$46,356,408.90. The Underwriters have agreed, subject to certain conditions precedent to closing, to purchase the 2010 Series A Bonds from the Authority at an aggregate purchase price of \$45,985,158.90, representing an underwriters' discount of \$371,250. The Underwriters will be obligated to purchase all the 2010 Series A Bonds, if any such 2010 Series A Bonds are purchased. The 2010 Series A Bonds may be offered and sold to certain dealers 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.

OPINIONS OF COUNSEL

An approving opinion in connection with the issuance of the 2010 Series A Bonds will be delivered by Day Pitney LLP, Hartford, Connecticut. Certain legal matters will be passed upon for the Underwriters by their counsel, Ballard Spahr LLP, Salt Lake City, Utah. Day Pitney LLP has represented U.S. Bank National Association, the Trustee, and RBC Capital Markets or its affiliates, in matters unrelated to the Authority and to the issuance of the 2010 Series A Bonds. Day Pitney LLP also acts as general counsel to the Authority.

MISCELLANEOUS

The references herein to the Act, the 1990 Resolution, the Firstmark Servicing Agreement and the Program Manual are summaries of certain provisions thereof. Such summaries do not purport to be complete, and reference is made to such statute and documents for full and complete statements thereof. The agreements of the Authority with the holders of the 2010 Series A Bonds are fully set forth in the 1990 Resolution and neither any advertisement of the 2010 Series A Bonds, nor this Official Statement is to be construed as constituting an agreement with the purchasers of the 2010 Series A Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as such and not as representations of fact. Copies of the documents mentioned in this paragraph are on file in the offices of the Authority.

The execution and delivery of this Official Statement has been duly authorized by the Authority.

CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY

/S/ Michael E. McKeeman
Chairman

Dated: October 5, 2010

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FORM OF BOND COUNSEL OPINION

October __, 2010

Connecticut Higher Education
Supplemental Loan Authority
Farmington, Connecticut

Re: Connecticut Higher Education Supplemental Loan Authority

\$45,000,000 Revenue Bonds
(CHESLA Loan Program) 2010 Series A

Ladies and Gentlemen:

We have examined certified copies of the proceedings and other proofs relating to the issuance of the \$45,000,000 Revenue Bonds (CHESLA Loan Program) 2010 Series A (the “2010 Series A Bonds”) of the Connecticut Higher Education Supplemental Loan Authority (the “Authority”), a body politic and corporate constituting a public instrumentality of the State of Connecticut.

The 2010 Series A Bonds are issued under and pursuant to the Connecticut Higher Education Supplemental Loan Authority Act, being Chapter 187b of the General Statutes of Connecticut, Sections 10a-221 through 10a-246, inclusive, as amended from time to time (the “Act”), and under and pursuant to a Revenue Bond Resolution of the Authority adopted on June 12, 1990, as amended, restated and supplemented, and as further supplemented by the 2010 Series A Supplemental Revenue Bond Resolution adopted by the Authority on October 5, 2010 (collectively, the “Resolution”). Capitalized terms used herein have the meanings given to those terms in the Resolution.

We are of the opinion that:

1. The Authority is duly created and validly existing under the provisions of the Act and has good right and lawful authority to issue the 2010 Series A Bonds, and to establish and maintain payments, fees or charges in respect of the Program, to collect revenues and to perform all obligations of the Authority under the Resolution in those respects.

2. The Authority has the right and power under the Act to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and is valid and binding upon the Authority and enforceable in accordance with its terms, and no other authorization for the Resolution is required.

3. The Authority is duly authorized to issue the 2010 Series A Bonds, and the same have been duly and validly authorized and issued by the Authority in accordance with the Constitution and statutes of the State of Connecticut, including the Act and the Resolution, and when duly certified by U.S. Bank National Association, Hartford, Connecticut, will constitute valid and binding special obligations of the Authority, payable solely from the Revenues and other funds provided therefor in the Resolution, enforceable in accordance with their terms and the terms of the Resolution and entitled to the benefits of the Act and of the Resolution. The Resolution creates the valid pledge which it purports to create of the Revenues, of all of the Authority’s right, title and interest in the Education Loan Notes and of all moneys and investments held by the Trustee in the Funds established under the Resolution (except for moneys and securities held in the Rebate Fund created thereunder), subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth therein. The Act provides, with respect to the Revenues and other funds pledged under the Resolution, that such pledge shall be valid and binding from the time made against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of notice.

4. Pursuant to the Resolution, the Authority has validly covenanted in the manner and to the extent provided in the Resolution, among other things, to cause its Chairman on or before December 1 of each year to make and deliver to the Secretary of the Office of Policy and Management and the Treasurer of the State of Connecticut a certificate stating such sums, if any, as are necessary to restore the Special Capital Reserve Fund to an amount equal to the Special Capital Reserve Fund Requirement provided for by the Resolution pursuant to the Act. The Act provides that such sums stated in such certificate of its Chairman are deemed to be appropriated from the general fund of the State of Connecticut and such amounts shall be allotted and paid from such general fund to the Authority. Such appropriation and payment do not require further legislative approval. Pursuant to the Resolution, the Authority has validly covenanted to cause such amounts to be paid to the Trustee for deposit in the Special Capital Reserve Fund.

5. Under existing law and based upon and assuming the accuracy of, and continuing compliance by the Authority with, the representations and covenants in the Resolution and the 2010 Series A Tax Compliance Agreement between the Authority and U.S. Bank National Association, as Trustee, dated as of the date hereof, that relate to certain requirements contained in the Internal Revenue Code of 1986, as amended, interest on the 2010 Series A Bonds (a) is excluded from gross income of the owners thereof for federal income tax purposes and (b) is not treated as a preference item for purposes of calculating the federal alternative minimum tax and is not taken into account in the calculation of adjusted current earnings for purposes of the alternative minimum tax imposed on corporations.

6. Under existing statutes, interest on the 2010 Series A Bonds is excluded from Connecticut taxable income for purposes of the Connecticut income tax on individuals, trusts and estates and is excluded from amounts on which the net Connecticut minimum tax is based in the case of individuals, trusts and estates required to pay the federal alternative minimum tax.

In addition, ownership or disposition of or the accrual or receipt of interest on the 2010 Series A Bonds may otherwise affect the federal or Connecticut tax liability of the owner of 2010 Series A Bonds or other recipient of such interest. The extent of these other tax consequences will depend upon such person's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences or the consequences of ownership or disposition of or the accrual or receipt of interest on the 2010 Series A Bonds under the laws of any other state. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the 2010 Series A Bonds, or the interest thereon, if any action is taken with respect to the 2010 Series A Bonds, or any changes are made in the requirements or procedures contained or referred to in the Resolution, the 2010 Series A Tax Compliance Agreement and other relevant documents upon the advice or with the approving opinion of other bond counsel.

The foregoing opinions are qualified only to the extent that the enforceability of the 2010 Series A Bonds and the Resolution may be limited by bankruptcy, insolvency, and other laws affecting creditors' rights or remedies, or the application of principles of equity.

Very truly yours,

Day Pitney LLP

FORM OF CONTINUING DISCLOSURE AGREEMENT - CHESLA

In accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the Authority will agree, pursuant to a Continuing Disclosure Agreement for the Bonds to be executed by the Authority 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 Authority to provide the required annual financial information on or before the date specified in the Continuing Disclosure Agreement for the Bonds.

Continuing Disclosure Agreement

This Continuing Disclosure Agreement (the "Agreement") is made as of October __, 2010 by the Connecticut Higher Education Supplemental Loan Authority (the "Issuer") acting by its undersigned officers, duly authorized, in connection with the issuance of \$45,000,000 Revenue Bonds (CHESLA Loan Program) 2010 Series A (the "Bonds") and U.S. Bank National Association, Hartford, CT, as Trustee for the Bonds (the "Trustee"). The Bonds are being issued pursuant to a 1990 Revenue Bond Resolution of the Authority adopted June 12, 1990, as supplemented by the 2010 A Series Supplemental Revenue Bond Resolution of the Issuer adopted October 5, 2010 as each may be supplemented and amended from time to time (collectively, the "1990 Resolution") 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 Part I of the official statement of the Issuer 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.

"Repository" means the MSRB or any other information repository established pursuant to the Rule as amended from time to time.

"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.

Section 2. Annual Financial Information.

(a) The Issuer agrees to provide or cause to be provided to each Repository, 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, 2010) as follows:

(i) Financial statements of the Issuer's Authority Operating Fund and Bond Funds under the Resolution 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 Issuer prepares its financial statements in accordance with generally accepted accounting principles. 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 Issuer from reorganizing such material in subsequent official statements or annual information reports:

- (A) Bonds Outstanding under the 1990 Resolution (Table I-A);
- (B) 1990 Resolution Loan Portfolios – Loans Outstanding (Table I-C);
- (C) Loans Originated Pursuant to Eligibility Review under the 1990 Resolution; and
- (D) 1990 Resolution Loan Portfolios - Delinquency and Repayment (Table I-E).

(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 Issuer's fiscal year currently ends on June 30.

(c) Annual financial information and operating data may be provided in whole or in part by cross-reference to other documents available to the public on the MSRB's Internet Web site referenced in the Rule as amended from time to time or filed with the SEC. All or a portion of the financial information and operating data may be provided in the form of a comprehensive annual financial report, an annual information statement, or an Annual Report.

(d) The Issuer 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 accounting principles adopted by the Issuer; provided that the Issuer agrees that the exercise of any such right will be done in a manner consistent with the Rule.

Section 3. Material Events.

The Issuer agrees to provide or cause to be provided, in a timely manner, to each Repository 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 Issuer agrees to provide or cause to be provided, in a timely manner, to each Repository notice of any failure by the Issuer 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 Issuer or by any agents which may be employed by the Issuer for such purpose from time to time.

Section 6. Termination.

The obligations of the Issuer 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 Issuer ceases to be an obligated person with respect to the Bonds within the meaning of the Rule.

Section 7. Enforcement.

The Issuer acknowledges that the 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 Issuer shall fail to perform its duties hereunder, the Issuer 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 Issuer's Executive Director, or a successor, receives written notice from any beneficial owner of the Bonds of such failure. The present address of the Executive Director is 21 Talcott Notch, Suite 1, Farmington, Connecticut 06032.

In the event the Issuer 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 Issuer expressly acknowledges and the beneficial owners are hereby deemed to expressly agree that no monetary damages shall arise or be payable hereunder nor shall any failure to comply with this Agreement constitute an event of default with respect to the Bonds including, without limitation, an Event of Default under the Resolution, or a breach of any duty or obligation of the Trustee under the Resolution.

Section 8. Miscellaneous.

(a) All documents provided by the State to a Repository pursuant to the State's undertakings set forth in Sections 2, 3 and 4 of this Agreement shall be in an electronic format as prescribed by the MSRB from time to time and shall be accompanied by identifying information as prescribed by the MSRB from time to time.

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

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

(d) Notwithstanding any other provision of this Agreement, the Issuer 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 Issuer, (ii) the provisions of the Agreement as so amended or waived would have complied with the requirements of the Rule, taking into account any amendments or interpretations of the Rule as well as any changes in circumstances, in each case as of the date of such amendment to the Agreement or waiver and (iii) such

amendment or waiver is supported by either an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially adversely affect the beneficial owners of the Bonds or an approving vote by the holders of not less than 51% of the aggregate principal amount of the Bonds then outstanding pursuant to the terms of the Resolution. A copy of any such amendment or waiver will be filed in a timely manner with each Repository. 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.

(e) 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.

CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY

By _____
Gloria F. Ragosta
Executive Director

U.S. BANK NATIONAL ASSOCIATION

By _____
Authorized Officer

FORM OF CONTINUING DISCLOSURE AGREEMENT -- STATE

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

Continuing Disclosure Agreement

This Continuing Disclosure Agreement ("Agreement") is made as of October __, 2010 by the State of Connecticut (the "State") acting by its undersigned officer, duly authorized, in connection with the issuance by the State of Connecticut Higher Education Supplemental Loan Authority (the "Issuer") of the \$45,000,000 Revenue Bonds (CHESLA Loan Program) 2010 Series A (the "Bonds") and U.S. Bank National Association, as Trustee for the Bonds (the "Trustee"). The Bonds are being issued pursuant to a 1990 Revenue Bond Resolution of the Issuer adopted June 12, 1990, as supplemented by the 2010 Series A Supplemental Revenue Bond Resolution of the Issuer adopted October 5, 2010, each as may be supplemented and amended from time to time (collectively, the "Resolution") for the benefit of the beneficial owners from time to time of the Bonds.

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

"Final Official Statement" means Parts II and III of the official statement of the Issuer 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.

"Repository" means the MSRB or any other information repository established pursuant to the Rule as amended from time to time.

"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.

Section 2. Annual Financial Information.

(a) The State agrees to provide or cause to be provided to each Repository, 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, 2010) 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.

(c) Annual financial information and operating data may be provided in whole or in part by cross-reference to other documents available to the public on the MSRB's Internet Web site referenced in the Rule as amended from time to time or filed with the SEC. All or a portion of the financial information and operating data may be provided in the form of a comprehensive annual financial report or an annual information statement of the State.

(d) The State reserves the right (i) to provide financial statements which are not audited if no longer required by law, (ii) to modify from time to time the format of the presentation of such information or data, and (iii)

to modify the accounting principles it follows to the extent required by law, by changes in generally accepted accounting principles, or by changes in mandated state statutory principles as in effect from time to time; provided that the State agrees that the exercise of any such right will be done in a manner consistent with the Rule.

Section 3. Material Events.

(Not applicable to State).

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

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

Section 5. Use of Agents.

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

Section 6. Termination.

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

Section 7. Enforcement.

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

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

Section 8. Miscellaneous.

(a) All documents provided by the State to a Repository pursuant to the State's undertakings set forth in Sections 2, 3 and 4 of this Agreement shall be in an electronic format as prescribed by the MSRB from time to time and shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(b) 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.

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

(d) 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 provisions of the Agreement as so amended or waived would have complied with the requirements of the Rule, taking into account any amendments or interpretations of the Rule as well as any changes in circumstances, in each case as of the date of such amendment to the Agreement or waiver and (iii) such amendment or waiver is supported by either an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially adversely affect the beneficial owners of the Bonds or an approving vote by the holders of not less than 51% of the aggregate principal amount of the Bonds then outstanding pursuant to the terms of the Resolution. A copy of any such amendment or waiver will be filed in a timely manner with each Repository. 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.

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

STATE OF CONNECTICUT

By: _____
Denise L. Nappier
Treasurer

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

**Summary of Certain Provisions of the 1990 Resolution
and the 2010 Series A Supplemental Revenue Bond Resolution**

The Resolution and the 2010 Series A Supplemental Revenue Bond Resolution contain various covenants and security provisions, certain of which are summarized below and not otherwise addressed in this Official Statement. Reference should be made to the Resolution and the 2010 Series A Supplemental Resolution, respectively, for a full and complete statement of their provisions.

The 1990 Revenue Bond Resolution

Definitions [Section 1.01]

“Account” means any of the accounts established pursuant to the Resolution.

“Act” means the Connecticut Higher Education Supplemental Loan Authority Act, being Chapter 187b of the General Statutes of Connecticut, Sections 10a-221 through 10a-246, inclusive, as heretofore amended and as further amended from time to time.

“Authority” means the Connecticut Higher Education Supplemental Loan Authority, a body politic and corporate of the State, constituting a public instrumentality created by the Act.

“Authorized Officer” means: (i) in the case of the Authority, the Chairman, Vice Chairman, Executive Director or Deputy Director and when used with reference to any act or document also means any other person authorized by resolution of the Authority to perform such act or execute such document and (ii) in the case of the Trustee, Paying Agent and Servicer, the person or persons authorized by resolution of the governing body of the Trustee, Paying Agent, or Servicer, respectively, to perform any act or sign any document.

“Bond” or “Bonds” means any bonds issued pursuant to the Resolution and any Supplemental Resolution.

“Bond Counsel” means a law firm appointed by the Authority having a national reputation in the field of municipal finance law whose opinions are generally accepted by purchasers of municipal bonds.

“Bondowner”, “owner”, “Bondholder”, “Holder” or any similar term, when used with reference to a Bond or Bonds, means any person who shall be the registered owner of any Bond.

“Bond Year” means a period of twelve (12) consecutive months ending on November 15.

“Borrower” means an Eligible Student, and any parent, legal guardian or sponsor of an Eligible Student, who has received or agreed to pay an Education Loan.

“Capitalized Interest Loan” means an Education Loan made to an Eligible Graduate Student which provides for the capitalization of interest during the Capitalized Interest Period.

“Capitalized Interest Period” means the period during which interest on a Capitalized Interest Loan is deferred and added to the principal balance of the Capitalized Interest Loan and subject to additional interest, which shall be the period while the Eligible Graduate Student is enrolled in an Eligible College or University and for a six-month period after the Eligible Graduate Student is no longer enrolled. Such period shall not exceed five (5) years or any lesser period specified by the Borrower.

“Closing Cash Flow Projections” means the cash flow projections delivered to a Rating Agency on behalf of the Authority in order to obtain a rating on a Series of Bonds.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder, including temporary and proposed regulations, as amended from time to time. References to the Code include any corresponding provision in any subsequent Internal Revenue Code.

“Cost of Issuance Account” means the Account in the Loan Fund so designated and established pursuant to Section 4.01 of the Resolution.

“Costs of Issuance” means each of the following incurred in connection with the sale, issuance and delivery of a Series of Bonds: (i) fees and expenses of Bond Counsel and general counsel to the Authority; (ii) fees and expenses of the Trustee, including any counsel fees; (iii) the cost of printing the preliminary official statement, the official statement and the Bonds; (iv) fees and expenses of the Authority’s auditors and advisors; (v) charges of Rating Agencies; (vi) charges of the Servicer in connection with the issuance of the Bonds; (vii) underwriter’s fee and (ix) any other expenses incurred solely in connection with the sale, issuance and delivery of a Series of Bonds.

“Debt Service” means the amount of principal becoming due on the Bonds by reason of maturity or mandatory sinking fund redemption, after giving effect to any prior redemptions or mandatory sinking fund redemptions, and interest becoming due on the Bonds.

“Debt Service Account” means the Account in the Revenue Fund so designated and established pursuant to Section 4.01 of the Resolution.

“Debt Service Payment Date” means a day upon which interest becomes due on the Bonds or upon which principal becomes due by reason of maturity or mandatory sinking fund redemption.

“Determination of Taxability” shall have the meaning set forth in Section 2.03(d) of the Resolution.

“Education Loan” means a loan made to a Borrower by the Authority pursuant to the Act and the Resolution to finance an Eligible Student’s attendance at an Eligible College or University, or a loan on behalf of an Eligible College or University to a Borrower to finance an Eligible Student’s attendance at such College or University pursuant to the Act and the Resolution, or a Capitalized Interest Loan pursuant to the Act and the Resolution, or any other loan made or acquired by the Authority pursuant to the Act and the Resolution.

“Education Loan File” means the file made for each Education Loan, containing a copy of the Education Loan Note, Education Loan application form, Truth-in-Lending Disclosure Statement and, if applicable, any Education Loan Mortgage pertaining to that Loan.

“Education Loan Note” or “Loan Note” means the note made by a Borrower and payable to the Authority evidencing the Borrower’s obligation to repay an Education Loan and any note issued in substitution and exchange therefor.

“Eligible College or University” means any non-profit degree-granting educational institution located within the United States of America and its possessions authorized by law to provide a program of education beyond the high school level and (i) described in Section 501(c)(3) of the Code, and exempt from Federal income taxation under Section 501(a) of the Code, with respect to a trade or business carried on by such institution which is not an unrelated trade or business, determined by applying Section 513(a) of the Code, to such institution, or a foundation established for the benefit of such educational institution, or (ii) exempt from taxation under said code as a governmental unit.

“Eligible Graduate Student” means an Eligible Student enrolled in and pursuing an educational program leading to a post-baccalaureate certificate or a masters, doctorate or professional degree.

“Eligible Student” means a student who is a resident of the State and who is enrolled and pursuing an educational program at an Eligible College or University on at least a half-time basis as defined by such college or university, who is in good academic standing and is making satisfactory progress, as determined by such college or university. “Eligible Student” also means a student who is not a resident of the State but is enrolled and pursuing an

educational program at an Eligible College or University located in the State on at least a half-time basis as defined by such college or university, and who is in good academic standing and is making satisfactory progress, as determined by such college or university.

“Escrow Securities” means (i) direct obligations of the United States, or (ii) certificates of deposit or time deposits secured by direct obligations of the United States.

“Event of Default” means an Event of Default as set forth in Section 7.01 of the Resolution.

“Fund” means any of the funds established pursuant to the Resolution.

“General Account” means the Account in the Revenue Fund so designated and established pursuant to Section 4.01 of the Resolution.

“Investment Obligations” means, (i) direct obligations of the United States or the State having a rating at least equal to the rating on the Bonds; (ii) obligations as to which the timely payment of principal and interest is fully guaranteed by the United States or the State, provided the State shall then have a rating at least equal to the rating on the Bonds, and investments in Connecticut’s short-term investment fund, provided the State shall then have a rating at least equal to the rating on the Bonds; (iii) obligations issued by any one or combination of the following: Federal intermediate credit banks, Federal banks for cooperatives, Federal land bank, Federal home loan banks, Federal National Mortgage Association, Government National Mortgage Association and the Student Loan Marketing Association; (iv) certificates of deposit or time deposits constituting direct obligations of any bank in the State whose long-term debt rating is at least as high as the rating on the Bonds, provided that investments may be made only in those certificates of deposit or time deposits in banks which are insured by the Federal Deposit Insurance Corporation if then in existence; (v) withdrawable capital accounts or deposits of federally chartered savings and loan associations which are insured by the Federal Savings and Loan Insurance Corporation; (vi) other obligations which are legal investments for savings banks in the State and have a long-term debt rating at least as high as the rating on the Bonds; (vii) investment agreements with financial institutions whose short-term obligations are rated within the top two (2) rating categories of any nationally recognized rating service or of any rating service recognized by the commissioner of banking, or investment agreements fully secured by obligations of, or guaranteed by, the United States or agencies or instrumentalities of the United States; (viii) securities or obligations which are legal investments for savings banks in the State, subject to repurchase agreements in the manner in which such agreements are negotiated in sales of securities in the market place, provided the Authority shall not enter into any such agreement with any securities dealer or bank acting as a securities dealer unless such dealer or bank is included in the list of primary dealers, as prepared by the Federal Reserve Bank of New York, effective at the time of the agreement and whose long-term debt rating is at least as high as the rating on the Bonds; (ix) such other investment obligations if then permitted by the Act for the investment of Authority funds as to which the Trustee has been advised in writing by the Rating Agencies will not result in a decrease or withdrawal of any rating of the Bonds issued by such Rating Agencies; and (x) only as to amounts in any Series Liquidity Subaccount used for the purpose of paying Debt Service on any Bonds, Education Loans.

“Loan” means an Education Loan.

“Loan Account” means the Account in the Loan Fund so designated and established pursuant to Section 4.01 of the Resolution.

“Loan Fund” means the Fund so designated and established pursuant to Section 4.01 of the Resolution.

“Origination Agreement” means an agreement between the Authority and a Servicer and any amendments and supplements thereto under which the Servicer agrees to administer the origination of Education Loans and any successor agreements entered into in accordance with the Resolution.

“Origination and Servicing Agreement” means the Origination Agreement and the Servicing Agreement, or either of them.

“Outstanding,” when used in reference to Bonds, means as of a particular date, all Bonds authenticated and delivered under the Resolution except:

- (i) any Bond canceled by the Trustee at or before such date;
- (ii) any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered pursuant to the Resolution; and
- (iii) any Bond or portion of a Bond which has been paid, or which is deemed to have been paid as provided in the Resolution.

“Paying Agent” means State Street Bank and Trust Company and its successor from time to time and any other entity which may at any time be appointed as Paying Agent pursuant to the Resolution.

“Program” means the Authority’s program for funding Education Loans from proceeds of the Bonds.

“Program Administrator” means the Authority staff and any successors appointed by the Authority.

“Program Costs” means all the fees, costs and expenses associated with the administration of the Program and the Education Loans. Such term shall include, but not be limited to, any expenses or fees of the Servicer, the Program Administrator, the Authority or its appointees or any other consultant or agent of the Authority in connection with the Education Loans or the Program as approved by the Authority.

“Program Manual” means the manual of the Authority, duly adopted by the members of the Authority, which pertains to the Program, including any supplement or amendment thereto.

“Rating Agencies” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, Standard & Poor’s Corporation, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and Fitch IBCA, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if any such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority by notice to the Trustee.

“Rebate Fund” means the Fund so designated and established pursuant to Section 4.01 of the Resolution.

“Rebate Account” means the Account in the Revenue Fund so designated and established pursuant to Section 4.01 of the Resolution.

“Record Date” means, for any Debt Service Payment Date which is the fifteenth day of any month, the last day of the preceding month, and for any Debt Service Payment Date which is on the first day of any month, the fifteenth day of the preceding month, and to the extent that there is to be a payment with respect to the Bonds on any date other than a scheduled Debt Service Payment Date the “Special Record Date” provisions of the Municipal Securities Rulemaking Board or any successor thereto shall apply.

“Redemption Account” means the Account in the Revenue Fund so designated and established pursuant to Section 4.01 of the Resolution.

“Redemption Price,” when used with respect to a Bond, means the principal amount of such Bond plus the applicable premium, if any, payable upon redemption thereof pursuant to the Resolution.

“Reserve Fee” means the non-refundable fee of four percent (4%) of each Education Loan, or such other amount as the Authority shall determine in connection with each Series of Bonds used to finance Education Loans, paid by the Borrower to the Authority out of the proceeds of each such Education Loan at the time of disbursement

thereof and deemed deposited by the Authority into the Series Loan Subaccount or Series Capitalized Interest Loan Subaccount, respectively.

“Resolution” means the Revenue Bond Resolution, adopted by the Authority June 12, 1990, as supplemented and amended June 29, 1990, June 24, 1991, March 10, 1992, March 16, 1993 and June 7, 1994 and as supplemented, amended and restated July 19, 1996, and as supplemented and amended June 9, 1998, September 14, 1999, November 2, 2000, October 31, 2001, September 23, 2009, and September ___, 2010 authorizing the issuance of the Bonds, as the same may from time to time be amended or supplemented by a Supplemental Resolution.

The term “resolution of the Authority” means a resolution duly adopted by the Authority.

“Revenue Fund” means the Fund so designated and established pursuant to Section 4.01 of the Resolution.

“Revenues” means all payments, rates, fees, charges and other income, funds and receipts payable to the Authority or to the Trustee for the account of the Authority in respect of any Education Loan (excluding the Reserve Fee and any application and processing fees with respect to any such Loan), or any loan originated or acquired on behalf of the Authority pursuant to Section 5.11(e) of the Resolution.

“Series Authority Administrative Fee” means the fee payable to the Authority for the general administrative services of the Authority in connection with a Series of Bonds as provided for and designated as “___ Authority Administrative Fee” by the respective Supplemental Resolution (inserting therein a designation of the Series of Bonds issued thereunder).

“Series Capitalized Interest Loan” means an Education Loan made from the Series Capitalized Interest Loan Subaccount to an Eligible Graduate Student which provides for the capitalization of interest during the Capitalized Interest Period and designated as “___ Series _ Capitalized Interest Loan” or “___ Capitalized Interest Loan” by the respective Supplemental Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Capitalized Interest Loan Subaccount” means a Subaccount within the Loan Account established and designated as “___ Series _ Capitalized Interest Loan Subaccount” or “___ Capitalized Interest Loan Subaccount” by the respective Supplemental Resolution pursuant to Section 4.01 of the Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Capitalized Interest Loan Reserve Subaccount” means a Subaccount within the Loan Account established and designated as “___ Series _ Capitalized Interest Loan Reserve Subaccount” or “___ Capitalized Interest Loan Reserve Subaccount” by the respective Supplemental Resolution pursuant to Section 4.01 of the Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Cost of Issuance Subaccount” means a Subaccount within the Cost of Issuance Account established and designated as “___ Series _ Cost of Issuance Subaccount” or “___ Cost of Issuance Subaccount” by the respective Supplemental Resolution pursuant to Section 4.01 of the Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Debt Service Subaccount” means a Subaccount within the Debt Service Account established and designated as “___ Series _ Debt Service Subaccount” or “___ Debt Service Subaccount” by the respective Supplemental Resolution pursuant to Section 4.01 of the Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Education Loans” means the Education Loans made from the Series Loan Subaccount and designated as “___ Series _ Education Loans” or “___ Education Loans” by the respective Supplemental Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Liquidity Subaccount” means a Subaccount within the Loan Account established and designated as “___ Series _ Liquidity Subaccount” or “___ Liquidity Subaccount” by the respective Supplemental Resolution

pursuant to Section 4.01 of the Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Loan Subaccount” means a Subaccount within the Loan Account established and designated as “___ Series _ Loan Subaccount” or “___ Loan Subaccount” by the respective Supplemental Resolution pursuant to Section 4.01 of the Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Net Assets Test” shall mean, as of any Testing Date, a cashflow projection as may be provided for and designated as “___ Series _ Net Assets Test” or “___ Net Assets Test” by the respective Supplemental Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series of Bonds” or “Bonds of a Series” means any Series of Bonds issued under a Supplemental Resolution, each of which shall be designated “___ Series __ Bonds” by such Supplemental Resolution (inserting therein the letter or other designation of such Series of Bonds).

“Series Rebate Requirement” means, as to each Series of Bonds, the amount of monies required to be rebated to the United States Department of the Treasury, calculated in accordance with, and payable at the times and in the manner set forth in, the Series Tax Compliance Agreement and designated as “___ Series _ Rebate Requirement” or “___ Rebate Requirement” by the respective Supplemental Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Rebate Subaccount” means a Subaccount within the Rebate Fund established and designated as “___ Series __ Rebate Subaccount” or “___ Rebate Subaccount” by the respective Supplemental Resolution pursuant to Section 4.01 of the Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Redemption Subaccount” means a Subaccount within the Revenue Account established and designated as “___ Series __ Redemption Subaccount” or “___ Redemption Subaccount” by the respective Supplemental Resolution pursuant to Section 4.01 of the Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Required Yield Adjustment Amount” means the amount determined pursuant to the Series Tax Compliance Agreement and designated as “___ Series _ Required Yield Adjustment Amount” or “___ Required Yield Adjustment Amount” by the respective Supplemental Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Revenue Subaccount” means a Subaccount within the General Account established and designated as “___ Series _ Revenue Subaccount” or “___ Revenue Subaccount” by the respective Supplemental Resolution pursuant to Section 4.01 of the Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Special Capital Reserve Fund Requirement” means, as of a particular date of computation, an amount of money equal to the lesser of (i) an amount specified by the applicable Supplemental Resolution or (ii) the maximum amount of principal and interest becoming due on the Outstanding Bonds of the respective Series of Bonds by reason of maturity or a required sinking fund payment in any succeeding Bond Year and designated as “___ Series _ Special Capital Reserve Fund Requirement” or “___ Special Capital Reserve Fund Requirement” by the respective Supplemental Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Special Capital Reserve Subaccount” means a Subaccount within the Special Capital Reserve Fund established and designated as “___ Series _ Special Capital Reserve Subaccount” or “___ Special Capital Reserve Subaccount” by the respective Supplemental Resolution pursuant to Section 4.01 of the Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Special Debt Service Subaccount” means a Subaccount within the Special Debt Service Account established and designated as “____ Series _ Special Debt Service Subaccount” or “____ Special Debt Service Subaccount” by the respective Supplemental Resolution pursuant to Section 4.01 of the Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Subaccount” or “Series Subaccounts” means a Subaccount or Subaccounts established by the Resolution or a Supplemental Resolution with respect to one or more Series of Bonds.

“Series Tax Compliance Agreement” means each Tax Compliance Agreement between the Authority and the Trustee executed and delivered in connection with each Series of Bonds and designated as “____ Series _ Tax Compliance Agreement” or “____ Tax Compliance Agreement” by the respective Supplemental Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Series Yield Adjustment Subaccount” means a Subaccount within the Yield Adjustment Fund established and designated as “____ Series _ Yield Adjustment Subaccount” or “____ Yield Adjustment Subaccount” by the respective Supplemental Resolution pursuant to Section 4.01 of the Resolution (inserting therein the letter or other designation of the Series of Bonds issued thereunder).

“Servicer” means an organization with which the Authority has entered into a Servicing Agreement or Origination Agreement with respect to Education Loans and any other entity with whom the Authority contracts (which may be the Trustee) for the purpose of providing services with respect to Education Loan Mortgages, credit life insurance or electronic fund transfer, and any successors and assigns or, if no such servicer shall have been appointed or then be acting as Servicer, the Authority itself.

“Servicing Agreement” or “Servicing Contract” means an agreement between the Authority and a Servicer and any supplements and amendments thereto, and any additional agreements entered into by the Authority for the purpose of providing services with respect to Education Loan Mortgages, credit life insurance or electronic fund transfer, under which the Servicer agrees to administer, collect or service Education Loans or any particular provisions thereof, and any successor agreements entered into in accordance with the Resolution.

“Servicing Fees” means any fees payable by the Authority to the Servicer in respect of the Education Loans pursuant to the provisions of the Servicing Agreement, but excludes amounts payable with respect to applications for such Loans.

“Servicing Officer” means the President, any Vice President and any other officer of the Servicer authorized to act on behalf of the Servicer.

“Special Capital Reserve Fund” means the Fund so designated and established pursuant to Section 4.01 of the Resolution.

“Special Capital Reserve Fund Requirement” means, as of any particular date of computation, an amount of money equal to the lesser of (i) the sum of the Series Special Capital Reserve Fund Requirements for all Series of Bonds Outstanding or (ii) the maximum amount of principal and interest becoming due on the Outstanding Bonds by reason of maturity or a required sinking fund payment in any succeeding Bond Year.

“Special Debt Service Account” means the Account in the Revenue Fund so designated and established pursuant to Section 4.01 of the Resolution.

“State” means the State of Connecticut.

“Subaccount” means any of the subaccounts established pursuant to the Resolution.

“Supplemental Resolution” means any resolution of the Authority amending or supplementing the Resolution in accordance with the terms of the Resolution, including but not limited to one providing for the issuance of Bonds pursuant to Section 2.02 of the Resolution, each resolution of which shall be designated “_____”

Supplemental Resolution” by such resolution (inserting therein a designation of such Supplemental Resolution to distinguish it from all other Supplemental Resolutions).

“Testing Date” means the date as of which any Series Net Assets Test is performed.

“Trustee” means State Street Bank and Trust Company, Boston, MA, and its successor from time to time and any other entity which may at any time be appointed as Trustee pursuant to the Resolution.

“Yield Adjustment Fund” means the Fund so designated and established pursuant to Section 4.01 of the Resolution.

Establishment of Funds, Accounts and Subaccounts [Section 4.01]

The following special trust Funds and separate Accounts and Subaccounts within such Funds shall be established, held and maintained by the Trustee under the Resolution:

- Loan Fund;
 - Loan Account;
 - Capitalized Interest Loan Reserve Subaccount;
 - Capitalized Interest Loan Subaccount;
 - Liquidity Subaccount;
 - Loan Subaccount;
 - Cost of Issuance Account;
- Revenue Fund;
 - General Account;
 - Revenue Subaccount;
 - Debt Service Account;
 - Redemption Account;
 - Special Debt Service Account;
- Special Capital Reserve Fund;
- Rebate Fund;
- Yield Adjustment Fund;

Within each account, there is a Series Subaccount for each Series of Bonds.

Application of Moneys in the Loan Fund [Section 4.03, as amended by 2010 Supp. Res.]

Except as otherwise provided in the Resolution or a Supplemental Resolution, any proceeds of a Series of Bonds or other moneys deposited in the Loan Fund shall be used only (i) to pay the Costs of Issuance of such Series of Bonds and to pay a portion of such Series Authority Administrative Fee but only from moneys in the Series Cost of Issuance Subaccount, (ii) to redeem Bonds of such Series pursuant to the Resolution, (iii) to fund Education Loans to be originated pursuant to the Program, or to make or acquire any other Education Loan, as permitted by the Act and the Resolution; provided, however, that, on and after a date to be specified in the applicable Supplemental Resolution, no moneys shall be disbursed for the purpose of making or acquiring Education Loans unless the Authority shall have received written confirmation from the Rating Agencies which then have rated such Series of Bonds that such making or acquiring of Education Loans on and after a date to be specified in the applicable Supplemental Resolution, in and of itself, will not cause the rating such Series of Bonds to be withdrawn or lower than the rating in effect immediately prior to such making or acquiring of Education Loans, provided, further, however, that with respect to the 2009 Series A Bonds, and any Series of bonds issued thereafter, such indication shall be required from Moody’s only and the Authority shall provide notice of such action to Fitch; (iv) to pay Debt Service as provided in the Resolution, and (v) as otherwise specified in the Resolution.

On each Debt Service Payment Date, after making the transfers from the Series Revenue Subaccounts, the Trustee shall make transfers as follows and in the following order of priority:

FIRST: From each Series Capitalized Interest Loan Reserve Subaccount and each Series Liquidity Subaccount to the respective Series Debt Service Subaccount, the amount required so that the balance in such Series Debt Service Subaccount shall equal the Debt Service due on such Series of Bonds on such Debt Service Payment Date; and

SECOND: From each Series Capitalized Interest Loan Reserve Subaccount and each Series Liquidity Subaccount to the various Series Debt Service Subaccounts of any other Series of Bonds, the amount required so that the balance in each such other Series Debt Service Subaccount, when combined with the transfers provided by paragraph FIRST above and any transfers from other Series Capitalized Interest Loan Reserve Subaccounts and other Series Liquidity Subaccounts as provided by this paragraph SECOND, shall equal the Debt Service due on such other Series of Bonds on such Debt Service Payment Date.

The transfers from the Series Capitalized Interest Loan Reserve Subaccounts and the Series Liquidity Subaccounts provided above shall be made first, from the Series Capitalized Interest Loan Reserve Subaccounts, and second, from the Series Liquidity Subaccounts. Transfers from a Series Capitalized Interest Loan Reserve Subaccount and Series Liquidity Subaccount pursuant to paragraph SECOND above shall be pro rata among each Series Capitalized Interest Loan Reserve Subaccount and the Series Liquidity Subaccount based on the amounts on deposit in such Series Debt Service Subaccounts immediately preceding such transfers. Credits to Series Debt Service Subaccounts pursuant to paragraph SECOND above shall be pro rata among the Series Debt Service Subaccounts based on the difference between the balance in each Series Debt Service Subaccount immediately preceding such transfer and the Debt Service due on such Series of Bonds on such Debt Service Date. [Section 4.03(d)]

On any September 15 or March 15 after a date to be specified in the applicable Supplemental Resolution, the Authority may, and on a date to be specified in the applicable Supplemental Resolution, unless money shall continue to be disbursed for the purpose of making or acquiring Education Loans, the Authority shall direct the Trustee to transfer the balance then remaining in the Series Subaccounts within the Loan Account with respect to the Series of Bonds issued pursuant to such Supplemental Resolution as follows and in the following order of priority, after making the transfers as provided in Section 4.05 of the Resolution:

FIRST: To the various Series Rebate Subaccounts, such amount as is required so that the balance in each such Series Rebate Subaccount, shall equal the Series Rebate Requirement, as determined as of the preceding calculation of such amount pursuant to the Series Tax Compliance Agreement;

SECOND: To the various Series Special Capital Reserve Subaccounts, such amount as shall be necessary to make the amount on deposit in the Special Capital Reserve Fund, equal to the Special Capital Reserve Fund Requirement; provided, however, that no such transfer shall be made which shall cause more than ten percent (10%), or such other limit specified in any applicable Supplemental Resolution or applicable Series Tax Compliance Agreement, of the proceeds of any Series of Bonds to have been deposited in the Special Capital Reserve Fund, any Series Capitalized Interest Loan Reserve Subaccount and any Series Liquidity Subaccount;

THIRD: To the respective Series Redemption Subaccount, any balance remaining after making the payments required in paragraphs FIRST and SECOND above. [Section 4.03(e)]

On the first business day after May 15 in each year and on any date after November 15 and before December 2 in each year, or, in any year in which a certification to the State is necessary in connection with restoration of the Special Capital Reserve Fund Requirement, on the same day as such certification is to be made and just prior thereto, but after the transfers from the Series Revenue Subaccounts, the Trustee shall transfer from the balance of moneys then remaining in the Series Subaccounts within Loan Account as follows and in the following order of priority:

FIRST: To the respective Series Special Capital Reserve Subaccount, the amount required so that the balance in such Series Special Capital Reserve Subaccount shall equal the Series Special Capital Reserve Fund Requirement; and

SECOND: To the various Series Special Capital Reserve Subaccounts, the amount required so that the balance in the Special Capital Reserve Fund, when combined with the transfers provided by paragraph FIRST above and any transfers from the Series Subaccounts within the Loan Account with respect to any other Series of Bonds as provided by this paragraph SECOND, shall equal the Special Capital Reserve Fund Requirement;

provided, however, that no such transfer shall be made which shall cause more than ten percent (10%), or such other limit specified in the applicable Supplemental Resolution, of the proceeds of any Series of Bonds to have been deposited in the Special Capital Reserve Fund, any Series Capitalized Interest Loan Reserve Subaccount and any Series Liquidity Subaccount. The transfers provided above shall be made first, from the Series Capitalized Interest Loan Reserve Subaccounts; second, from the Series Liquidity Subaccounts; third, from the Series Capitalized Interest Loan Subaccounts; and fourth, from the Series Loan Subaccounts. Transfers pursuant to paragraphs SECOND above shall be pro rata among each Series Subaccounts within the Loan Account based on the amounts on deposit in such Subaccounts immediately preceding such transfers. [Section 4.03(f)]

In the event of a Determination of Taxability in connection with a Series of Bonds, the Trustee shall transfer all funds then held in all Series Subaccounts within the Loan Fund with respect to such Series of Bonds to such Series Redemption Subaccount. [Section 4.03(g)]

After the date on which any transfer from the Series Subaccounts within the Loan Account, as described above, have been made, the Authority from time to time may direct the Trustee to, and the Trustee shall, transfer any moneys then remaining in a Series Loan Subaccount and a Series Capitalized Interest Loan Subaccount to the credit of such Series Revenue Subaccount, but only to the extent such moneys represent Loan repayments transferred to such Series Loan Subaccount or such Series Capitalized Interest Loan Subaccount from such Series Revenue Subaccount. [Section 4.03(h)]

Moneys in a Series Liquidity Subaccount shall be used only to fund Debt Service until such time as an Authorized Officer of the Authority, upon consultation with the Authority's financial advisor and counsel, shall determine that the moneys in such Series Liquidity Subaccount are unlikely to be needed for use in the payment of Debt Service on the Bonds and certify such determination to the Trustee. At such time the Authorized Officer of the Authority shall direct the Trustee to, and the Trustee shall, transfer the moneys then remaining in such Series Liquidity Subaccount to the respective Series Loan Subaccount for application in accordance with the Resolution. [Section 4.03(i)]

Moneys in a Series Capitalized Interest Loan Reserve Subaccount shall be used only to fund Debt Service until such time as an Authorized Officer of the Authority, upon consultation with the Authority's financial advisor and counsel, shall determine that moneys in such Series Capitalized Interest Loan Reserve Subaccount are unlikely to be needed for use in the payment of Debt Service on the Bonds and certify such determination to the Trustee. At such time, the Authorized Officer of the Authority shall direct the Trustee to, and the Trustee shall, transfer moneys then remaining in such Series Capitalized Interest Loan Reserve Subaccount to the respective Series Loan Subaccount for application in accordance with the Resolution. [Section 4.03(j)]

Moneys in a Series Loan Subaccount may be transferred to the respective Series Capitalized Interest Loan Subaccount or the respective Series Capitalized Interest Loan Reserve Subaccount, and moneys in a Series Capitalized Interest Loan Subaccount may be transferred to the Series Loan Subaccount or the Series Capitalized Interest Loan Reserve Subaccount, from time to time as directed by an Authorized Officer of the Authority, who, upon consultation with the Authority's financial advisor and counsel, shall determine that it is in the interest of the Authority to continue or cease originating Capitalized Interest Loans or to fund a reserve therefor, as the case may be, in accordance with the Resolution; provided, however, that with respect to transfers from a Series Loan Subaccount to the Series Capitalized Interest Loan Subaccount, the Rating Agencies then rating the Bonds shall have indicated that such transfer will not, in and of itself, result in a decrease or withdrawal of the rating on the

Bonds, provided, further, however, that with respect to the 2009 Series A Bonds, and any Series of bonds issued thereafter, such indication shall be required from Moody's only and the Authority shall provide notice of such transfer to Fitch; and also provided that with respect to transfers to a Series Capitalized Interest Loan Reserve Subaccount, no such transfer shall be made which shall cause more than ten percent (10%), or such other limit specified in the applicable Supplemental Resolution, of the proceeds of any Series of Bonds to have been deposited in the Special Capital Reserve Fund, any Series Capitalized Interest Loan Reserve Subaccount and any Series Liquidity Subaccount. At such time the Authorized Officer of the Authority shall direct the Trustee to, and the Trust shall, transfer the moneys as so determined. [Section 4.03(k), as amended by 2010 Supp. Res.]

Deposit of Revenues and Allocation Thereof [Section 4.04, as amended by 2009 Supp. Res.]

The Revenues (other than the Reserve Fee and any application and processing fees) received by or for the account of the Authority with respect to each Series of Bonds, the interest earned and profits realized by reason of the investment of moneys credited to the Funds, Accounts and Subaccounts held by the Trustee with respect to a Series of Bonds (other than the Rebate Fund, the Yield Adjustment Fund, the Debt Service Account and the Special Debt Service Account), and any other moneys of the Authority or available to the Authority which it shall so determine, shall be promptly paid over or caused to be paid over to the Trustee for deposit into the General Account, and on the final business day of each week it shall be transferred by the Trustee to the respective Series Revenue Subaccount.

Application of Moneys in the General Account [Section 4.05]

From time to time, as directed by the Authority, the Trustee shall transfer from any Series Revenue Subaccount to any Series Subaccounts of the Loan Fund to reimburse any such Series Subaccounts of the Loan Fund for moneys transferred therefrom for the purpose of paying Debt Service on the Series of Bonds to which such Series Revenue Subaccount pertains in the following order: first, to any other Series Liquidity Subaccount; second, to any other Series Capitalized Interest Loan Reserve Subaccount; third, to the respective Series Liquidity Subaccount; and fourth, to the respective Series Capitalized Interest Loan Reserve Subaccount. [Section 4.05(a)]

From time to time, the Trustee shall transfer from each Series Revenue Subaccount amounts required to pay the portion of fees and expenses of the Servicer and the Trustee allocable to such Series of Bonds and the Series Authority Administrative Fee when due. The Authority shall approve and direct the payment of such amounts by a certificate of an Authorized Officer of the Authority which shall be filed with the Trustee and shall state the person to whom the payment is due and the amount to be paid. [Section 4.05(b)]

Upon written direction of the Authority, the Trustee shall transfer from any Series Revenue Subaccount to the respective Series Rebate Subaccount, such amount as is required so that the balance in such Series Rebate Subaccount shall equal the amount required to be paid to the United States Department of the Treasury pursuant to the Resolution and the Series Tax Compliance Agreement. [Section 4.05(c)]

On the fifteenth day of each month, but following transfers from each Series Special Debt Service Subaccount, the Trustee shall transfer from the various Series Revenue Subaccounts to the Series Debt Service Subaccounts as follows and in the following order of priority:

FIRST: No Longer Applicable ;

SECOND: No Longer Applicable;

THIRD: From each Series Revenue Subaccount to the respective Series Debt Service Subaccounts, the amount required so that the balance in such Series Debt Service Subaccount shall equal to one-twelfth (1/12) of the principal amount of the respective Series of Bonds to mature during the then current Bond Year times the number of months since the end of the previous Bond Year plus one-sixth (1/6) of the interest installment due on such Series of Bonds on (i) such Debt Service Payment Date if such fifteenth day is a Debt Service Payment Date, times the number of months since the last Debt Service

Payment Date; or (ii) the next Debt Service Payment Date if such fifteenth day is not a Debt Service Payment Date, times the number of months since the last Debt Service Payment Date; and

FOURTH: From each Series Revenue Subaccount to the various Series Debt Service Subaccounts of all other Series of Bonds, the amount required so that the balance in each such other Series Debt Service Subaccount, when combined with the transfers provided by paragraph THIRD above and any transfers from other Series Revenue Subaccounts as provided by this paragraph FOURTH, shall equal one-twelfth (1/12) of the principal amount of the respective Series of Bonds to mature during the then current Bond Year times the number of months since the end of the previous Bond Year plus one-sixth (1/6) of the interest installment due on such Series of Bonds on (i) such Debt Service Payment Date if such fifteenth day is a Debt Service Payment Date, times the number of months since the last Debt Service Payment Date; or (ii) the next Debt Service Payment Date if such fifteenth day is not a Debt Service Payment Date, times the number of months since the last Debt Service Payment Date.

Transfers pursuant to paragraphs SECOND and FOURTH shall be pro rata among each Series Revenue Subaccount based on the amounts on deposit in such Subaccounts immediately preceding such transfers. Transfers to Series Debt Service Subaccounts pursuant to paragraphs FIRST through FOURTH above shall be pro rata among the Series Debt Service Subaccounts based on the difference between the balance in each Series Debt Service Subaccount immediately preceding such transfers and one-twelfth (1/12) of the principal amount of the respective Series of Bonds to mature during the then current Bond Year times the number of months since the end of the previous Bond Year plus one-sixth (1/6) of the interest installment due on such Series of Bonds on the next Debt Service Payment Day times the number of months since the last Debt Service Payment Date. [Section 4.05(d)]

On March 15 and September 15 in each year, and in any year in which a certification to the State is necessary in connection with restoration of the Special Capital Reserve Fund Requirement, on the same day as such certification is to be made and just prior thereto, the Trustee shall transfer from each Series Revenue Subaccount to the Subaccounts set forth below as follows and in the following order of priority:

FIRST: To the respective Series Rebate Subaccount, the amount required so that the balance in such Subaccount shall equal the Series Rebate Requirement, as determined as of the preceding calculation of such amount pursuant to the Series Tax Compliance Agreement;

SECOND: To the various Series Rebate Subaccounts of all other Series of Bonds, the amounts required so that the balance in each such Subaccount, when combined with the transfers provided by paragraph FIRST above and any transfers from other Series Revenue Subaccounts as provided by this paragraph SECOND, shall equal the Series Rebate Requirement, as determined as of the preceding calculation of such amount pursuant to the Series Tax Compliance Agreement for such other Series of Bonds;

THIRD: To the respective Series Special Capital Reserve Subaccount, the amount required so that the balance in such Subaccount shall equal the Series Special Capital Reserve Fund Requirement;

FOURTH: To the various Series Special Capital Reserve Subaccounts of all other Series of Bonds, the amounts required so that the balance in each such Subaccount, when combined with the transfers provided by paragraph THIRD above and any transfers from other Series Revenue Subaccounts as provided by this paragraph FOURTH, shall equal the Series Special Capital Reserve Fund Requirement for such other Series of Bonds;

FIFTH: To the respective Series Debt Service Subaccounts, such amount required so that the balance in such Subaccount shall equal the Debt Service due on such Series of Bonds on the next Debt Service Payment Date;

SIXTH: To the various Series Debt Service Subaccounts of all other Series of Bonds, the amounts required so that the balance in each such Subaccount, when combined with the transfers provided by paragraph FIFTH above and any transfers from other Series Revenue Subaccounts as provided by this

paragraph SIXTH, shall equal the Debt Service due on such other Series of Bonds on the next Debt Service Payment Date;

SEVENTH: To the respective Series Yield Adjustment Subaccount, the amount required so that the balance in such Subaccount shall equal the Series Required Yield Adjustment Amount, as determined as of the preceding calculation of such amount pursuant to the Series Tax Compliance Agreement;

EIGHTH: To the various Series Yield Adjustment Subaccounts of all other Series of Bonds, the amounts required so that the balance in each such Subaccount, when combined with the transfers provided by paragraph SEVENTH above and any transfers from other Series Revenue Subaccounts as provided by this paragraph EIGHTH, shall equal the Series Required Yield Adjustment Amount, as determined as of the preceding calculation of such amount pursuant to the Series Tax Compliance Agreement for such other Series of Bonds; and

NINTH: The balance, if any, to the respective Series Redemption Subaccount, except that (i) if the Authority continues to make Education Loans pursuant to the Program such amount, if any, elected by the Authority shall be transferred to such Series Loan Subaccount or Series Capitalized Interest Loan Subaccount, (ii) to the extent that the Authority anticipates that such money shall be required to make payments of Debt Service on any Series of Bonds during the current and next succeeding Bond Year, such amount as the Authority shall determine to be necessary, in addition to amounts anticipated to be available in the General Account, to make such payments of Debt Service shall be transferred to any such Series Special Debt Service Subaccount and (iii) to the extent of amounts previously transferred to the Series Rebate Subaccount, the Series Special Capital Reserve Subaccount, the Series Debt Service Subaccount, the Series Yield Adjustment Subaccount or the Series Special Debt Service Subaccount of the applicable Series of Bonds pursuant to paragraphs SECOND, FOURTH, SIXTH or EIGHTH above or clause (ii) of this paragraph NINTH from the Series Revenue Subaccount of another Series of Bonds, such amount as the Authority may determine to reimburse such other Series Revenue Subaccount. Notwithstanding the foregoing, moneys shall be transferred to a Series Redemption Subaccount pursuant to this paragraph NINTH only to the extent that they represent Loan repayments.

Transfers pursuant to paragraph SECOND, FOURTH, SIXTH and EIGHTH above shall be pro rata among the Series Revenue Subaccounts based on the amounts on deposit in each Series Revenue Subaccount immediately preceding the transfers provided by the applicable paragraph. Transfers to Series Rebate Subaccounts, Series Special Capital Reserve Subaccounts, Series Debt Service Subaccounts and Series Yield Adjustment Subaccounts pursuant to paragraphs SECOND, FOURTH, SIXTH and EIGHTH above, respectively, shall be made pro rata among the applicable Series Subaccounts based on the difference between the balance in each applicable Series Subaccount immediately preceding the applicable transfer and the balance required by such applicable paragraph. [Section 4.05(e)]

Application of Moneys in the Debt Service Account [Section 4.06]

On each Debt Service Payment Date on which there shall be an insufficient amount in any Series Debt Service Subaccount to pay Debt Service on such Series of Bonds on such Debt Service Payment Date, after making the transfers from the Series Subaccounts within the General Account, the Trustee shall make transfers among the Series Debt Service Subaccounts such that the balance in each such Series Debt Service Subaccount is in the same proportion to the aggregate balance of such Series Debt Service Subaccounts as the Debt Service due during the then current Bond Year on the respective Series of Bonds shall bear to the total Debt Service due on all Bonds Outstanding during such Bond Year.

The Trustee shall, on or before each Debt Service Payment Date, pay or cause to be paid out of the applicable Series Debt Service Subaccount to the Paying Agent in trust for the account of the Authority the principal and interest due on such Series of Bonds and shall apply the same or cause the same to be applied to the payment of such principal and interest. The Trustee shall also pay out of the applicable Series Debt Service Subaccounts to the Paying Agent in trust for the account of the Authority any amounts required for the payment of accrued interest upon any redemption of Bonds of such Series.

Application of Moneys in the Special Debt Service Account [Section 4.15]

On the fifteenth day of each month, prior to making the transfers from the Series Revenue Subaccounts, the Trustee shall make transfers as follows and in the following order of priority:

FIRST: No Longer Applicable;

SECOND: No Longer Applicable;

THIRD: From each Series Special Debt Service Subaccount to the respective Series Debt Service Subaccounts, the amount required so that the balance in such Series Debt Service Subaccount shall equal to one-twelfth (1/12) of the principal amount of the respective Series of Bonds to mature during the current Bond Year times the number of months since the end of the previous Bond Year plus one-sixth (1/6) of the interest installment due on such Series of Bonds on the next Debt Service Payment Date times the number of months since the last Debt Service Payment Date; and

FOURTH: From each Series Special Debt Service Subaccount to the various Series Debt Service Subaccounts of any other Series of Bonds, the amount as shall cause the balance in each such Debt Service Subaccount, when combined with the transfers provided by paragraph THIRD above and any transfers from other Series Special Debt Service Subaccounts as provided by this paragraph FOURTH, the amount required so that the balance in such Series Debt Service Subaccount shall equal to one-twelfth (1/12) of the principal amount of the respective Series of Bonds to mature during the current Bond Year times the number of months since the end of the previous Bond Year plus one-sixth (1/6) of the interest installment due on such Series of Bonds on the next Debt Service Payment Date times the number of months since the last Debt Service Payment Date.

Transfers from a Series Special Debt Service Subaccount pursuant to paragraphs SECOND and FOURTH above shall be pro rata among each Series Special Debt Service Subaccount based on the amounts on deposit in such Subaccounts immediately preceding such transfers. Transfers to Series Debt Service Subaccounts pursuant to paragraphs FIRST, SECOND and FOURTH above shall be pro rata among the Series Debt Service Subaccounts based on the difference between the balance in each Series Debt Service Subaccount immediately preceding such transfers and one-twelfth (1/12) of the principal amount of the respective Series of Bonds to mature during the then current Bond Year times the number of months since the end of the previous Bond Year plus one-sixth (1/6) of the interest installment due on such Series of Bonds on the next Debt Service Payment Date times the number of months since the last Debt Service Payment Date.

On each Debt Service Payment Date the Trustee shall transfer from each Series Special Debt Service Subaccount, first to the Series Debt Service Subaccount for such Series of Bonds, and second to the Series Debt Service Subaccount for any other Series of Bonds, the amount required so that the balance in each such Series Debt Service Subaccount shall equal the unpaid principal and interest due and payable on such Series of Bonds on such Debt Service Payment Date. Transfers from the Series Special Debt Service Subaccounts pursuant to this paragraph shall be pro rata among the Series Special Debt Service Subaccounts based on the amounts on deposit in each Series Special Debt Service Subaccount immediately preceding such transfers. Transfers to the Series Debt Service Subaccounts pursuant to this paragraph shall be pro rata among the Series Debt Service Subaccounts based on the difference between the balance in each Series Debt Service Subaccount immediately preceding such transfers and the Debt Service due on such Series of Bonds on such Debt Service Payment Date.

Application of Moneys in the Redemption Account [Section 4.08]

Moneys in each Series Redemption Subaccount shall be applied by the Trustee to redeem Bonds of the respective Series of Bonds, at the earliest practicable date, as provided in the Resolution.

In the event that amounts in a Series Redemption Subaccount are in excess of the amount required to redeem all Outstanding Bonds of such Series of Bonds, or, in the event no Outstanding Bonds of such Series are then subject to redemption, such excess (i) upon election of the Authority, may be used for optional redemption of

Bonds or (ii) if no such election is made, shall be transferred to the Series Redemption Subaccounts for all other Series of Bonds in the proportion that the balance in each such other Series Redemption Subaccount bears to the total aggregate balance of such other Series Redemption Subaccounts.

To the extent moneys are not available in the respective Series Debt Service Subaccount to pay the accrued interest on redeemed Bonds, such interest shall be paid from the Series Redemption Subaccount. Except for moneys held in a Series Redemption Subaccount for Bonds called for redemption, moneys in a Series Redemption Subaccount may also be applied to pay Debt Service to the extent amounts in any Series Debt Service Subaccount are insufficient to pay Debt Service due on any Debt Service Payment Date.

Application of Moneys in the Special Capital Reserve Fund [Section 4.09]

If at any time any interest on Bonds or principal or Redemption Price of Bonds has become due and payable and payment thereof in full has not been made or provided for from moneys in the Debt Service Account, the Special Debt Service Account, the General Account or the Redemption Account, or the Subaccounts thereof, the Trustee shall forthwith transfer from the Special Capital Reserve Fund to the Debt Service Account an amount which together with other amounts available for such payment shall be sufficient to provide for such payment in full and, subject to the terms and provisions regarding priority of payments after default, apply the amount so withdrawn to such payment. Any such moneys so transferred for a Series of Bonds from the Special Capital Reserve Funds shall be transferred, first, from the applicable Series Special Capital Reserve Subaccount and, then, from any other Series Special Capital Reserve Subaccount and credited to the applicable Series Debt Service Subaccount.

If the amount in the Special Capital Reserve Fund exceeds the Special Capital Reserve Fund Requirement, upon written direction of the Authority, the Trustee shall withdraw the excess from the Special Capital Reserve Fund and deposit the amount so withdrawn as Revenues into the Series Revenue Subaccount of the Series of Bonds from which it came. If the amount in the Special Capital Reserve Fund does not exceed the Special Capital Reserve Fund Requirement, but the amount in any Series Special Capital Reserve Subaccount exceeds the Series Special Capital Reserve Requirement, upon written direction of the Authority, the Trustee shall transfer such excess to any other Series Special Capital Reserve Subaccount as specified by the Authority.

Application of Moneys in the Rebate Fund [Section 4.13]

Amounts on deposit in a Series Rebate Subaccount shall be paid to the United States Department of the Treasury at the times and in the amounts required by the Series Tax Compliance Agreement. Moneys in a Series Rebate Subaccount in excess of those to be so paid to the United States Department of the Treasury with respect to such Series of Bonds shall be transferred to the Series Revenue Subaccount as specified by the Authority.

Application of Moneys in the Yield Adjustment Fund [Section 4.07]

Following the calculation of the “Required Loan Forgiveness Schedule” and the Series Required Yield Adjustment Amount in connection with a Series of Bonds pursuant to the Series Tax Compliance Agreement, the Trustee shall transfer from the applicable Series Yield Adjustment Subaccount to the respective Series Revenue Subaccount such amount as the Authority shall determine to be in excess of the Series Required Yield Adjustment Amount in connection with such Series of Bonds. Any moneys remaining in a Series Yield Adjustment Subaccount for a Series of Bonds upon final maturity or redemption of all Bonds of such Series shall be transferred to the applicable Series Debt Service Subaccount to the extent necessary to pay Debt Service or the Redemption Price of such Bonds or shall be transferred to the Authority and shall be no longer subject to the lien and pledge of the Resolution.

Investment of Moneys [Section 4.10]

Moneys in any of the Funds, Accounts and Subaccounts held by the Trustee pursuant to the Resolution shall be invested by the Trustee in Investment Obligations, in accordance with the provisions of the Resolution and the Series Tax Compliance Agreement and as shall be directed by the Authority in a written order signed by an Authorized Officer thereof. All such Investment Obligations so purchased shall mature or be redeemable at the

option of the holder on a date or dates prior to the time when, in the judgment of the Authority, the funds so invested will be required for expenditure. The express judgment of the Authority as to the time when any funds shall be required for expenditure or be redeemable shall be final and conclusive.

Losses suffered by reason of any investment shall be charged to the Fund, Account or Subaccount for which such investment shall have been made and interest earned and profits realized by reason of any investment (other than investment earnings on the Rebate Fund, the Yield Adjustment Fund, Debt Service Account and Special Debt Service Account, which shall be credited to the applicable Series Subaccount of the Rebate Fund, the Yield Adjustment Fund, Debt Service Account and Special Debt Service Account, respectively) shall be deposited by the Trustee in the respective Series Revenue Subaccount as Revenues.

The Trustee shall sell or redeem any obligations in which moneys shall have been invested as provided in the Resolution, to the extent necessary, in its sole discretion, to provide cash in the Funds, Accounts and Subaccounts in order to make any payments required to be made therefrom, or to facilitate the transfer of moneys between various Funds, Accounts and Subaccounts as may be required or permitted from time to time. Subject to any limiting provisions herein and in the Series Tax Compliance Agreement, the Trustee may commingle moneys held in the Funds, Accounts and Subaccounts established for a Series of Bonds for purposes of investment, and may transfer securities among such Funds, Accounts and Subaccounts.

In computing the assets of any Fund, Account or Subaccount other than the Special Capital Reserve Fund, investments and accrued interest thereon shall be deemed a part thereof. Such investments shall be valued at market value.

Neither the Trustee nor the Authority shall be liable for any depreciation in the value of any obligations in which moneys of the Funds, Accounts or Subaccounts shall be invested, as aforesaid, or for any loss arising from any investment.

Amendments and Modifications of the Resolution [Section 8]

The Authority may adopt at any time or from time to time a Supplemental Resolution for one or more of the following purposes: (a) to add to the covenants and agreements of the Authority contained in the Resolution, other covenants and agreements thereafter to be observed; (b) to surrender any right, power or privilege reserved to or conferred upon the Authority by the Resolution; (c) to confirm, as further assurance, any pledge under and the subjection to any lien or pledge created or to be created by the Resolution of the Revenues derived with respect to the Program; (d) to provide for the issuance of a Series of Bonds in accordance with the provisions of the Resolution; or (e) to grant to or confer on the Trustee for the benefit of the Bondowners any additional rights, remedies, powers, authority, or security which may lawfully be granted or conferred and which are not contrary to or inconsistent with the Resolution. A Supplemental Resolution may also be adopted by the Authority curing any ambiguity or curing, correcting or supplementing any defect or inconsistent provisions contained in the Resolution as may be necessary or desirable and not contrary to or inconsistent with the Resolution. However, no such Supplemental Resolution shall be effective as to the owners of the Bonds until after the filing with the Trustee of a copy of such Supplemental Resolution certified by an Authorized Officer of the Authority, and the filing with the Authority of an instrument in writing made by the Trustee consenting to such Supplemental Resolution. [Sections 8.01, 8.02]

With the consent of at least sixty-six and two-thirds percent (66-2/3%) in principal amount of all Outstanding Bonds, a Supplemental Resolution may be adopted by the Authority modifying any of the provisions of the Resolution or of any of the Bonds or releasing the Authority from any of the obligations, agreements, covenants, limitations, conditions or restrictions therein contained. No such modification changing any terms of redemption of Bonds, due date of principal of or interest on Bonds or making any reduction in principal or Redemption Price of or interest on any Bond shall be made without the consent of the affected Bondowner. No Supplemental Resolution shall be adopted by the Authority, except by unanimous consent, reducing the percentage of consent of Bondowners required for any modification of the Resolution. [Section 8.03]

Default Provisions [Section 7.01]

Each of the following events is hereby declared an Event of Default under the Resolution:

(a) the Authority shall default in the payment of the principal or Redemption Price on any Bond when and as the same shall become due, whether at maturity or upon call for redemption or otherwise; or

(b) payment of any installment of interest on any of the Bonds shall not be made within thirty (30) days after the same shall become due; or

(c) the Authority shall fail or refuse to comply with the provisions of subsection (b) of Section 10a-232 of the Act, or such amounts as shall be certified by the Chairman of the Authority to the Secretary of the Office of Policy and Management and the Treasurer of the State pursuant to such provisions of the Act shall not be allotted and paid, from the State general fund to the Authority, or such allotment and payment is not made prior to the later of (i) the second day succeeding the final adjournment of (a) the session of the General Assembly of the State convening when such certification shall have been made or, if the General Assembly is not then in session, (b) the first session of the General Assembly of the State convening after such certification shall have been made, or (ii) the rendering of a final, unappealable decision or order, or the expiration of an appeal period if no appeal therefrom is taken, in connection with any proceeding by the Authority to compel performance by the applicable State officials of their obligations under Section 10a-232 of the Act; or

(d) the Authority shall refuse to comply with the provisions of the Act, other than as provided in (c) above, or shall default in the performance or observance of any other of the covenants, agreements or conditions on its part in the Resolution, or in the Bonds contained, and such failure, refusal or default shall continue for a period of forty-five (45) days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority by the Trustee or by the owners of not less than twenty percent (20%) in principal amount of the Outstanding Bonds. The Trustee may give such notice in its discretion and shall give such notice at the written request of the owners of not less than twenty percent (20%) in principal amount of the Outstanding Bonds; provided that if such default is of such a nature that it cannot be corrected within such forty-five (45) days, it shall not constitute an Event of Default hereunder if curative or corrective action is instituted within such period and diligently pursued until the default is cured or corrected; or

(e) any proceeding shall be instituted, with the consent or acquiescence of the Authority, for the purpose of effecting a composition between the Authority and its creditors or for the purpose of adjusting the claims of such creditors, pursuant to any Federal or state statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from the Revenues; or

(f) any Event of Default provided for in a Supplemental Resolution with respect to a particular Series of Bonds shall occur.

Remedies [Section 7.02]

Upon the happening and continuance of any Event of Default, the Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds shall, declare an acceleration of the payment of principal on the Bonds. Such declaration shall be by a notice in writing to the Authority, declaring the principal of all of the Outstanding Bonds to be due and payable immediately. Upon the giving of notice of such declaration such principal shall become and be immediately due and payable, anything in the Bonds or in the Resolution to the contrary notwithstanding. At any time after the principal of the Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Resolution, the Trustee shall with the written consent of the owners of not less than twenty-five percent (25%) in principal amount of the Bonds not then due by their terms and then Outstanding and by written notice to the Authority, annul such declaration and its consequences if: (i) moneys shall have accumulated in the Funds, Accounts and Subaccounts sufficient to pay all arrears of principal and interest, if any, upon all of the Outstanding Bonds (except the interest accrued on such Bonds since the last interest payment date); (ii) moneys

shall have accumulated and be available sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Trustee; (iii) all other amounts then payable by the Authority hereunder shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other default known to the Trustee in the observance or performance of any covenant, condition or agreement contained in the Bonds or in the Resolution (other than a default in the payment of the principal of such Bonds then due only because of a declaration under this paragraph) shall have been remedied to the satisfaction of the Trustee or waived by the Trustee pursuant to the Resolution. No such annulment shall extend to or affect any subsequent default or impair any right consequent thereon.

Upon the happening and continuance of any Event of Default, then and in every such case, the Trustee may proceed, and upon the written request of the owners of not less than twenty-five percent (25%) in principal amount of the Outstanding Bonds shall proceed, to protect and enforce its rights and the rights of the owners of the Bonds under the laws of the State or under the Resolution by such suits, actions or special proceedings in equity or at law, either for the specific performance of any covenant contained hereunder or in aid or execution of any power herein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights.

Upon the happening and continuance of any Event of Default, the Trustee may sell, transfer or liquidate the Education Loans and use the proceeds of such sale, transfer or liquidation to make the payments provided in the Resolution; provided, however, that if the proceeds of such sale, transfer or liquidation, together with all other moneys held by the Trustee hereunder and available to pay the principal and interest due and to become due on the Bonds is not sufficient to pay all principal and interest due and to become due on the Bonds, no such sale, transfer or liquidation shall occur without the written consent of the owners of one-hundred percent (100%) of the Bonds Outstanding.

In the enforcement of any rights and remedies under the Resolution, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due from the Authority for principal, Redemption Price, interest or otherwise, under any provision of the Resolution or of the Bonds, and unpaid, with interest on overdue payments of principal and Redemption Price at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings hereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondowners, and to recover and enforce a judgment or decree against the Authority for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

Priority of Payments After Default [Section 7.03]

In the event that the moneys held by the Trustee and Paying Agent shall be insufficient for the payment of interest and principal or Redemption Price then due on the Bonds, such moneys (other than moneys held for the payment or redemption of particular Bonds which have theretofore become due at maturity or by call for redemption) and any other moneys received or collected by the Trustee acting pursuant to the Act and the Resolution, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds, and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agents in the performance of their respective duties under the Resolution, shall be applied as follows:

- (a) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

FIRST: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

SECOND: To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds.

Defeasance [Section 10.01, as amended by 2010 Supp. Res.]

When the Authority shall pay or cause to be paid the principal or Redemption Price of and interest on any Bonds, all fees and expenses of the Trustee and Paying Agent, and all payments due to the United States Department of the Treasury as provided in the Series Tax Compliance Agreement for such Bonds, then the pledge of any Revenues or other moneys and securities hereby pledged to such Bonds and all other rights granted hereby to such Bonds shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Authority, execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction and the Trustee shall pay or deliver to the Authority all moneys or securities held by it pursuant to the Resolution which are not required for the payment or redemption of such Bonds or any other Bonds not theretofore surrendered for such payment or redemption.

All Outstanding Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to give notice of redemption, as provided in the Resolution, on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Escrow Securities (which will not cause any rating on the Bonds for which such Escrow Securities are held to be lower than such as is then in effect) held in escrow by the Trustee or in a separate bank or trust company, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due, the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to mail, as soon as practicable, notice to the owners of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds. Neither Escrow Securities described above nor money, deposited with the Trustee pursuant to the provision in the Resolution providing for defeasance, nor principal or interest payments on any such obligations, shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided, however, that any cash received from such principal or interest payments on such Escrow Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Escrow Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds on and prior to such redemption date, or maturity date thereof, as the case may be, and interest earned from such reinvestment shall be paid over to the Authority, as received by the Trustee, free and clear of any trust, lien or pledge. To the extent there has been set aside and held in trust by the Trustee sufficient moneys and/or Escrow Securities for payment at maturity or redemption of the principal or Redemption Price of and interest accrued to maturity or redemption date on any Bond, there shall be released and discharged from the lien of the Resolution Education Loans (and the Education Loan Notes and Revenues and other collateral pledged with respect to such Education Loans) the aggregate principal amount of which is a percentage of all Education Loans then held under the Resolution, which percentage is the same as the percentage of Bonds deemed

paid of all Bonds Outstanding, provided, however, that no Education Loans shall be so released and discharged unless the Authority shall determine that after giving effect to such release and discharge, every Series Net Assets Test contained in any Supplemental Resolution under which Bonds of any Series of Bonds are to remain Outstanding shall be satisfied and the Rating Agencies then rating the Bonds shall have indicated that such release or discharge will not, in and of itself, result in a decrease or withdrawal of the rating on the Bonds, provided, however, that with respect to the 2009 Series A Bonds, and any Series of bonds issued thereafter, such indication shall be required from Moody's only and the Authority shall provide notice of such release and discharge to Fitch.

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Summary of the 2010 Series A Supplemental Revenue Bond Resolution

Definitions. [2010 Supp. Res. Section 1.01]

“2010 Series A Capitalized Interest Loan” means a Capitalized Interest Loan made with proceeds of the 2010 Series A Bonds.

“2010 Series A Capitalized Interest Loan Reserve Subaccount” means the 2010 Series A Capitalized Interest Loan Reserve Subaccount so designated and established pursuant to Section 4.01 of the 2010 Series A Supplemental Resolution.

“2010 Education Loan” means an Education Loan made or acquired with proceeds of the 2010 Series A Bonds.

“2010 Series A Authority Administrative Fee” means the fee payable to the Authority for the general administrative services of the Authority in connection with the 2010 Series A Bonds, which is an amount equal to 0.15% times the principal amount of 2010 Education Loans outstanding on each August 15, November 15, February 15 and May 15, payable on each such date beginning November 15, 2010. The amount described above may be increased by a resolution of the Authority.

“2010 Series A Bonds” means the 2010 Series A Revenue Bonds authorized pursuant to Section 2.01 of the 2010 Series A Supplemental Resolution.

“2010 Series A Cost of Issuance Account” means the Account within the Cost of Issuance Account so designated and established pursuant to Section 4.01 of the 2010 Series A Supplemental Resolution.

“2010 Series A Debt Service Account” means the Account within the Debt Service Account so designated and established pursuant to Section 4.01 of the 2010 Series A Supplemental Resolution.

“2010 Series A Loan Account” means the Account within the Loan Account so designated and established pursuant to Section 4.01 of the 2010 Series A Supplemental Resolution.

“2010 Series A Rebate Account” means the Account within the Rebate Fund so designated and established pursuant to Section 4.01 of the 2010 Series A Supplemental Resolution.

“2010 Series A Rebate Requirement” means the amount of monies required to be rebated to the United States Department of the Treasury, calculated in accordance with, and payable at the times and in the manner set forth in, the 2010 Tax Compliance Agreement.

“2010 Series A Redemption Account” means the Account within the Redemption Account so designated and established pursuant to Section 4.01 of the 2010 Series A Supplemental Resolution.

“2010 Series A Revenue Account” means the Account within the General Account so designated and established pursuant to Section 4.01 of the 2010 Series A Supplemental Resolution.

“2010 Series A Special Capital Reserve Account” means the Account within the Special Capital Reserve Fund so designated and established pursuant to Section 4.01 of the 2010 Series A Supplemental Resolution.

“2010 Series A Special Capital Reserve Fund Requirement” means, as of a particular date of computation, an amount of money equal to the maximum amount of principal and interest becoming due on the Outstanding 2010 Series A Bonds by reason of maturity or a required sinking fund payment in any succeeding Bond Year.

“2010 Series A Special Debt Service Account” means the Account within the Special Debt Service Account so designated and established pursuant to Section 4.01 of the 2010 Series A Supplemental Resolution.

“2010 Series A Supplemental Resolution” means this 2010 Series A Supplemental Revenue Bond Resolution adopted by the Authority on October 5, 2010, authorizing the issuance of the 2010 Series A Bonds.

“2010 Series A Yield Adjustment Account” means the Account within the Yield Adjustment Account so designated and established pursuant to Section 4.01 of the 2010 Series A Supplemental Resolution.

“2010 Tax Compliance Agreement” means the 2010 Series A Tax Compliance Agreement between the Authority and the Trustee executed and delivered in connection with the 2010 Series A Bonds.

“Authority Order” means a written order of the Authority executed by an Authorized Officer.

“Cede” means Cede & Co., the nominee of DTC, and any successor nominee thereof.

“Determination of Taxability” shall have the meaning ascribed thereto in Section 2.03(d) of the Resolution, except that with respect to the 2010 Series A Bonds clause (3) shall read as follows: the admission in writing by the Authority, in any case to the effect that the interest on any of the 2010 Series A Bonds is, or that but for the redemption of such 2010 Series A Bonds interest thereon would be, includable in the gross income for Federal income tax purposes of an owner or former owner thereof; provided that an event described in clause (1) or clause (2) shall not be deemed a Determination of Taxability until notice of such event has been mailed to the Authority and the Authority has failed to challenge such ruling or notice of assessment and demand for payment within a period of 60 days from receipt of such notice, or any such challenge has been dismissed or denied.

“DTC” means The Depository Trust Company, and any successor thereof.

“Eligible Graduate Student” shall have the meaning assigned thereto in Section 1.01 of the Resolution, except that with respect to the 2010 Series A Bonds: means a student who is a resident of Connecticut and who is enrolled in and pursuing an educational program leading to a post-baccalaureate certificate or a masters, doctorate or professional degree at an Eligible College or University on at least a half-time basis as defined by such college or university, who is in good academic standing and is making satisfactory progress, as determined by such college or university. “Eligible Graduate Student” also means a student who is not a resident of Connecticut, but who is enrolled and pursuing such an educational program at an Eligible College or University in Connecticut, on at least a half-time basis as defined by such college, university, or program, who is in good academic standing and is making satisfactory progress, as determined by such college or university.

“Eligible Student” shall have the meaning assigned thereto in Section 1.01 of the Resolution, except that with respect to the 2010 Series A Bonds: means an Eligible Graduate Student or an Eligible Undergraduate Student.

“Eligible Undergraduate Student” means a student who is a resident of Connecticut and who is enrolled in and pursuing an educational program leading to a certificate or an associate or baccalaureate degree at an Eligible College or University, or a student enrolled in the Connecticut Alternate Route to Certification Program, on at least a half-time basis as defined by such college, university, or program, who is in good academic standing and is making satisfactory progress, as determined by such college, university, or program. “Eligible Undergraduate Student” also means a student who is not a resident of Connecticut, but who is enrolled and pursuing such an educational program at an Eligible College or University in Connecticut, or a student enrolled in the Connecticut Alternate Route to Certification Program, on at least a half-time basis as defined by such college, university, or program, who is in good academic standing and is making satisfactory progress, as determined by such college, university, or program.

“Fitch” means Fitch, Inc., its successors and assigns, and if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any nationally recognized securities rating agency designated by an Authority Order, with written notice thereof to the Trustee.

“Investment Obligations” shall have the meaning assigned thereto in Section 1.01 of the Resolution, except that with respect to the 2010 Series A Bonds: (x) investments of the type described in (iii) thereof shall also include obligations issued by the United States Export-Import Bank, Farmers Home Administration, Federal Financing Bank, Federal Housing Administration, General Services Administration, United States Maritime Administration,

United States Department of Housing and Urban Development, Farm Credit System and Resolution Funding Corporation; (y) investments of the type described in (vii) thereof (investment agreements) shall include those with financial institutions whose long-term obligations are rated within the top two rating categories of any nationally recognized rating service; and (z) investments of the type described in (ix) thereof shall require only that the Trustee have been advised in writing by Moody's that such investment will not result in a decrease or withdrawal of any rating of the Bonds issued by such Rating Agency; and that Fitch be notified that such investment is to be included within the definition of Investment Obligations.

"Issue Date" means the date of original delivery of the 2010 Series A Bonds.

"Moody's" means Moody's Investors Service, Inc., its successors and assigns, and if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any nationally recognized securities rating agency designated by an Authority Order, with written notice thereof to the Trustee.

"Participants" means those broker-dealers, banks and other financial institutions from time to time for which DTC holds 2010 Series A Bonds as a securities depository.

"Program Costs" with respect to the 2010 Series A Bonds means (a) the expenses of the Authority incurred in connection the operation of the Program and the origination of 2010 Education Loans, including consultant's fees, attorneys' fees, auditing fees, marketing fees, travel expenses of directors and officers, insurance and such other reasonable and necessary expenses which may be incurred directly or indirectly in connection with the operation of the Program and the acquisition of student loans, (b) the fees and expenses of the Trustee, (c) the fees of the Servicer under any servicing agreement, (d) the fees and expenses of the Authority incurred in connection with the preparation of opinions of counsel and other authorized reports, certificates or statements attributable to the 2010 Series A Bonds and the 2010 Education Loans, (e) fees and expenses associated with the delivery of a credit facility or liquidity facility under the Resolution, (f) fees and expenses associated with (but not payments under) a swap or other interest rate exchange agreement, (g) the fees and expenses associated with the purchase of any debt service reserve surety bond, (h) the fees of any Rating Agency, and (i) expenses incurred for the Authority's maintenance and operation of its Program as a direct consequence of the Resolution, the 2010 Series A Bonds or the 2010 Education Loans; including, but not limited to, taxes, costs related to continuing disclosure, the reasonable fees and expenses of attorneys, agents, financial advisors, consultants, accountants, rebate consultants and other professionals, attributable to such maintenance and operation, marketing expenses for the Program and a prorated portion of the rent, personnel compensation, office supplies and equipment, travel expenses and other lawful payments made to members of the board of directors.

"Representation Letter" means the Blanket Letter of Representations of the Authority and the Trustee to DTC, dated May 13, 2003.

Extraordinary Redemptions. [2010 Supp. Res. Section 2.03(e)] The 2010 Series A Bonds shall not be subject to extraordinary redemption as provided in Section 2.03(e) of the Resolution.

Establishment of Funds and Accounts. [2010 Supp. Res. Section 4.01] The following Funds and Accounts shall be established, held and maintained by the Trustee under the Resolution and the 2010 Series A Supplemental Resolution: (1) within the Loan Account, the 2010 Series A Loan Account and the 2010 Series A Capitalized Interest Loan Reserve Subaccount ; (2) within the Cost of Issuance Account, the 2010 Series A Cost of Issuance Account; (3) within the General Account, the 2010 Series A Revenue Account; (4) within the Debt Service Account, the 2010 Series A Debt Service Account; (5) within the Redemption Account, the 2010 Series A Redemption Account; (6) within the Special Debt Service Account, the 2010 Series A Special Debt Service Account; (7) within the Special Capital Reserve Fund, the 2010 Series A Special Capital Reserve Account; (8) within the Rebate Fund, the 2010 Series A Rebate Account; and (9) within the Yield Adjustment Fund, the 2010 Series A Yield Adjustment Account.

Payment of Expenses and Costs of Issuance. [2010 Supp. Res. Section 4.03] The Authority covenants that Program Costs will not increase above the levels set forth in 2010 Supplemental Resolution unless the Authority and

the Trustee shall have been advised in writing by Moody's, that such increased Program Costs will not result in a decrease or withdrawal of any rating of the 2010 Series A Bonds issued by such Rating Agency. The Authority shall provide written notice to Fitch of the increase in Program Costs.

Application of Moneys in the Loan Fund. [2010 Supp. Res. Section 4.04]

Upon the earlier of (i) one-hundred eighty (180) days following initial delivery of the 2010 Series A Bonds or (ii) payment of all Costs of Issuance of the 2010 Series A Bonds, any moneys then remaining in the 2010 Cost of Issuance Account shall be deposited in the 2010 Series A Loan Account.

On and after January 1, 2013 no moneys shall be disbursed for the purpose of making or acquiring Education Loans.

As provided in Section 2.03(b) of the 2010 Series A Supplemental Resolution, unless moneys shall continue to be disbursed for the purpose of making or acquiring Education Loans, the Authority may direct the Trustee to transfer to the 2010 Series A Redemption Account the balance of (i) the original proceeds of the 2010 Series A Bonds, and/or (ii) any Revenues transferred to the 2010 Series A Loan Account, pursuant to Paragraph Ninth of Section 4.05(e) of the Resolution then remaining in such Loan Account.

On May 15, 2011, and on each November 15 and May 15 thereafter through and including November 15, 2012, subject to the provisions of the preceding paragraph, the Authority, upon determination that such amounts will not be needed to pay debt service on the 2010 Series A Bonds, may direct the Trustee to transfer money from the 2010 Series A Capitalized Interest Loan Reserve Subaccount to the 2010 Series A Loan Account to be applied for the making or acquiring of Education Loans.

Application of Moneys in the General Account. [2010 Supp. Res. Section 4.05] With respect to the 2010 Series A Bonds, paragraphs FIFTH and SIXTH of Section 4.05(e) of the Resolution shall not apply.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**

Financial Statements

June 30, 2010 and 2009

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
TABLE OF CONTENTS**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Balance Sheets.....	9
Statements of Revenues, Expenses, and Changes in Net Assets.....	11
Statements of Cash Flows	12
Notes to Financial Statements	14
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION	26
Combining Balance Sheets.....	27
Combining Statements of Revenues, Expenses, and Changes in Net Assets.....	29
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30

Simione Macca & Larrow^{llc}



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**
Farmington, Connecticut

We have audited the accompanying basic financial statements of the Connecticut Higher Education Supplemental Loan Authority ("Authority"), a component unit of the State of Connecticut, as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these basic financial statements based on our audits.

We conducted our audits 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Connecticut Higher Education Supplemental Loan Authority as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 21, 2010 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 important for assessing the results of our audits.

Board of Directors
CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
Page 2

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Simone Macca & Larrow LLP

Rocky Hill, Connecticut
September 21, 2010

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
MANAGEMENT’S DISCUSSION AND ANALYSIS**

The Connecticut Higher Education Supplemental Loan Authority (CHESLA) is a public instrumentality and political subdivision of the State of Connecticut (the “State”). 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 of higher education in the State to assist qualified students to attend such institutions. CHESLA is authorized to issue tax-exempt bonds, the proceeds of which are used to fund education loans to applicants meeting certain eligibility requirements. The repayments 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 following Management’s Discussion and Analysis (MD&A) of the Connecticut Higher Education Supplemental Loan Authority (“the Authority”) activities and financial performance provides an introduction to the audited financial statements for the fiscal year ended June 30, 2010 as compared to June 30, 2009. Following the MD&A are the basic financial statements of the Authority together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL POSITION SUMMARY

The Authority's fiscal year 2010 assets increased by \$18.8 million or 12.1% over fiscal year 2009 and liabilities increased by \$19.6 million or 13.8% over fiscal year 2009. Total assets exceeded liabilities by \$13.2 million in 2010 as compared to \$14 million for 2009, or a net decrease of \$0.8 million.

BALANCE SHEETS		
(In Thousands)		
	2010	2009
ASSETS:		
Current unrestricted assets	\$ 15,526	\$ 12,541
Current restricted assets	34,343	21,536
Total Current Assets:	49,869	34,077
Non-Current assets:		
Restricted Investments	15,618	12,600
Loans receivable, net of current portion	106,719	106,876
Bond issuance costs, net	2,575	2,397
Total Non-Current Assets	124,912	121,873
TOTAL ASSETS	\$ 174,781	\$ 155,950
LIABILITIES:		
Current liabilities	\$ 11,381	\$ 6,630
Long-term liabilities	150,247	135,364
TOTAL LIABILITIES	161,628	141,994
NET ASSETS:		
Unrestricted	12,153	12,956
Temporarily restricted	1,000	1,000
TOTAL NET ASSETS	13,153	13,956
TOTAL LIABILITIES AND NET ASSETS	\$ 174,781	\$ 155,950

FINANCIAL HIGHLIGHTS

The following is an overview of significant changes within the Balance Sheets during the past fiscal year:

Assets

Current unrestricted assets increased by \$3 million or 23.8%. This was primarily due to loans receivable becoming more current in 2010.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL HIGHLIGHTS (Continued)

Current restricted assets increased by \$12.8 million or 59.5%. This increase was the result of investments acquired as part of the 2009 bond deal offset by loans issued in FY 2010.

Non-current assets increased by \$3 million or 2.5%. This was primarily due to the investment required under the 2009 Special Capital Reserve Fund.

Liabilities

Current liabilities increased by \$4.8 million or 71.7% as compared to June 30, 2009, due primarily to the current payment obligations of bonds payable.

Long-term liabilities increased by \$14.9 million or 11% as compared to June 30, 2009, due to the 2009 bonds being issued offset by required principal payments on existing bonds. Additionally, the excess loan yield liability was recorded by the Authority in FY 2010.

SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS

A summary of operations and changes in net assets for the fiscal year ended June 30, 2010, and the amount and percentage of change in relation to prior fiscal year amount is as follows:

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
(In Thousands)
Fiscal Years Ending June 30,

	2010	2009
Operating revenues	\$ 10,382	\$ 10,124
Operating expenses	11,185	9,224
Increase (decrease) in Net Asset	\$ (803)	\$ 900

Operating revenues increased during fiscal year 2010 by \$0.3 million or 2.5% compared to fiscal year 2009. This was primarily due to the increase in interest earnings on loans receivable being offset by the decrease in interest earnings on investments.

Operating expenses increased during fiscal year 2010 by \$2 million or 21.3% compared to fiscal year 2009. This was primarily due to the recording of the excess loan yield liability and an increase in interest expense associated with the issuance of the 2009 bonds.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

SUMMARY OF REVENUE

A summary of revenues (in thousands) for the fiscal year ended June 30, 2010, and the amount and percentage of change in relation to prior fiscal year amounts is as follows:

	<u>2010</u>	<u>Percent of Total</u>	<u>2009</u>	<u>Increase/ (decrease) from 2009</u>	<u>Percent Increase/ (decrease)</u>
Operating:					
Interest income on loans receivable	\$ 7,879	75.8%	\$ 7,553	\$ 326	4.3%
Interest income on investments	1,490	14.4%	1,560	(70)	-4.5%
Administrative fees	<u>1,013</u>	<u>9.8%</u>	<u>1,011</u>	<u>2</u>	0.2%
Total operating revenues	<u>10,382</u>	<u>100.0%</u>	<u>10,124</u>	<u>258</u>	
 TOTAL REVENUES	 <u>\$ 10,382</u>	 <u>100.0%</u>	 <u>\$ 10,124</u>	 <u>\$ 258</u>	 <u>2.5%</u>

The following discusses the major changes in operating revenues of the Authority:

- Interest income on loans receivable, which represents interest income from educational loans, increased by 4.3% or \$0.3 million due to the \$18.8 million in new loan issuances during FY 2010.
- Interest income on investments, decreased by \$0.1 million or 4.5% from fiscal year 2009. The decrease is due to loan issuances and debt repayments reducing the amount of investments available to earn interest as well as lower interest rates on the 2009 investments. Offsetting these decreases was the \$0.3 million of unrealized gain on the Authority's treasury bond investment.
- Administrative fees were in line with 2009 fees. These fees are based on Authority income from a percentage of originations and principal outstanding from the various bond deals.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

SUMMARY OF EXPENSES

A summary of expenses (in thousands) for the fiscal year ended June 30, 2010, and the amount and percentage of change in relation to prior fiscal year amounts is as follows:

	<u>2010</u>	<u>Percent of Total</u>	<u>2009</u>	<u>Increase/ (decrease) from 2009</u>	<u>Percent Increase/ (decrease)</u>
Operating:					
Interest expense	\$ 7,320	65.4%	\$ 6,793	\$ 527	7.8%
Administrative fees	1,013	9.1%	1,011	2	0.2%
Loan collection fees	478	4.3%	524	(46)	-8.8%
Amortization of bond issuance costs	468	4.2%	442	26	5.9%
General and administrative expenses	288	2.6%	293	(5)	-1.7%
Professional fees	154	1.4%	175	(21)	-12.0%
Salaries	128	1.1%	128	-	0.0%
Trustee fees	52	0.5%	42	10	23.8%
Arbitrage rebate and excess loan yield expense	1,224	10.9%	(66)	1,290	1954.5%
Provision for loan losses	<u>60</u>	<u>0.5%</u>	<u>(118)</u>	<u>178</u>	<u>150.8%</u>
TOTAL OPERATING EXPENSES	<u>\$ 11,185</u>	<u>100.0%</u>	<u>\$ 9,224</u>	<u>\$ 1,961</u>	<u>21.3%</u>

The Authority's expenses increased from fiscal year 2009 to 2010 by approximately \$2 million or 21.3% in total. Notable differences between the years include:

- Interest expense increased by \$0.5 million or 7.8% due to the issuance of the 2009 bonds in FY 2010.
- Arbitrage rebate and excess loan yield expense increased by \$1.3 million due to the recording of the excess loan yield liability in FY 2010.
- Provision for loan losses increased by \$0.2 million due primarily to the increased principal outstanding during FY 2010.

SUMMARY OF CASH FLOW ACTIVITIES

The following is a summary of the major sources and uses of cash and cash equivalents for the two most recent fiscal years. Cash equivalents are considered cash-on-hand, bank deposits and highly liquid investments with an original maturity of three months or less.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

SUMMARY OF CASH FLOW ACTIVITIES (Continued)

STATEMENTS OF CASH FLOWS		
(In Thousands)		
Fiscal Years Ending June 30,		
	2010	2009
Cash flows from operating activities	\$ (2,184)	\$ (7,889)
Cash flows from investing activities	(23,241)	31,659
Cash flows from non-capital financing activities	17,680	(15,171)
Net increase in cash and cash equivalents	(7,745)	8,599
Cash and cash equivalents:		
Beginning of year	17,630	9,031
End of year	\$ 9,885	\$ 17,630

The Authority's available cash and cash equivalents decreased \$7.7 million from \$17.6 million at the end of fiscal year 2009 to \$9.9 million at the end of fiscal year 2010 as explained below:

- Cash flows from operating activities represents the net difference between cash received from loan payments, loan interest and investment interest, and cash paid for loans disbursed, bond interest, and other operating expenses. For fiscal year 2010, this net use of cash was \$5.7 million less than fiscal year 2009 and was mainly due to a decrease in loans disbursed during FY 2010 as well as greater principal collected during FY 2010.
- Cash flows from investing activities represent the net difference between the cash proceeds from maturing investments and the cash disbursements for the purchase of investment securities. For fiscal year 2010, this net use of cash was \$54.9 million more than fiscal year 2009 and was mainly due to purchase of investments associated with the 2009 bond deal offset by loan issuances from the 2009 loan fund whereas FY 2009 had only sales of investments to facilitate bond payments and the transfer of the 2007 loan account from an investment to a cash equivalent.
- Cash flows from non-capital financing activities represent the net difference between total proceeds from bond issuances, versus the costs of issuance and scheduled payments on bond principal. For fiscal year 2010, this net source of cash was \$32.9 million greater than fiscal year 2009 and was mainly due to issuance of the 2009 bonds offset by principal payments whereas FY 2009 only had principal payments.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**

**BALANCE SHEETS
June 30, 2010 and 2009**

ASSETS	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Unrestricted assets:		
Cash and cash equivalents	\$ 1,136,091	\$ 1,211,920
Current portion of loans receivable, net of allowances for loan losses \$2,194,000 in 2010 and \$2,134,000 in 2009	13,760,106	10,786,878
Interest receivable on investments	155,134	119,637
Interest receivable on loans receivable	462,464	422,149
Due from Pre 2003 series	<u>12,290</u>	<u>-</u>
Total Unrestricted Assets	<u>15,526,085</u>	<u>12,540,584</u>
Restricted assets:		
Cash and cash equivalents	8,749,208	16,418,453
Investments	25,592,481	5,115,719
Connecticut Higher Education Trust	<u>1,603</u>	<u>2,281</u>
Total Restricted Assets	<u>34,343,292</u>	<u>21,536,453</u>
Total Current Assets	<u>49,869,377</u>	<u>34,077,037</u>
NON-CURRENT ASSETS		
Restricted investments	15,617,398	12,600,000
Loans receivable, net of current portion	106,719,091	106,876,045
Bond issuance costs, net of accumulated amortization of \$3,650,018 in 2010 and \$3,182,544 in 2009	<u>2,575,323</u>	<u>2,397,412</u>
Total Non-Current Assets	<u>124,911,812</u>	<u>121,873,457</u>
Total Assets	<u>\$ 174,781,189</u>	<u>\$ 155,950,494</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS	<u>2010</u>	<u>2009</u>
CURRENT LIABILITIES		
Current portion of bonds payable	\$ 9,946,534	\$ 5,257,350
Accounts payable and accrued liabilities	74,271	119,977
Current portion of arbitrage rebate and excess loan yield liability payable	6,513	11,693
Accrued interest payable	883,617	789,556
Current portion of deferred revenue	458,153	451,791
Due to 2003 series	<u>12,290</u>	<u>-</u>
Total Current Liabilities	<u>11,381,378</u>	<u>6,630,367</u>
LONG-TERM LIABILITIES		
Bonds payable, net of current portion	146,491,701	132,753,236
Arbitrage rebate and excess loan yield liability payable, net of current portion	1,321,502	92,091
Deferred revenue, net of current portion	<u>2,433,284</u>	<u>2,518,258</u>
Total Long-Term Liabilities	<u>150,246,487</u>	<u>135,363,585</u>
Total Liabilities	<u>161,627,865</u>	<u>141,993,952</u>
NET ASSETS		
Unrestricted net assets	12,153,324	12,956,542
Temporarily restricted net assets	<u>1,000,000</u>	<u>1,000,000</u>
Total Net Assets	<u>13,153,324</u>	<u>13,956,542</u>
Total Liabilities and Net Assets	<u>\$ 174,781,189</u>	<u>\$ 155,950,494</u>

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Interest income on investments	\$ 1,490,044	\$ 1,560,030
Interest income on loans receivable	7,879,100	7,553,446
Administrative fees	<u>1,012,820</u>	<u>1,010,658</u>
Total Operating Revenues	<u>10,381,964</u>	<u>10,124,134</u>
OPERATING EXPENSES		
Interest expense	7,320,439	6,792,980
Administrative fees	1,012,820	1,010,658
Loan collection fees	478,021	524,379
Amortization of bond issuance costs	467,473	441,112
General and administrative expenses	287,778	292,571
Professional fees	154,250	175,050
Salaries	128,170	128,996
Trustee fees	52,000	42,160
Arbitrage rebate and excess loan yield expense	1,224,231	(65,888)
Provision for loan losses	<u>60,000</u>	<u>(118,000)</u>
Total Operating Expenses	<u>11,185,182</u>	<u>9,224,018</u>
CHANGE IN NET ASSETS	(803,218)	900,116
NET ASSETS, beginning	<u>13,956,542</u>	<u>13,056,426</u>
NET ASSETS, ending	<u>\$ 13,153,324</u>	<u>\$ 13,956,542</u>

See notes to financial statements.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for the following:		
Loan payments	\$ 15,954,106	\$ 13,381,001
Interest collected on loans	7,760,173	7,566,621
Interest collected on investments	1,180,021	1,774,645
Other income	1,099,528	1,127,295
Total cash received	25,993,828	23,849,562
Cash paid for the following:		
Loans disbursed	(18,792,462)	(22,735,450)
Bond interest	(7,226,378)	(6,874,705)
Other expenses	(2,158,745)	(2,128,194)
Total cash disbursed	(28,177,585)	(31,738,349)
Net Cash Used in Operating Activities	(2,183,757)	(7,888,787)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of restricted investments	7,125,204	31,659,427
Purchase of restricted investments	(30,366,137)	-
Net Cash Provided by (Used in) Investing Activities	(23,240,933)	31,659,427
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Issuance of bonds	30,000,000	-
Bond issuance costs	(645,384)	(1,363)
Payments on bond principal	(11,675,000)	(15,170,000)
Net Cash Provided by (Used in) Noncapital Financing Activities	17,679,616	(15,171,363)
Net increase (decrease) in cash and cash equivalents	(7,745,074)	8,599,277
CASH AND CASH EQUIVALENTS, Beginning	17,630,373	9,031,096
CASH AND CASH EQUIVALENTS, Ending	\$ 9,885,299	\$ 17,630,373

See notes to financial statements.

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES		
Change in net assets	\$ (803,218)	\$ 900,116
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Amortization of bond issuance costs	467,473	441,112
Amortization of deferred amount on refunding	90,627	110,403
Amortization of bond discount	44,405	44,405
Amortization of bond premium	(32,383)	(38,170)
Provision for loan losses	60,000	(118,000)
Accretion of treasury bond premium	21,977	-
Unrealized gain on treasury bond	(274,526)	-
Change in assets and liabilities:		
Increase in loans receivable	(2,876,274)	(9,354,449)
Decrease (Increase) in interest receivable on investments	(35,497)	214,615
Increase in interest receivable on loans receivable	(40,315)	(37,433)
Increase (Decrease) in accounts payable and accrued liabilities	(45,706)	66,480
Increase (Decrease) in arbitrage rebate and excess loan yield liability payable	1,224,231	(86,749)
Increase (Decrease) in accrued interest payable	94,061	(81,725)
Increase (Decrease) in deferred revenue	(78,612)	50,608
Net Cash Used in Operating Activities	<u>\$ (2,183,757)</u>	<u>\$ (7,888,787)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS
TO THE STATEMENT OF NET ASSETS

Cash and cash equivalents - unrestricted	1,136,091	1,211,920
Cash and cash equivalents - restricted	8,749,208	16,418,453
	<u>\$ 9,885,299</u>	<u>\$ 17,630,373</u>

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – The Connecticut Higher Education Supplemental Loan Authority (“Authority”) is a body politic and corporate established in 1982 pursuant to Section 4 of Connecticut Higher Education Supplemental Loan Authority Act, Public Act 82-313 of the Connecticut General Assembly (the Act). For purposes of financial reporting, the Authority is a component unit of the State of Connecticut and the Authority’s financial statements are included in the State’s Comprehensive Annual Financial Report. The Authority was established to assist students, their parents and institutions of higher education to finance the cost of higher education through its Bond funds.

The funds of the Authority are proprietary fund types. Proprietary funds are used to account for governmental activities that are similar to those found in the private sector where the determination of net income is necessary or useful for sound financial administration. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheet. Accounting principles generally accepted in the United States of America (GAAP) used for proprietary funds are generally those applicable to businesses in the private sector. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the Authority applies all GASB pronouncements and all Financial Accounting Standards Board Statements, Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with GASB pronouncements.

Authority Operating Fund – The administrative functions of the Authority are accounted for in the Authority Operating Fund. Revenues in this fund consist of interest income and administrative fees.

Bond Funds – Under the Bond Funds, the Authority issues revenue bonds, the proceeds of which are used to provide loans directly to students or other borrowers to assist in the financing of higher education. Revenue in the Bond Funds is derived from interest earned on investments and loans receivable. The 2003 Bond Fund is governed by the 2003 Master Revenue Bond Resolution, pursuant to which the 2003 and 2005 Series A and B and 2006 and 2007 Series A bonds were issued. The proceeds from the 2003 Series B bonds were used to refund the 1991 Series A bonds and the 2003 Series 1 bonds. The proceeds from the 2005 Series B bonds were used to refund the 1993 and 1994 Series A bonds. A portion of the proceeds from the 2006 Series A bonds was used to refund the 1996 Series A bonds. The 2003 Series 1 bonds were issued on May 15, 2003 to refund prior obligations of the Authority scheduled to be retired by special mandatory redemption on May 15, 2003. The Pre 2003 Bond Fund is governed by the 1990 Revenue Bond Resolution, as amended, supplemented and restated, pursuant to which all outstanding bonds were issued prior to the 2003 Series A and B bonds as well as the 2009 Series A bonds. In accordance with the bond resolutions, the Authority internally accounts for each bond issue, which includes individual funds as defined by each bond resolution, including but not limited to combinations of some of the following:

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Funds (Continued) –

The Loan Fund, Revenue Fund, Debt Service Reserve Fund and the Special Capital Reserve Fund.

Prior to 1988, these loans were provided for the purpose of assisting in the financing of attendance at eligible colleges and universities in Connecticut under the Family Education Loan Program (CTFELP). In 1988, the program was expanded to include loans to Connecticut residents attending institutions outside the state. In December 2008, the CTFELP program was renamed the CHESLA Loan Program.

Connecticut Higher Education Trust (CHET) – Under the CHET program, the Authority maintains trust accounts for students in the Authority’s early college awareness program.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management has used historical loss experience to make predictions about future losses. As the loan portfolio matures, the Authority adjusts its estimate of expected default rates used to estimate loan losses.

Revenue Recognition – Interest income on loans is recognized based on the rates applied to principal amounts outstanding. The accrual of interest income is generally discontinued when a loan is classified as non-performing (see Note 3). Loans are currently considered non-performing by management when the borrower has defaulted and not made payments for the most recent three months.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents consisted of short-term investments in the State Treasurer’s Short-Term Investment Fund, which totaled \$9,734,009 and \$17,002,769 as of June 30, 2010 and 2009, respectively.

The State Treasurer’s Short-Term Investment Fund is an investment pool managed by the State Treasurer’s Office. The fair value of the Authority’s position in the pool is the same as the value of the pool shares.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments – In accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Authority presents all investments at fair value, except for non-participating interest earning investment contracts, which are carried at amortized cost.

The Authority's deposit and investment and investment policy complies with the underlying bond resolution requirements. The Authority maintains guaranteed investment contracts with MBIA, Inc., IXIS Funding (formerly known as CDC Funding Corporation), Society Generale, Natixis, Citigroup, GE Capital, FSA Capital Management Services, Rabobank International, and RBC. Under these agreements, all investment transactions must be authorized investments, defined by the bond resolutions as including primarily securities issued or guaranteed by the United States Government, corporate debt obligations having a bond rating of "A" or higher, mortgage participation certificates issued by the Federal Home Loan Mortgage Corporation and mortgage pass-through certificates issued by the Federal National Mortgage Association.

There were no significant investment losses for the years ended June 30, 2010 and 2009.

Loans Receivable and Allowance for Loan Losses – Interest on loans receivable is accrued and credited to operations based upon the principal amount outstanding. Loans are placed on non-accrual status when management believes principal or interest on such loans may not be collected in the normal course of business. The allowance for loan losses has been provided through charges against operations based on management's evaluation of the loan portfolio and maintained at a level believed adequate to absorb potential losses in the loan portfolio. Loans are typically written off against the allowance for loan losses (net of loan recoveries) in the period in which the loans become non-performing and no payments have been made for 12 consecutive months. However, a loan may be written off at any time management believes the repayment of such loan is doubtful. Collections of loans previously written-off are pursued until management believes that further recoveries are doubtful.

Restricted Assets – Under provisions of the bond resolutions, certain assets are restricted for the repayment of bond principal and interest, for the issuance of student loans, and anticipated operating costs.

Bond Issuance Costs – Bond issuance costs are amortized over the term of the related bonds.

Arbitrage Rebates and Excess Loan Yield Liability – Under the Internal Revenue Code of 1986 (the Code), the Authority is required to rebate to the federal government certain excess earnings on investments from funds obtained with its tax-exempt bonds, as defined by the Code. In addition, the Authority is obligated to reduce its excess loan yield on student loans financed with tax-exempt bonds. The Authority accrues or adjusts for this liability as incurred.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue – The Authority charges a 3 percent reserve fee on loans governed by the 2003 Master Revenue Bond Resolution and a 2 to 4 percent reserve fee on loans governed by the 1990 Revenue Bond Resolution depending on the originating series. The fee, net of origination costs, is deferred and recognized over the life of the loan.

Fair Value Measurements - During 2009, the Authority adopted SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes guidelines for measuring fair value, and expands disclosure regarding fair value measurements. The adoption of SFAS No. 157 did not have a material effect on the Authority’s financial condition or operating results. The Financial Accounting Standards Board (“FASB”) created the FASB Accounting Standards Codification (“ASC”) System which is the official source of authoritative, nongovernmental accounting principles generally accepted in the United States of America effective for reporting periods ending after September 15, 2009. ASC Topic 820 addresses the concepts formerly contained in SFAS 157.

Reclassifications - Certain reclassifications were made to the 2009 financial statements to conform to the 2010 presentation, with no impact on previously reported net assets or change in net assets.

Income Taxes – The Authority is exempt from state and federal income taxes.

The Authority adopted ASC Topic 740 (formerly FASB Interpretation No. 48), “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109” effective July 1, 2009. ASC Topic 740 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise’s financial statements. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon adoption of ASC Topic 740 and in subsequent periods. Management is not aware of any uncertain tax positions taken by the Authority as of that date except as disclosed in Note 11.

Disclosure of Subsequent Events - The Authority adopted ASC Topic 855 (formerly FASB SFAS No. 165), “Subsequent Events” effective July 1, 2009. ASC Topic 855 requires disclosure of the date through which subsequent events have been evaluated, and whether that date is the date that the financial statements were issued or available to be issued. Management has evaluated subsequent events through September 21, 2010, the date the financial statements were available to be issued. Management is not aware of any events subsequent to the statement of financial position date which would require additional adjustment to, or disclosure in, the accompanying financial statements.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – CASH DEPOSITS AND INVESTMENTS

Cash Deposits – Governmental Accounting Standards Board Statement No. 3, *Deposits with Financial Institutions, Investments, and Repurchase Agreements*, requires governmental organizations to categorize their cash deposits into three levels of risk. Category 1 includes amounts, which are insured or collateralized with securities held by the Authority or by its agent in the Authority’s name. Category 2 includes amounts, which are collateralized with securities held by the pledging financial institution’s trust department or agent in the name of the Authority. Category 3 includes amounts, which are uninsured and uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institutions, or by its trust department or agent, but not in the name of the Authority.

For purposes of this disclosure, cash deposits include bank deposits and exclude cash equivalents (see Note 1). As of June 30, 2010 and 2009, the carrying amount of the Authority’s unrestricted and restricted cash deposits totaled \$151,291 and \$627,604, respectively. As of June 30, 2010, the bank balance totaled \$31,618, which was insured by the Federal Deposit Insurance Corporation (Category 1).

Investments – In accordance with the provisions of Statement No. 3 of the Governmental Accounting Standards Board, the Authority’s investments, including cash equivalents, must be categorized to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered in the Authority’s name or are held by the Authority or its agent in the Authority’s name. Category 2 includes uninsured and unregistered investments, which are held by a counter party’s trust department or by its agent in the Authority’s name. Category 3 includes uninsured or unregistered securities, which are held by a counter party, its trust department or by its agent, but not held in the Authority’s name.

The Authority’s investments consist of guaranteed investment contracts, which are not required to be classified under GASB Statement No. 3 because they are direct contractual investments, and are not securities. The Authority also has a United States treasury bond which is considered a Category 1 investment. The State of Connecticut Short-Term Investments Funds, which are presented as cash equivalents, are pooled investments and are not required to be classified under GASB Statement No. 3.

Income on investments consists of the following as of June 30, 2010:

Interest	\$ 1,215,518
Unrealized gain on investment	<u>274,526</u>
Income on investments	<u><u>\$ 1,490,044</u></u>

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – LOANS RECEIVABLE

Under the Bond Fund Program, the Authority makes loans to individuals from the proceeds of bonds issued by the Authority. Loans receivable by outstanding bond series as of June 30, 2010 are as follows:

Bond Series	Number	Balance	Interest Rate (%)
1998A&B	729	\$ 2,709,907	2.00
1999A	441	2,544,463	7.50
1999B	190	785,978	7.50
2000A	656	4,198,992	7.25
2000B	250	1,372,271	7.25
2001A*	994	8,494,318	6.7 & 9.7
2003A	923	8,994,437	4.99
2003B**	535	4,260,908	4.99 & 9.2
2005 A&B***	1,843	20,991,641	5.5, 8.25, & 8.4
2006 A****	2,193	23,320,146	0, 6.1
2007 A	2,388	34,305,083	6.99
2009 A	628	8,254,577	6.80
	<u>11,770</u>	<u>120,232,721</u>	
Add: Non-performing loans		2,440,476	
Less: Allowance for loan losses		<u>(2,194,000)</u>	
		<u>\$ 120,479,197</u>	

* Includes loans issued under the 1990 Series A bonds which were refunded by the 2001 Series A bonds.

** Includes loans issued under the 1991 Series A bonds, which were refunded by the 2003 Series B bonds.

*** Includes loans issued under the 1993 and 1994 Series A bonds, which were refunded by the 2005 Series B bonds.

**** Includes loans issued under the 1996 Series A bonds, which were refunded by the 2006 Series A Bonds.

Outstanding loans receivable bear interest at rates ranging from 0% to 9.7%.

The Authority currently defines non-performing loans as those on which the borrower has defaulted and not made payments for the most recent three months. As of June 30, 2010 and 2009, non-performing loans totaled \$2,440,476 and \$2,070,053, respectively, for which interest income of approximately \$139,228 and \$114,111, respectively, was not accrued.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 – LOANS RECEIVABLE (Continued)

The Authority has a policy to write-off uncollectible loans against the allowance for loan losses when certain criteria are met (see Note 1). In connection with this policy, the Authority wrote-off loans receivable of \$260,840 and \$322,217 for the years ended June 30, 2010 and 2009, respectively, which had been previously provided for through the allowance for loan losses. The Authority recovered \$71,134 and \$120,036 in fiscal 2010 and 2009, respectively, in loans receivable and other credits written-off in previous years.

NOTE 4 – BONDS PAYABLE

The following is a summary of changes in bonds payable for the years ended June 30, 2010 and 2009.

	Balance at June 30, 2008	Increases	Decreases	Balance at June 30, 2009	
Bonds payable - principal	\$ 153,063,948	\$ -	\$ 15,053,362	\$ 138,010,586	
	Balance at June 30, 2009	Increases	Decreases	Balance at June 30, 2010	Within One Year
Bonds payable - principal	\$ 138,710,000	\$ 30,000,000	\$ 11,675,000	\$ 157,035,000	\$ 9,995,000
Discount	(889,394)	-	(44,405)	(844,989)	(44,405)
Premium	439,080	-	32,383	406,697	18,323
Deferred amount on refunding	(249,100)	-	(90,627)	(158,473)	(22,384)
	<u>\$ 138,010,586</u>	<u>\$ 30,000,000</u>	<u>\$ 11,572,351</u>	<u>\$ 156,438,235</u>	<u>\$ 9,946,534</u>

The bonds of the Authority bear interest at rates, varying between 1.7% and 6%. Future amounts needed to pay principal and interest on bonds outstanding at June 30, 2010 is as follows:

Year Ending June 30,	Principal	Interest
2011	\$ 9,995,000	\$ 6,866,141
2012	10,425,000	\$ 6,439,297
2013	13,180,000	\$ 5,946,911
2014	12,545,000	\$ 5,404,048
2015	12,310,000	\$ 4,874,259
2016-2020	56,450,000	\$ 16,358,594
2021-2025	34,830,000	\$ 5,474,909
2026-2030	7,300,000	\$ 568,125
	<u>\$ 157,035,000</u>	<u>\$ 51,932,284</u>

Outstanding principal of each bond issue at June 30, 2010 and 2009 is as follows:

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – BONDS PAYABLE (Continued)

	<u>Original Amount</u>	<u>Outstanding June 30, 2010</u>	<u>Outstanding June 30, 2009</u>
1998 Series A, 4.10%-5.15%, due serially from November 15, 2002 to November 15, 2016	\$ 15,000,000	810,000	\$ 1,350,000
1998 Series B, 4%-4.875%, due serially from November 15, 2001 to November 15, 2010	3,560,000	395,000	800,000
1999 Series A, 4.7%-6%, due serially from November 15, 2002 to November 15, 2017	12,500,000	1,920,000	2,415,000
1999 Series B, 4.5%-6%, due serially from November 15, 2002 to November 15, 2012	4,390,000	1,120,000	1,565,000
2000 Series A, 4.625%-5.5%, due serially from November 15, 2008 to November 15, 2020	16,410,000	2,760,000	3,200,000
2000 Series B, 4.75%-5.2%, due serially from November 15, 2001 to November 15, 2012	5,975,000	1,725,000	2,245,000
2001 Series A, 4.25%-5.25%, due serially from November 15, 2010 to November 15, 2021	25,000,000	15,245,000	15,345,000
2003 Series A, 1.7%-4.5%, due serially from November 15, 2004 to November 15, 2020	18,000,000	10,015,000	11,540,000
2003 Series B, 2%-5%, due serially from November 15, 2004 to November 15, 2017	12,915,000	6,975,000	7,320,000
2005 Series A, 2.5%-4.375% due serially from November 15, 2005 to November 15, 2021	31,455,000	20,055,000	20,705,000
2005 Series B, 4% due serially from November 15, 2008 to 2010	5,900,000	2,500,000	4,200,000

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 – BONDS PAYABLE (Continued)

	<u>Original Amount</u>	<u>Outstanding June 30, 2010</u>	<u>Outstanding June 30, 2009</u>
2006 Series A, 3.9%-4.8% due serially from November 15, 2007 to 2022	33,270,000	24,630,000	27,625,000
2007 Series A, 4.125%-4.875% due serially from November 15, 2010 to 2024	41,000,000	38,885,000	40,400,000
2009 Series A, 1.9%-5.05% due serially from November 15, 2011 to 2027	<u>30,000,000</u>	<u>30,000,000</u>	<u>-</u>
	<u>\$ 255,375,000</u>	<u>\$ 157,035,000</u>	<u>\$ 138,710,000</u>

Each Series A bond is subject to a special mandatory redemption in whole or in part from excess loan payments. During the year ended June 30, 2010 and 2009, the Authority redeemed bonds in the following amounts:

	<u>2010</u>	<u>2009</u>
1998 Series A	\$ 300,000	\$ 765,000
1999 Series A	75,000	470,000
2000 Series A	235,000	1,005,000
2001 Series A	100,000	1,170,000
2003 Series A	1,525,000	650,000
2003 Series B	345,000	-
2005 Series A	650,000	1,400,000
2006 Series A	1,570,000	3,155,000
2007 Series A	<u>1,515,000</u>	<u>600,000</u>
	<u>\$ 6,315,000</u>	<u>\$ 9,215,000</u>

NOTE 5 – RESTRICTED NET ASSETS

Restricted net assets consist of \$1,000,000 to be used to maintain future operations required to monitor and administer the loan portfolio in the event the Authority ceases to issue new loans.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6- FAIR VALUE MEASUREMENTS

During 2009, the Authority adopted ASC Topic 820 (formerly SFAS No. 157, *Fair Value Measurements*), which defines fair value, establishes guidelines for measuring fair value, and expands disclosure regarding fair value measurements. ASC Topic 820 establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. ASC Topic 820 establishes and prioritizes three levels of inputs that may be used to measure fair value.

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The Authority has no Level 3 fair value measurements.

The following table presents the Authority's assets measured at fair value on a recurring basis at June 30, 2010 and 2009:

	Quoted Prices in Active Markets for Identical Assets (Level 1)		Observable Inputs other than Quoted Prices in Active Markets for Identical Assets (Level 2)	
	2010	2009	2010	2009
US Treasury Bond	\$ 2,958,930	\$ -	\$ -	\$ -
Investments	-	-	38,250,948	17,715,719

NOTE 7 – STATE OF CONNECTICUT DEPOSIT REQUIREMENT

Deficiencies, if any, in the Debt Service Reserve Fund balances within the Bond Funds will be funded from the amount on deposit in the applicable Special Capital Reserve Fund. Both the Debt Service Reserve Fund and the Special Capital Reserve Fund are components of restricted investments. In accordance with the Act, the State must deposit with the Trustee monies necessary to restore the Special Capital Reserve Fund requirement (i.e., an amount equal to the maximum amount of principal and interest becoming due by reason of maturity in any one succeeding calendar year or some lesser amount specified by the Authority in its resolution authorizing the issuance of any such bonds.) As of June 30, 2010 and 2009, the State has not made nor was it required to make any such deposit.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 – RELATED PARTY TRANSACTIONS

The Authority shares rental space, office supplies, office equipment and utilities with and shares the services of the Vice President of the Connecticut Conference of Independent Colleges (CCIC). Currently, the executive director of CHESLA serves as Vice President of CCIC. Fees charged to the Authority by CCIC for providing administrative services were \$106,000 and \$104,000 for the years ended June 30, 2010 and 2009, respectively. In addition, the Authority reimbursed CCIC directly for actual general and administrative expenses incurred.

NOTE 9– EMPLOYEE BENEFIT PLANS

The Authority has a Simplified Employee Pension Plan (the Plan). Under the provisions of the Plan, the Authority will make annual contributions directly to the individual retirement accounts (IRA) of all eligible employees, equal to eight percent of the employee's salary. Employees have the right to withdraw amounts from the IRA in accordance with the terms and conditions of the IRA. In 2010 and 2009, the Authority made contributions of \$10,254 to the Plan.

NOTE 10 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, or acts of God. The Authority purchases commercial insurance to mitigate loss from these risks. Neither the Authority nor its insurers have settled any claims that have exceeded insurance coverage in the last three years. There was no reduction in insurance coverage from that of the prior year.

NOTE 11 – ARBITRAGE AND EXCESS LOAN YIELD LIABILITIES

As of June 30, 2010, the yield on the loan portfolios related to the 1998, 2006, and 2007 bond issues exceeds the amount permitted by the applicable federal income tax regulations, necessary to maintain the tax exempt status of the bonds. In prior years, the Authority accounted for these excesses on the basis of calculating a single yield for each loan portfolio and had the IRS expressly permitted calculation of a single yield for all loan portfolios, this would have the impact of reducing or eliminating the Authority's liability. In September 2007, the Internal Revenue Service (IRS) issued proposed regulations, which would eliminate the Tax Commissioner's authority to allow usage of a blended yield for a bond portfolio in the calculation of the excess loan yield liability. As of the date of our financial statements, the IRS has yet to make a final ruling on an issuer's ability to use a blended yield for this calculation. While a final ruling has not been issued, it appears to be the intent of the IRS to eliminate the blended yield method. Therefore, under ASC Topic 740, Income Taxes, the Authority has accrued the aggregate excess loan yield liability of \$1.3 million as of June 30, 2010. Effective May 1, 2009, the Authority reduced the interest rate on certain loans held under the 1990 and 2003 Resolution. Both reductions were done to maintain the tax-exempt status of interest on the

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 – ARBITRAGE LIABILITIES (Continued)

related bonds and attempt to offset the excess loan yield liability. The Authority intends to forgive principal amounts due on student loans in lieu of paying the IRS the excess loan yield liability as it becomes due and payable. This forgiveness is allowable under IRS regulations.

The estimate of the Authority's arbitrage and excess loan yield liability is computed by an outside company who specializes in this area.

Simione Macca & Larrow^{LLP}



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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of the
**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**
Farmington, Connecticut

Our report on our audits of the basic financial statements of Connecticut Higher Education Supplemental Loan Authority for the years ended June 30, 2010 and 2009 appears on page 1. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information contained on pages 27 to 29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Simione Macca & Larrow LLP

Rocky Hill, Connecticut
September 21, 2010

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
COMBINING BALANCE SHEETS
JUNE 30, 2010 AND 2009

(See Independent Auditors' Report on Supplementary Information)

ASSETS	June 30, 2010				June 30, 2009			
	AUTHORITY OPERATING FUND	BOND FUNDS		TOTAL	AUTHORITY OPERATING FUND	BOND FUNDS		TOTAL
		PRE 2003	2003			PRE 2003	2003	
CURRENT ASSETS								
Unrestricted assets:								
Cash and cash equivalents	\$ 1,136,091	\$ -	\$ -	\$ 1,136,091	\$ 1,211,920	\$ -	\$ -	\$ 1,211,920
Current portion of loans receivable, net of allowances for loan losses of \$2,194,000 in 2010 and \$2,134,000 in 2009	-	3,159,989	10,600,117	13,760,106	-	2,067,055	8,719,823	10,786,878
Interest receivable on investments	429	74,391	80,314	155,134	916	34,428	84,293	119,637
Interest receivable on loans receivable	-	109,546	352,918	462,464	-	84,909	337,240	422,149
Due from Pre-2003 Series	-	-	12,290	12,290	-	-	-	-
Total Unrestricted Assets	<u>1,136,520</u>	<u>3,343,926</u>	<u>11,045,639</u>	<u>15,526,085</u>	<u>1,212,836</u>	<u>2,186,392</u>	<u>9,141,356</u>	<u>12,540,584</u>
Restricted assets:								
Cash and cash equivalents	1,000,100	1,168,839	6,580,269	8,749,208	1,000,507	886,762	14,531,184	16,418,453
Investments	-	23,630,897	1,961,584	25,592,481	-	3,393,715	1,722,004	5,115,719
Connecticut Higher Education Trust	1,603	-	-	1,603	2,281	-	-	2,281
Total Restricted Assets	<u>1,001,703</u>	<u>24,799,736</u>	<u>8,541,853</u>	<u>34,343,292</u>	<u>1,002,788</u>	<u>4,280,477</u>	<u>16,253,188</u>	<u>21,536,453</u>
Total Current Assets	<u>2,138,223</u>	<u>28,143,662</u>	<u>19,587,492</u>	<u>49,869,377</u>	<u>2,215,624</u>	<u>6,466,869</u>	<u>25,394,544</u>	<u>34,077,037</u>
NON-CURRENT ASSETS								
Restricted investments	-	5,117,398	10,500,000	15,617,398	-	2,100,000	10,500,000	12,600,000
Loans receivable, net of current portion	-	25,520,946	81,198,145	106,719,091	-	23,058,052	83,817,993	106,876,045
Bond issuance costs, net of accumulated amortization of \$3,650,018 in 2010 and \$3,182,544 in 2009	1,656,913	88,059	830,351	2,575,323	1,344,300	64,211	988,901	2,397,412
Total Non-Current assets	<u>1,656,913</u>	<u>30,726,403</u>	<u>92,528,496</u>	<u>124,911,812</u>	<u>1,344,300</u>	<u>25,222,263</u>	<u>95,306,894</u>	<u>121,873,457</u>
Total Assets	<u>\$ 3,795,136</u>	<u>\$ 58,870,065</u>	<u>\$ 112,115,988</u>	<u>\$ 174,781,189</u>	<u>\$ 3,559,924</u>	<u>\$ 31,689,132</u>	<u>\$ 120,701,438</u>	<u>\$ 155,950,494</u>

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
COMBINING BALANCE SHEETS
JUNE 30, 2010 AND 2009

(See Independent Auditors' Report on Supplementary Information)

LIABILITIES AND NET ASSETS	June 30, 2010				June 30, 2009			
	AUTHORITY OPERATING FUND	BOND FUNDS		TOTAL	AUTHORITY OPERATING FUND	BOND FUNDS		TOTAL
		PRE 2003	2003			PRE 2003	2003	
CURRENT LIABILITIES								
Current portion of bonds payable	\$ -	\$ 3,775,000	\$ 6,171,534	\$ 9,946,534	\$ -	\$ 2,235,000	\$ 3,022,350	\$ 5,257,350
Accounts payable and accrued liabilities	24,126	27,074	23,071	74,271	24,897	22,509	72,571	119,977
Current portion of arbitrage rebate and excess loan yield liability payable	-	6,513	-	6,513	-	11,693	-	11,693
Accrued interest payable	-	307,248	576,369	883,617	-	168,431	621,125	789,556
Current portion of deferred revenue	-	207,021	251,132	458,153	-	221,728	230,063	451,791
Due to 2003 series	-	12,290	-	12,290	-	-	-	-
Total Current Liabilities	<u>24,126</u>	<u>4,335,146</u>	<u>7,022,106</u>	<u>11,381,378</u>	<u>24,897</u>	<u>2,659,361</u>	<u>3,946,109</u>	<u>6,630,367</u>
LONG-TERM LIABILITIES								
Bonds payable, net of current portion	-	50,200,000	96,291,701	146,491,701	-	24,685,000	108,068,236	132,753,236
Arbitrage rebate and excess loan yield liability payable, net of current portion	-	485,538	835,964	1,321,502	-	-	92,091	92,091
Deferred revenue, net of current portion	-	654,359	1,778,925	2,433,284	-	720,002	1,798,256	2,518,258
Total Long-Term Liabilities	<u>-</u>	<u>51,339,897</u>	<u>98,906,590</u>	<u>150,246,487</u>	<u>-</u>	<u>25,405,002</u>	<u>109,958,583</u>	<u>135,363,585</u>
Total Liabilities	<u>24,126</u>	<u>55,675,043</u>	<u>105,928,696</u>	<u>161,627,865</u>	<u>24,897</u>	<u>28,064,363</u>	<u>113,904,692</u>	<u>141,993,952</u>
NET ASSETS								
Unrestricted net assets	2,771,010	3,195,022	6,187,292	12,153,324	2,535,027	3,624,769	6,796,746	12,956,542
Restricted net assets	1,000,000	-	-	1,000,000	1,000,000	-	-	1,000,000
Total Net Assets	<u>3,771,010</u>	<u>3,195,022</u>	<u>6,187,292</u>	<u>13,153,324</u>	<u>3,535,027</u>	<u>3,624,769</u>	<u>6,796,746</u>	<u>13,956,542</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,795,136</u>	<u>\$ 58,870,065</u>	<u>\$ 112,115,988</u>	<u>\$ 174,781,189</u>	<u>\$ 3,559,924</u>	<u>\$ 31,689,132</u>	<u>\$ 120,701,438</u>	<u>\$ 155,950,494</u>

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009

(See Independent Auditors' Report on Supplementary Information)

	June 30, 2010				June 30, 2009			
	AUTHORITY OPERATING FUND	BOND FUNDS		TOTAL	AUTHORITY OPERATING FUND	BOND FUNDS		TOTAL
		PRE 2003	2003			PRE 2003	2003	
OPERATING REVENUES								
Interest income on investments	\$ 42,845	\$ 828,562	\$ 618,637	\$ 1,490,044	\$ 31,146	\$ 285,931	\$ 1,242,953	\$ 1,560,030
Interest income on loans receivable	-	2,019,301	5,859,799	7,879,100	-	2,013,481	5,539,965	7,553,446
Administrative fees	1,012,820	-	-	1,012,820	1,010,658	-	-	1,010,658
Total Operating Revenues	<u>1,055,665</u>	<u>2,847,863</u>	<u>6,478,436</u>	<u>10,381,964</u>	<u>1,041,804</u>	<u>2,299,412</u>	<u>6,782,918</u>	<u>10,124,134</u>
OPERATING EXPENSES								
Interest expense	-	2,415,668	4,904,771	7,320,439	-	1,463,703	5,329,277	6,792,980
Administrative fees	-	178,855	833,965	1,012,820	-	179,402	831,256	1,010,658
Loan collection fees	7,225	183,823	286,973	478,021	995	172,317	351,067	524,379
Amortization of bond issuance costs	286,024	22,900	158,549	467,473	244,171	23,039	173,902	441,112
General and administrative expenses	244,013	26,006	17,759	287,778	273,736	4,288	14,547	292,571
Professional fees	154,250	-	-	154,250	175,050	-	-	175,050
Salaries	128,170	-	-	128,170	128,996	-	-	128,996
Trustee fees	-	24,000	28,000	52,000	-	24,000	18,160	42,160
Arbitrage rebate and excess loan yield expense (income)	-	480,358	743,873	1,224,231	-	(12,624)	(53,264)	(65,888)
Provision for loan losses	-	(54,000)	114,000	60,000	-	(151,000)	33,000	(118,000)
Total Operating Expenses	<u>819,682</u>	<u>3,277,610</u>	<u>7,087,890</u>	<u>11,185,182</u>	<u>822,948</u>	<u>1,703,125</u>	<u>6,697,945</u>	<u>9,224,018</u>
CHANGE IN NET ASSETS	235,983	(429,747)	(609,454)	(803,218)	218,856	596,287	84,973	900,116
NET ASSETS, beginning	<u>3,535,027</u>	<u>3,624,769</u>	<u>6,796,746</u>	<u>13,956,542</u>	<u>3,316,171</u>	<u>3,028,482</u>	<u>6,711,773</u>	<u>13,056,426</u>
NET ASSETS, ending	<u>\$ 3,771,010</u>	<u>\$ 3,195,022</u>	<u>\$ 6,187,292</u>	<u>\$ 13,153,324</u>	<u>\$ 3,535,027</u>	<u>\$ 3,624,769</u>	<u>\$ 6,796,746</u>	<u>\$ 13,956,542</u>

Simione Macca & Larrow^{LLP}



CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

"On Balance, We Offer You More."

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of the
**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**
Farmington, Connecticut

We have audited the accompanying basic financial statements of the Connecticut Higher Education Supplemental Loan Authority ("Authority"), a component unit of the State of Connecticut, as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated September 21, 2010. We conducted our audits 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of control deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the board of directors, and the State of Connecticut Office of the Comptroller, and is not intended to be and should not be used by anyone other than these specified parties.

Sunione Macca & Larrow LLP

Rocky Hill, Connecticut
September 21, 2010

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PART II
INFORMATION SUPPLEMENT
OF THE STATE OF CONNECTICUT

October 5, 2010

The Annual Information Statement of the State of Connecticut (the "State"), dated February 24, 2010, appears in this Official Statement as **Part III** and contains information through February 24, 2010. The State expects to provide an updating Information Supplement from time to time in the future, which will appear in this location as Part II of future Official Statements of the State.

This Information Supplement updates certain information in the February 24, 2010 Annual Information Statement through October 5, 2010. 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**.

Page III-1. The following information replaces the information under the caption **Secretary of the Office of Policy and Management** under the heading **Executive Branch Officers**:

The Acting Secretary of the Office of Policy and Management is Brenda Sisco.

FINANCIAL PROCEDURES

Page III-7. The following information supplements the information under the caption **Consensus Revenue Estimates** under the heading **The Budgetary Process**:

Pursuant to Public Act No. 09-214, the Office of Policy and Management and the legislature's Office of Fiscal Analysis issued on April 30, 2010, a consensus revision of their previous estimate. The General Fund revenue estimates for fiscal years ending June 30 of 2010, 2011, 2012, 2013 and 2014 were \$17,456.4 million, \$17,415.8 million, \$15,791.4 million, \$16,610.7 million, and \$17,397.3 million, respectively. The projections in the consensus revenue estimates are only estimates and no assurances can be given that future events will materialize as estimated or that subsequent estimates, adjustments or actions of the General Assembly will not indicate changes in the final results of the fiscal years reported. The next consensus revenue estimate is expected on October 15, 2010.

STATE GENERAL FUND

Page III-26. The following information is added after the information under the heading **Fiscal Year 2009-2010 Operations**:

Pursuant to Section 4-85 of the Connecticut General Statutes, the Governor was required to submit a report to the joint standing committees of the General Assembly on appropriations and on finance, revenue and bonding on a plan to prevent a deficit. The Governor submitted such a plan on March 1, 2010. On April 14, 2010 Public Act No. 10-3 was passed by the General Assembly and signed into law by the Governor. This bill provided for a net reduction in the anticipated General Fund deficit for the 2009-10 fiscal year of \$323.3 million and a net increase in the General Fund deficit for the 2010-11 fiscal year of \$34.2 million. In November 2009, the Governor issued two rounds of rescissions to reduce the estimated General Fund 2009-10

fiscal year deficit pursuant to her statutory authority totaling \$51.0 million and issued another round of rescissions totaling \$8.1 million on March 31, 2010.

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 July 20, 2010 for the General Fund for the 2009-10 fiscal year, as of the period ending June 30, 2010, General Fund revenues were estimated at \$17,635.9 million, General Fund expenditures and miscellaneous adjustments were estimated at \$17,242.6 million and the General Fund for the 2009-10 fiscal year was estimated to have a surplus of \$393.3 million. The estimate reflects all of the mid-term budget adjustments and deficit mitigation actions taken by the Governor and the General Assembly as of the date of the letter. The Secretary of the Office of Policy and Management noted in her letter that pursuant to Public Act No. 10-179, any General Fund surplus in fiscal year 2009-10 shall be transferred to fiscal year 2010-11 to help balance that budget. Additionally, she noted that fiscal year 2009-10 would not have ended in a surplus were it not for the use of close to \$1.3 billion from the budget reserve fund, \$843.5 million in federal stimulus funding, \$129.5 million from the cancellation of a scheduled sales tax reduction, the deferral of a \$100 million contribution to the State Employees' Retirement System, and deficit mitigation efforts. The Secretary of the Office of Policy and Management indicated in her letter that the estimates in her letter are still subject to change as some adjustments are expected in the year end closing process.

By statute, the State's fiscal position is reported monthly by the Comptroller. In the Comptroller's monthly report dated September 1, 2010 providing unaudited preliminary financial statements, the Comptroller's estimate of the General Fund surplus for the 2009-10 fiscal year was \$449.4 million. The Comptroller indicated that the surplus amount has been reserved for General Fund operations in fiscal year 2010-11. This estimate is subject to final audit adjustments. No assurances can be given that her final year-end financial statements will match her prior estimates or the estimates of the Office of Policy and Management. The unaudited preliminary financial statement of the Comptroller for the fiscal year ending June 30, 2010 have been outlined in **Appendix III-E to Part II** of this Official Statement.

The above projections are only estimates and the information in the monthly letter of the Office of Policy and Management to the Comptroller and in the Comptroller's monthly report contain only estimates and no assurances can be given that future events will materialize as estimated or that subsequent estimates, adjustments or audit or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2009-10 operations of the General Fund.

Page III-28. The following information supplements the information under the heading **Midterm Budget Adjustments**:

Midterm Budget Adjustments for Fiscal Years 2009-2010 and 2010-2011:

The General Assembly concluded its legislative session on May 5, 2010, which included mid-term budget adjustments for fiscal years 2009-10 and 2010-11. Pursuant to Public Act No. 10-179, as amended by Public Act No. 10-1 of the June Special Session and Public Act No. 10-2 of the June Special Session, the General Assembly projected General Fund revenues at \$17,667.4 million and appropriated \$17,667.2 million with an estimated surplus of \$0.2 million for the fiscal year ending June 30, 2011. The projected General Fund revenue of \$17,667.4 million was \$70.6 million higher than the originally enacted budget of \$17,596.8 million. This net increase in revenue includes: 1) a reduction of \$105.2 million in expenses resulting from the impact of the deficit mitigation plan enacted through Public Act No. 10-3; 2) a downward adjustment in projected revenue of \$75.8 million; and 3) an increase of \$251.6 million by adopting changes in certain policy measures consisting of (i) due to projected revenue improvement, a reduction of \$334.7 million from the originally planned securitization of \$1,290.7 million described in **Part III** of this Official Statement under the headings **Budget for Fiscal Years 2009-2010 and 2010-2011** and **Midterm Budget Adjustments** to be

effectuated through Economic Recovery Revenue Bonds which will be secured by non-General Fund electric charges; (ii) an increase of \$365.6 million in federal grants generated from an anticipated extension of the federal American Recovery and Reinvestment Act (ARRA) funding; (iii) a \$140 million transfer of revenue from the projected fiscal year 2009-10 surplus; and (iv) certain other transfers and increases. It should be noted that the ARRA funding was not approved by the U.S. Congress in the magnitude assumed in the adopted budget. The projected General Fund expenditure of \$17,667.2 million was \$72.5 million higher than the originally enacted budget of \$17,594.7 million. This net increase in expenditures is primarily due to an increase of \$357.9 million in estimated current services, which was partially offset by a reduction of \$120.4 million through the deficit mitigation plan and a reduction of \$165.1 million in policy measure changes, including a \$100 million deferral in the State's contribution to the State employees' pension fund. The mid-term budget adjustments have *not* been reflected in **Appendix III-E to Part III** of this Official Statement, but *are* reflected in **Appendix III-E to this Part II**.

Article XXVIII of the Amendments to the Constitution of the State of Connecticut and Section 2-33a of the Connecticut General Statutes codify the language on the State's expenditure cap. The revised budget is \$338.1 million under the allowable expenditure cap in fiscal year 2010-11.

Per the preliminary financial results of the Comptroller dated September 1, 2010, fiscal year 2009-10 is expected to end with a surplus of \$449.4 million. In its mid-term budget adjustments, the General Assembly has directed that up to \$140 million of this surplus be used as revenue in fiscal year 2010-11 and any amounts in excess of \$140 million be used to reduce the amount of Economic Recovery Revenue Bonds issued as discussed above.

In a recent report of the Office Of Fiscal Analysis regarding the 2010-11 budget, the Office of Fiscal Analysis estimated that with the changes contained in the revised budget that significant out-year budget gaps remain. Specifically, the Office of Fiscal Analysis estimated (i) for fiscal year 2011-12, General Fund revenues of \$15,775.3 million and General Fund expenses of \$19,036.0 million, resulting in a deficit of \$3,260.7 million; (ii) for fiscal year 2012-13, General Fund revenues of \$16,573.0 million and General Fund expenses of \$19,681.8 million, resulting in a deficit of \$3,108.8 million; and (iii) for fiscal year 2013-14, General Fund revenues of \$17,360.7 million and General Fund expenses of \$20,458.9 million, resulting in a deficit of \$3,098.2 million. These estimates are based on current services and certain other assumptions. The State has a balanced budget requirement and an expenditure cap as discussed at **Page III-5** under the heading **The Budgetary Process – Balanced Budget Requirement**. As such, budgets adopted for these fiscal years will need to reflect a combination of revenue enhancements and expenditure reductions. As a result, the figures do not represent a projection of the actual financial results that might be expected, but instead serve as planning tools.

A new section is added after **Midterm Budget Adjustments for Fiscal Years 2009-2010 and 2010-2011**: as follows:

Fiscal Year 2010-2011 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 September 20, 2010 for the General Fund for the 2010-11 fiscal year, as of the period ending August 31, 2010, General Fund revenues were estimated at \$17,865.5 million, General Fund expenditures and miscellaneous adjustments were estimated at \$17,910.8 million and the General Fund for the 2010-11 fiscal year was estimated to have a deficit of \$45.3 million. The estimate reflects all of the mid-term budget adjustments and deficit mitigation actions taken by the Governor and the General Assembly as of the date of the letter. The estimate reflects an improvement over the August 20, 2010 projected deficit of \$63.4 million.

By statute, the State's fiscal position is reported monthly by the Comptroller. In the Comptroller's monthly report dated September 1, 2010, the Comptroller was in general agreement with the Office of Policy and Management's August 20, 2010 estimate of the General Fund deficit of \$63.4 million for fiscal year 2010-11. However, the Comptroller recognized only the realized \$3.6 million of adjustment in unclaimed properties and adjudicated claims versus an annualized \$40 million estimated by the Office of Policy and Management, resulting in an estimated deficit of \$27 million. In the Comptroller's monthly report dated October 1, 2010, the Comptroller was in general agreement with the Office of Policy and Management's September 20, 2010 estimate of the General Fund deficit of \$45.3 million.

The above projections are only estimates and the information in the monthly letter of the Office of Policy and Management to the Comptroller and in the Comptroller's monthly report contain only estimates and no assurances can be given that future events will materialize as estimated or that subsequent estimates, adjustments or audit or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2010-11 operations of the General Fund.

STATE DEBT

Page III-35, Table 7; page III-39, Table 8; page III-41, Table 10; page III-43, Table 12. The following information supplements the information included in such pages and tables:

In April 2010, the State issued (i) \$105,000,000 of its General Obligation Bonds (2010 Series A) maturing in varying amounts between April 1, 2015 and April 1, 2018 and bearing interest at rates ranging from 2.50% to 5.00% per annum; (ii) \$184,250,000 of its Taxable General Obligation Bonds (2010 Series A) (Build America Bonds – Direct Payment) maturing in varying amounts between April 1, 2019 and April 1, 2026 and bearing interest at rates ranging from 4.407% to 5.257% per annum; and (iii) \$353,085,000 of its General Obligation Bond Anticipation Notes (2010 Series A) maturing May 19, 2011 and bearing interest at a rate of 2.00% per annum.

In May 2010, the University of Connecticut issued \$133,210,000 University of Connecticut General Obligation Bonds consisting of (i) \$97,115,000 General Obligation Bonds, 2010 Series A, maturing in varying amounts between February 15, 2011 and February 15, 2030 and bearing interest at rates ranging from 2% to 5% per annum and (ii) \$36,095,000 General Obligation Bonds, 2010 Refunding Series A maturing in varying amounts between February 15, 2011 and February 15, 2021 and bearing interest at rates ranging from 2% to 5% per annum.

In June 2010, the State issued (i) \$200,000,000 of its General Obligation Bonds (2010 Series B), maturing in varying amounts June 1, 2011 and between December 1, 2014 and December 1, 2018 and bearing interest at rates ranging from 1.50% to 5.00% per annum and (ii) \$258,235,000 of its General Obligation Refunding Bonds (2010 Series C), maturing in varying amounts between December 1, 2012 and December 1, 2021 and bearing interest at rates ranging from 2.00% to 5.00% per annum.

In October 2010, the Connecticut Housing Finance Authority plans to issue \$47,785,000 of its bonds which are secured by the State's contract to provide assistance and pay debt service on such bonds and \$28,095,000 of its bonds which are secured by a special capital reserve fund.

In October 2010, the Connecticut Higher Education Supplemental Loan Authority plans to issue \$45,000,000 of its bonds which are secured by a special capital reserve fund.

Page III-36. The following information is added after the information under the heading ***UConn 2000 Financing:***

The General Assembly passed and the Governor signed Public Act No. 10-104, which extends the UConn 2000 financing program to June 30, 2018 and increases the total estimated project costs by \$207 million to finance a new patient tower and certain renovations for the John Dempsey Hospital at the University of Connecticut Health Center.

Page III-38. The following information supplements the second paragraph under the heading *Certain Short-Term Borrowings*:

The State did not seek to extend the 364-day revolving credit facility which expired on June 17, 2010.

Pages III-43, Table 12; III-44, Table 13; and III-46, Table 14. The following information updates the information included in such pages and tables:

The General Assembly passed and the Governor signed various bills which adjust bond authorizations for the 2009-10 and 2010-11 fiscal years. The legislation increases the amount of new bond authorizations for the 2009-10 fiscal year by \$30 million. Effective for the 2010-11 fiscal year, the General Assembly passed reductions of various bond authorizations totaling \$615 million and approved additional bond authorizations totaling \$71 million.

OTHER FUNDS, DEBT AND LIABILITIES

Page III-57. The following information supplements the information under the heading **School Construction Grant Commitments**:

The General Assembly passed and the Governor signed Public Act No. 10-108 which authorizes new school construction grant commitments of \$427.5 million to take effect for the 2010-11 fiscal year.

PENSION AND RETIREMENT SYSTEMS

Pages III-60 through III-67. The information on pages **III-60** through **III-67** under the heading **PENSION AND RETIREMENT SYSTEMS** is deleted and replaced with the following:

The State sponsors several public employee retirement systems discussed below. Actuarial valuations are performed with respect to such systems at regular intervals. The purpose of the actuarial valuation is to calculate the actuarial accrued liability in each of the pension plans which estimates on the basis of demographic and economic assumptions the present value of accrued benefits the pension plans will pay to its retired members and active members upon retirement. The actuarial valuation compares the actuarial accrued liability with the actuarial value of assets and any excess of that liability over the assets forms an unfunded actuarial accrued liability. The actuarial valuations express the percentage the pension is funded through a “funded ratio” which represents the quotient obtained by dividing the actuarial value of assets of the pension plan by the actuarial accrued liability of the pension plan. The actuarial valuation also will state an actuarially recommended contribution which is the recommended payment of the State to the applicable pension plan. The actuarially recommended contribution consists of two components: (1) normal costs, which represents the portion of the present value of retirement benefits that are allocable to active members’ current year of service, and (2) the amortized portion of the unfunded actuarial accrued liability.

State Employees’ Retirement Fund

The State Employees’ Retirement Fund is one of the systems maintained by the State with approximately 53,068 active members, 1,632 inactive (vested) members and 39,617 retired members as of June 30, 2009. Generally, employees hired before July 1, 1984 participate in the Tier I plan, which includes employee contributions. As of July 1, 2009 approximately 12% 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, 2009, approximately 40% 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, 2009, approximately 48% of the total work force was covered under the Tier IIA Plan.

Since fiscal year ending June 30, 1979, payments into the State Employees' Retirement Fund and investment income in each fiscal year, with the exception of fiscal years ending June 30, 2004 and June 30, 2009, have been sufficient to meet benefits paid from the fund in such year. Payments into the fund are made from employee contributions, General and Special 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.

Full actuarial valuations are performed as of June 30th of each even-numbered year. The actuarial accrued liability is determined directly as the present value of benefits accrued to date, where the accrued benefits for each member is the pro-rata portion (based on service to date) of the projected benefit payable at death, disability, retirement or termination. The valuation uses an asset valuation method of smoothing the difference between the market value of assets and actuarial value of assets over a five-year period to prevent extreme fluctuations that may result from short-term or cyclical economic and market conditions. The actuarial valuation uses recognized actuarial methods to calculate the actuarial value of assets and the actuarial accrued liability of the State Employees' Retirement Fund. For example, the actuarial value of assets is determined by first projecting the actuarial value forward from the beginning of the prior fiscal year based on the actual cash flow during the fiscal year and the assumed interest rate. One fifth of any difference between this expected actuarial value and the actual market value is added to or subtracted from the expected actuarial value to arrive at the actuarial value of assets in order to "smooth" year to year changes in market values. The unfunded actuarial liability is the actuarial accrued liability less the actuarial value of assets. The valuation includes a projection from the valuation date to future years based on certain key assumptions such as the investment return on the market value of assets, the active population count for hazardous and nonhazardous duty members, total payroll growth, age and salary distributions for new entrants, and actual plan experience with respect to terminations, retirement, mortality, and cost of living increases, among others.

The most recent actuarial valuation dated November 2008 indicated that, as of June 30, 2007, the State Employees' Retirement Fund had assets with an actuarial value of \$9,585.0 million and as of June 30, 2008, the State Employees' Retirement Fund had assets with an actuarial value of \$9,990.2 million. The market value of the fund's investment assets, as reported in the actuarial valuation, was \$10,041.0 million as of June 30, 2007 and was \$9,329.1 million as of June 30, 2008. The next actuarial valuation is anticipated to be completed in November 2010.

As of June 30, 2009, the market value of the fund's investment assets was \$7,320.8 million. As of June 30, 2010, the market value of the fund's investment assets was \$7,789.6 million. The market value of the fund's investment assets is continually subject to change based on a variety of factors, including changes in the financial and credit markets and general economic conditions.

The November 2008 actuarial valuation was based upon an 8.25% earnings assumption and the impact of phasing in an approximately 4.8% negative return on plan assets for the fiscal year ending June 30, 2008.

The November 2008 actuarial valuation indicated that as of June 30, 2008 the State Employees' Retirement Fund had a funded ratio of 51.9% based on the actuarial value of the assets. Based on a market value of assets, the State Employees' Retirement Fund had a funded ratio of 48.5% as of the same date.

The November 2008 actuarial valuation uses an amortization method that calculates the annual amortization payments needed to amortize the State Employees' Retirement Fund's unfunded actuarial accrued liability ("UAAL") based on level percentage of payroll payments over a declining period of years, starting

with 40 years as of July 1, 1991 for the contribution for the fiscal year beginning July 1, 1992. While this method of funding does lead to full funding by the end of the amortization period, the repayment of the UAAL is not level. Because of this, even if the State were to contribute the full amount of the actuarially recommended contributions and all other actuarial assumptions were met, the UAAL for the State Employee's Retirement Fund would continue to grow during at least the first half of the initial amortization period. Further, two collective bargaining agreements with the State Employees Bargaining Agency Coalition ("SEBAC") negotiated in 1996 and 1997 designed to take advantage of sizable market gains in plan assets at the time, have the effect of further extending the period that the UAAL is expected to increase. After that, the actuarial recommended contributions will have grown to levels sufficient to fund significant reductions in the UAAL for the remainder of the amortization period, bringing the plan to full funding. The State is currently in year 18 of an initial 40 year amortization period.

The November 2008 actuarial valuation determined the following employer contribution requirements, based on a projected unit credit actuarial cost method and level percent-of-payroll contributions, which contributions are sufficient to meet Governmental Accounting Standards Board ("GASB") standards: (i) \$897.4 million for fiscal year ending June 30, 2010, and (ii) \$944.1 million for fiscal year ending June 30, 2011. The annual contribution requirements for fiscal years ending June 30, 2010 and June 30, 2011 include amounts which may be required pursuant to the Connecticut Supreme Court's decision in the case of *Longley v. State Employees Retirement Commission* which requires that the plaintiffs' final pro-rated longevity payment be included in the earnings calculations for purposes of calculating their retirement incomes. The State met 99.25% of its annual contribution requirement for fiscal year ending June 30, 2008 and 92.85% of its annual contribution requirement for fiscal year ending June 30, 2009. To meet the State's annual contribution requirements for fiscal years ending June 30, 2010 and June 30, 2011, \$713.0 million and \$745.8 million, respectively, have been appropriated from the General and Special Transportation Funds. The appropriation for fiscal year ending June 30, 2010 was reduced by \$64.5 million as part of the Mid-Term Budget Adjustments. Based on projections by the Office of Policy and Management, it is anticipated that contributions to the fund for fiscal year ending June 30, 2010 from grant reimbursements from Federal and other funds will be sufficient to meet all but approximately \$12.0 to \$13.0 million of the annual contribution requirement. The appropriation for fiscal year ending June 30, 2010 was further reduced by \$100.0 million as part of the deficit mitigation plan for fiscal year ending June 30, 2010. .

For periods ending June 30, 2009, the Treasurer has realized annualized net returns on investment assets in the State Employees' Retirement Fund of 6.73% over the past twenty years, of 6.85% over the past fifteen years, of 2.91% over the past ten years and of 2.20% over the past five years. These annualized net returns reflect the impact of the negative return on investment assets resulting from the downturn in the financial markets during the Fall of 2008. For periods ending June 30, 2010, the Treasurer has realized annualized net returns on investment assets in the State Employees' Retirement Fund of 7.08% over the past twenty years, of 6.71% over the past fifteen years, of 2.89% over the past ten years and of 2.66% over the past five years.

The next actuarial valuation of the State Employees' Retirement Fund is expected in November 2010.

Set forth below are State contributions to the State Employees' Retirement Fund, Federal grant programs, employee contributions, investment income, net realized gains and losses, net unrealized gains and losses, benefits paid, actuarial recommended contributions and market value of assets for each of the past five fiscal years, and the actuarial accrued liabilities, the actuarial values of fund assets, the resulting unfunded accrued liabilities and the funded ratios on an actuarial and market basis for the actuarial valuations as of June 30, 2006 and June 30, 2008.

TABLE 17
State Employees' Retirement Fund

	Year Ending June 30				
	2005	2006	2007	2008	2009
General Fund					
Contributions.....	\$ 354,400,568	\$ 447,209,748	\$ 477,219,351	\$ 481,878,589	\$ 454,805,009
Transportation Fund					
Contributions.....	48,916,000	60,055,000	63,819,000	67,058,000	71,426,000
Federal and other					
Reimbursements.....	115,447,400	115,797,984	122,892,384	162,618,685	173,538,851
Employee Contributions....	<u>51,721,944</u>	<u>55,234,913</u>	<u>61,794,719</u>	<u>67,389,585</u>	<u>70,808,970</u>
Total Contributions	\$ 570,485,912	\$ 678,297,645	\$ 725,725,454	\$ 778,944,859	770,578,830
Investment Income ^(a)	\$ 329,385,117	\$ 310,506,921	\$ 352,538,549	\$ 371,620,098	252,399,209
Net Realized Gains					
(Losses).....	\$ 1,948,216	\$ 14,036,602	\$ 300,610,772	\$ 323,533,563	12,284,308
Net Unrealized Gains					
(Losses)	<u>454,670,646</u>	<u>532,826,108</u>	<u>856,560,402</u>	<u>(1,171,995,109)</u>	<u>(1,973,178,423)</u>
Total Net Gains (Losses)...	\$ 456,618,862	\$ 546,862,710	\$ 1,157,171,174	\$ (848,461,546)	(1,960,894,115)
Benefits Paid	\$ 882,375,233	\$ 913,030,578	\$ 951,353,124	\$ 1,008,131,838	1,063,286,151
Actuarial Accrued Liabilities	\$15,987,546,661	\$16,830,349,168	\$17,888,065,116	\$19,243,372,754	N/A ^(b)
Actuarial Values Of Assets	\$8,517,679,204	<u>8,951,392,914</u>	\$9,584,970,345	<u>9,990,247,212</u>	N/A ^(b)
Unfunded Accrued Liabilities	\$7,469,867,457	\$ 7,879,019,254	\$8,303,094,771	9,253,125,542	N/A ^(b)
Actuarial Recommended					
Contribution	\$523,001,699	\$623,062,748	\$663,926,351	\$716,944,264	\$753,698,039
Market Value of Assets (as reported in actuarial valuation)	\$8,146,304,073	\$8,789,643,845	\$ 10,041,047,120	\$ 9,329,175,038	N/A ^(b)
Funded Ratio (actuarial value)	53%	53%	54%	52%	N/A ^(b)
Funded Ratio (market value)	57%	58%	62%	54%	N/A ^(b)
Ratio of Actuarial Value of Assets to Market Value of Assets	104.5%	101.8%	95.5%	107.1%	N/A ^(b)

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

(b) Information will be available upon completion of next actuarial valuation.

Teachers' Retirement Fund

The Teachers' Retirement Fund, administered by the Teachers' Retirement Board, provides benefits for any teacher, principal, supervisor, superintendent or other eligible employee 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, 2009, there were 64,242 active and former employees with accrued and accruing benefits, 30,142 retired members and 330 members are on disability allowance. As of June 30, 2010, there were 63,608 active and former employees with accrued and accruing benefits, 30,913 of whom are retired members and 283 are members on disability allowance.

Since fiscal year ending June 30, 1979, payments into the Teachers' Retirement Fund and investment income in each fiscal year, with the exception of fiscal years ending June 30, 2004, June 30, 2005 and June 30, 2009, have been sufficient to meet benefits paid from the fund in such year. Contributions to the fund are made by employees and by General Fund appropriations from the State. State contributions to the fund are made quarterly on the basis of certifications submitted by the Teachers' Retirement Board and are funded with annual appropriations from the General Fund.

Actuarial valuations are performed as of June 30th of each even-numbered year. The actuarial accrued liability is determined directly as the present value of benefits accrued to date, where the accrued benefit for each member is the pro-rata portion (based on service to date) of the projected benefit payable at death, disability, retirement or termination. The valuation uses an asset valuation method of smoothing the difference between the market value of assets and actuarial value of assets over a four-year period to prevent extreme fluctuations that may result from short-term or cyclical economic and market conditions. The actuarial valuation uses several actuarial methods to calculate the actuarial value of assets and the actuarial accrued liability of the Teachers' Retirement Fund. For example, the actuarial value of assets is determined by first projecting the actuarial value forward from the beginning of the prior fiscal year based on the actual cash flow during the fiscal year and the assumed interest rate. One fourth of any difference between this expected actuarial value and the actual market value is added to or subtracted from the expected actuarial value to arrive at the actuarial value of assets in order to "smooth" year to year changes in market values. The unfunded actuarial liability is the actuarial liability less the actuarial value of assets. The valuation includes a projection from the valuation date to future years based on certain key assumptions such as the investment return on the market value of assets, the rates of withdrawal of active members who leave covered employment before qualifying for any monthly benefit, the rates of mortality, the rates of disability, the rates of pay increases and the assumed age or ages at actual retirement.

The most recent actuarial valuation dated November 12, 2008 indicated that the Teachers' Retirement Fund had assets, inclusive of the cost-of-living adjustment reserve account, with an actuarial value of \$12,762.2 million as of June 30, 2007 and \$15,271.0 million as of June 30, 2008. The market value of the fund's investment assets, as reported in the actuarial valuation, was \$13,744.8 million as of June 30, 2007 and \$14,551.5 million as of June 30, 2008. As discussed more fully below, in April 2008 the State deposited \$2.0 billion to the Teachers' Retirement Fund.

As of June 30, 2009, the market value of the fund's investment assets was \$11,396.7 million. As of June 30, 2010, the market value of the fund's investment assets was \$12,273.6 million. The market value of the fund's investment assets is continually subject to change based on a variety of factors, including changes in the financial and credit markets and general economic conditions.

The November 2008 actuarial valuation indicated that as of June 30, 2008 the Teachers' Retirement Fund had a funded ratio of 70% based on the actuarial value of the assets. Based on a market value of assets, the Teachers' Retirement Fund had a funded ratio of 67% as of the same period.

The November 2008 actuarial valuation uses an amortization method that calculates the amortization payment for the Teachers' Retirement Fund's unfunded actuarial accrued liability, that is included in the actuarially recommended employer contribution requirement rate of contribution based on a level percentage of payroll payments over a declining period of years, starting with 40 years as of July 1, 1991 for the contribution for the fiscal year beginning July 1, 1992. However, effective July 1, 2006 the GASB requirement for the net effective amortization period decreased to 30 years. The net effective amortization period for the computed State contribution amounts for the fiscal years ending June 30, 2010 and June 30, 2011 is 29.2 years. While this method of funding does lead to full funding by the end of the amortization period, the repayment of the UAAL is not level. Because of this, even if the State were to contribute the full amount of the actuarially recommended contributions and all other actuarial assumptions were met, the UAAL for the Teachers' Retirement Fund would continue to grow during at least the first half of the initial amortization period. After that, the actuarial recommended contributions will have grown to levels sufficient to fund significant reductions in the UAAL for the remainder of the amortization period, bringing the plan to full funding.

For periods ending June 30, 2009, the Treasurer has realized annualized net returns on investment assets in the Teachers' Retirement Fund of 6.88% over the past twenty years, of 6.85% over the past fifteen years, of 3.12% over the past ten years and of 2.55% over the past five years. These annualized net returns incorporate the negative return on investment assets resulting from the general market downturn during the Fall of 2008. For periods ending June 30, 2010, the Treasurer has realized annualized net returns on investment assets in the Teachers' Retirement Fund of 7.22% over the past twenty years, of 6.90% over the past fifteen years, of 3.10% over the past ten years and of 2.99% over the past five years. The November 2008 actuarial valuation indicated that as of June 30, 2008 the Teachers' Retirement Fund had a funded ratio of 70.1% on an actuarial value basis.

The actuarial valuation dated November 29, 2006 determined the following employer contribution requirements, based on an individual entry-age actuarial cost method and level percent-of-payroll contributions, which contributions are sufficient to meet GASB standards: (i) \$518.6 million for fiscal year ending June 30, 2008, and (ii) \$539.3 million for fiscal year ending June 30, 2009. The State met its annual contribution requirement for fiscal years ending June 30, 2008 and June 30, 2009. The actuarial valuation dated November 12, 2008 determined the following employer contribution requirements, which are sufficient to meet GASB standards: (i) \$559.2 million for fiscal year ending June 30, 2010, and (ii) \$581.6 million for fiscal year ending June 30, 2011. To meet the State's annual contribution requirements for fiscal years ending June 30, 2010 and June 30, 2011, \$559.2 million and \$581.6 million, respectively, have been appropriated. Based upon the results of the November 2008 actuarial valuation and adjusted solely by information available on the Teachers' Retirement Fund's investment experience for the two year period ending June 30, 2010, actuaries for the Teachers' Retirement Fund estimated the State's annual required contribution for the fiscal years ending June 30, 2012 and June 30, 2013 would be \$716.3 million and \$744.9 million, respectively. The analysis is not a full actuarial valuation as the gains and losses due to the non-investment related experience of the Teachers' Retirement Fund (e.g. retirements, salary increases, mortality, etc.) since the prior valuation have not been measured. Such amounts have not yet been included in adopted budgets by the State as budgets for these years are not yet due. Public Act No. 07-186, which deems these amounts appropriated, is discussed below. The actuarial valuation was based upon an 8.50% earnings assumption.

The next actuarial valuation of the Teachers' Retirement Fund is expected in November 2010.

Set forth below are State contributions to the Teachers' Retirement Fund, employee contributions, investment income, net realized gains and losses, net unrealized gains and losses, benefits paid, actuarial recommended contributions and market value of assets for each of the past five fiscal years, and the actuarial accrued liabilities, the actuarial values of fund assets, the resulting

unfunded accrued liabilities and the funded ratios on an actuarial and market basis for the actuarial valuations as of June 30, 2006 and June 30, 2008.

TABLE 18
Teachers' Retirement Fund^(e)

	Year Ending June 30				
	2005	2006	2007	2008	2009
General Fund					
Contributions	\$ 185,348,143	\$ 396,248,844	\$ 412,101,958	\$ 2,518,560,263 ^(a)	\$ 539,302,674
Employee					
Contributions ^(b)	<u>259,408,422</u>	<u>293,530,283</u>	<u>279,147,447</u>	<u>275,268,365</u>	<u>289,343,810</u>
Total Contributions	\$ 444,756,565	\$ 689,779,127	\$ 691,249,405	\$ 2,793,828,628	\$ 828,646,484
Investment Income ^(c)	\$ 460,613,365	\$ 372,811,689	\$ 482,745,492	\$ 519,183,177	\$ 393,748,965
Net Realized Gains					
(Losses)	\$ 2,275,332	\$ 45,550,687	\$ 650,696,447	\$ 188,080,715	\$ 24,937,167
Net Unrealized Gains					
(Losses)	<u>645,128,201</u>	<u>736,860,094</u>	<u>967,671,640</u>	<u>(1,414,057,911)</u>	<u>(2,958,832,005)</u>
Total Net Gains (Losses) ..	\$ 647,403,533	\$ 782,410,781	\$1,618,368,087	\$(1,225,977,196)	\$(2,933,894,838)
Benefits Paid	\$ 964,597,731	\$ 1,050,132,506	\$1,159,443,441	\$ 1,266,950,462	\$ 1,381,129,716
Actuarial Accrued Liabilities	N/A	\$18,703,792,895	N/A	\$21,801,020,991	N/A
Actuarial Values Of Assets ^(d)	N/A	<u>11,781,338,002</u>	N/A	<u>15,271,012,785</u>	N/A
Unfunded Accrued Liabilities	N/A	\$ 6,922,454,893	N/A	\$ 6,530,008,206	N/A
Actuarial Recommended Contribution	\$281,366,266	\$396,248,625	\$412,098,510	\$518,560,263	\$539,302,674
Market Value of Assets (as reported in actuarial valuation)	\$11,392,543,770	\$12,227,994,598	\$13,744,769,795	\$14,551,467,434	N/A
Funded Ratio (actuarial value)	N/A	63%	N/A	70%	N/A
Funded Ratio (market value)	N/A	65%	N/A	67%	N/A
Ratio of Actuarial Value of Assets to Market Value of Assets	N/A	96%	N/A	105%	N/A

- (a) In April 2008 the State issued \$2,276,578,270.75 Taxable General Obligation Bonds (Teachers' Retirement Fund 2008 Series) and \$2.0 billion of the proceeds of such bonds were deposited into the Teachers' Retirement Fund.
- (b) Includes municipal contributions under early retirement incentive programs (\$2,456,776 during fiscal year 2004-05, \$2,802,639 during fiscal year 2005-06, \$2,659,720 during fiscal year 2006-07, \$1,667,810 during fiscal year 2007-08 and \$1,573,023 during fiscal year 2008-09); and employee contributions to the Teachers' Retirement Health Insurance Fund (\$43,830,845 during fiscal year 2004-05, \$39,144,621 during fiscal year 2005-06, \$40,070,052 during fiscal year 2006-07, \$41,296,730 during fiscal year 2007-08 and \$46,219,153 during fiscal year 2008-09).
- (c) Investment Income (exclusive of net realized gains and losses).
- (d) For years prior to fiscal year 2007-2008, includes cost-of-living adjustment reserve account. As of June 30, 2007 the fund was dissolved and its assets combined with Teachers' Retirement Fund assets.
- (e) As actuarial valuations are performed every two years, not all of the data is available for each year.

Public Act No. 07-186 authorized the issuance of general obligation bonds ("TRF Bonds") of the State in amounts sufficient to fund a \$2.0 billion deposit to the Teachers' Retirement Fund plus amounts required for costs of issuance and up to two years of capitalized interest. The Secretary of the Office of Policy and Management and the State Treasurer subsequently determined that issuance of such bonds would be in the best interests of the State, and in April 2008 the State issued \$2,276,578,270.75 of such bonds.

Section 8 of Public Act No. 07-186 provides that in each fiscal year that any TRF Bonds (or any refunding bonds) are outstanding, there shall be deemed appropriated from the General Fund an amount equal to the annual required contribution to the Teachers' Retirement Fund, and such amount shall be deposited in the fund in such fiscal year. The amounts of the annual required contributions for each biennial budget shall be based on the actuarial valuation required to be completed by the December 1 prior to the beginning of the next biennial budget. Under Section 8 the State has pledged to and agreed with the holders of any TRF Bonds that, so long as the actuarial evaluation of the Teachers' Retirement Fund is completed and the certification of the annual contribution amounts is made as required by such Section, no public or special act of the General Assembly shall diminish such required contribution until such bonds, together with interest thereon, are fully met and discharged unless adequate provision is made by law for the protection of the holders of the bonds. Such contributions may be reduced in any biennium, however, if (i) the Governor declares an emergency or the existence of extraordinary circumstances (which may include changes in actuarial methods or accounting standards) in which the provisions of Section 4-85 of the Connecticut General Statutes is invoked, (ii) at least three-fifths of the members of each Chamber of the General Assembly vote to diminish such required contributions during the biennium for which the emergency or extraordinary circumstances are determined, and (iii) the funded ratio of the fund is at least equal to the funded ratio immediately after the sale of the bonds in accordance with the actuarial method used at the time. If such conditions are met, the funding of the annual required actuarial contribution may be diminished, but in no event shall such diminution result in a reduction of the funded ratio of the fund by more than 5% from the funded ratio which would otherwise have resulted had the State funded the full required contribution, or the funded ratio immediately after the sale of the bonds, whichever is greater.

The statutory provisions which govern pension benefits payable from the Teachers' Retirement Fund include certain cost of living adjustments. Public Act No. 07-186 added a provision limiting cost-of-living adjustments for employees hired after July 1, 2007, but also removed a statutory provision which subjected certain annual cost of living adjustments in pension benefits to a limit based on funds available from earnings on fund investments which exceeded an 11.5% return. Such excess earnings were held in the cost-of-living adjustment reserve account until applied to provide for cost of living adjustments. Although there are other statutory limits on the cost of living adjustments, it is anticipated that the removal of the limit based on available earnings which exceeded an 11.5% return will cause an increase in the aggregate actuarial accrued liability of the fund. One preliminary report estimated that these changes could increase the unfunded actuarial accrued liability by approximately \$1.0 billion. This preliminary estimate was based on various assumptions and no assurances can be given that subsequent projections or the next actuarial report will not result in a higher or lower estimate.

Other Retirement Systems

The other minor retirement systems funded by the State include the Judges, Family Support Magistrates and Compensation Commissioners Retirement System (the Judicial Retirement System), the General Assembly Pension System, the State Attorneys' Retirement Fund and the Public Defenders' Retirement Fund. As of June 30, 2009, there were approximately 221 active members of these plans and approximately 262 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 third party administrator of the plan, who invests the fund's assets allocable to a member at the direction of such member in the investment funds available

under the plan. A member may not withdraw funds from the plan unless such member has reached age 55 and has terminated from service, retired or died, provided that any member with less than five years of participation in the plan who is under the age of 55 and terminates from service may rollover such member's entire account into an eligible retirement plan.

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

Police and members of a retirement system other than the State Employees' Retirement Fund, whose employment commenced after February 21, 1958 (and thus most teachers) are not entitled to social security coverage. Other State employees 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, 2009, approximately 59,308 State employees were entitled to Social Security coverage. The amount expended by the State for Social Security coverage for fiscal year ending June 30, 2009 was \$309.9 million. Of this amount, \$227.4 million was paid from the General Fund and \$14.5 million was paid from the Special Transportation Fund.

The State provides post-retirement health care and life insurance benefits to all employees who retire from State employment. The State currently finances the cost of such benefits on a pay-as-you-go basis. The State has established a trust for the accumulation of assets with which to pay post-retirement health care benefits in future years. All employees hired on or after July 1, 2009 are required to contribute 3% of salary through their tenth year of service, to be deposited into the post-retirement health care benefits trust. Commencing July 1, 2010, employees with less than five years of service will be required to contribute 3% of salary through their tenth year of service, to be deposited into the trust. It is anticipated that contributions to the trust in fiscal years ending June 30, 2010 and June 30, 2011 will be completely expended on current benefit expense and thus the State did not fully provide for post-retirement healthcare and life insurance benefits in these years. The State will need to make significant General Fund appropriations for post-retirement health care and life insurance benefits in upcoming fiscal years. For fiscal year ending June 30, 2010 \$482.9 million was appropriated. The State has not established any fund for the accumulation of assets with which to pay post-retirement life insurance benefits in future years.

Implementation of GASB Statement No. 45 regarding accounting and financial reporting for post-employment benefits other than pensions requires 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 ending June 30, 2008. The State received an actuarial report dated March 2007 with respect to the State's liability for post-retirement health care benefits for persons covered under the State Employees Retirement System and other State retirement systems, excluding the Teachers' Retirement System. The actuarial liability is determined directly as the present value of benefits accrued to date, where the accrued benefits for each member is the pro-rata portion (based on service to date) of the projected benefit payable at death, disability, retirement or termination. The report indicated an OPEB actuarial accrued liability as of April 1, 2006 estimated to range from \$11.4 billion to \$21.7 billion. The amounts depend upon various assumptions including those with respect to medical cost inflation rates, the establishment of a trust to fund those liabilities, the amount of initial and annual amounts deposited in such a trust and discount rates. The report used discount rates ranging from 4.5% to 8.5%. The amount of the annual required contribution under these various assumptions ranged from \$1.0 billion to \$1.6 billion for fiscal year ending June 30,

2007, based on a projected unit credit actuarial cost method and level percent-of-payroll contributions. Additional assumptions were also tested for sensitivity analysis which produced different results. The annual required contribution included the cost for both current eligible employees and retirees.

The State received an interim actuarial valuation dated February 16, 2009 with respect to the State's liability for post-retirement health care benefits for persons covered under the State Employees Retirement System and other State retirement systems, excluding the Teachers' Retirement System, based upon the stated assumptions of the March 2007 actuarial report but reflecting actual increases in the State's medical and dental costs between April 1, 2006 and June 30, 2008. The report indicates an OPEB actuarial accrued liability as of June 30, 2007 of up to \$23.1 billion and a projected actuarial accrued liability as of June 30, 2008 of up to \$24.6 billion on an unfunded basis with no valuation assets available to offset the liabilities of the plan. The interim actuarial valuation determined an employer contribution requirement for fiscal year ending June 30, 2008 of up to \$1.66 billion on an unfunded basis, based on a projected unit credit actuarial cost method and level percent-of-payroll contributions. The State paid \$458.4 million for eligible employees and \$415.4 million for retirees for health care costs in fiscal year ending June 30, 2007. The State paid \$480.0 million for eligible employees and \$468.8 million for retirees for health care costs in fiscal year ending June 30, 2008. The State paid \$521.9 million for eligible employees and \$454.6 million for retirees for health care costs in fiscal year ending June 30, 2009.

In June 2010, the State received the preliminary results of a valuation performed as of April 1, 2008 with respect to the State's liability for post-retirement health care benefits for persons covered under the State Employees Retirement System and other State retirement systems, excluding the Teachers' Retirement System. The preliminary report indicates an OPEB actuarial accrued liability as of April 1, 2008 of \$26.6 billion on an unfunded basis and \$14.0 billion on an funded basis. The actuarial valuation determined the amount of the annual required contribution for fiscal year ending June 30, 2009 to be \$1.94 billion on an unfunded basis, based on a projected unit credit actuarial cost method and level percent-of-payroll amortization over 30 years. Since these numbers are preliminary they are subject to adjustment in the final report. It should also be noted that because of the April 1, 2008 valuation date these results do not reflect the impact of the 2009 retirement incentive program or the SEBAC 2009 mandatory OPEB contribution of 3% of salary by certain employees, as noted above. The next valuation will take these changes into account. In addition, several assumptions were revised from the last actuarial valuation performed as of April 1, 2006. Due to the normal passage of time, based on the prior assumptions, it was expected that the actuarial accrued liability would increase by approximately 15% (\$3.2 billion on an unfunded basis) from April 1, 2006 to April 1, 2008.

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

TABLE 19

State Employee Retirees Health Care And Life Insurance Benefits

	Year Ending June 30				
	2005	2006	2007	2008	2009
Retirees Eligible to Receive Benefits.....	39,737	38,065	37,506	38,917	38,736
Retirees Receiving Health Care Benefits	36,815	36,911	37,304	37,865	38,613
Retirees Receiving Life Insurance Benefits	25,827	25,943	25,565	25,581	25,368
General Fund Appropriations on Retiree Health Care and Life Insurance Benefits (millions)	\$377.0	\$395.0	\$435.5	\$472.0	\$458.0

The State is required to make General Fund appropriations to the Teachers' Retirement Fund to cover one-third of retiree health insurance costs plus any portion of the balance of such costs which is not funded from the amounts available in the Teachers' Retirement Health Insurance Fund. 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 Teachers' Retirement 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. Legislation which became effective July 1, 2008 generally requires the State to subsidize a portion of the health insurance costs of retired teachers who have attained normal retirement age, are ineligible to participate in Medicare Part A and pay to participate in local board of education retiree health benefit plans. No General Fund appropriations to the Teachers' Retirement Fund to cover retiree health insurance costs have been made for fiscal years ending June 30, 2010 and June 30, 2011. The Teachers' Retirement Board is monitoring the impact of the reduction in levels of State funding for fiscal years ending June 30, 2010 and June 30, 2011. Fund assets do not constitute plan assets for purposes of GASB Statements Nos. 43 and 45 and for actuarial valuation purposes fund assets are not treated as valuation assets available to offset the accrued liability of the plan. Since July 1, 1994, retiree health benefits have been self-insured.

Implementation of GASB Statement No. 45 requires 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 ending June 30, 2008. The Teachers' Retirement Board has received an actuarial valuation of the State's liability with respect to post-retirement health care benefits for members of the Teachers' Retirement Fund. The actuarial liability is determined directly as the present value of benefits accrued to date, where the accrued benefits for each member is the pro-rata portion (based on service to date) of the projected benefit payable at death, disability, retirement or termination. The report indicates an actuarial accrued liability as of June 30, 2008 of \$2,318.8 million on an unfunded basis, based upon certain stated assumptions including a 4.5% earnings assumption and a 30 year amortization period and no valuation assets available to offset the liabilities of the plan. The actuarial valuation determined a \$116.7 million employer contribution requirement for fiscal year ending June 30, 2009 and \$121.3 million for fiscal year ending June 30, 2010, based on an individual entry-age actuarial cost method and level percent-of-payroll contributions. The State paid \$20.7 million for post-retirement health insurance costs for fiscal year ending June 30, 2008. The valuation noted that if the plan were prefunded the actuarial accrued liability as of June 30, 2008 would be reduced to \$1.52 billion based on a 7.5% earnings assumption, which would result in a \$67.9 million employer contribution requirement for fiscal year ending June 30, 2009.

Set forth below for each of the past five fiscal years are State contributions to the Teachers' Retirement Health Insurance Fund to cover retiree health insurance costs and the portions of such contribution attributable to post-retirement Medicare supplement health insurance and to the health insurance cost subsidy for retired teachers who are not members of the Board's health benefit plan.

TABLE 20
Teachers' Retirement Health Insurance Fund

	Year Ending June 30				
	2005	2006	2007	2008	2009
Portions Attributable To Post-Retirement Medicare Supplement Health Insurance.....	\$ 7,142,769	\$ 9,897,646	\$12,922,673	\$12,909,315	\$14,548,169
Portions Attributable To Non-Board Health Insurance Cost Subsidy	<u>5,715,000</u>	<u>7,765,203</u>	<u>7,826,864</u>	<u>7,860,352</u>	<u>7,885,215</u>
Total General Fund Contributions	\$12,857,769	\$17,662,849	\$20,749,537	\$20,769,667	\$22,433,384

The State did not contribute any funds to the Teachers' Retirement Health Insurance Fund in the fiscal year ending June 30, 2010.

Additional Information

The June 30, 2009 audited financial statements which are included as **Appendix III-C** hereto, and in particular notes 11 through 15 and note 17 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 25 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

Page III-68. The following information is added to the end of the last paragraph under *Sheff v. O'Neill*:

A motion for reconsideration of that ruling was denied.

Page III-69. The sixth sentence under the discussion for *State Employees Bargaining Agent Coalition v. Rowland* is deleted and replaced with the following:

The defendants subsequently moved for summary judgment on all remaining claims. That motion remains pending.

Page III-69. The last sentence under the discussion for *Connecticut Coalition for Justice in Education Funding et al. v. Rell, et al.* is deleted and the following is added:

The plaintiffs sought and obtained permission to appeal immediately to the Connecticut Supreme Court. On March 30, 2010 a plurality of the Supreme Court reversed the trial court, ruled that the State Constitution guarantees public school students a right to suitable educational opportunities and remanded for a determination of whether such opportunities are being provided.

The Court has recently established a schedule for discovery and scheduled a trial to commence in 2014.

Page III-69. The last three sentences under the discussion for *Juan F. v. Weicker* are deleted and replaced with the following:

On August 17, 2010, the court ruled that children receiving voluntary services – a program permitting parents to obtain services for disabled children without relinquishing custody – are included in the *Juan F.* class and entered an order prohibiting cessation of new admissions to the program. A motion for reconsideration of that ruling is pending. The State has continued to work with the plaintiffs and the Court Monitor to meet the requirements of the Exit Plan. On April 13, 2010, the State moved to vacate the Consent Decree and the Exit Plan, arguing that DCF had substantially complied with their provisions and that further judicial oversight is, therefore, unwarranted. That motion has been opposed by plaintiffs and the Child Advocate, acting as amicus curiae, and remains pending.

Page III-70. The following updates the status of the October 19, 2009 Court of Appeals decision to deny the appeal and affirm the District Court’s ruling under the discussion for *Indian Tribes*:

The Schaghticoke Tribal Nation filed a petition for writ of certiorari with the U.S. Supreme Court seeking review of the Court of Appeals’ decision, which is pending.

Page III-71. The last sentence under the discussion for *State of Connecticut Office of Protection and Advocacy for Persons with Disabilities v. The State of Connecticut, et al.* is deleted and the following is added:

By ruling and order dated March 31, 2010, the Court denied the defendants’ motions to dismiss the amended complaint and granted the plaintiffs’ motion for class certification. The Court has recently established a schedule for discovery and anticipated trial date.

Page III-71. The last sentence under the discussion for *Belanger v. State Employees Retirement Commission* is deleted and the following is added:

Plaintiffs’ motion for reconsideration was denied and no appeal was taken during the appeal period.

Page III-71. The last sentence under the discussion for *Pham v. Starkowski* is deleted and the following is added:

DSS has reinstated individuals onto the SMANC program and reopened the program to new applicants.

Page III-72. The following is added to the discussion under *Connecticut Association of Health Care Facilities v. Rell*:

The district court granted the defendants’ motion to dismiss with the exception of one count of the complaint and denied the plaintiff’s request for a preliminary injunction. The plaintiff appealed the denial of the preliminary injunction to the Court of Appeals. Briefs have been filed and oral argument is scheduled for September 30, 2010.

Page III-72. The last sentence under the heading *Computers Plus Center, Inc. and Malapanis v. Department of Information Technology* is replaced with the following:

The trial court reduced the verdict to \$1.83 million. Both sides have filed appeals that remain pending. The counter-claim plaintiff is challenging the reduction of the verdict, and DOIT is appealing the verdict and award of any damages against it.

APPENDIX B

Page III-B-16. A row reflecting 2010 information in **TABLE B-18** is added as follows:

TABLE B-18
Unemployment Rate

<u>Year</u>	<u>Unemployment Rate</u>		
	<u>Connecticut</u>	<u>New England</u>	<u>United States</u>
2010 ^(a)	9.0%	9.0%	9.7%

(a) Reflects average for first 6 months. On a preliminary basis, Connecticut’s average unemployment rate for August 2010 was 9.1% compared to the national average of 9.6% for the same period.

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

APPENDIX III-E

Appendix III-E to this **Part II** reflects the revised adopted budget for fiscal year 2009-10, the unaudited preliminary financial results on a budgetary basis for fiscal year 2009-10, the revised adopted budget for fiscal year 2010-11 and the estimated budget by the Office of Policy and Management for fiscal year 2010-11 (as of the period ending July 31, 2010). **Appendix III-E** to this **Part II** does *not* reflect any subsequent estimates for fiscal year 2010-11 for any period after August 31, 2010.

**GENERAL FUND REVENUES AND EXPENDITURES
ADOPTED BUDGET AND UNAUDITED PRELIMINARY FINANCIAL RESULTS
FOR FISCAL YEAR 2009-10
ADOPTED AND ESTIMATED BUDGET FOR FISCAL YEAR 2010-11**

(In Millions)

	Revised Adopted Budget <u>2009-10^(c)</u>	Unaudited Preliminary Financial Results <u>2009-10^(d)</u>	Revised Adopted Budget <u>2010-11^(c)</u>	Estimated Budget <u>2010-11^(h)</u>
Revenues				
<u>Taxes</u>				
Personal Income Tax	\$ 6,630.7	\$ 6,586.1	\$ 6,682.5	\$6,810.0
Sales & Use	3,166.7	3,204.0	3,164.9	3,318.7
Corporation	721.6	667.1	662.9	662.9
Public Service	272.3	267.9	271.4	272.4
Inheritance & Estate	208.7	177.6	99.0	99.0
Insurance Companies	202.7	226.5	223.9	228.9
Cigarettes	392.6	387.4	386.5	407.9
Real Estate Conveyance	94.5	100.3	113.2	106.2
Oil Companies	98.9	123.0	107.7	107.7
Alcoholic Beverages	48.0	48.2	48.1	48.6
Admissions and Dues	37.1	34.4	36.5	35.5
Miscellaneous	143.7	141.9	144.9	140.9
Total Taxes	<u>\$12,017.5</u>	<u>\$11,964.5</u>	<u>\$11,941.5</u>	<u>\$12,238.7</u>
Less Refunds of Taxes	(1,080.5)	(1,061.4)	(1,009.3)	(965.0)
Less R&D Credit Exchange	(9.4)	(8.9)	(10.5)	(9.4)
Net Taxes	<u>\$10,927.6</u>	<u>\$10,894.1</u>	<u>\$10,921.7</u>	<u>\$11,264.3</u>
<u>Other Revenues</u>				
Transfers- Special Revenues	293.4	289.3	295.1	291.0
Indian Gaming Payments	384.1	384.2	365.8	367.8
Licenses, Permits, Fees	281.8	257.6	235.4	242.9
Sales of Commodities & Services	33.2	33.7	34.3	34.7
Rents, Fines & Escheats	97.3	252.8	99.5	100.1
Investment Income	10.0	4.1	6.5	6.5
Miscellaneous	208.0	142.9	167.0	164.5
Less Refunds of Payments	(0.7)	(1.2)	(0.9)	(1.3)
Total Other Revenue	<u>\$ 1,307.1</u>	<u>\$ 1,363.4</u>	<u>\$ 1,202.7</u>	<u>\$ 1,206.2</u>
<u>Other Sources</u>				
Federal Grants	4,051.8 ^(e)	4,066.3 ^(e)	4,256.0 ^(e)	4,106.9 ^(e)
Transfers to the Resources of the G.F.	1,121.9 ^(f)	1,323.6 ^(f)	1,354.1 ^(f)	1,354.1 ^(f)
Transfers from Tobacco Settlement Funds	107.3	101.6	102.3	103.4
Transfers to Other Funds ^(a)	(143.3)	(61.8)	(169.4)	(169.4)
Total Other Sources	<u>\$ 5,137.7</u>	<u>\$ 5,429.7</u>	<u>\$ 5,543.0</u>	<u>\$ 5,395.0</u>
Total Budgeted Revenue ^(b)	<u>\$17,372.4</u>	<u>\$17,687.2</u>	<u>\$17,667.4</u>	<u>\$17,865.5</u>

	Revised Adopted Budget <u>2009-10</u> ^(c)	Unaudited Preliminary Financial Results <u>2009-10</u> ^(d)	Revised Adopted Budget <u>2010-11</u> ^(c)	Estimated Budget <u>2010-11</u> ^(h)
Appropriations/Expenditures				
Legislative	\$ 79.3	\$ 66.4	\$ 80.4	\$ 80.4
General Government	543.7	478.7	502.8	502.8
Regulation & Protection	272.7	252.6	258.0	266.4
Conservation & Development	149.7	128.6	132.1	132.1
Health & Hospitals	1,705.5	1,626.3	1,723.0	1,729.8
Human Services	5,066.5	5,042.4	5,161.0	5,301.0
Education, Libraries & Museums	4,023.4	3,991.1	4,080.6	4,080.6
Corrections	1,568.8	1,473.2	1,501.0	1,513.0
Judicial	561.0	524.0	552.5	556.4
Non- Functional				
Debt Service	1,662.3	1,619.5	1,672.7	1,672.7
Miscellaneous	2,211.0	2,037.0	2,299.4	2,299.4
Subtotal	\$ 17,843.9	\$ 17,239.9	\$ 17,963.5	18,134.6
Other Reductions and Lapses	(473.3)	--	(296.3)	(263.8)
Net Appropriations/Expenditures	\$ 17,370.6	\$ 17,513.0	\$ 17,667.2	17,870.8
Surplus (or Deficit) from Operations		447.3	0.2	(5.3)
Miscellaneous Adjustments		2.1	-	(40.0) ⁽ⁱ⁾
Statutory Transfer from Restricted Purposes		-	-	-
Balance ^(b)	\$ 1.8	\$ 449.4 ^(g)	\$ 0.2	\$ (45.3)

NOTE: Columns may not add due to rounding.

- (a) Transfer \$61.8 million to the Mashantucket Pequot Fund for grants to towns, \$71.2 million to the Special Transportation Fund, and \$0.2 million to the Community Investment Account in fiscal year 2009-10; and transfer \$61.8 million to the Mashantucket Pequot Fund for grants to towns and \$107.6 million to the Special Transportation Fund in fiscal year 2010-11.
- (b) 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. Per Section 4-30a of the Connecticut General Statutes, as amended by Public Act No. 09-2 of the June 2009 Special Session, after the accounts for the fiscal year are closed, beginning with the fiscal year ending June 30, 2010, and each fiscal year thereafter, until and including the fiscal year ending June 30, 2017, if the Comptroller determines there exists an unappropriated surplus in the General Fund, the amount of any such surplus is first to be used for redeeming prior to maturity any outstanding notes issued under such Act, and any amount beyond that required to redeem such notes shall be used to reduce the obligations of the State under the financing plan authorized under Section 88 of Public Act No. 09-3 of the June Special Session.
- (c) Per Public Act No. 09-3 of the June 2009 Special Session, Public Act No. 09-8 of the September 2009 Special Session, Public Act No. 09-7 of the September 2009 Special Session, Public Act No. 09-5 of the September 2009 Special Session, Public Act No. 10-3, Public Act No. 10-179, Public Act No. 10-1 of the June Special Session and Public Act No. 10-2 of the June Special Session. Pursuant to Public Act No. 10-179, any General Fund surplus in Fiscal Year 2009-10 shall be transferred to Fiscal Year 2010-11. See discussion under **State General Fund – Budget for Fiscal Years 2009-2010 and 2010-2011**.
- (d) Per the Comptroller's unaudited preliminary financial statements dated September 1, 2010, with presentation modifications of the Office of Policy and Management. These results are preliminary and subject to the year end closing process adjustments and final audit.
- (e) Includes ARRA funds of \$843.5 million for fiscal year 2009-10 and the revised adopted budget for fiscal year 2010-11 assumed \$932.0 million, but this amount has been reduced to \$745.6 million in the estimated budget column.
- (f) Pursuant to Public Act No. 10-3, as amended, includes transfers from the budget reserve fund of \$1,278.5 million for fiscal year 2009-10 and \$103.2 million for 2010-11. Pursuant to Public Act No. 10-179 includes the issuance of Economic Recovery Revenue Bonds of \$956.0 million for fiscal year 2010-11.

- (g) Pursuant to Sections 45 and 139 of Public Act No. 10-179, \$140 million shall be transferred for use in fiscal year 2010-11 and the remaining \$309.4 million shall be used to reduce the amount of Economic Recovery Revenue Bonds to be issued.
- (h) Per the Office of Policy and Management's letter to the Comptroller dated September 20, 2010 for the fiscal year ending June 30, 2011, as of the period ending August 31, 2010. Per the Comptroller's monthly report dated September 1, 2010, the Comptroller indicated she was in general agreement with the Office of Policy and Management's August 20, 2010 deficit estimate of \$63.4 million, but she recognized a realized \$3.6 million of adjustments in unclaimed properties and adjudicated claims versus an annualized \$40 million estimated by the Office of Policy and Management, therefore resulting in an estimated deficit of \$27 million.
- (i) Per the Comptroller's monthly report dated September 1, 2010, the Comptroller recognized a realized \$3.6 million of adjustments in unclaimed properties and adjudicated claims versus an annualized \$40 million estimated by the Office of Policy and Management, therefore resulting in an estimated deficit of \$27 million. In the Comptroller's monthly report dated October 1, 2010, the Comptroller was in general agreement with the Office of Policy and Management's September 20, 2010 estimate of the General Fund deficit of \$45.3 million.

NOTE: The information in **Appendix III-E** of this **Annual Information Statement** contains 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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**PART III
ANNUAL INFORMATION STATEMENT
STATE OF CONNECTICUT**

FEBRUARY 24, 2010

This Annual Information Statement of the State of Connecticut (the "State") contains information through February 24, 2010. For information about the State after February 24, 2010, the State expects to provide an updating Information Supplement from time to time. The reader should refer to the Information Supplement, if any, set forth in this Official Statement immediately preceding this Annual Information Statement. This Annual Information Statement and the Information Supplement that precedes it, if any, and any appendices attached thereto, should be read collectively and in their entirety.

The State expects to revise this Annual Information Statement each year and expects to modify Annual Information Statements each year following the release of the State's audited GAAP based financial statements and audited legal accounting basis (modified cash) financial statements. This year, this Annual Information Statement contains the State's audited GAAP based financial statements and audited legal accounting basis (modified cash) 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) 702-3288.

Constitutional Elected Officers

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

Executive Branch Officers

* Secretary of the Office of Policy and Management	Robert L. Genuario
* Commissioner of Public Works	Raeanne V. Curtis
Commissioner of Transportation	Joseph F. Marie

Legislative Branch Officers

President Pro Tempore of the Senate	Sen. Donald E. Williams, Jr.
Speaker of the House of Representatives	Rep. Christopher G. Donovan
* 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. Andrew W. Roraback Rep. Vincent J. Candelora
Auditors of Public Accounts	Kevin P. Johnston Robert G. Jaekle

* Denotes member of the State Bond Commission

PART III
February 24, 2010

ANNUAL INFORMATION STATEMENT OF THE STATE OF CONNECTICUT

TABLE OF CONTENTS

Introduction	III-3	Future Issuance of Direct General Obligation Debt.....	III-43
The State of Connecticut	III-4	Authorized But Unissued Direct General Obligation Debt	III-43
Governmental Organization and Services	III-4	Bond Authorizations and Reductions	III-43
State Economy.....	III-4	Purposes of Recent Bond Authorizations ...	III-45
Financial Procedures	III-5	Other Funds, Debt and Liabilities	III-47
The Budgetary Process.....	III-5	Transportation Fund and Debt	III-47
Financial Controls	III-7	Other Special Revenue Funds and Debt	III-49
Accounting Procedures	III-9	Bradley Airport.....	III-49
Investment and Cash Management	III-11	Clean Water Fund.....	III-50
State General Fund	III-14	Unemployment Compensation.....	III-50
General Fund Revenues	III-14	Second Injury Fund	III-50
Forecasted, Adopted and Historical Revenues.....	III-14	Rate Reduction Bonds	III-50
Components of Revenue	III-17	Contingent Liability Debt	III-51
General Fund Expenditures.....	III-18	Special Capital Reserve Funds.....	III-51
Appropriated and Historical Expenditures	III-18	Quasi Public Agencies.....	III-51
Components of Expenditures	III-21	Assistance to Municipalities.....	III-55
Expenditures by Type.....	III-22	State Treasurer's Role	III-56
Fiscal Year 2008-2009 Operations	III-25	Outstanding Contingent Debt.....	III-57
Budget for Fiscal Years 2009-2010 and 2010-2011	III-25	School Construction Grant Commitments ...	III-57
Fiscal Year 2009-2010 Operations	III-26	Child Care Facilities Debt Service Commitments.....	III-58
Midterm Budget Adjustments	III-28	Other Contingent Liabilities.....	III-59
General Fund Budget History	III-29	Pension and Retirement Systems	III-60
State Debt	III-33	State Employees' Retirement Fund.....	III-60
Constitutional Provisions	III-33	Teachers' Retirement Fund.....	III-61
Types of State Debt.....	III-33	Other Retirement Systems.....	III-64
State Direct General Obligation Debt	III-33	Social Security and Other Post-Employment Benefits.....	III-64
General.....	III-33	Additional Information.....	III-67
Statutory Authorization and Security Provisions	III-33	Litigation	III-68
Statutory Debt Limit.....	III-33	Appendices	
State Bond Commission	III-35	<i>Index to Appendices to Annual Information</i>	
Types of Direct General Obligation Debt	III-36	<i>Statement</i>	III-73
Bond Acts	III-36	Appendix III-A Governmental Organization and Services.....	III-A-1
Teachers' Retirement Fund Pension Obligation Bonds	III-36	Appendix III-B State Economy.....	III-B-1
UConn 2000 Financing.....	III-36	Appendix III-C June 30, 2009 Basic (GAAP-Based) Financial Statements...	III-C-1
Lease Financing.....	III-37	Appendix III-D June 30, 2005 - June 30, 2009 Budgetary (Modified Cash Basis) General Fund Financial Statements.....	III-D-1
Tax Increment Financing.....	III-37	Appendix III-E June 30, 2009 Final Budget, June 30, 2010 Revised Adopted and Estimated Budget and June 30, 2011 Revised Adopted Budget.....	III-E-1
Supportive Housing Financing	III-37		
Economic Recovery Notes	III-37		
Certain Short-Term Borrowings.....	III-38		
Forms of Debt	III-38		
Derivatives.....	III-38		
Debt Statement.....	III-39		
Debt Ratios	III-40		
Debt Service Schedule.....	III-40		
Outstanding Long-Term Direct General Obligation Debt	III-42		

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. Since then, Connecticut’s annual growth in gross state product has mostly performed better than the New England region, but mostly slower than the Nation. Connecticut’s nonagricultural employment reached a high in the first quarter of 2008 with 1,708,830 persons employed, but began declining with the onset of the recession falling to 1,628,730 jobs by the third quarter of 2009.

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. In addition, the administrative head of each budgeted agency transmits to the Office of Fiscal Analysis copies of the agency's monthly status reports relating to finances, personnel, and nonappropriated moneys. 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.

The Secretary of the Office of Policy and Management on November 15, 2009, and the director of the legislative Office of Fiscal Analysis on November 13, 2009, each submitted a fiscal accountability report for the current biennium and the next ensuing three fiscal years. The Office of Fiscal Analysis projected General Fund deficits for fiscal years ending June 30 of 2010, 2011, 2012, 2013 and 2014 of \$385.9 million, \$286.7 million, \$3,282.0 million, \$3,023.6 million and \$3,191.9 million, respectively. The Office of Policy and Management in its report projected General Fund deficits for fiscal years ending June 30 of 2010, 2011, 2012, 2013 and 2014 of \$337.0 million, \$107.4 million, \$3,024.0 million, \$2,633.9 million and \$2,581.7 million, respectively. The projections in each report were based on current services and certain other assumptions. In

addition, both reports assumed that the scheduled sales tax reduction from 6.0% to 5.5% would not go into effect on January 1, 2010 because the trigger provisions that prevent the rate decrease from taking effect pursuant to Public Act No. 09-3 of the June 2009 Special Session would be met. Additionally, the reports estimated general obligation bond authorizations, allocations, issuance and debt service for the current fiscal year and succeeding four fiscal years. The reports estimated fairly stable general obligation bond issuances over the five-year period of between \$1.2 billion and \$1.4 billion, with the expenditure on debt service gradually increasing. The projections of the Office of Policy and Management and the Office of Fiscal Analysis are only estimates and the information in each of the fiscal accountability reports contain only estimates and no assurances can be given that future events will materialize as estimated or that subsequent estimates, adjustments or actions of the General Assembly will not indicate changes in the final result of such fiscal years. The fiscal accountability report is generally on a current services basis, so its figures may not reflect any deficit reduction programs initiated in the current or any future budget biennium. The State has a balanced budget requirement and an expenditure cap as discussed at *Page III-5* under the heading **The Budgetary Process – Balanced Budget Requirement**. As such, budgets adopted for these fiscal years will need to reflect a combination of revenue enhancements and expenditure reductions. As a result, the figures do not represent a projection of the actual financial results that might be expected, but instead serve as planning tools.

Consensus Revenue Estimates. Public Act 09-214 requires the Office of Policy and Management and the legislature's Office of Fiscal Analysis to issue consensus revenue estimates each year by October 15. The estimates must cover a five-year period that includes the current biennium and the three following fiscal years. It also requires the two offices, by January 15 and April 30 each year, to issue either (1) a consensus revision of their previous estimate or (2) a statement that no revision is needed. If the two agencies cannot arrive at a consensus estimate, they must issue separate ones. In such a case, the Comptroller must issue the consensus estimate based upon the separate estimates. The Comptroller's estimate must equal one of the separate estimates or fall between the two.

Prior to the issuance of the fiscal accountability report discussed above, on October 15, 2009 the first such consensus revenue estimates were issued. The General Fund revenue estimates for fiscal years ending June 30 of 2010, 2011, 2012, 2013, and 2014 were \$17,204.0 million, \$17,432.7 million, \$15,794.8 million, \$16,755.5 million and \$17,485.7 million, respectively. The consensus revenue estimates showed flat net tax revenues for the current biennium and then significant tax revenue growth for the next three fiscal years. Specifically, the consensus revenue estimates showed personal income tax revenues for the 2009-10 fiscal year of \$6,610.7 million increasing to \$8,499.6 million in fiscal year 2013-14. These trends were offset by a decline in Other Sources for the fiscal years ending June 30 of 2012, 2013 and 2014. This was due in part to the inclusion in the 2009-10 and 2010-11 fiscal years of federal stimulus funds, use of the \$1,381.7 million balance in the Budget Reserve Fund, \$1,300 million of borrowings in the form of securitization of future revenue sources for the 2010-11 fiscal year, and \$60 million of asset sales, and the assumption that those sources will not be available in the ensuing fiscal years. On January 15, 2010, the Office of Policy and Management and the Office of Fiscal Analysis arrived at consensus revenue estimates. The General Fund revenue estimates for fiscal years ending June 30 of 2010, 2011, 2012, 2013, and 2014 were \$17,029.5 million, \$17,144.2 million, \$15,385.8 million, \$16,188.6 million, and \$16,932.3 million, respectively.

The projections in the consensus revenue estimates are only estimates and no assurances can be given that future events will materialize as estimated or that subsequent estimates, adjustments or actions of the General Assembly will not indicate changes in the final result of such fiscal years.

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 or any budgeted agency of the legislative or judicial branch, except that the Governor may require an aggregate allotment reduction of a specified amount for the legislative or judicial branch.

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.

After the accounts for the fiscal year are closed, beginning with the fiscal year ending June 30, 2010, and each fiscal year thereafter, until and including the fiscal year ending June 30, 2017, if the Comptroller determines there exists an unappropriated surplus in the General Fund, the amount of any such surplus is first to be used for redeeming prior to maturity any outstanding economic recovery notes issued to fund the deficit in the General Fund for the fiscal year ending June 30, 2009, refund any such notes, and pay the costs of issuance of such notes and interest payable or accrued on such notes through June 30, 2011, pursuant to Section 2 of Public Act No. 09-2 of the June 2009 Special Session, and any amount beyond that required to redeem such notes shall be used to reduce the obligations of the State under the financing plan authorized under Section 88 of Public Act No. 09-3 of the June 2009 Special Session. By statute, the Treasurer was directed to transfer (i) and did transfer, \$1,039.7 million from the budget reserve fund to the resources of the General Fund to be used as revenue for the fiscal year ending June 30, 2010 and (ii) \$342.0 million from the budget reserve fund to the resources of the General Fund to be used as revenue for the fiscal year ending June 30, 2011.

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. Effective with the fiscal year commencing July 1, 2008, the Comptroller, in the Comptroller's sole discretion, may initiate a process intended to result in the implementation of GAAP as prescribed by the Governmental Accounting Standards Board, with respect to the preparation and maintenance of the annual financial statements of the State now prepared on a modified cash basis, by making incremental changes consistent with GAAP.

As specifically permitted by statute or decision of the Comptroller, 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 through the 2006-07 fiscal year and, pursuant to the Comptroller's constitutional powers under Section 24, Article Fourth of the Connecticut State Constitution and her statutory powers under Public Act No. 08-111, the last day of July for fiscal year 2007-08 and thereafter; (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 after the last day of July immediately following the end of such fiscal year; (9) the accrual of payments received from any Indian tribe, pursuant to a memorandum of understanding, received by the Treasurer no later than the last day of July immediately following the end of such fiscal year; (10) the accrual of real estate conveyance tax revenue received by the Commissioner of Revenue Services no later than five business days after the last day of July immediately following the end of such fiscal year; and (11) the recording as grants receivable of certain amounts of restricted grants for which the State has the contractual right to be reimbursed by the federal government or other parties.

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

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

The Treasurer is required to submit to the Governor and the Investment Advisory Council, by December 31 of each year, audited financial statements of the State's combined investment funds, and financial statements of the Short Term Investment Fund, the Second Injury Fund, and the Tax Exempt Proceeds Fund for the prior fiscal year.

In July 2003 the State implemented the first phase of a new, fully integrated, Internet based, financial management and human resources system called Core-CT. The system was rolled out in phases by applications over a period of time between July 2003 and July 2007. 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. On-going maintenance and scheduled upgrades to the system are expected to continue.

Core-CT was implemented coincident with an unanticipated and significant downsizing of the State's workforce between 2002 and 2003, resulting in 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.

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 continues to work on an ongoing basis with State agencies, consultants and PeopleSoft representatives to improve system performance.

The implementation problems with the CORE-CT financial management software system caused a delay in the preparation of financial statements and reports for fiscal years 2004-05 and 2005-06. The audited legal accounting basis (modified cash) financial statements and the audited financial statements of the State prepared in accordance with generally accepted accounting principles (GAAP) for the fiscal year ending June 30, 2009 appear in **Parts III-C and III-D**. There was a delay of the State's submission to the U.S. Department of Health & Human Services of its Single Audit for the fiscal year ending June 30, 2006 pursuant to OMB Circular No. A-133. The State received an extension until May 31, 2007, and the State submitted the Single Audit before that date. The State does not expect there to be any such delay this year.

Investment and Cash Management

Treasurer's Role. The Treasurer has the investment responsibility for all funds of the State and functions as the trustee of all State pension, retirement and trust funds. The Treasurer is authorized to invest or reinvest funds under the control of the Treasurer in United States government or agency obligations, shares or interests in an investment company or trust registered under the Investment Company Act of 1940, whose portfolio is limited to obligations of the United States, its agencies or instrumentalities, or repurchase agreements fully collateralized by such obligations, United States postal service obligations, certificates of deposit, commercial paper, savings accounts and bank acceptances. The Treasurer may also invest funds, excluding civil list funds, in the sale or acquisition of securities or obligations which the Treasurer is authorized to sell or acquire for purposes of any combined investment fund, subject to repurchase agreements with any securities dealer or bank included in the list of primary dealers prepared by the Federal Reserve Bank of New York. The Treasurer is also authorized to invest all or any part of any sinking fund in bonds in which savings banks may legally invest, provided such bonds mature prior to maturity of the bonds of the State which are outstanding. The Treasurer is required to report by December 31 annually to the Governor and the Investment Advisory Council as to the activities of the Office of the Treasurer for the preceding fiscal year.

Cash Management. Cash management and the investment by the Treasurer of all State monies is based on the concept of a common cash pool. It is the practice of the State to treat all civil list funds (including monies in the General Fund, the Budget Reserve Fund, various bond funds, and the Special Transportation Fund) as common cash. All banks holding major account balances for the State Treasury report these balances daily, enabling the Treasurer to maintain adequate cash to meet anticipated demands and to keep unneeded balances fully invested.

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

Medium Term Investment Fund. A 1997 statute created the Medium-Term Investment Fund. The Treasurer may purchase participation units of the fund for all trusts and other funds for which the Treasurer has investment responsibility. The Treasurer may sell participation units in the Medium-Term Investment Fund to all agencies, authorities, instrumentalities and political subdivisions of the State. The Treasurer is authorized to invest and reinvest funds of the Medium-Term Investment Fund in obligations of the United States government and its agencies and instrumentalities, certificates of deposit, commercial paper, corporate debt securities, savings accounts and bankers’ acceptances, repurchase agreements collateralized by such securities, and investment funds or pools comprised of securities in which the Medium-Term Investment Fund may directly invest. The Medium-Term Investment Fund was implemented in September 2006.

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

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

Tax Exempt Proceeds Fund. Under the terms of the General Statutes the Treasurer has facilitated the establishment of the Tax Exempt Proceeds Fund, Inc. (“TEPF”), a diversified, open-end management investment company, registered under the Investment Company Act of 1940, whose investment objectives are to provide its investors with high current interest income exempt from federal income taxes, preservation of capital and maintenance of liquidity. TEPF will only invest in securities that qualify as an investment in “tax-exempt bonds” as defined in Section 150(a)(6) of the Internal Revenue Code of 1986, as amended (the “Code”) and amplified in Treasury Department Regulations. Therefore, shareholders of TEPF that are tax-exempt bond issuers are expected to be exempt from the arbitrage rebate provisions of the Code. TEPF seeks to achieve its objectives by investing primarily in a liquid money market portfolio of short-term, high quality, tax-exempt, fixed rate and variable rate obligations issued by states, municipal governments and by public

authorities, and in participation interests therein issued by banks, insurance companies or other financial institutions that meet this federal income tax definition. The TEPF seeks to maintain a constant net asset value of \$1.00 per share. TEPF's investment policies were developed for the particular federal income tax needs of entities that are issuers of tax-exempt state and local bonds, such as states and municipalities and their authorities, agencies, instrumentalities and subdivisions. All recipients of any grant or loan monies of the State funded from Connecticut tax-exempt bond proceeds must invest such monies in TEPF, unless the Treasurer waives this requirement upon a determination that a waiver will not adversely affect the tax-exempt status of State bonds, notes or other evidences of indebtedness. The State may, from time to time, deposit bond proceeds of the State in TEPF. Reich & Tang Asset Management, LLC acts as investment manager of TEPF and a Board of Directors is responsible for TEPF's overall management and supervision.

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

Investment of Pension Funds. Eleven 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 Mutual Equity Fund, the Developed Markets International Stock Fund, the Emerging Markets International Stock Fund, the Core Fixed Income Fund, the Inflation Linked Bond Fund, the Emerging Markets Debt Fund, the High Yield Debt Fund, the Private Investment Fund, the Real Estate Fund, the Liquidity Investment Fund and the Alternative Investment Fund. The pension, retirement and trust funds acquire units, in varying proportions depending on the investment policies of the funds, in one or more of the seven investment funds. By statute no more than 60% of any of the State's trust funds may be invested in common stock and if market fluctuations cause this limit to be exceeded, after six months no more than 65% of the State's trust funds may remain invested in common stock. Other than these limits, the statutes of the State permit investment in securities under the "Prudent Investor" rule. See also **PENSION AND RETIREMENT SYSTEMS** herein.

STATE GENERAL FUND

The State finances most of its operations through its General Fund. However, certain State functions, such as the State's transportation budget, are financed through other State funds. See **OTHER FUNDS, DEBT AND LIABILITIES** herein. For budgetary purposes, the State's General Fund is accounted for on a modified cash basis of accounting (the "budgetary-basis"), which differs from generally accepted accounting principles ("GAAP"). For an explanation of the differences between the budgetary-basis and GAAP based accounting, see **FINANCIAL PROCEDURES — Accounting Procedures** herein. The State is not presently required to prepare GAAP financial statements, although it has prepared such statements annually since 1988. GAAP based audited financial statements for all civil list funds of the State for the fiscal year ending June 30, 2009 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, 2005 through June 30, 2009 are included in **Appendix III-D** to this Annual Information Statement. The audited final budgetary-basis results for the fiscal year ending June 30, 2009, the adopted budgets for the fiscal years ending June 30, 2010 and June 30, 2011 and the estimated (as of December 31, 2009) budget for the fiscal year ending June 30, 2010 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; Moody's 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.

Consensus Revenue. Public Act 09-214 requires the Office of Policy and Management and the Office of Fiscal Analysis to issue consensus revenue estimates each year by October 15. The estimates must cover a five-year period that includes the current biennium and the three following fiscal years. It also requires the two offices, by January 15 and April 30 each year, to issue either (1) a consensus revision of their previous estimate or (2) a statement that no revision is needed. If the two agencies cannot arrive at a consensus estimate, they must issue separate ones. In such a case, the Comptroller must issue the consensus estimate based upon the separate estimates. The Comptroller's estimate must equal one of the separate estimates or fall between the two.

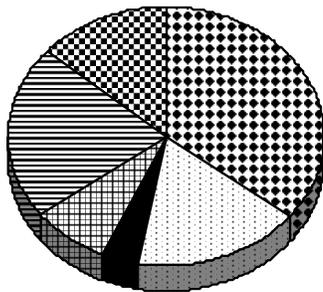
Fiscal Year 2009-2010 and 2010-2011 Adopted Revenues. General Fund revenues as forecasted at the adoption of the revised budget for the fiscal years ending June 30, 2010 and June 30, 2011 ("Adopted Revenues") are reflected in **Appendix III-E** to this Annual Information Statement. The State, as of the forecast

date, expected to derive approximately 62.9 percent and 62.0 percent, respectively, of its General Fund revenues from taxes during the 2009-10 fiscal year and the 2010-11 fiscal year. The final budgetary-basis results for the fiscal year ending June 30, 2009, the revised adopted budget and the estimated budgetary basis results (as of December 31, 2009) for the fiscal year ending June 30, 2010 and the revised adopted budget for the fiscal year ending June 30, 2011 are included in **Appendix III-E** to this Annual Information Statement.

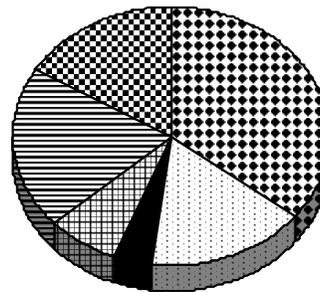
General Fund revenues are derived primarily from the collection of State taxes, including the personal income tax, the sales and use tax and the corporation business tax. Miscellaneous fees, receipts, transfers and unrestricted Federal grants account for most of the other General Fund revenue. A summary of anticipated General Fund revenue sources based on the Adopted Revenues, for the fiscal years ending June 30, 2010 and June 30, 2011, are set forth below:

Adopted General Fund Revenues (In Millions)

Adopted Revenues 2009-2010
\$17,372.4^(a)



Adopted Revenues 2010-2011
\$17,596.8^(a)



	Personal Income Tax	\$ 6,630.7	35.6%
	Sales and Use Tax	3,166.7	17.0%
	Corporate Business Tax	721.6	3.9%
	Other Taxes ^(b)	1,498.5	8.1%
	Unrestricted Federal Grants	4,051.8	21.8%
	Other Non-Tax Revenues ^(c)	2,536.3	13.6%

	Personal Income Tax	\$ 6,654.7	35.4%
	Sales and Use Tax	3,095.4	16.5%
	Corporate Business Tax	731.9	3.9%
	Other Taxes ^(b)	1,424.0	7.6%
	Unrestricted Federal Grants	3,770.4	20.1%
	Other Non-Tax Revenues ^(c)	3,089.3	16.5%

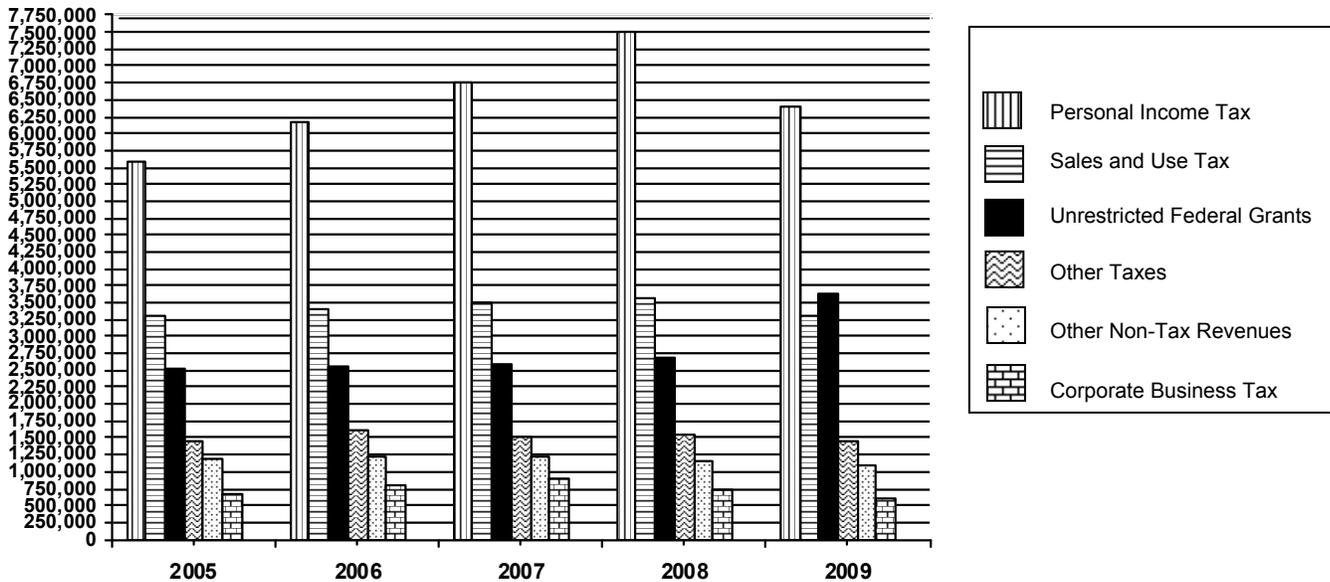
Note: Totals may not add to 100% due to rounding.

- (a) The pie charts reflect the total of the listed tax and revenue amounts of \$18,606.3 million for fiscal year 2009-10 and \$18,779.1 million for fiscal year 2010-11 and do not reflect tax refunds and transfers to other funds of \$1,233.9 million for fiscal year 2009-10 and \$1,182.3 million for fiscal year 2010-11. See **Appendix III-E** for anticipated adjustments to adopted tax revenues. The charts do not reflect any results of the Governor's deficit mitigation plans or the results of the November 24, 2008 Special Session of the General Assembly.
- (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. 09-3 of the June 2009 Special Session; Public Act No. 09-8 of the September 2009 Special Session; Public Act No. 09-7 of the September 2009 Special Session; Public Act No. 09-5 of the September 2009 Special Session.

Historical General Fund Revenues. Actual General Fund revenues for the fiscal years ending June 30, 2005 through 2009 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)



	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Taxes:					
Personal Income Tax	\$ 5,570,724	\$ 6,156,373	\$ 6,749,462	\$ 7,512,688	\$ 6,385,856
Sales Tax	3,290,366	3,401,966	3,496,110	3,582,317	3,318,752
Corporate Business Tax	678,969	787,702	890,730	733,942 ^(e)	615,921
Other Taxes ^(b)	<u>1,447,999</u>	<u>1,606,746</u>	<u>1,517,553</u>	<u>1,558,511</u>	<u>1,448,448</u>
Subtotal	10,988,058	11,952,787	12,653,855	13,387,458	11,768,977
R & D Credit Exchange.....	(8,850)	(6,694)	(5,983)	(11,363)	(8,428)
Refunds of Taxes	<u>(681,279)</u>	<u>(730,850)</u>	<u>(746,539)</u>	<u>(852,184)</u>	<u>(1,052,286)</u>
Total Net Taxes	\$10,297,929	\$11,215,243	\$11,901,333	\$12,523,911	\$10,708,263
Other Revenue:					
Federal Grants					
(Unrestricted).....	\$ 2,497,670	\$ 2,549,577	\$ 2,602,774	\$ 2,701,603	\$ 3,619,490
Other Non-Tax Revenues ^(c)	1,209,764	1,230,801	1,224,753	1,164,272	1,105,217
Transfers to Other Funds	(85,000)	(86,300)	(86,300)	(86,300)	(86,300)
Transfers from Other Funds.....	<u>142,500</u>	<u>89,400</u>	<u>100,000</u>	<u>115,300</u>	<u>354,131^(d)</u>
Total Other Revenues	<u>\$ 3,764,934</u>	<u>\$ 3,783,478</u>	<u>\$ 3,841,227</u>	<u>\$ 3,894,875</u>	<u>\$ 4,992,538</u>
Total Revenues	\$14,062,863	\$14,998,721	\$15,742,560	\$16,418,786	\$15,700,801

(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) For Fiscal Year 2009, \$179.4 of reserved fund balance within the General Fund was released for Fiscal Year 2009 operations and was posted under the "Transfer from Other Funds" category.

(e) For Fiscal Year ending June 30, 2008, the Corporation Business Tax accrual date was changed to the last day of July from August 15th (as in the prior fiscal years). The Corporation Business Tax is now consistent with other tax accruals. The Comptroller's decision to make this change is within her constitutional powers under Section 24, Article Fourth of the Connecticut State Constitution and her statutory powers under Public Act No. 08-111.

SOURCE: 2005, 2006, 2007, 2008 and 2009 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 6.5% 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 2015 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 and revised for tax year 2009. Under this revised structure, the top rate remains at 6.5% 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 of \$350 per filer beginning with the tax year commencing January 1, 2003 was increased to \$500 per filer for tax years beginning on or after January 1, 2006. Taxpayers also are subject to a Connecticut minimum tax based on their liability, if any, for payment of the federal alternative minimum tax.

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

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

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

2002 the State limited corporation credits from reducing tax liability by more than 70%. The State imposed a one time corporation business tax surcharge of 20% for income year 2003, 25% for income year 2004, 20% for income year 2006. There was no corporation business tax surcharge for income year 2005, 2007 or 2008. For income year 2009, 2010 and 2011 a corporation business tax surcharge of 10% has been imposed for businesses with over \$100 million in federal adjusted gross income.

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 estate 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 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. Most unrestricted federal grant revenue is expenditure driven. The largest federal grants in fiscal year 2008-09 were made for the purposes of providing medical assistance payments to low income individuals 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. The American Recovery and Reinvestment Act (ARRA) provides the State with increased Medicaid and Title IV-E grants as well as new funding for education, transportation, and other general government functions in fiscal years 2009, 2010 and 2011. 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

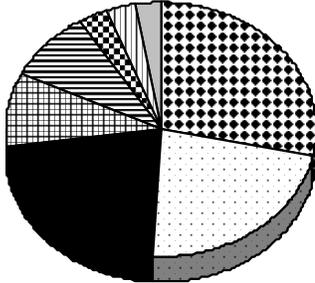
Appropriated and Historical Expenditures

Fiscal Year 2009-2010 and 2010-2011 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 generally paid from the Special Transportation Fund, not the General Fund. Occasionally, minor expenditures for transportation related expenditures are paid from the General Fund.

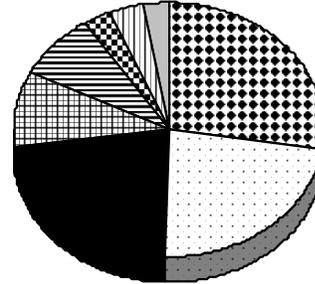
The revised adopted budgets for the fiscal years ending June 30, 2010 and June 30, 2011, the audited final budgetary-basis results for the fiscal year ending June 30, 2009, and the estimated (as of December 31, 2009) budgetary-basis results for the fiscal year ending June 30, 2010 are included as **Appendix III-E** to this Annual Information Statement. A summary of appropriated General Fund expenditures for the fiscal years ending June 30, 2010 and June 30, 2011 is set forth below.

Appropriated General Fund Expenditures (In Millions)

Appropriated Expenditures 2009-2010
\$17,370.6^(a)



Appropriated Expenditures 2010-2011
\$17,591.0^(a)



	Human Services	\$ 5,066.5	30.1%
	Education, Libraries and Museums	4,023.4	23.9%
	Non-Functional	3,873.3	23.0%
	Health and Hospitals	1,705.5	10.1%
	Corrections	1,568.8	9.3%
	General Government	543.7	3.2%
	Judicial	561.0	3.3%
	Other Expenditures ^(b)	501.7	3.0%

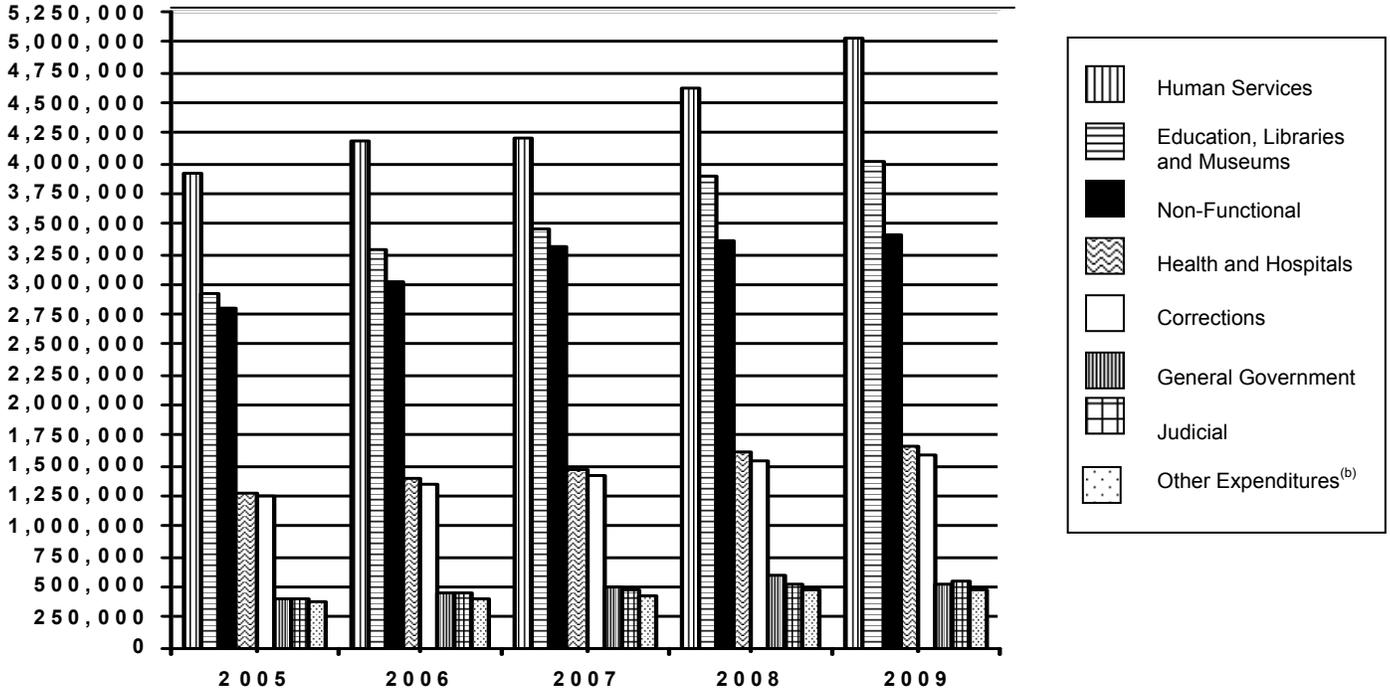
	Human Services	\$ 4,996.8	28.4%
	Education, Libraries and Museums	4,103.6	23.3%
	Non-Functional	4,091.2	23.3%
	Health and Hospitals	1,737.4	9.9%
	Corrections	1,554.6	8.8%
	General Government	553.4	3.1%
	Judicial	579.1	3.3%
	Other Expenditures ^(b)	505.1	2.9%

(a) The pie charts reflect the total listed expenditures of \$17,843.9 million for fiscal year 2009-10 and \$18,121.4 million for fiscal year 2010-11, and do not reflect adjustments for unallocated lapses of \$473.3 million for fiscal year 2009-10 and \$530.4 million for fiscal year 2010-11. See **Appendix III-E** for anticipated adjustments to appropriated expenditures. The charts do not reflect any results of the Governor's deficit mitigation plan or the results of the November 24, 2008 Special Session of the General Assembly.

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

SOURCE: Public Act No. 09-3 of the June 2009 Special Session; Public Act No. 09-8 of the September 2009 Special Session; Public Act No. 09-7 of the September 2009 Special Session; Public Act No. 09-5 of the September 2009 Special Session.

Historical General Fund Expenditures. Actual General Fund expenditures for the fiscal years ending June 30, 2005 through 2009 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)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Human Services.....	\$ 3,908,030	\$ 4,181,893	\$ 4,221,641	\$ 4,629,658	\$ 5,041,515
Education, Libraries and Museums....	2,922,543	3,290,626	3,449,507	3,892,796	4,019,381
Non-Functional.....	2,793,571	3,022,667	3,311,597	3,356,538	3,399,404
Health and Hospitals	1,283,235	1,392,263	1,473,779	1,606,711	1,662,540
Corrections	1,239,564	1,339,289	1,430,316	1,549,792	1,577,167
General Government	409,138	442,518	500,641	602,849	520,115
Judicial.....	405,818	438,123	474,067	515,738	543,078
Other Expenditures ^(b)	<u>371,804</u>	<u>392,237</u>	<u>432,187</u>	<u>473,365</u>	<u>471,655</u>
Totals.....	\$ 13,333,703	\$ 14,499,616	\$ 15,293,735	\$ 16,627,447	\$ 17,234,855

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

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

SOURCE: 2005, 2006, 2007, 2008 and 2009 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 2009-10 fiscal year, approximately 67% 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 33% 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, Developmental Services, 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.

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 54% of all appropriations for Conservation and Development based upon the adopted budget for the 2009-10 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 for purposes of **Table 1**; see footnote 3 to **Table 1** below). Such payments to third parties amount to approximately 63% of total General Fund appropriations under the adopted budget for the 2009-10 fiscal year. Costs of State administration consist of three major appropriation account types: personal services, equipment, and other expenses. These expenditures are used directly to operate the facilities and programs of State agencies and include such items as salaries, wages, pension and other benefits for State employees; utility and fuel costs; food; institutional and office supplies; equipment; rent for office space and other facilities; and other current expenses. Appropriations for costs of State administration represent approximately 37% of all General Fund appropriations under the revised adopted budget for the 2009-10 fiscal year.

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

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

	<u>Fiscal Year 2007-08</u> <u>(Actual)</u>		<u>Fiscal Year 2008-09</u> <u>(Unaudited)</u>		<u>Fiscal Year 2009-10</u> <u>(Appropriated)</u>	
	<u>Total</u> <u>Payments</u>	<u>Payments</u> <u>to Local</u> <u>Governments</u>	<u>Total</u> <u>Payments</u>	<u>Payments</u> <u>to Local</u> <u>Governments</u>	<u>Total</u> <u>Payments</u>	<u>Payments</u> <u>to Local</u> <u>Governments</u>
LEGISLATIVE						
Total – Legislative.....	313	0	330	0	373	0
GENERAL GOVERNMENT						
Tax Relief for Elderly Renters	18,402	0	20,311	0	22,000	0
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	53,380	53,380	57,348	57,348	57,348	57,348
Undesignated	48,833	19,290	52,641	24,103	40,637	17,830
Total – General Government.....	122,719	93,176	130,495	101,957	118,491	95,684

	Fiscal Year 2007-08 (Actual)		Fiscal Year 2008-09 (Unaudited)		Fiscal Year 2009-10 (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	1,272	0	1,110	130	1,013	0
CONSERVATION AND DEVELOPMENT						
Total - Conservation and Development.....	37,171	19,408	34,983	17,875	30,742	13,954
HEALTH AND HOSPITALS						
Employment Opportunities and Day Services (Dept. of Developmental Services ²)	157,721	0	162,299	0	177,494	0
Community Residential Services (Dept. of Developmental Services ²).....	373,714	0	395,022	0	379,448	0
Grants for Substance Abuse Services.....	28,191	0	26,045	0	25,529	0
Grants for Mental Health Services	80,132	0	79,339	0	77,894	0
Undesignated	51,548	14,837	52,795	15,961	47,934	14,900
Total - Health and Hospitals	691,306	14,837	715,500	15,961	708,299	14,900
HUMAN SERVICES						
Medicaid	3,470,656	0	3,851,692	0	3,847,385	0
Old Age Assistance.....	32,573	0	35,555	0	36,328	0
Aid to the Disabled	57,525	0	58,942	0	60,649	0
Temporary Assistance to Families – TANF	110,962	0	112,605	0	117,435	0
Connecticut Pharmaceutical Assistance Contract to the Elderly.....	31,954	0	31,464	0	10,280	0
Medicaid - Disproportionate Share - Mental Health.....	105,935	0	105,935	0	105,935	0
Connecticut Home Care Program	57,861	0	69,106	0	66,428	0
Child Care Services - TANF/CCDBG	98,801	0	93,119	0	103,872	0
Housing/Homeless Services.....	31,230	0	40,495	0	44,051	0
Disproportionate Share - Medical Emergency Assistance.....	57,725	0	53,725	0	51,725	0
DSH - Urban Hospitals in Distressed Municipalities	31,550	0	31,550	0	31,550	0
State Administered General Assistance.....	184,049	0	203,186	0	244,024	0
Medicare Part D Supplemental Needs.....	22,862	0	25,264	0	3,120	0
Hospital Hardship Fund	28,647	0	7,953	0	0	0
Undesignated	71,847	6,468	73,378	6,453	71,777	7,018
Total - Human Services	4,394,177	6,468	4,793,969	6,453	4,794,559	7,018

	Fiscal Year 2007-08 (Actual)		Fiscal Year 2008-09 (Unaudited)		Fiscal Year 2009-10 (Appropriated)	
	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments	Total Payments	Payments to Local Governments
EDUCATION, LIBRARIES AND MUSEUMS						
Charter Schools.....	34,880	0	41,655	0	48,152	0
Adult Education	19,620	19,620	19,567	0	20,594	20,594
Transportation of School Children.....	47,964	47,964	47,975	47,975	47,964	47,964
Education Equalization Grants.....	1,808,802	1,808,802	1,882,944	1,882,944	1,889,609	1,889,609
Priority School Districts.....	127,061	127,061	114,417	114,417	117,237	117,237
Excess Cost - Student Based.....	129,835	129,835	140,045	140,045	120,491	120,491
Magnet Schools.....	109,750	109,750	128,613	128,613	148,108	148,108
Connecticut Independent College Student Grant	23,914	0	23,397	0	23,914	0
Connecticut Aid for Public College Students.....	30,208	0	30,208	0	30,208	0
Teachers' Retirement Contributions...	518,560	0	539,303	0	559,224	0
Undesignated	126,992	62,555	126,455	80,119	98,176	55,649
Total – Education.....	2,977,586	2,305,587	3,094,579	2,394,113	3,103,677	2,399,652
CORRECTIONS						
Community Support Services (Dept. of Correction).....	35,481	0	38,682	0	40,370	0
Board and Care for Children – Adoption.....	71,884	0	77,305	0	81,533	0
Board and Care for Children – Foster.....	112,224	0	107,635	0	112,410	0
Board and Care for Children – Residential.....	191,692	0	196,143	0	189,341	0
Community KidCare.....	21,697	0	23,233	0	25,946	0
Undesignated	92,688	0	90,997	0	99,918	0
Total – Corrections	525,666	0	533,995	0	549,518	0
NON FUNCTIONAL						
Debt Service (Including UConn 2000 and CHEFA Day Care Security) ³	1,413,035	0	1,469,283	0	1,603,864	0
Reimbursement to Towns for Loss of Taxes on State Property	80,019	80,019	80,019	80,019	73,519	73,519
Reimbursement to Towns for Loss of Taxes on Private Tax-exempt Property.....	122,430	122,430	122,430	122,430	115,432	115,432
Undesignated	424	0	466	0	525	0
Total - Non Functional.....	1,615,908	202,449	1,672,198	202,449	1,793,340	188,951
Total - Fixed Charges	10,366,118	2,641,925	10,977,159	2,738,938	11,100,012	2,720,159

¹ Table 1 includes actual fixed charge expenditures for fiscal year 2007-08, unaudited fixed charge expenditures for Fiscal Year 2008-09, and appropriated fixed charge expenditures for fiscal year 2009-10.

² The Department of Developmental Services was formerly known as the Department of Mental Retardation.

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 2008-2009 Operations

Pursuant to the Comptroller's financial statements provided on December 31, 2009, as of June 30, 2009, General Fund revenues were \$15,700.8 million, General Fund expenditures and net miscellaneous adjustments were \$16,648.4 million and the General Fund deficit for the 2008-09 fiscal year was \$947.6 million. On December 3, 2009, the Treasurer issued \$915,795,000 notes for the purpose of funding the deficit, amounts to pay costs of issuance of such notes and certain interest payable or accrued on such notes.

The audited results for the final fiscal year 2008-09 operations of the General Fund have been outlined in **Appendix III-D** to this **Part III**.

Budget for Fiscal Years 2009-2010 and 2010-2011

On June 3, 2009, the General Assembly adjourned its regular 2009 session without adopting a fiscal year 2009-2011 biennial budget. Prior to adjournment, the General Assembly passed resolutions calling for a special session to take up matters related to adoption of a budget. The special session was immediately convened at the conclusion of the regular session. During the special session, the General Assembly passed a General Fund budget for the 2009-10 and 2010-11 fiscal years which was subsequently vetoed by the Governor.

The State continued to run its operations pursuant to Executive Orders which were issued by the Governor. Authorization to pay debt service on the State's general obligation bonds remained unaffected. The Executive Orders directed all department heads and executive branch employees to limit purchases of goods and services and directed all department heads to utilize personnel and other resources in an effective and efficient manner, giving priority to programs that provide direct care services, administer justice and protect the public health and safety. The Executive Orders covered the months of July, August and the portion of September until the approval of an appropriation act for the fiscal year commencing July 1, 2009.

In a special session, the General Assembly passed the biennial budget for fiscal years 2009-10 and 2010-11 which subsequently became law on September 8, 2009. The enacted budget, Public Act No. 09-3 of June 2009 Special Session, for fiscal year 2009-10 included General Fund revenues of \$17,375.4 million and net appropriations of \$17,374.6 million, resulting in a projected surplus of \$0.8 million. The budget for fiscal year 2010-11 included General Fund revenues of \$17,591.9 million and net appropriations of \$17,591.0 million, resulting in a projected surplus of \$0.9 million.

The enacted biennial budget raised net revenues from three major resources: 1) Grants from the ARRA, 2) transfers from other State funds to the State's General Fund and securitizations, and 3) net increases in taxes and miscellaneous fees. Federal grants from the ARRA for human services, education, and other economic related stimulus programs totaled \$878.9 million in fiscal year 2009-10 and \$594.8 million in fiscal year 2010-11. Major revenues from transfers of other State funds to the State's General Fund and securitizations included (i) transferring Budget Reserve Funds by \$1,039.7 million in fiscal year 2009-10 and \$342.0 million in fiscal year 2010-11, and (ii) securitizing \$1,290.7 million in fiscal year 2010-11 as amended by Public Act No. 09-7 of the September 2009 Special Session. The significant tax changes included: (i) an increase in the highest income tax rate to 6.5% from 5% for those with taxable incomes over \$1 million for joint filers, \$800,000 for heads of households, and \$500,000 for single filers and married people filing separately, raising approximately \$594.0 million in fiscal year 2009-10 and \$400.0 million in fiscal year 2010-11; (ii) an imposition of a 10% corporation tax surcharge for the 2009, 2010, and 2011 income years on companies that have (1) \$100 million or more in annual gross income in those years and (2) tax liability that exceeds the \$250 minimum, raising approximately \$74.1 million in fiscal year 2009-10 and \$41.1 million in fiscal year 2010-11; (iii) an increase in the cigarette tax rate from \$2.00 per pack to \$3.00 per pack, raising approximately \$94.9 million in fiscal year 2009-10 and \$112.4 million in fiscal year 2010-11; (iv) changes in various fees, raising approximately a net total of \$108.5 million in fiscal year 2009-10 and \$105.9 million in fiscal year 2010-11, and (v) cuts in taxes, including (1) a reduction in the sales and use tax rate to 5.5% from

6%, and (2) a reduction in the estate and gift tax. The reduction of the sales and use tax rate effective January 1, 2010 was expected to result in a revenue loss of approximately \$129.5 million in fiscal year 2009-10 and \$268.0 million in fiscal year 2010-11. However, if any cumulative monthly financial statement issued by the Comptroller before January 1, 2010 indicates that the estimated gross tax revenue to the General Fund to the end of the fiscal year ending June 30, 2010 is at least 1% less than the adopted gross tax revenue to the General Fund for fiscal year 2009-10, the tax rate would remain at 6%. If any cumulative monthly financial statement issued after January 1, 2010, and on or before June 30, 2010, indicates that the estimated gross tax revenue to the General Fund to the end of the fiscal year ending June 30, 2010 is at least 1% less than the adopted gross tax revenue to the General Fund, the tax rate would remain at 6%. On the estate and gift taxes, the enacted law (i) increased the threshold for the value of an estate or gift subject to the estate and gift taxes from \$2 million to \$3.5 million; (ii) reduced the marginal tax rates by 25%; and (iii) eliminated the tax cliff. These three measures were expected to reduce revenues by approximately \$5.9 million in fiscal year 2009-10 and \$70.3 million in fiscal year 2010-11.

The significant changes in appropriations came from State employee personal services reductions, entitlement programs savings, and education grants reductions. Personal services reductions from concessions with a coalition of employee collective bargaining units included wage freezes and a Retirement Incentive Plan which were expected to save approximately \$191.0 million in fiscal year 2009-10 and \$193.7 million in fiscal year 2010-11. Savings from entitlement programs included (i) eliminating nursing home rate increases in reimbursement levels under Medicaid, saving approximately \$113.2 million in fiscal year 2009-10 and \$162.2 million in fiscal year 2010-11, (ii) reducing managed care organization capitation rates by 6% under both HUSKY A and HUSKY B, saving approximately \$50.1 million in fiscal year 2009-10 and \$51.8 million in fiscal year 2010-11, and (iii) managing services for aged, blind and disabled individuals who are currently receiving care under the Medicaid fee-for-service program, saving approximately \$27.8 million in fiscal year 2009-10 and \$80.0 million in fiscal year 2010-11. Education reductions included cuts of grants to (i) the Excess Cost program that reimburses funds to towns, saving approximately \$13.4 million each for both fiscal years 2009-10 and 2010-11, (ii) the Priority School District program that assists the neediest communities and funds School Readiness program, reduced \$6.9 million each for both fiscal years 2009-10 and 2010-11, and (iii) the Reading Success program designed to improve kindergarten through grade three reading was eliminated, saving the State \$2.4 million each for both fiscal years 2009-10 and 2010-11.

In addition, the budget for fiscal year 2010-11 required the Treasurer and the Secretary of the Office of Policy and Management to jointly develop a financing plan that would result in net proceeds of up to \$1,290.7 million to be used as general revenues of the State during such fiscal year, which may include securitizations as discussed above. The budget also required the Treasurer and the Secretary of the Office of Policy and Management to jointly develop a plan to sell assets of the State that would result in net proceeds of up to \$15 million to be used as general revenues of the State during the 2009-10 fiscal year and \$45 million to be used as general revenues of the State during the 2010-11 fiscal year. In addition, the budget for fiscal year 2009-10 required a reduction of \$473.3 million in expenses from budgeted amounts. The budget for fiscal year 2010-11 required a reduction of \$515.2 million of expenses from budgeted amounts. The biennial budget for fiscal years 2009-10 (revised per Public Act No. 09-3 of the June 2009 Special Session and subsequent revisions as amended by Public Act No. 09-8 of the September 2009 Special Session, Public Act No. 09-5 of the September 2009 Special Session, and Public Act No. 09-7 of the September 2009 Special Session) and 2010-11 has been outlined in **Appendix III-E** to this **Part II**.

The budget was \$840.9 million below the expenditure cap in fiscal year 2009-10 and \$589.9 million below the expenditure cap in fiscal year 2010-11.

Fiscal Year 2009-2010 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 for the General Fund for the 2009-10 fiscal year on October 20, 2009 (as of the period ending September 30, 2009 and not reflecting the elimination of the planned one-half percent sales tax reduction pursuant to Public Act No. 09-3 of the June Special Session which is projected to generate an additional \$129.5 million), November 20, 2009 (as of the period ending October 31, 2009 and not reflecting the elimination of the planned one-half percent sales tax reduction pursuant to Public Act No. 09-3 of the June Special Session which is projected to generate an additional \$129.5 million), December 21, 2009 (as of the period ending November 30, 2009 and does reflect the elimination of the planned one-half percent sales tax reduction pursuant to Public Act No. 09-3 of the June Special Session which is projected to generate an additional \$129.5 million), General Fund was estimated to have a deficit of \$388.5 million, \$466.5 million and \$327.9 million, respectively. In the monthly estimate provided by the Office of Policy and Management on January 20, 2010 for the General Fund for the 2009-10 fiscal year, as of the period ending December 31, 2009, General Fund revenues were estimated at \$17,029.5 million, General Fund expenditures and miscellaneous adjustments were estimated at \$17,530.0 million and the General Fund was estimated to have a deficit of \$500.5 million. In the monthly estimate provided by the Office of Policy and Management on February 22, 2010 for the General Fund for the 2009-10 fiscal year, as of the period ending January 31, 2010, General Fund revenues were estimated at \$17,029.5 million, General Fund expenditures and miscellaneous adjustments were estimated at \$17,533.4 million and the General Fund was estimated to have a deficit of \$503.9 million. The next monthly report of the Office of Policy and Management is expected on March 22, 2010 and no assurances can be given that the estimates in such report will match the Office of Policy and Management's prior estimates.

By statute, the State's fiscal position is reported monthly by the Comptroller. In her monthly reports dated November 1, 2009, December 1, 2009 and January 4, 2010, the Comptroller estimated deficits in the General Fund for the 2009-10 fiscal year of \$624 million (as of the period ending September 30, 2009 and not reflecting the elimination of the planned one-half percent sales tax reduction pursuant to Public Act No. 09-3 of the June Special Session which is projected to generate an additional \$129.5 million), \$549.5 million (as of the period ending October 31, 2009 and reflecting the elimination of the planned one-half percent sales tax reduction pursuant to Public Act No. 09-3 of the June Special Session which is projected to generate an additional \$129.5 million) and \$513.3 million (as of the period ending November 30, 2009 and reflecting the elimination of the planned one-half percent sales tax reduction pursuant to Public Act No. 09-3 of the June Special Session which is projected to generate an additional \$129.5 million). In the Comptroller's monthly report dated February 1, 2010, the Comptroller estimated a General Fund deficit for the 2009-10 fiscal year of \$515.0 million as of the period ending December 31, 2009. This estimate reflects the elimination of the planned one-half percent sales tax reduction pursuant to Public Act No. 09-3 of the June Special Session which is projected to generate an additional \$129.5 million. The next monthly report of the Comptroller is expected on March 1, 2010, and no assurances can be given that the estimates in such report will match the Office of Policy and Management's estimates or the Comptroller's prior estimates.

The above projections are only estimates and the information in the monthly letters of the Office of Policy and Management to the Comptroller and in the Comptroller's monthly reports contain only estimates and no assurances can be given that future events will materialize as estimated or that subsequent estimates, adjustments or audit or actions of the General Assembly will not indicate changes in the final result of the fiscal year 2009-10 operations of the General Fund.

The Governor may generally reduce budget allotment requests within certain prescribed limits and has done so for the current fiscal year. Additionally, pursuant to Section 4-85 of the Connecticut General Statutes, whenever the cumulative monthly financial statement issued by the Comptroller indicates a projected General Fund deficit greater than one percent of the total General Fund appropriations, the Governor is required within thirty days to file a report with the joint standing committees of the General Assembly on appropriations and on finance, revenue and bonding. The report shall include a plan which the Governor shall implement to modify agency allotments to the extent necessary to prevent a deficit. Should such plan result in a reduction of more than five percent of total appropriations, approval of the General Assembly would be required. The Governor was required to file such report as a result of the deficit projection included in the

Comptroller's November 1, 2009 report. On November 24, 2009, Governor Rell delivered her plan to address a potential deficit of \$466.5 million in the General Fund for fiscal year 2009-10 to the General Assembly. Pursuant to Public Act No. 09-3 of the June 2009 Special Session, since the Comptroller certified that state tax revenues for fiscal year 2009-10 will not be within 1 percent of original projections, the plan to reduce the State sales tax rate by 0.5 percentage points did not take effect in January 2010. The elimination of the rate reduction precluded an estimated revenue loss of \$129.5 million, leaving a deficit of \$337.0 million still to be closed. The deficit mitigation plan included spending cuts made under the Governor's authority and those requiring legislative approval, additional fund transfers, and reductions in municipal aid.

In addition to \$31.6 million in rescissions to agency budgets announced on November 5, 2009, the Governor's plan called for an additional \$19.3 million in rescissions and \$16.8 million in program cuts that the Governor can order on her own authority, including reductions in certain programs and delays in the implementation of others. The Governor's plan also recommended \$116.3 million in program reductions that will require legislative approval, including reductions in a number of grants and reductions in Medicaid provider rates. The deficit mitigation plan anticipated a lapse of \$16.1 million above the level in the Office of Policy and Management's November 20, 2009 letter to the Comptroller, and a gain of about \$200,000 from the sale of surplus State cars. The plan called for intercepting \$52.8 million from accounts such as the Citizens Election Fund, the Stem Cell Research Fund, and the Tobacco and Health Trust Fund. The plan also called for a reduction of 3 percent in state aid to municipalities, saving the State approximately \$84.0 million. In late December, the General Assembly passed certain deficit mitigation measures which were subsequently vetoed by the Governor. The Governor is expected to submit to the General Assembly a revised deficit mitigation package by March 1, 2010.

Midterm Budget Adjustments

Per Section 4-71 of the Connecticut General Statutes, the Governor is required to submit a status report to the General Assembly on the biennial budget enacted in the previous year. The status report shall include any recommendations for adjustments and revisions to the enacted budget.

On February 3, 2010 the Governor submitted to the General Assembly a status report including detailed projections of expenditures and revenues and proposed Midterm Budget Adjustments for fiscal year 2010-11. The midterm budget adjustments incorporated the January 15th consensus revenue forecast as a baseline and anticipated additional revenue of \$422.3 million for total revenue collections of \$17,566.5 million. General Fund appropriations were reduced by \$28.6 million to \$17,566.1 million resulting in a projected budget surplus of \$0.4 million.

The Governor's proposed midterm budget adjustments assume \$422.3 million in additional revenue. Of that total, \$365.6 million is due to federal grants anticipated from an extension of the American Recovery and Reinvestment Act for both Medicaid and education funding. The Governor's proposal also assumes the implementation of Keno gaming in the State expected to generate \$20 million in fiscal year 2010-11 and \$15 million in transfers from other funds of the State to the General Fund. All other proposed revenue changes net to \$21.7 million.

In regards to expenditures, the Governor's proposed midterm budget adjustments add \$156.3 million in the Department of Social Services to reflect current expenditure and caseload trends and add \$72.5 million to fully fund the HUSKY capitation payment. Pursuant to an agreement with the State employees' bargaining agent coalition, the Governor's proposal assumes savings of \$100 million by reducing the required contribution to the State Employees' Retirement Fund. The Governor's proposed budget remains \$485.1 million below the expenditure cap.

The Governor's proposed midterm budget adjustments include an increase of \$131 million in general obligation bond authorizations to take effect in fiscal year 2010-11 and cancellation of \$388.7 million

of prior general obligation bond authorizations. The Governor’s recommendations also include an increase of \$4.825 million in special transportation obligation bond authorizations.

Also on February 3rd, the Office of the State Treasurer and the Office of Policy and Management released a report required by the originally adopted budget regarding a \$1.29 billion securitization plan for fiscal year 2010-11. The plan outlines options for the General Assembly to consider which includes the securitization of certain non-General Fund electric rate charges, lottery revenues, tobacco settlement revenues and certain existing General Fund revenues among others and also includes the consideration of selling major State assets. The Governor’s proposed midterm budget adjustments assumes the successful completion of the \$1.29 billion securitization which requires the enactment of legislation by the General Assembly. The General Assembly is expected to deliberate on the Governor’s proposed revisions and securitization plan and adjourn by May 5, 2010.

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 2005 through 2009 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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Total General Fund Revenues ^(a)	\$ 14,062.9	\$14,998.7	\$ 15,742.6	\$16,418.8	\$15,700.8
Net Appropriations/Expenditures ^(b)	<u>13,699.0</u>	<u>14,552.2</u>	<u>15,473.4</u>	<u>16,319.4</u>	16,648.4
Operating Surplus/(Deficit)	<u>\$ 363.9^(d)</u>	<u>\$ 446.5^(e)</u>	<u>\$ 269.2^(f)</u>	<u>\$ 99.4^(g)</u>	<u>\$ (947.6)^(h)</u>

- (a) Does not include Restricted Accounts and Federal and Other Grants. See **Appendix III-D-6**.
- (b) Does not include expenditures for Restricted Accounts and Federal and Other Grants. Includes Amounts Reserved for Prior Year Appropriations Less Appropriations Carried Forward and Other Adjustments. See **Appendix III-D**.
- (c) The entire surplus balance of \$302.2 million was reserved for transfer to the Budget Reserve Fund.
- (d) The entire surplus balance of \$363.9 million was reserved for transfer to the Budget Reserve Fund.
- (e) The entire surplus balance of \$446.6 million was reserved for transfer to the Budget Reserve Fund.
- (f) The entire surplus balance of \$269.2 million was reserved for transfer to the Budget Reserve Fund.
- (g) The entire surplus balance of \$99.4 million was reserved for spending in fiscal year 2008-09.
- (h) The State Treasurer was given authority to fund, and did fund, the Fiscal Year 2009 General Fund deficit through economic recovery notes.

SOURCE: Comptroller’s Office

Table 3 shows the reconciliation of the actual operations surplus (deficit) under the budgetary (modified cash) basis to the GAAP basis of accounting. Audited GAAP based financial statements for fiscal year 2009 are included in **Appendix III-C**.

TABLE 3
General Fund
Summary of Operating Results — Budgetary (Modified Cash) Basis vs. GAAP Basis
(In Millions)

	Fiscal Years Ending June 30				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Modified Cash Basis Operating Surplus/(Deficit)	\$ 363.9	\$ 446.5	\$ 269.2	\$ --	\$ (947.6)
<u>Adjustments:</u>					
Increases (decreases) in revenue accruals:					
Governmental Receivables	(98.2)	10.5	(91.0)	63.5	284.0
Other Receivables.....	(33.5)	25.7	177.9	(302.0)	101.4
(Increases) decreases in expenditure accruals:					
Accounts Payable and Other Liabilities.....	(60.3)	(37.7)	45.2	60.3	(601.6)
Salaries and Fringe Benefits Payable.....	61.0	(22.3)	(90.0)	(14.0)	56.6
Increase (decrease) in Continuing					
Appropriations.....	481.6	8.4	128.2	(327.0)	(415.3)
Reclassification of equity adjustments	15.8	41.0	80.0	99.4	--
Proceeds of Recovery Notes.....	--	--	--	--	--
Transfer of restricted resources	--	--	--	--	--
Transfer of prior year surplus	(150.4)	(15.8)	(41.0)	--	(179.4)
GAAP Based Operating Surplus/(Deficit).....	<u>\$ 579.9</u>	<u>\$ 456.3</u>	<u>\$ 478.5</u>	<u>\$ (419.8)</u>	<u>\$ (1,701.9)</u>

SOURCE: Comptroller's Office

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

TABLE 4
General Fund
Unreserved Fund Balance — Budgetary (Modified Cash) Basis
(In Millions)

	Fiscal Years Ending June 30				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Operating Surplus/Deficit	\$ 363.9	\$ 446.5	\$ 269.2	\$ 99.4	\$ (947.6)
Fund Transfers and Reserves					
Transfers to Budget Reserve Fund.....	363.9	446.5	269.2	0.0	0.0
Transfers from Budget Reserve Fund.....	--	--	--	--	--
Economic Recovery Note Debt Retirement.....	--	--	--	--	--
Reserve for Transfers to Budget Reserve Fund.....	--	--	--	--	--
Reserve for Debt Service Appropriation.....	--	--	--	--	--
Reserve for Fiscal Year 2009 Operations	--	--	--	99.4	--
Reserve for Debt Avoidance.....	--	--	--	--	--
Total Transfers/Reserves	<u>363.9</u>	<u>446.5</u>	<u>269.2</u>	<u>99.4</u>	<u>(947.6)</u>
Unreserved Fund Balance					
Surplus/(deficit).....	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ 0.0</u>	<u>\$ (947.6)</u>

SOURCE: Comptroller's Office

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

TABLE 5
General Fund

Unreserved Fund Balance — Budgetary (Modified Cash) Basis vs. GAAP Basis
(In Millions)
Fiscal Years Ending June 30

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Unreserved Fund Balance (Deficit)					
Modified Cash Basis	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ (947.6)
GAAP Based Adjustments					
Continuing Appropriations Available for GAAP Liabilities	--	--	--	--	--
Additional Assets					
Taxes Receivable					
Income Tax Accrual Reduction.....	(300.3)	(282.1)	(271.0)	(380.7)	(364.1)
Eliminate Corporation Accrual	(14.7)	(12.4)	(7.1)	(3.6)	(11.2)
Additional Taxes Receivable.....	<u>6.4</u>	<u>8.0</u>	<u>133.6</u>	<u>6.1</u>	<u>4.1</u>
Net Increase (Decrease) Taxes	(308.6)	(286.5)	(144.5)	(378.2)	(371.2)
Net Accounts Receivable	167.6	152.6	146.0	237.6	199.6
Federal and Other Grants Receivable ^(a)	491.4	501.9	410.9	474.5	758.5
Due From Other Funds.....	<u>19.7</u>	<u>22.2</u>	<u>22.7</u>	<u>20.3</u>	<u>27.1</u>
Total Additional Assets	\$ 370.1	\$ 390.2	\$ 435.1	\$ 354.2	\$ 614.0
Additional Liabilities					
Salaries and Fringe Payable	(172.7)	(195.0)	(285.0)	(299.1)	(242.5)
Accounts Payable—Department of					
Social Services	(707.0)	(718.4)	(628.1)	(508.0)	(585.0)
Accounts Payable—Trade & Other.....	(362.9)	(372.9)	(339.3)	(473.2)	(891.0)
Payable to Local Governments.....	-	-	-	-	-
Payable to Federal Government	(71.0)	(61.0)	(67.9)	(121.1)	(146.1)
Due to Other Funds	<u>(94.2)</u>	<u>(101.6)</u>	<u>(109.1)</u>	<u>(102.0)</u>	<u>(105.2)</u>
Total Additional Liabilities	\$(1,407.8)	\$(1,448.9)	\$(1,429.4)	\$(1,503.4)	\$(1,969.8)
Unreserved Fund Balance (Deficit)					
GAAP Basis	<u>\$(1,037.7)</u>	<u>\$(1,058.7)</u>	<u>\$(994.3)</u>	<u>\$(1,149.2)</u>	<u>\$(2,303.4)</u>

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

SOURCE: Comptroller's Office

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

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Reserved:					
Petty Cash	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0
Budget Reserve	666.0	1,112.5	1,381.7	1,381.7	1,381.7
Loans & Advances to Other Funds	23.3	20.6	18.0	9.7	9.8
Restricted Purposes	15.9	41.0	80.0	179.4	-
Inventories.....	34.0	39.3	34.0	25.3	24.3
Continuing Appropriations.....	694.4	702.8	811.3	455.4	87.1
Debt Service.....	-	-	-	-	-
Total	<u>1,434.6</u>	<u>1,917.2</u>	<u>2,326.0</u>	<u>2,052.5</u>	<u>1,503.9</u>
Unreserved:	<u>(1,037.7)</u>	<u>(1,058.7)</u>	<u>(994.3)</u>	<u>(1,149.2)</u>	<u>(2,303.4)</u>
Total Fund Balance.....	<u>\$ 396.9</u>	<u>\$ 858.5</u>	<u>\$1,331.7</u>	<u>\$ 903.3</u>	<u>\$ (799.5)</u>

SOURCE: Comptroller's Office

STATE DEBT

Constitutional Provisions

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

Types of State Debt

Pursuant to various public and special acts the State has authorized a variety of types of debt. These types fall generally into the following categories: direct general obligation debt, which is payable from the State's General Fund; special tax obligation debt, which is payable from specified taxes and other funds which are maintained outside the State's General Fund; and special obligation and revenue debt, which is payable from specified revenues or other funds which are maintained outside the State's General Fund. In addition, the State has a number of programs under which the State 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 indebtedness authorized and issued pursuant Public Act No. 09-2 of the June 2009 Special Session in connection with the issuance of notes for the purpose of funding the deficit for the fiscal year ending June 30, 2009, all authorized debt to fund the Connecticut Development Authority's tax increment bond program, 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, any indebtedness issued for the purpose of meeting cash flow needs, and any indebtedness issued for the purpose of covering emergency needs in times of natural disaster. 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, 2009 as last estimated by the General Assembly's joint standing committee on finance, revenue and bonding, and the calculation of the debt limit, the aggregate amount of outstanding debt and of authorized but unissued debt subject to such limit, and the debt incurring margin, all as of February 1, 2010, is described in the following table.

TABLE 7
Statutory Debt Limit
as of February 1, 2010

Total General Fund Tax Receipts	\$10,927,600,000	
Multiplier	<u>1.6</u>	
Debt Limit		\$17,484,160,000
Outstanding Debt ^(a)	\$ 10,899,304,364	
Guaranteed Debt ^(b)	\$ 828,027,441	
Authorized Debt ^(c)	<u>\$ 3,406,545,538</u>	
Total Subject to Debt Limit		\$15,133,877,343
Less Debt Retirement Funds ^(d)	\$ 23,382,559	
Aggregate Net Debt		\$15,110,494,784
Debt Incurring Margin		\$ 2,373,665,216

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- (a) See **Table 8**. Includes accreted value of capital appreciation bonds. Excludes \$915,795,000 General Obligation Notes (Economic Recovery 2009 Series A), Pension Obligation Bonds, UConn 2000 Bonds, tax increment financings, short term revenue anticipation notes, CCEDA Bonds, CHFA Supportive Housing Bonds and lease financings other than the Middletown Courthouse and the Juvenile Training School.
- (b) See **OTHER FUNDS, DEBT AND LIABILITIES – Contingent Liability Debt**. Guarantees for certain outstanding debt of Southeastern Connecticut Water Authority and UConn 2000 Bonds. Excludes accreted value of UConn 2000 capital appreciation bonds.
- (c) Includes guarantee for UConn 2000 Bonds authorized but unissued under cap for 2009-10 fiscal year.
- (d) Includes debt service funds for self-liquidating debt issued to finance facilities at the University of Connecticut and Connecticut State University.

SOURCE: State Treasurer’s Office

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

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

Types of Direct General Obligation Debt

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

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

Teachers' Retirement Fund Pension Obligation Bonds. Legislation passed in 2007 authorized the issuance of pension obligation bonds to fund up to \$2 billion of the unfunded accrued liability in the Teachers' Retirement Fund plus capitalized interest and issuance costs. In April 2008 the State issued \$2,276,578,270.75 of such bonds. The public act also requires the State to appropriate annually the actuarially-determined annual required contribution to the Teachers' Retirement Fund, while the bonds are outstanding. The bonds are general obligations of the State, but do not count against the State's debt limit.

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. In 2007 the General Assembly extended the UConn 2000 financing program to June 30, 2016. 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. The balance of the estimated cost of UConn 2000 projects may be met by the issuance of special obligation bonds of the University or from gifts or other revenue or borrowing resources of the University. 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, except for the

accreted value of any capital appreciation bonds, 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 \$336.4 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, 2012.

Supportive Housing Financing. In 2005 the General Assembly directed the Connecticut Housing Finance Authority ("CHFA") in conjunction with other state agencies to develop a collaborative plan to create affordable housing and support services for specified eligible persons and families up to a specified number of units. The program is to be funded in part through mortgages, tax credits and grants from CHFA and the Department of Economic and Community Development. CHFA is authorized to issue bonds in support of the program and the State Bond Commission has authorized the Treasurer and OPM to enter into a contract to provide State assistance and pay debt service on the bonds in the form of payments of principal, interest, interest swap payments, liquidity fees, letter of credit fees, trustee fees and other similar bond-related expenses. Bonds supported by such state assistance shall not exceed \$105 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.

Economic Recovery Notes. In 2009, the General Assembly authorized the Treasurer to issue notes to fund the State's budget deficit for the fiscal year ending June 30, 2009, to pay costs of issuance of such notes and certain interest payable or accrued on such notes and to exempt these notes from the overall limit on state debt.

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.

On June 18, 2009, pursuant to the Treasurer's request and the Governor's approval to borrow funds on a temporary basis from time to time on behalf of the State, the Treasurer arranged with a group of banks a 364-day revolving credit facility in the amount of \$580 million.

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. When any such arrangement is entered, the counter party to the 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 18 – Interest Rate Swaps**.

Swap Agreements

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

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

Debt Statement

The following table shows all direct general obligation indebtedness (including the accreted value of capital appreciation bonds as of February 1, 2010) for the payment of the principal and interest on which the State has pledged its full faith and credit or which is otherwise payable from the State's General Fund.

TABLE 8

**Direct General Obligation Indebtedness^(a)
Principal Amount Outstanding as of February 1, 2010
(In Thousands)**

General Obligation Bonds	\$ 11,434,659
Pension Obligation Bonds	2,296,499
UConn 2000 Bonds	828,724
Other ^(b)	<u>119,645</u>
Long Term General Obligation Debt Total	14,679,527
Short Term General Obligation Debt Total ^(c)	<u>353,085</u>
Gross Direct General Obligation Debt	15,032,612
Deduct:	
University Auxiliary Services ^(d)	<u>23,383</u>
Net Direct General Obligation Debt	<u>\$15,009,229</u>

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

(b) "Other" includes lease financings, tax incremental financings and CHFA supportive housing bonds. Does not include CCEDA Bonds. See **OTHER FUNDS, DEBT AND LIABILITIES – Contingent Liability Debt - Capital City Economic Development Authority**.

(c) On April 29, 2009 the State issued \$353,085,000 General Obligation Bond Anticipation Notes (2009 Series A) maturing on April 28, 2010.

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

SOURCE: State Treasurer's Office

Debt Ratios

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

TABLE 9
Debt Ratios - Long Term General Obligation Debt
(As of June 30)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Gross Direct Debt ^(a)	\$10,168,006	\$10,403,634	\$10,615,810	\$13,076,942	\$13,945,108
Net Direct Debt ^(a)	\$10,121,035	\$10,361,226	\$10,580,359	\$13,042,524	\$13,921,725
Ratio of Debt to Personal Income ^(b)					
Gross Direct Debt	6.03%	5.66%	5.47%	6.64%	7.08%
Net Direct Debt	6.00%	5.64%	5.45%	6.72%	7.07%
Ratio of Debt to Estimated Full Value ^(c)					
Gross Direct Debt	2.07%	1.86%	1.79%	2.29%	2.37%
Net Direct Debt	2.06%	1.85%	1.79%	2.28%	2.36%
Per Capita Debt ^(d)					
Gross Direct Debt	\$2,924	\$2,985	\$3,043	\$3,733	\$3,964
Net Direct Debt	\$2,911	\$2,973	\$3,032	\$3,723	\$3,957

(a) In thousands. Includes gross and net long-term direct general obligation bonded indebtedness as set out in **Table 11**. 2008 figures include \$2,278,382,011 Pension Obligation Bonds. 2009 figures include \$2,289,598,815 Pension Obligation Bonds.

(b) See **Appendix III-B, Table B-2**. Personal Income: 2005 — \$168,666 million; 2006 — \$183,820 million; 2007 — \$194,069 million and 2008 — \$197,024 million. The 2009 ratio uses 2008 data.

(c) Full value estimated by OPM. Uses final equalized net grand lists: 2003 — \$490.3 billion; 2004 — \$560.3 billion; 2005 — \$592.4 billion; 2006 — \$571.7 billion; and 2007 — 589.4 billion. Property is assessed as of October 1 in each year for the tax levy effective the following July 1. The 2005 ratio uses 2003 data; 2006 ratio uses 2004 data; 2007 ratio uses 2005 data; 2008 ratio uses 2006 data and 2009 ratio uses 2007 data.

(d) See **Appendix III-B, Table B-1**. State population 2005 — 3,477,000; 2006 — 3,485,000; 2007 — 3,489,000; 2008 — 3,503,000; and 2009 — 3,518,000.

Debt Service Schedule

The following table sets forth the principal, sinking fund and interest payments required on all outstanding long-term direct general obligation debt of the State, as of February 1, 2010. Although not specifically reflected as a result of combining all outstanding long-term direct debt, the State generally issues general obligation bonds maturing within twenty years. The exceptions include thirty-year Rental Housing Term Bonds and certain other bonds with maturities of less than twenty years where required by statute or in instances where the expected period of usefulness of the project or purpose financed does not warrant a maturity of twenty years.

TABLE 10
Summary of Principal, Mandatory Sinking Fund Payments,
and Interest on Long-Term Direct General Obligation Debt^(a)
as of February 1, 2010

<u>Fiscal</u> <u>Year</u>	<u>Principal</u> <u>Payments^(b)</u>	<u>Interest</u> <u>Payments^(b,c)</u>	<u>Total Debt</u> <u>Service</u>
2010	\$ 858,111,306	\$ 368,572,364	\$ 1,226,683,670
2011	1,172,839,706	671,615,792	1,844,455,497
2012	1,112,626,696	614,597,691	1,727,224,387
2013	1,044,619,369	586,693,780	1,631,313,149
2014	1,021,800,017	525,023,506	1,546,823,523
2015	950,946,365	466,470,926	1,417,417,291
2016	911,865,061	422,670,763	1,334,535,824
2017	676,654,988	380,788,753	1,057,443,741
2018	661,452,299	350,491,888	1,011,944,187
2019	610,816,471	317,020,010	927,836,481
2020	562,185,614	290,107,492	852,293,106
2021	567,636,206	259,599,633	827,235,839
2022-2032	<u>4,686,931,736</u>	<u>1,626,509,592</u>	<u>6,313,441,328</u>
Totals	\$ 14,838,485,834	\$ 6,880,162,189	\$ 21,718,648,023

- (a) Includes long-term general obligation debt as outlined in **Table 8**. The future principal payments (\$14,838,485,834), plus accreted interest (\$194,126,070), total the amount of such long-term debt (\$15,032,611,905) as shown in **Table 8**. See footnotes (b) and (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 bonds issued pursuant to the College Savings Bond Program. Capital appreciation bonds mature in fiscal years 2010-2025.
- (c) Some of the State's direct debt pays interest at variable rates. The interest on such debt is calculated based on the following assumed average rates:

<u>Year</u> <u>Issued</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u>	<u>Maturities</u>	<u>Interest</u> <u>Rate</u>
1997	\$ 100,000,000	\$ 50,000,000	2010-2014	4.25%
2001	100,000,000	100,000,000	2018-2021	4.25
2001*	20,000,000	20,000,000	2012	4.33
2003	77,700,000	35,800,000	2010-2013	5.75
2005*	300,000,000	280,000,000	2016-2023	4.25
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
2008	50,000,000	37,500,000	2012	5.75

* Assumed average interest rate based on interest rate swap agreement(s), including projected basis risk.

SOURCE: State Treasurer's Office

Outstanding Long-Term Direct General Obligation Debt

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

TABLE 11

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

<u>Fiscal Year</u>	<u>Gross Debt</u>	<u>Net Debt</u>	<u>Fiscal Year</u>	<u>Gross Debt</u>	<u>Net Debt</u>
2000	\$ 7,435,283	\$ 7,318,337	2005	\$ 10,168,006 ^(c)	\$ 10,121,035 ^(c)
2001	7,925,186	7,800,440	2006	10,403,634 ^(d)	10,361,226 ^(d)
2002	8,623,009	8,496,151	2007	10,615,810	10,580,359
2003	9,513,380 ^(a)	9,463,962 ^(a)	2008	13,076,942 ^(e)	13,042,524 ^(e)
2004	9,940,945 ^(b)	9,895,717 ^(b)	2009	13,945,108 ^(f)	13,921,725 ^(f)

-
- (a) Includes \$219,235,000 Economic Recovery Notes.
 - (b) Includes \$273,215,000 Economic Recovery Notes.
 - (c) Includes \$209,560,000 Economic Recovery Notes.
 - (d) Includes \$146,090,000 Economic Recovery Notes.
 - (e) Includes \$2,278,382,011 in Pension Obligation Bonds.
 - (f) Includes \$2,289,598,815 in Pension Obligation Bonds.

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 general obligation bonds pursuant to certain bond acts. The table below shows, as of February 1, 2010, 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, 2010.

TABLE 12
Authorized but Unissued Direct General Obligation Debt
as of February 1, 2010
(In Thousands)

	<u>State Direct Debt^(a)</u>	<u>Pension Obligation Bonds</u>	<u>UCONN 2000^(b)</u>	<u>Tax Increment^(c)</u>	<u>Total</u>
Bond Acts in Effect	\$24,357,459	\$2,276,578	\$1,567,447	\$52,750	\$28,254,235
Amount Authorized	22,327,867	2,276,578	1,426,947	52,750	26,084,143
Amount Issued	21,192,169	2,276,578	1,321,947	49,155	24,839,849
Authorized but Unissued	1,135,699	0	105,000	3,595	1,244,294
Available for Authorization	2,029,592	0	140,500	0	2,170,092

-
- (a) Includes CHFA Supportive Housing Bonds and excludes CCEDA bonds, economic recovery notes and lease financings.
- (b) Includes bonds which may be issued under the cap in effect on the date of the table. The amount available for authorization does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest. Amount issued has been adjusted to reflect increases due to closing costs and decreases due to premiums.
- (c) The amount of tax increment bonds authorized is based on the amount authorized by the State Bond Commission, since there is no statutory amount of authorization.

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

Bond Authorizations and Reductions. The General Assembly authorizes bonds in various public and special acts each year or each biennium. In addition to authorizing bonds for new projects and purposes, the General Assembly reviews prior authorizations and may repeal certain projects and bond authorizations or otherwise reduce prior bond authorizations. The table and graph below list the amount of new authorizations of general obligation debt which take effect during the fiscal year listed, and the net amount after subtracting prior bond authorizations which have been repealed or reduced. Pension obligation bonds and economic recovery notes are not included since they are not recurring authorizations.

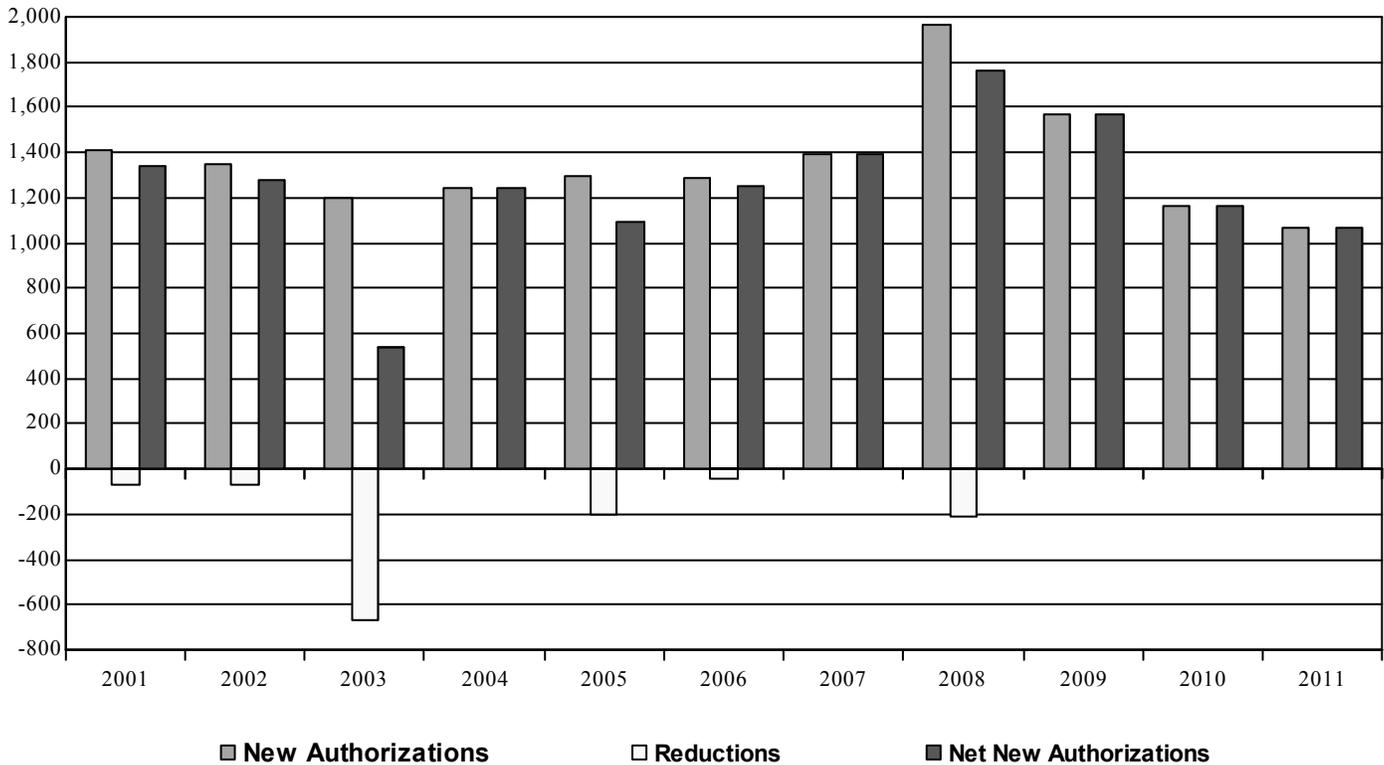
TABLE 13
Statutory General Obligation Bond Authorizations and Reductions^(a)
(In Millions)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
New Authorizations	\$1,407.9	\$1,351.6	\$1,201.0	\$1,246.1	\$1,296.5	\$1,290.4	\$1,388.7	\$1,965.0	\$1,564.5	\$1,165.4	\$1,067.2
Reductions	<u>(70.1)</u>	<u>(69.9)</u>	<u>(663.6)</u>	<u>0.0</u>	<u>(200.3)</u>	<u>(41.3)</u>	<u>0.0</u>	<u>(206.9)</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Net New Authorizations	\$1,337.8	\$1,281.7	\$ 537.4	\$1,246.1	\$1,096.2	\$1,249.1	\$1,388.7	\$1,758.1	\$1,564.5	\$1,165.4	\$1,067.2

(a) Does not include teachers' retirement fund pension obligation bonds, economic recovery notes, lease financings, tax increment or cash flow borrowings. Includes amount for UConn 2000 available under the cap for 2001 through 2011, as amended, but does not include additional amounts which may exceed the cap to finance reserve funds, issuance costs and capitalized interest. Amounts are listed in the fiscal year that the bond authorizations become effective. Does not include any authorizations which take effect after 2011.

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, CHFA supportive housing bonds, lease financings, economic recovery notes or pension obligation bonds included.

TABLE 14^(a)

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

Purpose	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010^(d)	2010-2011^(d)
Policy & Management	\$ 167,399	\$ 143,549	\$ 136,900	\$ 106,500	\$ 55,000	\$ 59,500
Revenue Services	11,300	0	2,950	0	0	0
Comptroller	17,288	968	960	1,115	0	0
Special Revenue	0	0	220	0	0	0
Information and Technology...	5,000	4,800	12,910	6,311	0	0
Veterans Affairs	2,628	900	1,250	1,000	0	0
Public Works	12,500	12,500	53,200	30,600	2,500	2,500
Public Safety	6,375	4,655	18,385	11,965	0	0
Fire Prevention and Control	0	0	0	0	0	0
Public Utility Control	0	0	50,000	0	0	0
Motor Vehicles	10,000	0	14,000	0	3,000	0
Military	2,013	2,900	2,000	1,500	1,000	1,000
Emergency Mgmt. & Homeland Sec.	0	0	250	0	0	0
Agriculture	9,750	11,000	8,500	10,000	2,500	10,500
Environmental Protection	70,330	77,527	212,746	152,100	81,000	40,000
Economic and Community Development:						
Housing	21,000	15,000	11,000	9,000	0	0
Housing Trust Fund	20,000	20,000	20,000	30,000	20,000	0
Economic Development	5,000	5,000	59,100	63,000	0	0
Other	35,105	26,125	58,930	25,278	12,000	5,000
Ct Innovations Inc.	0	0	92,000	12,000	0	0
Public Health	8,000	8,250	46,779	0	7,000	0
Developmental Services	6,600	2,000	5,000	5,000	0	2,500
Mental Health and Addiction Services	6,000	1,000	12,100	6,000	0	0
Social Services	21,044	12,785	12,496	1,000	5,000	0
Education	630,000	694,400	746,550	658,900	694,300	641,600
State Library	4,300	5,425	10,428	8,500	0	0
Culture & Tourism	7,080	4,600	18,498	4,600	0	0
Agricultural Experiment Station	0	0	1,800	9,000	0	0
Charter Oak State College	50	0	0	0	2,500	0
Regional Community-Technical Colleges	62,214	99,898	53,681	70,719	3,366	55,129
State University	44,211	131,219	80,000	0	0	0
CSUS 2020 ^(c)	0	0	0	95,000	95,000	95,000
Legislative Management	300	0	6,810	1,450	0	0
Children & Families	19,225	10,180	24,232	22,415	32,700	0
Judicial	5,650	5,000	51,325	23,500	0	0
CPTV	1,000	0	2,500	0	0	0
Correction	0	0	11,000	42,095	0	0
UConn	0	0	0	0	0	0
UConn Health Center	0	0	0	0	0	0
UConn 2000 ^(b)	79,000	89,000	115,000	140,000	140,500	146,500
Transportation	0	0	11,500	16,000	8,000	8,000
Totals	\$1,290,362	\$1,388,681	\$1,965,000	\$1,564,548	\$1,165,366	\$1,067,229

(a) Does not include authorizations which take effect after fiscal year 2010-11. Does not include teachers' retirement fund pension obligation bonds, or economic recovery notes, or tax increment cash flow or lease financings or CHFA supportive housing bonds.

(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.

(c) The Connecticut State University Infrastructure Act authorizes \$95 million per year from FY 2008-09 through FY 2017-18.

(d) Include authorizations enacted in prior years that become effective during the biennium.

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 1985-2014, which will be met from federal, State, and local funds, is currently estimated at \$26.4 billion. The State's share of such cost, estimated at \$10.5 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 \$0.7 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 1985-2014 to be financed by STO bonds currently is estimated at \$9.8 billion. The actual amount may exceed \$9.8 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.

During fiscal years 1985-2009, \$21.0 billion of the total infrastructure program was approved by the appropriate governmental authorities. The remaining \$5.4 billion is required for fiscal years 2010-2014. The \$5.4 billion of such infrastructure costs is anticipated to be funded with proceeds of \$1.6 billion from the anticipated issuance of new STO bonds, \$75 million in anticipated revenues, and \$3.7 billion in anticipated federal funds.

The State has established the 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, and any direct pay federal interest subsidy received by the State in connection with the issue of any taxable STO bonds (Build America Bonds) 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. Legislation enacted in 2009 permits the issuance of STO bonds to fund State grant payments to towns and cities for various road improvements.

The following table shows the amount of STO bonds authorized by the General Assembly for the program, the amount issued and the amount outstanding (excluding refunded bonds) as of February 1, 2010. It is anticipated that additional STO bonds will be authorized by the General Assembly annually in an amount necessary to finance and to complete the infrastructure program. Such additional bonds may be issued on an equal rank with the outstanding bonds provided certain pledged revenue coverage requirements of the STO indentures controlling the issuance of such bonds are met. The State expects to continue to offer bonds for this program.

TABLE 15
Special Tax Obligation Bonds
As of February 1, 2010
(In Millions)

	<u>New Money</u>	<u>Refundings^(a)</u>	<u>Total</u>
Amount Authorized	\$ 9,550	N/A	\$ 9,550
Amount Issued	6,697	3,390	10,087
Amount Outstanding	2,036	1,017	3,053

(a) Refunding Bonds do not require legislative approval.

SOURCE: State Treasurer's Office

In addition to STO Bonds, the State has issued direct general obligation bonds for transportation purposes and the debt service on these bonds may be paid from resources of the Special Transportation Fund provided there is sufficient funding first to pay all STO debt service. For the year ended June 30, 2009 the Special Transportation Fund paid \$2.0 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 2009-10 is \$1.0 million.

During the past several years the Fund's revenues and expenses have undergone a variety of legislative changes. In 2005 legislation increased the scheduled transfers to the Fund from the State's General Fund from Oil Companies Tax revenue by \$22.5 million in fiscal year 2006, \$30 million in fiscal year 2007, \$53 million in fiscal year 2008, \$79.9 million in each of fiscal years 2009-2013, and \$98 million thereafter. In 2006, legislation again increased the scheduled transfers to the Fund from the State's General Fund from Oil Companies Tax revenue by \$80 million in each of fiscal years 2007 - 2010 and by \$100 million in fiscal year 2011 and thereafter. In July 2007 legislation increased the motor fuels tax on each gallon of diesel fuel from \$0.26 to \$0.37 and correspondingly exempted diesel fuel from the petroleum products gross earnings tax. In 2009, legislation authorized additional transfers to the Fund from the State's General Fund in the amount of \$81.2 million in fiscal year 2010, \$126.0 million in fiscal years 2011 and 2012 and \$172.8 million in fiscal year 2013 and annually thereafter.

A fifteen member Transportation Strategy Board ("TSB") was established in 2001 to propose a transportation strategy, an implementation cost estimate and funding approaches to the Governor and General Assembly. The TSB's strategic goals are: 1) improve personal mobility within and through Connecticut; 2)

improve the movement of goods and freight within and through Connecticut; 3) integrate transportation with economic, land use, environmental and quality of life issues; 4) develop policies and procedures that will integrate the state economy with regional, national and global economies; and 5) identify policies and sources that provide an adequate and reliable flow of funding necessary for a quality multi-modal transportation system. The TSB presented the initial transportation strategy to the Governor and General Assembly on January 6, 2003. In January 2007, as required in Public Act No. 06-136, the TSB again presented “Connecticut’s Transportation Strategy” to the Governor and General Assembly.

In order to implement the strategy-related projects submitted by TSB, legislation was passed in 2005 that 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 each of fiscal years 2007-08 through 2014-15 and \$.3 million in fiscal year 2015-16 and thereafter. In September 2007 legislation authorized the transfer of \$5.5 million on deposit in the Special Transportation Fund to the TSB’s project account for various transportation related studies.

Public Acts in 2005 and 2006 authorized the issuance of more than \$2.1 billion of special tax obligation bonds for the ten-year period from 2005 to 2014 for transportation system improvements, many of which are TSB recommended projects. The entire \$2.1 billion authorization is included in **Table 15**.

Legislation passed in 2006 also authorized the issuance of \$1.3 billion in bonds in anticipation of future federal transportation funds and is not 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 February 1, 2010, there were \$188.8 million of Bradley International Airport Revenue Bonds outstanding.

The 2001 legislation also established a Bradley Board of Directors to oversee the operation and development of Bradley Airport. The seven-member board includes five appointed members and the Commissioners of Transportation and Economic and Community Development. The Bradley Board is charged with a wide range of duties and responsibilities, including developing an organizational and management structure, approving the annual capital and operating budget, master plan, and community relations policies of the airport, and ensuring customer service standards and performance assessments.

Additional special obligation bonds to finance self-sustaining special facilities at Bradley International Airport payable solely from the revenues derived from such special facilities were authorized in 1993. In March 2000 the State issued \$53.8 million Bradley International Airport Special Obligation Parking Revenue Bonds to finance the construction of a five story parking garage facility at the airport and as of February 1, 2010 \$43.0 million of such bonds are outstanding.

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

Clean Water Fund

The General Assembly has authorized the issue of revenue bonds for up to \$1,913.4 million (including authorizations of \$80 million to become effective July 1, 2010), of which \$1,408.7 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 of the Clean Water Fund. The proceeds of the revenue bonds are loaned primarily to Connecticut municipalities and public water systems to finance water pollution control and drinking water improvements, and the loan repayments by the municipalities and public water systems secure the revenue bonds. The loans are evidenced by interim funding obligations and project loan obligations of the municipalities and public water systems, pursuant to which either the full faith and credit of each such entity, or the revenues and other funds of a municipal sewer or public water system are pledged. As of February 1, 2010 \$832.5 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. To fund possible 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. As of February 1, 2010, the State borrowed \$261 million from the Federal Unemployment Trust Fund to fund a deficit in the State's Unemployment Compensation Fund and anticipates borrowing a total of approximately \$900 million by the end of calendar year 2011.

Second Injury Fund

The Second Injury Fund is a State-run workers' compensation insurance fund which pays lost wages and medical benefits to qualified injured workers. The State established the Second Injury Fund in 1945 to encourage the hiring of persons with pre-existing physical impairments, such as veterans and provide relief to employers when an injured worker, who already had a pre-existing injury or condition, was hurt on the job and the second injury was made worse by the existence of the first injury. In 1995 and 1996, the State enacted legislation to close the Second Injury Fund to future second injury claims. Those laws authorized the issuance of an amount not to exceed \$750 million in revenue bonds and notes outstanding at any one time to provide funds for paying past claims. No bonds are currently outstanding. The State's 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. These bonds were defeased June 5, 2008. The bonds were 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"). As of February 1, 2010, \$20.45 million of State bonds have been authorized but remain unissued to fund the Insurance Fund and loans insured by the Insurance Fund totaled \$5.0 million. Other CDA programs include 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 Environmental Assistance Revolving Loan Fund, the Tax Incremental Financing Program, the High-Technology Infrastructure Fund and the General Obligation Bond Program. Currently, the only outstanding CDA bonds secured by special capital reserve funds were issued pursuant to the General Obligation Bond Program. Although there remains legislative authority for the issue of bonds secured by special capital reserve funds under the Umbrella Bond Program, no loans have been initiated under that program since 1985, and the CDA does not anticipate a resumption of any lending activity under that program.

Under the General Obligation Bond Program, the CDA issues bonds to finance eligible economic development and information technology projects. General revenues of the CDA, which are not otherwise pledged, are made available to service the debt of bonds issued under the General Obligation Bond Program. Although such bonds may also be secured by a special capital reserve fund, to date only \$30.56 million 1993 Series A (Hartford Whalers Project) bonds have been secured by such a fund. As of February 1, 2010, \$6.1 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.

The State Treasurer has applied appropriated funds and General Fund budget surplus to defease certain bonds for nursing homes in order to avoid any draw on the special capital reserve fund which secures such bonds. Legislation enacted in 1998 provides that no bonds secured by a special capital reserve fund are to be issued by CHEFA in the future for nursing homes, except for bonds that at least in part, refund, refinance, or otherwise restructure bonds under certain circumstances where the aggregate liability of the State with respect to such bonds will be less than the aggregate liability of the State with respect to the bonds being refunded, refinanced or restructured and that doing so is in the best interest of the State.

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

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

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

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

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

Connecticut Housing Finance Authority (“CHFA”). CHFA was established in 1969 to meet the needs of low and moderate income families and persons for decent housing and to encourage and assist the development and construction of multifamily housing by reducing the cost of mortgage financing therefor. CHFA is authorized to issue bonds the proceeds of which are used to fund mortgage loans to applicants meeting certain eligibility requirements including unrestricted statutory income limits in certain urban areas. The enabling act authorizes CHFA to make or purchase construction and permanent mortgage loans which are guaranteed or insured by the United States of America or any agency or instrumentality thereof, by the Federal Home Loan Mortgage Corporation, by a private mortgage insurance company or the State or the Authority itself without limitation as to amount and to make or purchase mortgage loans not so insured or guaranteed in an aggregate amount not to exceed \$1.5 billion. In order to finance these activities CHFA has established a Housing Mortgage Finance Program and has issued its general obligation bonds under a General Bond Resolution pursuant to which CHFA has pledged all revenues which it may receive in connection with the mortgages financed thereunder including its fees and charges therefor and any recoveries of principal therefrom from any source and any monies received from investments, as well as other mortgages specifically pledged. In addition, such General Bond Resolution provides for general covenants such as a covenant to do all things necessary with respect to the operation of such Housing Mortgage Finance Program in order to pay principal of and interest on its bonds and provides for certification as to self-sufficiency in order to issue any additional bonds. Bonds issued under CHFA’s General Bond Resolution are further secured by a special capital reserve fund.

CHFA has also established a Special Needs Housing Mortgage Finance Program (formerly known as the Group Home Mortgage Finance Program) and has issued and expects to issue additional Special Needs Housing Mortgage Finance Program Special Obligation Bonds under a separate indenture, including bonds for

group homes, assisted living facilities, supportive housing and residential care homes, which bonds are and will be secured by a special capital reserve fund.

In 2008 a public act authorized CHFA to issue up to \$50 million of bonds to fund an Emergency Mortgage Assistance Program and required the Treasurer and the Office of Policy and Management to enter into a contract to provide State assistance to pay debt service on such bonds in the form of payments of principal, interest, interest swap payments, liquidity fees, letter of credit fees, trustee fees and similar bond-related expenses. Additionally, the public act provided for the appropriation of \$2.5 million from the State Banking Fund to the State Treasurer for such contract assistance for the fiscal year ending June 30, 2009.

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

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

The Board of Directors of CRRA is comprised of eleven members: three members appointed by the Governor; two members appointed by each of the president pro-tempore of the Senate, the speaker of the House of Representatives, the minority leader of the Senate, the minority leader of the House of Representatives. There is one vacancy. In addition, there are eight ad hoc members, two representing each of the four facilities. Such ad hoc members may only vote on matters pertaining to their respective facility. As of February 1, 2010, only three ad hoc seats were filled.

Capital City Economic Development Authority (“CCEDA”). CCEDA was created in 1998 and was granted the power to issue revenue bonds for a convention center project in Hartford. The bonds are to be backed by State contractual assistance equal to annual debt service. In 2004 a public act authorized CCEDA to use a special capital reserve fund in connection with any such revenue bonds, but there are currently no plans for such an issue.

In December 2003 the State Bond Commission approved up to \$100 million of revenue bonds and other borrowings and in December 2004 approved an increase in the authorized amount to \$122.5 million. CCEDA has issued \$110 million of its revenue bonds backed by the State’s contract assistance agreement equal to annual debt service on the revenue bonds, of which \$105.12 was outstanding as of February 1, 2010. The State’s obligation under the contract assistance agreement is limited to \$9.0 million per year, and the Authority’s debt obligations are structured not to exceed this amount. An additional \$12.5 million of borrowing, not backed by the contract assistance agreement, has also been incurred. 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, 9, 10, 11, 12 or 16**.

The convention center portion of the project opened in June 2005. Other elements of the project include an adjacent parking structure which opened later in 2005, an adjacent parking structure underlying the Connecticut Science Center and a retail and entertainment district, including a fourth parking structure, which currently are under construction. The full convention center project is not expected to be completed or placed in service at least until 2013. In the fiscal year ending June 30, 2006, the first full year of operations of the convention center, the delay in these additional elements, higher than anticipated operating expenses and startup expenses resulted in insufficient parking revenues, after operating expenses, to fully reimburse the State for debt service payments in June 2006. This situation has continued since then, so that there are significant shortfalls in excess revenues to fund the reimbursement obligation. This is expected to continue at least until the other elements of the project are completed. As debt service on CCEDA's revenue bonds continues to be paid under the contract assistance agreement, CCEDA's reimbursement obligation will increase, and this reimbursement obligation will need to be satisfied before excess parking revenues are available to fund the operations of the convention center, which itself is partially funded by General Fund appropriations from the State to CCEDA.

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

UConn 2000 Special Obligation Financing. The University of Connecticut may issue special obligation bonds which may be secured by a special capital reserve fund which the State undertakes to restore to its minimum level. Before issuing special obligation bonds secured by such a special capital reserve fund, the act requires the board of trustees of the University to determine that project revenues, other than those derived from the State's debt service commitment and the State's minimum operating provision, are estimated to be sufficient to pay the debt service on the special obligation bonds, to maintain reserves and to operate the physical infrastructure of the University. The act requires the Treasurer to confirm that such determination is not unreasonable or arbitrary. The University may also issue special obligation bonds which are not secured by such a special capital reserve fund.

Assistance to Municipalities

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

The City of Waterbury. In March and June 2001 the State adopted legislation to assist the City of Waterbury in financing its budget deficits. The legislation imposed certain financial controls on the City and created a Waterbury Financial Planning and Assistance Board. The legislation authorized the City, subject to approval of the Board and the State Treasurer, to issue bonds for the purpose of funding the City's past budget deficits. Payment of the bonds is serviced through the City's taxing authority. The legislation requires the

City to direct certain of its tax revenues to a trustee through a tax intercept mechanism for the purpose of servicing the debt on its bonds. The legislation also provides for the establishment of a special capital reserve fund to further secure up to \$100 million bonds issued by the City to fund its budget deficits. The State is contingently obligated to restore the special capital reserve fund to its required minimum.

The Waterbury Financial Planning and Assistance Board was 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 affiliated with a business located in the City, one with expertise in finance, one resident of the City and one a representative of organized labor. On January 23, 2007, the Board determined that the City had met all of the legislation's requirements for the termination of the Board, and the Board by resolution discontinued its existence and its exercise of its powers, duties and functions.

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

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 <u>As of 2/1/10</u>	Outstanding SCRF or Guaranteed Debt <u>As of 2/1/10</u>	Minimum Capital Reserve Requirement <u>As of 2/1/10</u>
Indebtedness Secured by Special Capital Reserve Funds or Guaranteed by State			
Connecticut Development Authority			
Umbrella Bond Program	\$ 300.0	\$ 0.00	\$ 0.0
General Obligation Bond Program	30.6	6.1	1.8
Connecticut Health and Educational Facilities Authority			
Nursing Home Program	(a)	18.49	2.58
Connecticut State University System.....	(a)	262.62	26.65
Hospital Equipment Program.....	100.0	0.0	0.0
UCONN Health Center Program	(a)	0.0	0.0
Connecticut Higher Education Supplemental Loan Authority	300.0	160.29	15.34
Connecticut Housing Finance Authority			
Housing Mortgage Finance Program	(a)	3,914.2	287.9
Special Needs Housing Mortgage Finance Program	(a)	55.5	4.0
Connecticut Resources Recovery Authority	725.0	51.6	12.3
University of Connecticut Student Fee Rev. Bonds	(a)	25.14	2.126
City of Waterbury Special Capital Reserve Fund Bonds	100.0	40.535	7.08
Southeastern Connecticut Water Authority.....	15.0	1.47	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 State has authorized new school construction grant commitments of approximately \$400 million which take effect in the 2009-10 fiscal year. As of June 30, 2009, the Commissioner estimates that current grant obligations under this program are approximately \$2,450 million which includes approximately \$6,900 million in grants approved as of such date less payments already made of \$4,450 million.

Prior to 1997 the grant program was conducted differently. For certain school projects grants for construction costs are paid to the cities, towns and districts in installments which correspond to the number and time of principal payments due on municipal bonds, or temporary notes renewed for a third or subsequent year, issued to finance project costs. If a project is fully paid from sources other than borrowing, such grants are paid in five annual installments. Grants in support of interest payments correspond to the number and time of such interest payments. As of June 30, 2009, under the grant program prior to 1997 the State is obligated to various cities, towns and regional school districts for approximately \$314 million in aggregate principal installment payments and \$57 million in aggregate interest subsidies, for a total of \$371 million. Funding for these payments may come from future State direct general obligation bond sales. No new grant commitment can be authorized under this program.

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

Child Care Facilities Debt Service Commitments

Legislation enacted in 1997 authorized CHEFA to issue bonds and loan the proceeds to various entities to finance child care facilities. The Department of Social Services may enter into commitments to apply monies for each such entity to pay the debt service on the loans in amounts sufficient to cover a portion of the debt service on CHEFA's bonds. Legislation enacted in 1999 provided for the obligation of the Department of Social Services to make debt service payments to be made by the State Treasurer. Any obligation by the Department of Social Services or the State Treasurer to pay is subject to annual appropriation. CHEFA first issued special obligation bonds under this program in 1998. As of February 1, 2010 CHEFA has approximately \$68.2 million bonds outstanding under this program with annual debt service of approximately \$5.4 million, of which the Department of Social Services is committed to pay approximately \$4.4 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, 2009 the current and long term liabilities of the Corporation total \$251.34 million.

PENSION AND RETIREMENT SYSTEMS

State Employees' Retirement Fund

The State Employees' Retirement Fund is one of the systems maintained by the State with approximately 53,068 active members, 1,632 inactive (vested) members and 39,617 retired members as of June 30, 2009. Generally, employees hired before July 1, 1984 participate in the Tier I plan, which includes employee contributions. As of July 1, 2009 approximately 12% 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, 2009, approximately 40% 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, 2009, approximately 48% of the total work force was covered under the Tier IIA Plan.

Since fiscal year 1978-79, payments into the State Employees' Retirement Fund and investment income in each fiscal year, with the exception of fiscal years 2003-04 and 2008-09, have been sufficient to meet benefits paid from the fund in such year. Payments into the fund are made from employee contributions, General and Special 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.

Full actuarial valuations are performed as of June 30th of each even-numbered year. The most recent actuarial valuation of November 2008 indicated that, as of June 30, 2007, the State Employees' Retirement Fund had assets with an actuarial value of \$9,585.0 million and as of June 30, 2008, the State Employees' Retirement Fund had assets with an actuarial value of \$9,990.2 million. The actuarial valuation was based upon an 8.25% earnings assumption and the impact of phasing in an approximately 4.8% negative return on plan assets for the 2007-08 fiscal year. For periods ending June 30, 2009, the Treasurer has realized annualized net returns on investment assets in the State Employees' Retirement Fund of 6.73% over the past twenty years, of 6.85% over the past fifteen years, of 2.91% over the past ten years and of 2.20% over the past five years. These annualized net returns reflect the impact of the negative return on investment assets resulting from the significant downturn in the financial markets during the Fall of 2008. The November 2008 actuarial valuation indicated that as of June 30, 2008 the State Employees' Retirement Fund had a funded ratio of 51.9% on a projected basis. As of June 30, 2008, the market value of the fund's investment assets, as reported in the actuarial valuation, was \$9,329,175,038. As of June 30, 2009, the market value of the fund's investment assets was \$7,320,843,712. The market value of the fund's investment assets is continually subject to change based on a variety of factors, including changes in the financial and credit markets and general economic conditions, and the current market value of the fund's investment assets at December 31, 2009 was higher than it was at June 30, 2009, in part, due to an improvement in the financial markets.

The November 2008 actuarial valuation determined the following employer contribution requirements, based on a projected unit credit actuarial cost method and level percent-of-payroll contributions, which contributions are sufficient to meet Governmental Accounting Standards Board ("GASB") standards: (i) \$897.4 million for fiscal year 2009-10, and (ii) \$944.1 million for fiscal year 2010-11. The annual contribution requirements for fiscal years 2009-10 and 2010-11 include amounts which may be required pursuant to the Supreme Court's decision in the case of *Longley v. State Employees Retirement Commission* which requires that the plaintiffs' final pro-rated longevity payment be included in the earnings calculations for purposes of calculating their retirement incomes. The State met 99.25% of its annual contribution requirement for fiscal year 2007-08 and 92.85% of its annual contribution requirement for fiscal year 2008-09. To meet the State's annual contribution requirements for fiscal years 2009-10 and 2009-11, \$713.0 million and \$745.8 million, respectively, have been appropriated from the General and Special Transportation Funds. The appropriation for fiscal year 2009-10 was reduced by \$64.5 million as part of the Mid-Term Budget Adjustments and it is contemplated that the appropriation will be reduced by an additional \$100.0 million in

connection with upcoming fiscal year 2009-10 deficit mitigation plans. Based on projections by the Office of Policy and Management, it is anticipated that contributions to the fund for fiscal year 2009-10 from grant reimbursements from Federal and other funds will be sufficient to meet all but approximately \$12.0 to \$13.0 million of the annual contribution requirement. The appropriation for fiscal year 2010-11 was reduced by \$100.0 million as part of the Mid-Term Budget Adjustments.

Set forth below are State contributions to the State Employees' Retirement Fund, Federal grant programs, employee contributions, investment income, net realized gains and losses, net unrealized gains and losses, and benefits paid for each of the past five fiscal years, and the actuarial accrued liabilities, the actuarial values of fund assets and the resulting unfunded accrued liabilities for the actuarial valuations as of June 30, 2006 and June 30, 2008.

TABLE 17
State Employees' Retirement Fund

	Year Ending June 30				
	2005	2006	2007	2008	2009
General Fund					
Contributions.....	\$ 354,400,568	\$ 447,209,748	\$ 477,219,351	\$ 481,878,589	\$ 454,805,009
Transportation Fund					
Contributions.....	48,916,000	60,055,000	63,819,000	67,058,000	71,426,000
Federal and other					
Reimbursements.....	115,447,400	115,797,984	122,892,384	162,618,685	173,538,851
Employee Contributions....	<u>51,721,944</u>	<u>55,234,913</u>	<u>61,794,719</u>	<u>67,389,585</u>	<u>70,808,970</u>
Total Contributions	\$ 570,485,912	\$ 678,297,645	\$ 725,725,454	\$ 778,944,859	770,578,830
Investment Income ^(a)	\$ 329,385,117	\$ 310,506,921	\$ 352,538,549	\$ 371,620,098	252,399,209
Net Realized Gains					
(Losses).....	\$ 1,948,216	\$ 14,036,602	\$ 300,610,772	\$ 323,533,563	12,284,308
Net Unrealized Gains					
(Losses)	<u>454,670,646</u>	<u>532,826,108</u>	<u>856,560,402</u>	<u>(1,171,995,109)</u>	<u>(1,973,178,423)</u>
Total Net Gains (Losses)...	\$ 456,618,862	\$ 546,862,710	\$ 1,157,171,174	\$ (848,461,546)	(1,960,894,115)
Benefits Paid	\$ 882,375,233	\$ 913,030,578	\$ 951,353,124	\$ 1,008,131,838	1,063,286,151
Actuarial Accrued Liabilities	N/A	\$16,830,349,168	N/A	\$19,243,372,754	N/A
Actuarial Values Of Assets	N/A	<u>8,951,392,914</u>	N/A	<u>9,990,247,212</u>	N/A
Unfunded Accrued Liabilities	N/A	\$ 7,879,019,254	N/A	9,253,125,542	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, superintendent or other eligible employee 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, 2009, there were 64,242 active and former employees with accrued and accruing benefits, 30,142 retired members and 330 members on disability allowance.

Since fiscal year 1978-79, payments into the Teachers' Retirement Fund and investment income in each fiscal year, with the exception of fiscal years 2003-04, 2004-05 and 2008-09, have been sufficient to meet benefits paid from the fund in such year. Contributions to the fund are made by employees and by General Fund appropriations from the State. State contributions to the fund are made quarterly on the basis of certifications submitted by the Teachers' Retirement Board and are funded with annual appropriations from the General Fund.

Actuarial valuations are performed as of June 30th of each even-numbered year. The most recent actuarial valuation dated November 12, 2008 indicated that, as of June 30, 2008, the Teachers' Retirement Fund had assets, inclusive of the cost-of-living adjustment reserve account, with an actuarial value of \$15,271.0 million. The actuarial valuation was based upon an 8.50% earnings assumption. For periods ending June 30, 2009, the Treasurer has realized annualized net returns on investment assets in the Teachers' Retirement Fund of 6.88% over the past twenty years, of 6.85% over the past fifteen years, of 3.12% over the past ten years and of 2.55% over the past five years. These annualized net returns incorporate the negative return on investment assets resulting from the general market downturn during the Fall of 2008. The November 2008 actuarial valuation indicated that as of June 30, 2008 the Teachers' Retirement Fund had a funded ratio of 70.1% on a projected basis. As of June 30, 2008, the market value of the fund's investment assets, as reported in the actuarial valuation, was \$14,551,467,434. As of June 30, 2009, the market value of the fund's investment assets was \$11,396,681,762. The market value of the fund's investment assets is continually subject to change based on a variety of factors, including changes in the financial and credit markets and general economic conditions, and the current market value of the fund's investment assets at December 31, 2009 was higher than it was at June 30, 2009.

The actuarial valuation dated November 29, 2006 determined the following employer contribution requirements, based on an individual entry-age actuarial cost method and level percent-of-payroll contributions, which contributions are sufficient to meet GASB standards: (i) \$518.6 million for fiscal year 2007-08, and (ii) \$539.3 million for fiscal year 2008-09. The State met its annual contribution requirement for fiscal years 2007-08 and 2008-09. The actuarial valuation dated November 12, 2008 determined the following employer contribution requirements, which are sufficient to meet GASB standards: (i) \$559.2 million for fiscal year 2009-10, and (ii) \$581.6 million for fiscal year 2010-11. To meet the State's annual contribution requirements for fiscal years 2009-10 and 2010-11, \$559.2 million and \$581.6 million, respectively, have been appropriated.

Set forth below are State contributions to the Teachers' Retirement Fund, employee contributions, investment income, net realized gains and losses, net unrealized gains and losses, and benefits paid for each of the past five fiscal years, and the actuarial accrued liabilities, the actuarial values of fund assets and the resulting unfunded accrued liabilities for the actuarial valuations as of June 30, 2006 and June 30, 2008.

TABLE 18
Teachers' Retirement Fund

	<u>Year Ending June 30</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
General Fund					
Contributions.....	\$ 185,348,143	\$ 396,248,844	\$ 412,101,958	\$ 2,518,560,263 ^(a)	\$ 539,302,674
Employee					
Contributions ^(b)	<u>259,408,422</u>	<u>293,530,283</u>	<u>279,147,447</u>	<u>275,268,365</u>	<u>289,343,810</u>
Total Contributions.....	\$ 444,756,565	\$ 689,779,127	\$ 691,249,405	\$ 2,793,828,628	\$ 828,646,484
Investment Income ^(c)	\$ 460,613,365	\$ 372,811,689	\$ 482,745,492	\$ 519,183,177	\$ 393,748,965
Net Realized Gains					
(Losses).....	\$ 2,275,332	\$ 45,550,687	\$ 650,696,447	\$ 188,080,715	\$ 24,937,167
Net Unrealized Gains					
(Losses).....	<u>645,128,201</u>	<u>736,860,094</u>	<u>967,671,640</u>	<u>(1,414,057,911)</u>	<u>(2,958,832,005)</u>
Total Net Gains (Losses)...	\$ 647,403,533	\$ 782,410,781	\$ 1,618,368,087	\$ (1,225,977,196)	\$ (2,933,894,838)
Benefits Paid.....	\$ 964,597,731	\$ 1,050,132,506	\$ 1,159,443,441	\$ 1,266,950,462	\$ 1,381,129,716
Actuarial Accrued Liabilities	N/A	\$ 18,703,792,895	N/A	\$ 21,801,020,991	N/A
Actuarial Values Of Assets ^(d)	N/A	<u>11,781,338,002</u>	N/A	<u>15,271,012,785</u>	N/A
Unfunded Accrued Liabilities	N/A	\$ 6,922,454,893	N/A	\$ 6,530,008,206	N/A

- (a) In April 2008 the State issued \$2,276,578,270.75 Taxable General Obligation Bonds (Teachers' Retirement Fund 2008 Series) and \$2.0 billion of the proceeds of such bonds were deposited into the Teachers' Retirement Fund.
- (b) Includes municipal contributions under early retirement incentive programs (\$2,456,776 during fiscal year 2004-05, \$2,802,639 during fiscal year 2005-06, \$2,659,720 during fiscal year 2006-07, \$1,667,810 during fiscal year 2007-08 and \$1,573,023 during fiscal year 2008-09); and employee contributions to the Teachers' Retirement Health Insurance Fund (\$43,830,845 during fiscal year 2004-05, \$39,144,621 during fiscal year 2005-06, \$40,070,052 during fiscal year 2006-07, \$41,296,730 during fiscal year 2007-08 and \$46,219,153 during fiscal year 2008-09).
- (c) Investment Income (exclusive of net realized gains and losses).
- (d) For years prior to fiscal year 2007-2008, includes cost-of-living adjustment reserve account. As of June 30, 2007 the fund was dissolved and its assets combined with Teachers' Retirement Fund assets.

Public Act No. 07-186 authorized the issuance of general obligation bonds ("TRF Bonds") of the State in amounts sufficient to fund a \$2.0 billion deposit to the Teachers' Retirement Fund plus amounts required for costs of issuance and up to two years of capitalized interest. The Secretary of the Office of Policy and Management and the State Treasurer subsequently determined that issuance of such bonds would be in the best interests of the State, and in April 2008 the State issued \$2,276,578,270.75 of such bonds.

Section 8 of Public Act No. 07-186 provides that in each fiscal year that any TRF Bonds (or any refunding bonds) are outstanding, there shall be deemed appropriated from the General Fund an amount equal to the annual required contribution to the Teachers' Retirement Fund, and such amount shall be deposited in the fund in such fiscal year. The amounts of the annual required contributions for each biennial budget shall be based on the actuarial valuation required to be completed by the December 1 prior to the beginning of the next biennial budget. Under Section 8 the State has pledged to and agreed with the holders of any TRF Bonds that, so long as the actuarial evaluation of the Teachers' Retirement Fund is completed and the certification of the annual contribution amounts is made as required by such Section, no public or special act of the General Assembly shall diminish such required contribution until such bonds, together with interest thereon, are fully met and discharged unless adequate provision is made by law for the protection of the holders of the bonds. Such contributions may be reduced in any biennium, however, if (i) the Governor declares an emergency or the existence of extraordinary circumstances (which may include changes in actuarial methods or accounting standards) in which the provisions of Section 4-85 of the Connecticut General Statutes is invoked, (ii) at least three-fifths of the members of each Chamber of the General Assembly vote to diminish such required

contributions during the biennium for which the emergency or extraordinary circumstances are determined, and (iii) the funded ratio of the fund is at least equal to the funded ratio immediately after the sale of the bonds in accordance with the actuarial method used at the time. If such conditions are met, the funding of the annual required actuarial contribution may be diminished, but in no event shall such diminution result in a reduction of the funded ratio of the fund by more than 5% from the funded ratio which would otherwise have resulted had the State funded the full required contribution, or the funded ratio immediately after the sale of the bonds, whichever is greater.

The statutory provisions which govern pension benefits payable from the Teachers' Retirement Fund include certain cost of living adjustments. Public Act No. 07-186 added a provision limiting cost-of-living adjustments for employees hired after July 1, 2007, but also removed a statutory provision which subjected certain annual cost of living adjustments in pension benefits to a limit based on funds available from earnings on fund investments which exceeded an 11.5% return. Such excess earnings were held in the cost-of-living adjustment reserve account until applied to provide for cost of living adjustments. Although there are other statutory limits on the cost of living adjustments, it is anticipated that the removal of the limit based on available earnings which exceeded an 11.5% return will cause an increase in the aggregate actuarial accrued liability of the fund. One preliminary report estimated that these changes could increase the unfunded actuarial accrued liability by approximately \$1.0 billion. This preliminary estimate was based on various assumptions and no assurances can be given that subsequent projections or the next actuarial report will not result in a higher or lower estimate.

Other Retirement Systems

The other minor retirement systems funded by the State include the Judges, Family Support Magistrates and Compensation Commissioners Retirement System (the Judicial Retirement System), the General Assembly Pension System, the State Attorneys' Retirement Fund and the Public Defenders' Retirement Fund. As of June 30, 2009, there were approximately 221 active members of these plans and approximately 262 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 third party administrator of the plan, who invests the fund's assets allocable to a member at the direction of such member in the investment funds available under the plan. A member may not withdraw funds from the plan unless such member has reached age 55 and has terminated from service, retired or died, provided that any member with less than five years of participation in the plan who is under the age of 55 and terminates from service may rollover such member's entire account into an eligible retirement plan.

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, 2009, approximately 59,308 State employees were entitled to Social Security coverage. The amount expended by the State for Social Security coverage for fiscal year 2008-09 was \$309.9

million. Of this amount, \$227.4 million was paid from the General Fund and \$14.5 million was paid from the Special Transportation Fund.

The State provides post-retirement health care and life insurance benefits to all employees who retire from State employment. The State currently finances the cost of such benefits on a pay-as-you-go basis. The State has not established any fund for the accumulation of assets with which to pay post-retirement life insurance benefits in future years. The State has established a trust for the accumulation of assets with which to pay post-retirement health care benefits in future years. All employees hired on or after July 1, 2009 are required to contribute 3% of salary through their tenth year of service, to be deposited into the post-retirement health care benefits trust. Commencing July 1, 2010, employees with less than five years of service will be required to contribute 3% of salary through their tenth year of service, to be deposited into the trust. It is anticipated that contributions to the trust in fiscal years 2009-10 and 2010-11 will be completely expended on current benefit expense. Thereafter it is anticipated that the trust will begin to accumulate assets which will be available to fund future liabilities. The State will need to make significant General Fund appropriations for post-retirement health care and life insurance benefits in upcoming fiscal years. For fiscal year 2009-10 \$482.9 million was appropriated.

Implementation of GASB Statement No. 45 regarding accounting and financial reporting for postemployment benefits other than pensions requires 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 State has received an actuarial report dated March 2007 with respect to the State's liability for post-retirement health care benefits for persons covered under the State Employees Retirement System and other State retirement systems, excluding the Teachers' Retirement System. The report indicated an OPEB actuarial accrued liability as of April 1, 2006 estimated to range from \$11.4 billion to \$21.7 billion. The amounts depend upon various assumptions including those with respect to medical cost inflation rates, the establishment of a trust to fund those liabilities, the amount of initial and annual amounts deposited in such a trust and discount rates. The report used discount rates ranging from 4.5% to 8.5%. The amount of the annual required contribution under these various assumptions ranged from \$1.0 billion to \$1.6 billion for fiscal year 2006-07, based on a projected unit credit actuarial cost method and level percent-of-payroll contributions. Additional assumptions were also tested for sensitivity analysis which produced different results. The annual required contribution included the cost for both current eligible employees and retirees. The State has received an interim actuarial valuation dated February 16, 2009 with respect to the State's liability for post-retirement health care benefits for persons covered under the State Employees Retirement System and other State retirement systems, excluding the Teachers' Retirement System, based upon the stated assumptions of the March 2007 actuarial report but reflecting actual increases in the State's medical and dental costs between April 1, 2006 and June 30, 2008. The report indicates an OPEB actuarial accrued liability as of June 30, 2007 of up to \$23.1 billion and a projected actuarial accrued liability as of June 30, 2008 of up to \$24.6 billion on an unfunded basis with no valuation assets available to offset the liabilities of the plan. The interim actuarial valuation determined an employer contribution requirement for fiscal year 2007-08 of up to \$1.66 billion on an unfunded basis, based on a projected unit credit actuarial cost method and level percent-of-payroll contributions. The State paid \$458.4 million for eligible employees and \$415.4 million for retirees for health care costs in fiscal year 2006-07. The State paid \$480.0 million for eligible employees and \$468.8 million for retirees for health care costs in fiscal year 2007-08. The State paid \$521.9 million for eligible employees and \$454.6 million for retirees for health care costs in fiscal year 2008-09.

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

TABLE 19

State Employee Retirees Health Care And Life Insurance Benefits

	Year Ending June 30				
	2005	2006	2007	2008	2009
Retirees Eligible to Receive Benefits	39,737	38,065	37,506	38,917	38,736
Retirees Receiving Health Care Benefits.....	36,815	36,911	37,304	37,865	38,613
Retirees Receiving Life Insurance Benefits.....	25,827	25,943	25,565	25,581	25,368
General Fund Expenditures on Retiree Health Care and Life Insurance Benefits (millions).....	\$377.0	\$395.0	\$435.5	\$472.0	\$458.0

The State is required to make General Fund appropriations to the Teachers' Retirement Fund to cover one-third of retiree health insurance costs plus any portion of the balance of such costs which is not funded from the amounts available in the Teachers' Retirement Health Insurance Fund. 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 Teachers' Retirement 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. Legislation which became effective July 1, 2008 generally requires the State to subsidize a portion of the health insurance costs of retired teachers who have attained normal retirement age, are ineligible to participate in Medicare Part A and pay to participate in local board of education retiree health benefit plans. No General Fund appropriations to the Teachers' Retirement Fund to cover retiree health insurance costs have been made for fiscal years 2009-10 and 2010-11. The Teachers' Retirement Board is monitoring the impact of the reduction in levels of State funding for fiscal years 2009-10 and 2010-11. Fund assets do not constitute plan assets for purposes of GASB Statements Nos. 43 and 45 and for actuarial valuation purposes fund assets are not treated as valuation assets available to offset the accrued liability of the plan. Since July 1, 1994, retiree health benefits have been self-insured.

Implementation of GASB Statement No. 45 requires 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 Teachers' Retirement Board has received an actuarial valuation of the State's liability with respect to post-retirement health care benefits for members of the Teachers' Retirement Fund. The report indicates an actuarial accrued liability as of June 30, 2008 of \$2,318.8 million on an unfunded basis, based upon certain stated assumptions including a 4.5% earnings assumption and a 30 year amortization period and no valuation assets available to offset the liabilities of the plan. The actuarial valuation determined a \$116.7 million employer contribution requirement for fiscal year 2008-09 and \$121.3 million for fiscal year 2009-10, based on an individual entry-age actuarial cost method and level percent-of-payroll contributions. The State paid \$20.7 million for post-retirement health insurance costs for fiscal year 2007-08. The valuation noted that if the plan were prefunded the actuarial accrued liability as of June 30, 2008 would be reduced to \$1.52 billion based on a 7.5% earnings assumption, which would result in a \$67.9 million employer contribution requirement for fiscal year 2008-09.

Set forth below for each of the past five fiscal years are State contributions to the Teachers' Retirement Fund to cover retiree health insurance costs and the portions of such contribution attributable to post-retirement Medicare supplement health insurance and to the health insurance cost subsidy for retired teachers who are not members of the Board's health benefit plan.

TABLE 20
Teachers' Retirement Health Insurance Fund

	Year Ending June 30				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Portions Attributable To Post-Retirement Medicare Supplement Health Insurance.....	\$ 7,142,769	\$ 9,897,646	\$12,922,673	\$12,909,315	\$14,548,169
Portions Attributable To Non-Board Health Insurance Cost Subsidy	<u>5,715,000</u>	<u>7,765,203</u>	<u>7,826,864</u>	<u>7,860,352</u>	<u>7,885,215</u>
Total General Fund Contributions.....	\$12,857,769	\$17,662,849	\$20,749,537	\$20,769,667	\$22,433,384

Additional Information

The June 30, 2009 audited financial statements which are included as **Appendix III-C** hereto, and in particular notes 11 through 15 and note 17 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 25 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 a settlement agreement, which was deemed approved by the General Assembly and approved by the Superior Court on March 12, 2003. That agreement obliged the State 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. That agreement expired in June, 2007, and the anticipated costs of that agreement have been expended.

On August 23, 2006, the City of Hartford moved to intervene in the case, and on January 4, 2007, the Court granted that motion. On July 5, 2007 the plaintiffs filed a motion for an order to enforce the judgment and to order a remedy, alleging that the State remained in material non-compliance with the *Sheff* mandate. In November 2007 the Superior Court began a hearing on the plaintiffs' motion, and in January 2008 completed that hearing. A decision remained pending.

On April 4, 2008, a tentative settlement between the plaintiffs and the State requiring the State to comply with defined benchmarks over a period of time was presented to the legislature in accordance with Section 3-125a of the Connecticut General Statutes. The legislature approved the settlement on May 4, 2008 and the court approved it on June 12, 2008. Thereafter, the City of Hartford also agreed to settle with the parties. The court approved this settlement by stipulation on August 28, 2008. Under these settlements and court orders, the State has ongoing obligations to work toward certain enumerated goals aimed at reducing racial, ethnic and economic isolation in the Hartford public schools, as detailed in the orders themselves.

On December 9, 2009, the plaintiffs filed a motion for breach of the 2008 agreement claiming that the State failed to meet a benchmark for placement of students in reduced isolation educational settings. In light of this alleged breach, they sought appointment of a special master "to ensure prompt and complete compliance" with the stipulation. On February 23, 2010, the trial court denied the plaintiffs' motion.

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 appealed that decision to the U.S. Court of Appeals. On July 10, 2007 the U.S. Court of Appeals remanded the case back to the District Court for trial. The case remains pending. The same purported class has brought related state law claims in State Court under the caption *Conboy v. State of Connecticut*. On October 20, 2006 the Superior Court in *Conboy v. State of Connecticut* denied the State's motion to dismiss, and the State has appealed. The appeal has been denied and the case has been remanded to the trial court for further proceedings. By agreement of the parties, proceedings in the state court action have been stayed pending disposition of the federal court action.

State of Connecticut v. Philip Morris, Inc., et al., is the action that resulted in the 1998 Master Settlement Agreement ("MSA"), through which Connecticut and fifty-one other states and territories resolved their claims against the major domestic tobacco manufacturers. The Connecticut Superior Court retains continuing jurisdiction over disputes involving the MSA. From 2004 through 2008, the State was engaged in litigation against several tobacco companies that participate in the MSA regarding the calculation of the companies' payments to the State for the year 2003. The litigation focused on whether the parties' payment dispute must be decided by the state courts or by an arbitration panel. In December, 2008, the Connecticut Supreme Court sided with the tobacco companies and ruled that the MSA requires all aspects of the payment dispute to be arbitrated. If an arbitration results in a decision adverse to the State, that determination would likely reduce or eliminate the State's MSA payments for 2004 and possibly even subsequent years.

In *Connecticut Coalition for Justice in Education Funding et al. v. Rell, et al.*, brought in Hartford Superior Court, the plaintiffs are a non-profit coalition comprised of parents, teachers, school administrators and educational advocates, as well as several parents on behalf of their minor children who reside in selected rural, suburban and urban municipalities in the State. Purporting to represent a class of similarly situated students in selected school districts, plaintiffs claim the students' State constitutional rights to a free public education under Article VIII, Section 1, equality of rights under Article I, Section 1 and equal protection of the laws under Article I, Section 20 are being violated by the alleged inequitable and inadequate financing of their schools by the State. In particular, plaintiffs claim for a variety of reasons that the State's primary statutory mechanism for the distribution of State aid for public schools currently fails to ensure both substantially equal educational opportunities and a suitable education for these students, as purportedly reflected by both the educational challenges they face and their poor performance on state standardized measures. The action seeks a declaratory judgment from the Court, an injunction against the operation of the current system, an order that a new system be devised, the appointment of a special master to oversee such activities, continuing Court jurisdiction and attorney fees and costs under 42 United States Code Section 1983, on the grounds that minority students have been disproportionately impacted. The court ruled that the Coalition, as opposed to the other plaintiffs, lacks legal standing to pursue the claims. The plaintiffs sought to replead to overcome the impact of this ruling. The defendants have moved to strike the plaintiffs' claims for a "suitable" education under the State Constitution. On September 17, 2007 the Superior Court issued a ruling granting the State's motion to strike three counts of the plaintiffs' complaint. After the Court's ruling, one count of the plaintiffs' complaint remains, alleging that the plaintiffs have been denied substantially equal education opportunity in violation of the State constitution. The State did not move to strike that count. The plaintiffs sought and obtained permission to appeal immediately to the Connecticut Supreme Court, and that appeal remains pending.

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

implement the plan which could violate the State's constitutional cap on spending. On February 10, 2004 the court denied the State's request to reconsider the funding provision. In 2005 the Court entered orders that ended the Transition Task Force and revised the monitoring order, but left in place the open-ended funding provision. The State is currently working to meet the requirements of the Exit Plan. By letter dated May 5, 2008, the plaintiffs notified the defendants and the Court Monitor of their view that the defendants "are in actual or likely noncompliance" with two provisions of the revised monitoring order. Pursuant to the order, the parties had to engage in a period of mediation, after which the Court, if there were no negotiated resolution, could make findings and issue orders. As a remedy, the plaintiffs requested the appointment of a limited receiver tailored to address the defendants' performance regarding the two identified provisions. On July 17, 2008 the Court approved a stipulation by the parties resolving the plaintiffs' claims of noncompliance with these two provisions. The State has continued to work with the plaintiffs and the Court Monitor to meet the requirements of the Exit Plan. On December 9, 2009, plaintiffs filed a motion for emergency relief seeking to prevent the Department from effectuating the Governor's budget-related directive to cease new admissions to the voluntary services program – a program permitting parents to obtain services for disabled children without relinquishing custody. The Governor has rescinded this order, but the parties continue to litigate whether the children eligible for voluntary services fall within the *Juan F.* class.

While the various cases described in this paragraph involving alleged *Indian Tribes* do not specify the monetary damages sought from the State, the cases are mentioned because they claim State land and/or sovereignty over land areas that are part of the State of Connecticut. Several suits have been filed since 1977 in the Federal District Court and the Connecticut Superior Court on behalf of alleged *Indian Tribes* in various parts of the State, claiming monetary recovery as well as ownership to land in issue. Some of these suits have been settled or dismissed. The plaintiff group in one of the remaining suits is the alleged Golden Hill Paugussett Tribe and the lands involved are generally located in Bridgeport, Trumbull and Orange. In June of 2004 the Federal Bureau of Indian Affairs denied recognition to the alleged Golden Hill Paugussett Tribe of Indians. The alleged Tribe filed an appeal with the United States Secretary of Interior, and that appeal was dismissed on March 18, 2005. On November 30, 2006 the federal district court dismissed the Golden Hill Paugussett's land claims. The Golden Hill Paugussett Tribe appealed the dismissal to the U.S. Court of Appeals for the Second Circuit, and on September 10, 2007 that appeal was dismissed. The Golden Hill Paugussett Tribe has not appealed the denial of its petition seeking federal recognition, but has until March 2011 to do so. An additional suit was filed by the alleged Schaghticoke Tribal Nation claiming ownership of privately and town held lands in the Town of Kent. The State is not a defendant to that action. In February 2004 the Federal Bureau of Indian Affairs issued a final determination granting federal recognition to the Schaghticoke Tribal Nation. The State appealed that decision to the Federal Department of Interior Board of Appeals, which on May 13, 2005 vacated the determination and remanded the matter to the Federal Bureau of Indian Affairs for reconsideration. On October 12, 2005 the Federal Bureau of Indian Affairs declined to acknowledge the Schaghticoke Tribal Nation, and the alleged Tribe appealed that decision to the United States District Court. The District Court dismissed the appeal on August 22, 2008, and the Schaghticoke Tribal Nation appealed that decision to the U.S. Court of Appeals for the Second Circuit. The land claims have been stayed pending the resolution of the federal recognition matter. On October 19, 2009, the Court of Appeals denied the appeal and affirmed the District Court's ruling. A petition for rehearing is pending with the Court. 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. The Pequot Tribe has not appealed this decision, but has until October 2011 to do so. It is possible that other land claims could be brought by other Indian groups, who have petitioned the Federal Government for Federal recognition. In any of the land claims matters, irrespective of whether federal recognition is granted, denied or upheld, a particular tribe could institute or renew land claims against the State or others, or press the claims it has already asserted.

The *White Oak Corp.* has brought demands for arbitration against the State of Connecticut, Department of Transportation ("DOT"), pursuant to State statute, alleging breaches of contract in connection

with both the Tomlinson Bridge construction project in New Haven and a separate construction project in Bridgeport. In December of 2005, the American Arbitration Association ruled against White Oak in the Tomlinson Bridge construction project, rejecting their claim for \$90 million and instead awarded DOT damages in the amount of \$1.17 million. The Superior Court confirmed the panel's decision, but White Oak thereafter filed a new demand for arbitration seeking \$110 million for delay damages in connection with the same Tomlinson Bridge project. The State sought an injunction on this second demand in light of the rulings in the first demand for arbitration. The Superior Court denied the State an injunction, but on May 20, 2008 the Connecticut Supreme Court reversed and ordered that the Superior Court issue a permanent injunction barring White Oak from pursuing the second arbitration. On November 1, 2009, the arbitration panel released its decision on the Bridgeport Green project in which White Oak was seeking \$50 million in damages. The panel rejected White Oak's claims for damages, but ordered the DOT to pay White Oak \$5,343,000 previously held by the agency as liquidated damages, along with \$4,903,930 in prejudgment interest on that sum. On November 30, 2009, the State filed an application to modify the arbitration decision with respect to the award of liquidated damages and interest. As of December 7, 2009 White Oak has taken no action to modify, vacate or correct the arbitration decision. Any subsequent judicial appeal from the arbitrators' final decision is generally limited to jurisdictional issues.

State of Connecticut Office of Protection and Advocacy for Persons with Disabilities v. The State of Connecticut, et al., is an action in Federal District Court brought in February of 2006, on behalf of individuals with mental illness in nursing facilities in the State. The plaintiffs claim that the State has violated the Americans with Disabilities Act by failing to provide services for the identified group in the most integrated setting appropriate to the needs of the qualified individuals. In September 2007 the Court dismissed the plaintiff's case for lack of standing, although it left open the ability for proper plaintiffs to replead. On September 8, 2008, the plaintiffs filed an amended complaint adding five nursing home residents as plaintiffs in addition to the Office of Protection and Advocacy for Persons with Disabilities. The defendants' motions to dismiss the amended complaint and the plaintiffs' motion for class certification are pending before the Court.

Belanger v. State Employees Retirement Commission is a Federal District Court action brought by three retired state employees, claiming that the Commission's members have breached their fiduciary duties and federal law by failing to apply retroactively to the plaintiffs and to others similarly situated, the recent decision of the Connecticut Supreme Court in *Longley v. State Employees Retirement Commission*. In *Longley*, the Court ruled in the case of two retired state employees that the Commission had not properly interpreted and applied State law by failing to add their final, prorated longevity payments to their salary in their final year of employment, for the purpose of calculating their "base salaries" under the State Employees Retirement Act, Connecticut General Statutes § 5-152 et seq. The plaintiffs' complaint in *Belanger* also seeks costs and attorneys fees and the plaintiffs have also moved for class certification to include all retired state plan members harmed by the alleged improper calculation. The defendants filed a motion to dismiss the complaint and the plaintiffs filed a motion for class certification. On June 10, 2009, the defendant's motion to dismiss was granted. Plaintiffs' motion for reconsideration remains pending.

Pham v. Starkowski is a class action lawsuit which was filed in the Superior Court on November 30, 2009 seeking to enjoin the Department of Social Services (DSS) from terminating the State funded medical assistance for non-citizen's program (SMANC). The SMANC program was established pursuant to State legislative direction to continue providing medical assistance benefits to "qualified aliens" following the enactment of restrictions on eligibility of such aliens in the federal Medicaid program. As a result of budget difficulties, the State legislature directed DSS to substantially eliminate the program. The complaint challenged the section of the DSS budget implementer that substantially repealed the SMANC program and the section of the implementer that clarified the scope of individuals who could be eligible for the State Administered General Assistance medical program. The matter was certified by the court as a class action. The trial court struck down both challenged implementer provisions relying on the equal protection clause in the United States Constitution. The State filed the appeal and requested a stay of the injunction, which motion was denied by the trial court. DSS has estimated that the reinstatement of the program will cost approximately

\$9.75 million annually. DSS is in the process of finalizing compliance by reinstating individuals onto the SMANC program and opening up the program to new applicants.

Connecticut Association of Health Care Facilities v. Rell. On January 28, 2010, a trade association representing for-profit nursing homes filed a lawsuit in federal court against Governor Rell. The lawsuit alleges that the nursing homes are systemically undercompensated under Connecticut's Medicaid payment system in violation of the federal Medicaid Act and State and federal constitutional guarantees against the taking of private property without just compensation. Although the lawsuit seeks only declaratory and injunctive relief, an adverse ruling requiring substantial modifications to the State's nursing home Medicaid reimbursement system could have a material fiscal impact on the State.

Computers Plus Center, Inc. and Malapanis v. Department of Information Technology. On January 29, 2010, a State court jury returned a verdict against the Department of Information Technology (DOIT) in favor of counter-claim plaintiff Computers Plus Center (CPC) in the amount of \$18.3 million for breach of due process rights guaranteed by Article First, § 10 of the Connecticut Constitution. DOIT alleged that CPC had failed to provide certain components required by a contract for the purchase of 10,000 computers from CPC. CPC's counter-claim, essentially one for reputational harm to CPC's business, arises out of DOIT's termination of the contract and the denial of CPC's bids for other computer contracts, as well as press statements and other communications relating to the matter. The State has filed motions for a new trial and to reduce and set aside the verdict, which remain pending.

INDEX TO APPENDICES

Appendix III-A	Governmental Organization and Services	III-A-1
Appendix III-B	State Economy.....	III-B-1
Appendix III-C	June 30, 2009 (GAAP-Based) Basic Financial Statements.....	III-C-1
	Comptroller’s Transmittal Letter.....	III-C-2
	Independent Auditor’s Report	III-C-3
	Management’s Discussion and Analysis (MDA)	III-C-7
	June 30, 2009 Basic Audited Financial Statements	III-C-19
	Notes to June 30, 2009 Audited Financial Statements	III-C-51
	Required PERS Supplementary Information.....	III-C-83
Appendix III-D	June 30, 2005-June 30, 2009 Budgetary (Modified Cash Basis)	
	General Fund Financial Statements.....	III-D-1
	Comptroller’s Transmittal Letter (June 30, 2005 – June 30, 2009).....	III-D-2
	Auditor’s Letter (June 30, 2005 - June 30, 2009).....	III-D-3
	June 30, 2005-June 30, 2009 Budgetary (Modified Cash Basis)	
	General Fund Financial Statements.....	III-D-4
Appendix III-E	June 30, 2009 Final Budget, June 30, 2010 Revised Adopted and Estimated Budget and June 30, 2011 Adopted Budget	III-E-1

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GOVERNMENTAL ORGANIZATION AND SERVICES

Introduction

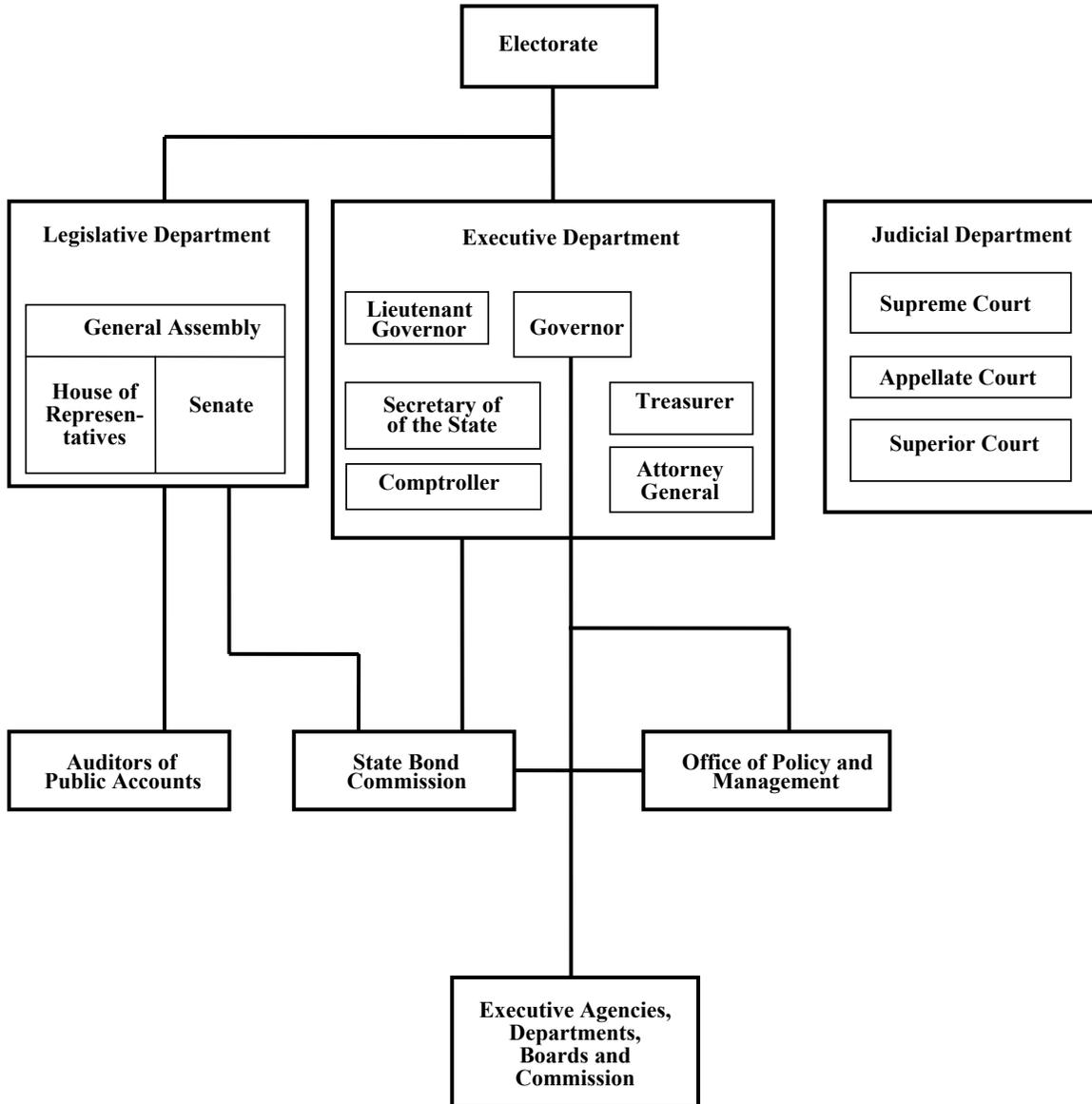
The components and structure of State governmental organization are laid out in the State's Constitution and the General Statutes of Connecticut. A number of State-wide and regional authorities and similar bodies are also created or provided for in the General Statutes or by Special Act of the General 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 2008, and the new members took office in January 2009.

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

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

Executive Department. The Governor, Lieutenant Governor, Secretary of the State, Treasurer, Comptroller and Attorney General, whose offices are mandated by the State's Constitution, were elected at the general election in November 2006 for terms beginning in January 2007. Elections for all of these offices are held every four years. The Governor and Lieutenant Governor are elected as a unit.

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

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

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

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

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

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

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

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

The Superior Court is vested with original trial court jurisdiction over all civil and criminal matters. There are approximately 172 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 117 probate districts situated throughout the State. Effective January 5, 2011 the number of probate courts will be reduced to fifty-four.

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

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

State Employees

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

TABLE A-2
State Employees^(a)
By Function of Government

<u>Function Headings^(b)</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Legislative	586	575	613	571	582
General Government	3,429	3,428	3,610	3,650	3,563
Regulation and Protection	4,211	4,279	4,360	4,338	4,325
Conservation and Development	1,358	1,267	1,299	1,325	1,321
Health and Hospitals	7,593	7,665	8,018	8,130	7,791
Transportation	3,150	3,035	3,220	3,318	3,191
Human Services.....	1,827	1,883	2,010	2,095	2,019
Education.....	15,077	15,446	16,055	16,453	16,720
Corrections	9,573	9,551	10,275	10,379	9,919
Judicial	<u>4,386</u>	<u>4,322</u>	<u>4,745</u>	<u>4,612</u>	<u>4,616</u>
Total.....	51,190	51,451	54,205	54,871	54,047

(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, 2009^{(a)(b)}
By Function of Government and Fund Categories

<u>Function Headings</u>	<u>General Fund</u>	<u>Special Transportation Fund</u>	<u>Other Appropriated Funds</u>	<u>Special Funds – Non-Appropriated</u>	<u>Federal Funds</u>	<u>Private Contributions</u>	<u>TOTALS</u>
Legislative	582	0	0	0	0	0	582
General Government	2,997	0	0	311	10	245	3,563
Regulation and Protection	2,268	596	537	694	121	109	4,325
Conservation and Development	578	0	7	387	255	94	1,321
Health and Hospitals	7,437	0	0	28	318	8	7,791
Transportation	0	3,079	0	112	0	0	3,191
Human Services	1,709	0	11	1	259	39	2,019
Education	10,020	0	0	6,463	182	54	16,720
Corrections	9,804	0	0	87	27	1	9,919
Judicial	4,543	0	26	0	5	42	4,616
Total	39,938	3,675	581	8,083	1,177	592	54,047

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

(b) Breakdown for 2009 reflects the funding breakdown on Core-CT chart of accounts coding. Some positions which in years prior to 2005 were designated as being paid out of private contributions are now coded as being paid out of special funds – non appropriated in order to properly reflect how they are coded on Core-CT.

SOURCE: Office of Policy and Management

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

The General Statutes establish the general parameters of the collective bargaining process with respect to bargaining units representing State employees. At any given point in time, there are generally a number of collective bargaining units with agreements under negotiation. All collective bargaining agreements require approval of the General Assembly. The General Assembly may approve any such agreement as a whole by a majority vote of each house or may reject any such agreement as a whole by a majority vote of either house. Subject to certain parameters set forth in the General Statutes, if the State and the bargaining unit are unable to reach an agreement, one or both parties may initiate arbitration. The award of the arbitrator shall be final and binding upon the parties unless rejected by the legislature. An arbitration award may be rejected in whole by a two-thirds vote of either house of the General Assembly upon a determination that there are insufficient funds for full implementation of the award.

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

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

TABLE A-4
Full-Time Work Force
Collective Bargaining Units and
Those Not Covered by Collective Bargaining

<u>Bargaining Unit/Status Group</u>	<u>Percentage of State Employees Represented^(a)</u>	<u>Contract Status, if any</u>
<u>Covered by Collective Bargaining</u>		
Correction Officers	9.54%	Contract in place through 6/30/2011
Administrative Clerical	7.73%	Contract in place through 6/30/2012
Maintenance and Service	7.33%	Contract in place through 6/30/2012
Health Care Non-Professionals	6.80%	Contract in place through 6/30/2012
Social and Human Services	6.84%	Contract in place through 6/30/2012
Administrative and Residual	5.61%	Contract in place through 6/30/2012
Health Care Professionals	5.49%	Contract in place through 6/30/2012
Engineering, Scientific and Technical	4.70%	Contract in place through 6/30/2012
University of Connecticut Faculty	4.29%	Contract in place through 6/30/2012
University Health Professionals (University of Connecticut Health Center)	3.72%	Contract in place through 6/30/2012
University of Connecticut Professional Employee Association	3.04%	Contract in place through 6/30/2012
Connecticut State University Faculty	2.72%	Contract in place through 6/30/2012
Judicial Employees	2.70%	Contract in place through 6/30/2012
Judicial Professionals	2.42%	Contract in place through 6/30/2012
Congress of Connecticut Community Colleges	2.33%	Contract in place through 6/30/2012
Vocational Technical School Faculty	2.15%	Contract in place through 6/30/2012
State Police	2.05%	Contract in place through 6/30/2012
Protective Services	1.57%	Contract in place through 6/30/2012
Education Professionals (Institutions)	1.39%	Contract in place through 6/30/2012
<u>Other Bargaining Units (13 units)</u>	4.80%	Varies by Unit
Total Covered by Collective Bargaining	87.21%	
<u>Not Covered by Collective Bargaining</u>		
Auditors of Public Accounts	0.21%	Not Applicable
Other Employees	<u>12.58%</u>	Not Applicable
Total Not Covered by Collective Bargaining	12.79%	
Total Full-Time Work Force	100.00%	

(a) Percentage expressed reflects approximately 54,000 filled full-time positions as of June 30, 2009.

SOURCE: Office of Policy and Management

Governmental Services

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

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

<p><u>Legislative</u> 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 Asian Pacific American Affairs Commission</p> <p><u>General Government</u> 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 Contracting Standards Board State Treasurer State Comptroller Department of Revenue Services Division of Special Revenue 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 Division of Criminal Justice</p>	<p><u>Regulation and Protection</u> 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 the Victim Advocate Commission on Human Rights and Opportunities Office of Protection and Advocacy for Persons with Disabilities Office of the Child Advocate Workers’ Compensation Commission</p> <p><u>Conservation and Development</u> Department of Agriculture Department of Environmental Protection Council on Environmental Quality Commission on Culture and Tourism Department of Economic and Community Development Agricultural Experiment Station</p> <p><u>Health and Hospitals</u> Department of Public Health Office of the Chief Medical Examiner Department of Developmental Services Department of Mental Health and Addiction Services Psychiatric Security Review Board</p>	<p><u>Transportation</u> Department of Transportation</p> <p><u>Human Services</u> Department of Social Services State Department on Aging Soldiers’, Sailors’, and Marines’ Fund</p> <p><u>Education, Libraries and Museums</u> 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</p> <p><u>Corrections</u> Department of Correction Department of Children and Families</p> <p><u>Judicial</u> Judicial Department Public Defender Services Commission Child Protection Commission</p>
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- (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 January 1, 2010.

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 as of January 1, 2005 to provide a coordinated and integrated program for statewide emergency management and homeland security. The mission of the Department is to direct and coordinate all available resources to protect the life and property of the citizens of Connecticut in the event of a disaster or crisis, through a collaborative program of prevention, planning, preparedness, response, recovery and public education. Among the Department's primary functions is the administration and management of federal grant funds related to emergency management and homeland security. The Department oversees the state Emergency Operations Center during emergencies. In addition, the Department's Commissioner directs the preparation of state emergency plans, which are submitted to the Governor for approval. For planning purposes with respect to events requiring mass evacuations and sheltering in the State, the Department has given priority for preparedness to the following potential scenarios: (i) a Category 3 hurricane hitting the State coast and all of New England, (ii) a large scale terrorist attack in New York City, and (iii) a Millstone Power Plant release of contamination. The State has been divided into five regions to coordinate planning, training and response.

Each year, in accordance with its statutory mandate, the Department reviews and approves local emergency operations plans, which are submitted to the Department after having been reviewed and approved by municipal officials. The Department continues to advance emergency planning for the State by bringing multiple partners at the local, state and federal level together. Recent planning initiatives include: evacuation and shelter guides; commodity distribution; donations management; disaster recovery centers and debris management. The Department continues to conduct many exercises around the state to test plans and first responder preparedness. The Department continues to support the training of emergency volunteers. The Department continues to be heavily invested in interoperable communications, including the distribution, testing and maintenance of numerous communications assets. The Department also operates a fusion center which collects and disseminates intelligence information to law enforcement and other related groups. The Department, in conjunction with other State and local agencies, has completed significant work to implement and maintain a statewide geospatial information systems (GIS) program. The Department conducts public education campaigns on a regular basis to increase the public's preparedness for emergencies. The Department, in cooperation with local government, has also created five regional emergency planning teams (REPTs). Each REPT includes representatives from each of the municipalities or tribes within the region. The REPTs develop a regional spending plan for the Homeland Security grant funds for each region. Additionally, Intrastate Mutual Aid legislation creates a legal system whereby each municipality in the State can request aid from, or provide aid to, any other State municipality, regardless of whether a written mutual aid agreement exists between the municipalities. The Department also continues to codify its relationships with many key nongovernmental organizations including American Red Cross, Salvation Army, Civil Air Patrol and United Way. The agency continues to work with local towns by providing funding for emergency planning and Emergency Operation Center upgrades. The Department has deployed WEB EOC, a software program introduced in 2008 which allows all communities to communicate important information to the State during an emergency.

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.

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STATE ECONOMY

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

Economic Resources

Population Characteristics. Connecticut had a population count of 3,405,565 in April 2000, an increase of 118,449, or 3.6%, from the 3,287,116 figure of 1990. The State's population growth rate, which exceeded the United States' rate of population growth during the period from 1940 to 1970, slowed substantially and trailed the national average markedly during the past three decades. The following table presents the population trends of Connecticut, New England, and the United States since 1940. Connecticut's population increased 3.6% from 1990 to 2000 versus 5.4% in New England and 13.2% for the nation. The mid-2009 population in Connecticut was estimated at 3,518,288, up 0.4% from a year ago, compared to increases of 0.5% and 0.9% for New England and the United States, respectively. From 2000 to 2009, within New England, Massachusetts, Maine, and New Hampshire experienced growth higher than Connecticut.

TABLE B-1

**Population
(In Thousands)**

<u>Calendar Year</u>	<u>Connecticut</u>		<u>New England</u>		<u>United States</u>	
	<u>Total</u>	<u>% Change</u>	<u>Total</u>	<u>% Change</u>	<u>Total</u>	<u>% Change</u>
1940 Census	1,709		8,437		132,165	
1950 Census	2,007	17.4%	9,314	10.4%	151,326	14.5%
1960 Census	2,535	26.3	10,509	12.8	179,323	18.5
1970 Census	3,032	19.6	11,847	12.7	203,302	13.4
1980 Census	3,108	2.5	12,349	4.2	226,542	11.4
1990 Census	3,287	5.8	13,207	6.9	248,710	9.8
2000 Census	3,406	3.6	13,923	5.4	281,422	13.2
1999....	3,386	0.6	13,838	0.8	279,040	1.2
2000....	3,412	0.7	13,953	0.8	282,172	1.1
2001....	3,428	0.5	14,052	0.7	285,082	1.0
2002....	3,448	0.6	14,135	0.6	287,804	1.0
2003....	3,468	0.6	14,192	0.4	290,326	0.9
2004....	3,475	0.2	14,216	0.2	293,046	0.9
2005....	3,477	0.1	14,227	0.1	295,753	0.9
2006....	3,485	0.2	14,259	0.2	298,593	1.0
2007....	3,489	0.1	14,298	0.3	301,580	1.0
2008....	3,503	0.4	14,363	0.5	304,375	0.9
2009....	3,518	0.4	14,430	0.5	307,007	0.9

Note: 1940-2000, April 1 Census. Figures are for census comparison purposes.

1999-2009, Mid-year estimates. Estimates for New England include the sum of six states – Connecticut, Massachusetts, New Hampshire, Rhode Island, Maine and Vermont.

SOURCE: United States Department of Commerce, Bureau of the Census; Information prior to 1999 – Economy.com

The State is highly urbanized with a 2009 population density of 726 persons per square mile, as compared with 87 for the United States as a whole. Of the eight counties in the State, according to the U.S. Bureau of Census for the 2008 estimate, 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, currently offers 98 weekday departures to 29 non-stop destinations and is served by virtually all the major passenger and cargo air carriers. It is accessible from all areas of the State and Western Massachusetts.

The Connecticut Department of Transportation subsidizes and oversees the operations of both rail commuter services and bus services. The New Haven Line (including the Waterbury, Danbury and New Canaan branch lines) and Shore Line East Line provide commuter rail services for stations between New London and New York City for approximately 38 million passengers per year. The State supports urban transit, commuter express bus, rural transit and Americans with Disabilities Act paratransit services carrying approximately 37 million passengers per year. This service is provided by state-owned CT Transit services in 8 urbanized areas, and by 13 independent urban and rural transit districts. In addition, the Department supports carpooling, vanpooling, telecommuting and other transportation demand management programs statewide.

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 recently initiated its largest single transportation initiative since its infrastructure renewal program of 1984. The initiatives of 2005 and 2006 provide funding for significant transit and highway improvements, including rail car replacement, rail infrastructure improvements and traffic flow enhancements.

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

Legislation passed in 1998 provided for the restructuring of the electric industry in Connecticut. Since July 2000 most consumers in Connecticut can choose an independent electric supplier as their provider of electricity. The electricity is 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.

Natural gas is delivered to Connecticut through pipelines that traverse the State. Natural gas pipeline supplies are generally shipped to Connecticut from Canada and the Gulf of Mexico area. Connecticut also receives natural gas through the interstate pipelines from a terminal located in Boston, Massachusetts which is supplied by tanker ships. Natural gas service is provided to parts of the State through one municipal and three private gas distribution companies, including Yankee Gas Services Company, Connecticut Natural Gas Company, and Southern Connecticut Gas Company. Over the past few years, Energy East Corp. has acquired

both Connecticut Natural Gas and Southern Connecticut Gas. Energy East is a New York-based regional utility holding company. Yankee Gas was acquired by Northeast Utilities.

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

In addition to the electric and natural gas industries, telecommunications services are also in the process of being opened to competition. Local exchange telephone service is provided in the State by local exchange carriers (LECs) and competitive local exchange carriers (CLECs). Two LECs currently offer local telephone services in Connecticut. They are AT&T and Verizon New York, Inc. Connecticut also has approximately 105 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 one of the most efficient states 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 4,879 British Thermal Units (BTU) per dollar of Gross State Product in 2007, 32% less than the national average of 7,208 BTU. When compared to the national per person average, Connecticut residents use a moderate amount of energy. Connecticut consumed 249.5 million BTU of energy per person in 2007, ranking it 45th among the 50 states and 26% less than the national average of 336.8 million BTU.

In 2009 U.S. energy prices, including electricity, gasoline, natural gas and heating oil, stayed below the previous year's levels due mainly to the slowdown in the economy. Higher energy prices 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 1999 to 2008 and compares Connecticut per capita personal income as a percentage of both New England and the United States.

TABLE B-2

Connecticut Personal Income by Place of Residence

<u>Calendar Year</u>	<u>Connecticut</u>		<u>Connecticut Per Capita as Percent of</u>	
	<u>Total</u> (Millions of Dollars)	<u>Per Capita</u> (Dollars)	<u>New England</u>	<u>United States</u>
1999.....	\$131,114	\$38,718	115.3%	136.7%
2000.....	143,021	41,921	114.5	138.3
2001.....	149,519	43,614	114.8	140.0
2002.....	149,466	43,346	113.7	137.7
2003.....	151,653	43,730	112.7	135.5
2004.....	161,314	46,417	113.7	136.9
2005.....	168,666	48,485	114.4	136.8
2006.....	183,820	52,702	115.4	139.7
2007.....	194,069	55,609	115.8	141.0
2008.....	197,024	56,272	114.5	140.0

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

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

TABLE B-3

Annual Growth Rates in Personal Income By Place of Residence

<u>Calendar Year</u>	<u>Conn.</u> (Current)	<u>New England</u> (Current)	<u>U.S.</u> (Current)	<u>Conn.</u> (Constant)	<u>New England</u> (Constant)	<u>U.S.</u> (Constant)
1999	4.7%	5.4%	5.1%	3.1%	3.8%	3.6%
2000	9.1	9.9	8.2	6.8	7.6	5.9
2001	4.5	5.9	3.8	2.2	3.5	1.5
2002	0.0	0.9	2.0	(1.6)	(0.7)	0.4
2003	1.5	2.2	3.5	(0.7)	0.0	1.3
2004	6.4	5.5	6.0	3.4	2.5	3.1
2005	4.6	3.8	5.5	1.2	0.5	2.1
2006	9.0	7.9	7.4	5.5	4.5	4.1
2007	5.6	5.4	5.5	2.6	2.5	2.6
2008	1.5	2.6	2.9	(0.6)	0.5	0.7

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 2008.

TABLE B-4
Sources of Personal Income By Place of Residence
Calendar Year 2008
(In Millions)

	<u>Conn.</u>	<u>Percent of Total</u>	<u>U.S.</u>	<u>Percent of Total</u>
Wages in Non-manufacturing	\$ 92,466	46.93%	\$ 5,796,657	47.41%
Property Income (Div., Rents & Int.)	40,156	20.38	2,203,774	18.03
Wages in Manufacturing	13,839	7.02	741,893	6.07
Transfer Payments less Social Insurance Paid.....	8,624	4.38	886,310	7.25
Other Labor Income	22,826	11.59	1,487,444	12.17
Proprietor's Income.....	19,113	9.70	1,109,510	9.08
Personal Income—Total.....	<u>\$197,024</u>	100.00%	<u>\$12,225,589</u>	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 2008, the State produced \$216.2 billion worth of goods and services and \$177.7 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)

<u>Year</u>	<u>Connecticut</u>		<u>New England^(a)</u>		<u>United States^(b)</u>	
	<u>\$</u>	<u>Percent Growth</u>	<u>\$</u>	<u>Percent Growth</u>	<u>\$</u>	<u>Percent Growth</u>
1999	150,303	3.4	524,123	5.3	9,353,500	6.4
2000	160,436	6.7	565,835	8.0	9,951,475	6.4
2001	165,025	2.9	580,920	2.7	10,286,175	3.4
2002	166,073	0.6	591,733	1.9	10,642,300	3.5
2003	169,885	2.3	612,006	3.4	11,142,175	4.7
2004	182,112	7.2	647,473	5.8	11,867,750	6.5
2005	190,499	4.6	671,797	3.8	12,638,375	6.5
2006	201,635	5.8	707,672	5.3	13,398,925	6.0
2007	212,252	5.3	741,597	4.8	14,077,650	5.1
2008	216,174	1.8	763,683	3.0	14,441,425	2.6

(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*)

Year	Connecticut		New England		United States	
	\$	Percent Growth	\$	Percent Growth	\$	Percent Growth
1999	153,298	1.6	531,902	4.0	10,779,850	4.8
2000	160,436	4.7	565,835	6.4	11,225,980	4.1
2001	161,197	0.5	570,313	0.8	11,347,180	1.1
2002	158,628	(1.6)	568,750	(0.3)	11,552,980	1.8
2003	159,456	0.5	579,651	1.9	11,840,700	2.5
2004	165,828	4.0	597,196	3.0	12,263,800	3.6
2005	169,094	2.0	605,048	1.3	12,638,380	3.1
2006	174,310	3.1	620,103	2.5	12,976,250	2.7
2007	178,470	2.4	634,166	2.3	13,254,050	2.1
2008	177,717	(0.4)	640,735	1.0	13,312,180	0.4

* 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 2008 Connecticut's production was concentrated in three areas: finance, insurance and real estate (FIRE), services and manufacturing. Production in these three industries accounted for 69.5% of total production in Connecticut compared to 58.7% for the nation and 68.4% in 1999. 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 increasing. The share of production from the manufacturing sector decreased from 13.7% in 1999 to 13.4% in 2008 caused by increased competition with foreign countries and other states as well as generally declining and only recently rising defense expenditures during this period. The broadly defined services in the private sector, which excludes industries in agriculture and construction, but includes industries in information, professional and technical services, health care and education, FIRE, and other services, have decreased slightly to 74.3% of the total GSP in 2008 from 75.5% in 1999. The decreased share of service production was due to a faster increase in the government sector which forced the share of the broadly defined services in the private sector smaller. Services in the private sector increased by 43.5% from 1999 to 2008 compared to 59.6% for the public sector during the comparable period. A stable service sector 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	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Manufacturing	\$ 21,405	\$ 20,870	\$ 19,109	\$ 21,628	\$ 22,553	\$ 27,142	\$ 28,544	\$ 28,864
Construction ^(a)	5,484	5,613	5,522	6,110	6,650	6,877	6,433	5,897
Agriculture ^(b)	327	286	302	334	358	346	443	371
Utilities ^(c)	11,936	11,699	12,498	14,026	14,413	14,587	15,533	16,135
Wholesale Trade	9,062	9,001	9,271	9,619	10,152	10,944	11,133	11,293
Retail Trade	10,152	10,415	10,678	10,901	11,393	11,577	11,866	11,876
Finance ^(d)	48,123	48,151	49,748	54,165	55,904	57,613	60,627	61,023
Services ^(e)	44,007	44,719	47,175	48,786	51,523	54,122	58,114	60,268
Government	<u>14,528</u>	<u>15,318</u>	<u>15,583</u>	<u>16,542</u>	<u>17,553</u>	<u>18,426</u>	<u>19,557</u>	<u>20,448</u>
Total GSP	\$165,024	\$166,072	\$169,886	\$182,111	\$190,499	\$201,634	\$212,250	\$216,175

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 1998 and 2008. Connecticut's nonagricultural employment reached a high in the first quarter of 2008 with 1,708,830 persons employed, but began declining with the onset of the recession falling to 1,628,730 jobs by the third quarter of 2009.

TABLE B-8
Non-agricultural Employment^(a)
(In Thousands)

Calendar Year	Connecticut		New England		United States	
	Employment	Percent Growth	Employment	Percent Growth	Employment	Percent Growth
1998	1,643.4	2.22%	6,728.4	2.34%	125,922.9	2.57%
1999	1,669.1	1.56	6,860.7	1.97	128,991.7	2.44
2000	1,693.2	1.45	7,023.2	2.37	131,793.6	2.17
2001	1,681.1	(0.72)	7,036.3	0.19	131,829.9	0.03
2002	1,664.9	(0.96)	6,927.5	(1.55)	130,340.4	(1.13)
2003	1,644.5	(1.22)	6,850.7	(1.11)	129,996.0	(0.26)
2004	1,649.8	0.32	6,875.1	0.36	131,419.2	1.09
2005	1,662.0	0.74	6,918.3	0.63	133,699.2	1.73
2006	1,680.6	1.12	6,983.8	0.95	136,097.6	1.79
2007	1,698.1	1.04	7,043.5	0.86	137,604.3	1.11
2008	1,699.7	0.09	7,034.9	(.12)	137,045.9	(.41)

- (a) Non-agricultural employment excludes agricultural workers, proprietors, self-employed individuals, domestic workers, family workers and members of the armed forces.
- (b) According to statistics from the Connecticut Department of Labor, the average non-agricultural employment in Connecticut for the first six months of 2009 was 1,650,300.
- (c) In March 2009, the Connecticut Department of Labor revised and updated employment statistics back to 2004.

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 2008. 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, 2008
(In Thousands)

	Connecticut		United States	
	Total	Percent	Total	Percent
Services ^(a)	703.1	41.4%	55,618.8	40.6%
Trade ^(b)	310.0	18.2	26,381.1	19.2
Manufacturing	187.4	11.0	13,423.0	9.8
Government	252.4	14.8	22,496.3	16.4
Finance ^(c)	143.3	8.4	8,143.8	5.9
Information ^(d)	37.6	2.2	2,997.0	2.2
Construction ^(e)	66.0	3.9	7,985.7	5.8
Total ^(f)	1,699.8	100.0%	137,045.7	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 2008, approximately 89% of the State's workforce was employed in non-manufacturing jobs, up from roughly 50% in the early 1950s.

TABLE B-10
Connecticut Non-agricultural Employment
(Annual Averages In Thousands)

<u>Year</u>	<u>Manufacturing</u>	<u>Trade^(a)</u>	<u>Services^(b)</u>	<u>Government</u>	<u>Finance^(c)</u>	<u>Information^(d)</u>	<u>Construction^(e)</u>	<u>Total Non-agricultural Employment^(f)</u>
1999	240.26	312.12	634.37	235.18	140.84	44.67	61.64	1,669.09
2000	235.74	317.52	643.26	241.91	143.03	46.41	65.34	1,693.22
2001	226.72	312.18	644.08	244.43	142.93	44.69	66.08	1,681.11
2002	211.19	309.23	647.35	249.29	142.63	41.02	64.17	1,664.89
2003	200.03	305.53	648.08	245.97	142.65	39.57	62.67	1,644.50
2004	197.19	307.93	655.86	242.78	140.66	38.99	66.43	1,649.83
2005	195.17	310.57	665.46	243.76	142.29	38.08	66.70	1,662.03
2006	193.47	310.96	680.22	245.87	144.29	37.91	67.90	1,680.61
2007	190.75	311.73	694.10	249.19	144.61	38.40	69.35	1,698.13
2008	187.42	309.97	703.07	252.40	143.32	37.58	65.97	1,699.73

(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 eighteenth in the nation for its dependency on manufacturing wages in fiscal year 2009. 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 2008 approximately 11.0% of the State's workforce, versus 9.8% for the nation, was employed in the manufacturing sector, down from roughly 50% in the early 1950s.

TABLE B-11

**Manufacturing Employment
(In Thousands)**

Calendar Year	<u>Connecticut</u>		<u>New England</u>		<u>United States</u>	
	Number	Percent Growth	Number	Percent Growth	Number	Percent Growth
1999	240.3	(3.07)%	939.8	(2.62)%	17,323	(1.35)%
2000	235.7	(1.88)	938.4	(0.15)	17,265	(0.33)
2001	226.7	(3.83)	900.7	(4.02)	16,440	(4.78)
2002	211.2	(6.85)	815.8	(9.42)	15,257	(7.20)
2003	200.0	(5.28)	765.0	(6.23)	14,508	(4.90)
2004	197.2	(1.42)	747.1	(2.34)	14,315	(1.34)
2005	195.2	(1.02)	733.8	(1.78)	14,226	(0.62)
2006	193.5	(0.88)	720.4	(1.83)	14,159	(0.48)
2007	190.8	(1.40)	709.3	(1.53)	13,880	(1.97)
2008	187.4	(1.75)	691.2	(2.56)	13,423	(3.29)

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 2008.

TABLE B-12

**Manufacturing Employment
By Industry
(In Thousands)**

Calendar Year	<u>Transportation Equipment</u>	<u>Fabricated Metals</u>	<u>Computer & Electronics</u>	<u>Machinery</u>	<u>Other^(a)</u>	<u>Total Manufacturing Employment</u>
1999	49.86	50.51	35.40	23.98	80.51	240.26
2000	46.92	50.01	35.48	23.71	79.62	235.74
2001	46.87	47.03	33.82	22.41	76.59	226.72
2002	45.33	43.23	29.46	20.27	72.90	211.19
2003	43.35	40.92	26.56	18.92	70.28	200.03
2004	43.17	41.14	25.86	18.48	68.54	197.19
2005	43.50	41.08	25.48	18.14	66.98	195.17
2006	43.59	41.13	24.90	18.05	65.79	193.47
2007	43.57	40.42	25.23	18.18	63.34	190.75
2008	44.29	40.20	25.29	17.73	59.90	187.42

(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 1999 at 240,260 workers. Since that year, employment in manufacturing continued on a downward trend. 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 187,420 in 2008. The total number of manufacturing jobs dropped 52,840, or 22.0%, from its decade high in 1999.

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 \$15.3 billion in 2008, accounting for 7.08% of Gross State Product. From 2004 to 2008, the State's export of goods grew at an average annual rate of 15.8% versus 4.4% for the Gross State Product. The following table shows the growth in exports of manufacturing products.

TABLE B-13
Exports Originating in Connecticut
(In Millions)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Percent of 2008 Total</u>	<u>Average Percent Growth 2004-2008</u>
A. Manufacturing Products							
Transportation Equipment	\$3,177.8	\$3,936.7	\$ 5,382.1	\$ 5,795.4	\$ 6,434.4	42.0%	19.8%
Computer & Electronics	803.6	885.4	1,077.1	1,312.5	1,301.6	8.5	13.2
Machinery, Except Electronics	1,106.8	1,129.2	1,387.1	1,618.5	1,555.6	10.2	9.4
Fabricated Metal Production	406.5	408.2	541.2	585.9	621.7	4.1	11.8
Chemicals	608.2	590.4	748.6	1,447.9	1,575.0	10.3	31.5
Misc. Manufacturing	606.2	562.1	286.2	229.5	272.0	1.8	(14.4)
Electrical Equipment	469.7	433.0	551.4	607.0	602.9	3.9	7.2
Plastics & Rubber	179.6	178.4	204.6	212.4	251.0	1.6	9.0
Paper	165.8	219.8	230.3	147.7	146.9	1.0	0.2
Primary Metal Mfg.	275.7	325.9	639.0	480.4	508.5	3.3	23.8
Others	<u>759.0</u>	<u>1,018.2</u>	<u>1,200.4</u>	<u>1,361.9</u>	<u>2,043.5</u>	<u>13.3</u>	<u>28.9</u>
Total	\$8,559.2	\$9,687.3	\$12,248.0	\$13,799.1	\$15,313.1	100.0%	15.8%
% Growth	5.2%	13.2%	26.4%	12.7%	11.0%		
B. Gross State Product^(a)	\$182,112	\$190,499	\$201,635	\$ 212,252	\$ 216,174		4.4%
Mfg Exports as a % of GSP	4.7%	5.1%	6.1%	6.5%	7.1%		

(a) In millions.

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

Defense Industry. One important component of the manufacturing sector in Connecticut is the defense industry. Approximately one quarter of the State's manufacturing employees are employed in defense related business. Nonetheless, this sector's significance in the State's economy has declined considerably since the early 1980s. Connecticut had witnessed a marked reduction in the amount of federal spending earmarked for defense related industries in the State; however, these amounts have been climbing most years since federal fiscal year 2001. In federal fiscal year 2008, Connecticut received \$9.7 billion of prime contract awards. These total awards accounted for 2.6% of national total awards and ranked 11th in total defense dollars awarded and 4th in per capita dollars awarded among the 50 states. In fiscal year 2008, Connecticut had \$2,769

in per capita defense awards, compared to the national average of \$1,204. As measured by a three year moving average of defense contract awards as a percent of Gross State Product, awards to Connecticut-based firms were 4.0% of Gross State Product in fiscal year 2008, up from 2.0% of Gross State Product in fiscal year 1999. Recent increases were primarily due to the procurement of helicopters and submarines.

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

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

TABLE B-14
Defense Contract Awards

<u>Federal Fiscal Year</u>	<u>Connecticut Total Contract Award (Thousands)</u>	<u>Connecticut Rank Among States Total Awards</u>	<u>Percent Change from Prior Year</u>	
			<u>Connecticut</u>	<u>U.S.</u>
1998-99	\$3,169,394	12th	(7.0)%	5.0%
1999-00	2,177,462	17th	(31.3)	7.3
2000-01	4,269,536	10th	96.1	9.7
2001-02	5,638,582	9th	32.1	17.4
2002-03	8,064,794	5th	43.0	20.5
2003-04	8,959,424	5th	11.1	6.4
2004-05	8,753,063	7th	(2.3)	16.5
2005-06	7,780,793	10th	(11.1)	8.6
2006-07	8,601,359	9th	10.5	22.6
2007-08	9,696,554	11th	12.7	16.0

SOURCE: United States Department of Defense

Non-manufacturing. The non-manufacturing sector is comprised of industries that primarily provide services. Services differ significantly from manufactured goods in that the output is generally intangible, it is produced and consumed concurrently, and it cannot be inventoried. Consumer demand for services is not as postponable as the purchase of goods, making the flow of demand for services more stable. An economy will therefore generally become more stable as it becomes more service oriented. Over the past several decades the non-manufacturing sector of the State's economy has risen in economic importance, from just over 50% of total State employment in 1950 to approximately 89% by 2008. This trend has decreased the State's dependence on manufacturing. Over the course of the last ten years, there were more than 83,480 jobs created in this sector, an increase of 5.8%. Moreover, this sector has more than compensated for the loss in manufacturing jobs, fueling the recovery in nonagricultural employment since 2003.

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

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

Calendar Year	Connecticut		New England		United States	
	Number	Percent Growth	Number	Percent Growth	Number	Percent Growth
1999	1,428.8	2.39%	5,920.8	2.73%	111,669.1	3.05%
2000	1,457.5	2.00	6,084.8	2.77	114,528.5	2.56
2001	1,454.4	(0.21)	6,135.6	0.83	115,389.5	0.75
2002	1,453.7	(0.05)	6,111.7	(0.39)	115,083.7	(0.27)
2003	1,444.5	(0.64)	6,085.7	(0.43)	115,487.6	0.35
2004	1,452.6	0.57	6,128.0	0.70	117,104.5	1.40
2005	1,466.9	0.98	6,184.6	0.92	119,473.1	2.02
2006	1,487.1	1.38	6,263.4	1.28	121,939.1	2.06
2007	1,507.4	1.36	6,334.2	1.13	123,724.8	1.46
2008	1,512.3	0.33	6,343.7	0.15	123,622.9	(0.08)

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 1999, 2006, 2007 and 2008 is shown in the table below. Total non-manufacturing employment has been broken down by industry. Percent changes over the year and over the decade are also provided. Between 1999 and 2008 service industry employment expanded by 68,690 workers, responsible for over 82% of all non-manufacturing jobs, which registered an increase of 83,480 jobs. State and local governments expanded by 20,070 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. The State's two tribal casinos employ about 19,900 workers.

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

<u>Industry</u>	<u>Calendar</u> <u>Year</u> <u>1999</u>	<u>Calendar</u> <u>Year</u> <u>2006</u>	<u>Calendar</u> <u>Year</u> <u>2007</u>	<u>Calendar</u> <u>Year</u> <u>2008</u>	<u>Percent</u> <u>Change</u> <u>2007-08</u>	<u>Percent</u> <u>Change</u> <u>1999-08</u>
Construction ^(a)	61.64	67.90	69.35	65.97	(4.87)%	7.03%
Information ^(b)	44.67	37.91	38.40	37.58	(2.13)	(15.86)
Trade ^(c)	312.12	310.96	311.73	309.97	(0.57)	(0.69)
Finance, Insurance & Real Estate	140.84	144.29	144.61	143.32	(0.89)	1.76
Services ^(d)	634.37	680.22	694.10	703.07	1.29	10.83
Federal Government	22.33	19.65	19.60	19.47	(0.64)	(12.77)
State and Local Government	<u>212.86</u>	<u>226.22</u>	<u>229.59</u>	<u>232.93</u>	<u>1.45</u>	<u>9.43</u>
 Total Non-manufacturing Employment ^(d)	 1,428.83	 1,487.14	 1,507.38	 1,512.31	 0.33	 5.84

(a) Includes natural resources and mining.

(b) Covers a considerable variety of activities, including professional, business, education, health care and personal services.

(c) Includes wholesale & retail trade, transportation, and utilities

(d) Totals may not agree with detail due to rounding and seasonal statistical data adjustments.

SOURCE: Connecticut State Labor Department

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

The following table shows the major group in each North American Industry Classification System (NAICS) code as well as the State's retail trade history for the past four fiscal years. Connecticut retail trade in fiscal year 2009 totaled \$45.5 billion, a decrease of 6.9% from fiscal year 2008 with only two sectors, health & personal care stores and general merchandise stores, registering an increase. The decline in sales were especially severe in the durable goods category that are mostly big ticket items sold by furniture and home furnishings stores and motor vehicles and parts dealers.

TABLE B-17
Retail Trade In Connecticut^(a)
(In Millions)

NAICS		Percent of Fiscal Year 2005		Percent of Fiscal Year 2006		Percent of Fiscal Year 2007		Percent of Fiscal Year 2008		Percent of Fiscal Year 2009		Average Percent Growth Fiscal Year 2005-2009
		Fiscal Year 2005	Total	Fiscal Year 2006	Total	Fiscal Year 2007	Total	Fiscal Year 2008	Total	Fiscal Year 2009	Total	
441	Motor Vehicle and Parts Dealers	\$ 8,744	20.28%	\$ 8,421	18.91%	\$ 8,602	18.53%	\$ 8,197	16.78%	\$ 6,475	14.25%	(6.8)%
442	Furniture and Home Furnishings Stores	2,665	6.18	2,784	6.25	2,635	5.68	1,993	4.08	1,456	3.20	(13.0)
443	Electronics and Appliance Stores	1,510	3.50	1,646	3.70	1,627	3.50	1,686	3.45	1,595	3.51	1.5
444	Building Material and Garden Supply Stores	3,436	7.97	3,532	7.93	3,465	7.46	3,243	6.64	2,767	6.09	(5.0)
445	Food and Beverage Stores ^(b)	5,701	13.22	5,945	13.35	6,472	13.94	9,433	19.31	8,927	19.64	13.4
446	Health and Personal Care Stores	3,459	8.02	3,555	7.98	4,219	9.09	3,905	7.99	4,961	10.91	10.3
447	Gasoline Stations	2,666	6.18	3,050	6.85	3,073	6.62	3,403	6.97	2,868	6.31	2.5
448	Clothing and Clothing Accessories Stores	2,679	6.21	2,712	6.09	2,838	6.11	2,947	6.03	2,667	5.87	0.1
451	Sporting Goods, Hobby, Book and Music Stores	1,080	2.50	1,091	2.45	1,155	2.49	1,195	2.45	1,052	2.31	(0.4)
452	General Merchandise Stores	4,844	11.23	5,059	11.36	5,135	11.06	5,193	10.63	5,215	11.47	1.9
453	Miscellaneous Store Retailers	3,505	8.13	3,792	8.52	3,998	8.61	4,037	8.26	3,964	8.72	3.2
454	Nonstore Retailers	<u>2,836</u>	<u>6.58</u>	<u>2,933</u>	<u>6.59</u>	<u>3,209</u>	<u>6.91</u>	<u>3,616</u>	<u>7.40</u>	<u>3,508</u>	<u>7.72</u>	<u>5.6</u>
	Total^(a)	\$43,126	100.00%	\$44,521	100.00%	\$46,428	100.00%	\$48,848	100.00%	\$45,455	100.00%	
	Durables (NAICS 441, 442, 443, 444)	\$16,355	37.92%	\$16,383	36.80%	\$16,329	35.17%	\$15,119	30.95%	\$12,293	27.04%	(6.6)
	Non Durables (all other NAICS)	\$26,771	62.08%	\$28,138	63.20%	\$30,099	64.83%	\$33,729	69.05%	\$33,162	72.96%	5.6

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

(b) Please note that due to a discrepancy in reporting methodology, the 2008 figure for Food and Beverage Stores is inconsistent with past reporting practices. The Office of Policy and Management estimates that the 2008 figure should indicate a modest increase rather than the calculated 45.8% from fiscal year 2007.

SOURCE: Connecticut Department of Revenue Services

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

After enjoying an extraordinary boom during the late 1990s, Connecticut, as well as the rest of the Northeast and the Nation, experienced an economic slowdown during the recession of the early 2000s. The unemployment rate in the State reached its low of 2.3% in 2000, compared to New England's average of 2.8% and the national average of 4.0%. After climbing to a high of 5.5% in 2003, Connecticut's unemployment rate

declined to 4.4% by 2006. This current recession has seen the unemployment rate rise to 8.0% for 2009, compared to the New England average of 8.3% and the national average of 9.3% for the same period.

The following table compares the unemployment rate averages of Connecticut, New England, and the United States between 2000 and 2009.

TABLE B-18
Unemployment Rate

<u>Year</u>	<u>Unemployment Rate</u>		
	<u>Connecticut</u>	<u>New England</u>	<u>United States</u>
2000	2.3	2.8	4.0
2001	3.1	3.6	4.7
2002	4.4	4.8	5.8
2003	5.5	5.4	6.0
2004	4.9	4.9	5.5
2005	4.9	4.7	5.1
2006	4.4	4.5	4.6
2007	4.6	4.4	4.6
2008	5.7	5.4	5.8
2009 ^(a)	8.0	8.3	9.3

(a) On a preliminary basis, Connecticut's average unemployment rate for December 2009 was 8.9% compared to the average national level of 10.0% for the same period.

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

APPENDIX III-C

State Comptroller's Letter	III-C-2
Independent Auditor's Report	III-C-3
Management's Discussion And Analysis (MDA)	III-C-7
Basic Financial Statements	III-C-19
Statement of Net Assets	III-C-21
Statement of Activities	III-C-22
Balance Sheet - Governmental Funds	III-C-26
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	III-C-27
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	III-C-28
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	III-C-29
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual Non-GAAP Budgetary Basis - General and Transportation Funds	III-C-30
Statement of Net Assets - Proprietary Funds	III-C-34
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	III-C-36
Statement of Cash Flows - Proprietary Funds	III-C-38
Statement of Fiduciary Net Assets - Fiduciary Funds	III-C-42
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds	III-C-43
Statement of Net Assets - Component Units	III-C-47
Statement of Activities - Component Units	III-C-48
Notes to the Financial Statements	III-C-51
Required PERS Supplementary Information	III-C-83
Statistical Section	Not Included



NANCY WYMAN
COMPTROLLER

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

MARK E. OJAKIAN
DEPUTY COMPTROLLER

February 17, 2010

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

Dear Ms. Nappier

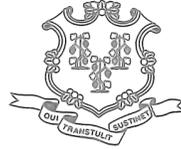
I have reviewed the accompanying preliminary general purpose financial statements of the State of Connecticut for the Fiscal Year ended June 30, 2009. The statements and the subsequent Independent Auditors' Report are incorporated within the Comprehensive Annual Report of the State of Connecticut, which is prepared by my office using the guidance of generally accepted accounting principles.

Sincerely,

A handwritten signature in cursive script that reads "Nancy Wyman".

Nancy Wyman
State Comptroller

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

210 CAPITOL AVENUE

HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

INDEPENDENT AUDITORS' REPORT

Governor 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, 2009, 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 six percent of the assets and six percent of the revenues of the Governmental Activities;
- the financial statements of the John Dempsey Hospital account within the University of Connecticut and Health Center, the Connecticut State University, Connecticut Community/ Technical Colleges, Bradley International Airport, Bradley International Airport Parking Facility, Connecticut Lottery Corporation, and the Federal accounts for the Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 64 percent of the assets and 47 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 92 percent of the assets and 97 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 49 percent of the assets and 33 percent of the revenues of the Environmental Programs Fund;
- the financial statements of the John Dempsey Hospital account within the University of Connecticut and Health Center, the Connecticut State University, the Connecticut

- Community-Technical Colleges, Bradley International Airport, Bradley International Airport Parking Facility, the Connecticut Lottery Corporation, and the Federal accounts for the Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 63 percent of the assets and 47 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 Special Transportation Fund, Transportation Special Tax Obligations Fund, Drinking Water Fund, Clean Water Fund, Bradley International Airport, Bradley International Airport Parking Facility, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audits of the Connecticut Development Authority, the Capital City Economic Development Authority, John Dempsey Hospital, Connecticut State University, Connecticut Community-Technical Colleges and the University of Connecticut Foundation were not conducted in accordance with *Government Auditing Standards*. 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.

The State of Connecticut adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB). This standard modifies the method that governments have reported the cost of providing such benefits, primarily retiree health care. It requires the systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees’ years of service and the disclosure of information about the actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. Our audit disclosed that the required actuarial valuation was not performed and the State of Connecticut did not present information pertaining to the Funded Status and Funding Progress, and Actuarial Methods and Assumptions for the State Employee OPEB Plan in Note 14 of the financial statements in compliance with GASB requirements.

In our opinion, except for the matter described in the preceding paragraph, 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, 2009, and the respective

budgetary comparison for the General Fund and the Transportation Fund, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

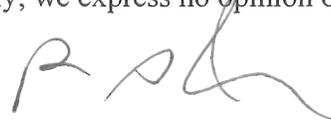
In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2010, on our consideration of the State of Connecticut's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant 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 will be issued under separate cover in the State's Single Audit Report and is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 15 through 25, and the schedules of funding progress for pension and other post-employment benefit plans and the schedules of employer contributions for pension and other post-employment benefit plans on pages 90 and 91, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We did not audit this information and do not express an opinion on it. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. As a result of such limited procedures, we found that the State of Connecticut has not presented the schedule of funding progress and schedule of employer contributions for the State Employee OPEB plan that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

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 the 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

February 17, 2010
State Capitol
Hartford, Connecticut

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MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)

The following discussion and analysis is intended to provide readers of the State's financial statements with a narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2009. The information provided here should be read in conjunction with additional information provided in the letter of transmittal and in the basic financial statements.

FINANCIAL HIGHLIGHTS

Government-wide:

As of June 30, 2009, the State had a combined net asset deficit of \$5.1 billion, an increase of \$2.8 billion when compared to the prior year ending deficit balance. This increase resulted mainly from a decrease of \$2.6 billion in the net assets of governmental activities. The governmental activities reflect the impact of an economic recession that resulted in a \$1.4 billion decline in Fiscal Year 2009 tax revenues from the prior fiscal year. Despite deficit mitigation efforts of over half a billion dollars during the course of Fiscal Year 2009, at year-end the budgetary imbalance was approaching one billion dollars in the General Fund. In addition, In Fiscal Year 2009 the state failed to contribute its full required contribution to the state employee pension fund and the state employee OPEB fund.

Fund Level:

The governmental funds had a total fund balance of \$1.4 billion at year end. Of this amount, \$3.2 billion was reserved for various purposes, resulting in a total unreserved fund balance deficit of \$1.8 billion. The portion of the total unreserved fund balance deficit that pertains to the General Fund was a \$2.3 billion deficit. The General Fund had an actual budget deficit of \$1.0 billion this year.

The Enterprise funds had total net assets of \$4.5 billion, substantially all of which was invested in capital assets or restricted for various purposes.

It should be noted that Public Act 09-2 of the June Special Session authorized the State Treasurer to issue economic recovery notes to cover the Fiscal Year 2009 budgetary shortfall in the State's General Fund of \$947.6 million. The notes were issued in Fiscal Year 2010 and therefore the proceeds are not reflected in the Fiscal Year 2009 financial statements.

Long-Term Debt:

Total long-term debt was \$22.5 billion for governmental activities, of which \$16.9 billion was bonded debt.

Total long-term debt was \$2.2 billion for business-type activities, of which \$1.6 billion was bonded debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements comprise three components: 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 themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the State's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the State's non-fiduciary assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The statement of activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements are intended to distinguish functions of the State that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State include legislative, general government, regulation and protection, conservation and development, health and hospitals, transportation, human services, education, libraries, and museums, corrections, and judicial. The business-type activities of the State include the University of Connecticut and Health Center, State Universities, Bradley International Airport, Connecticut Lottery Corporation, Employment Security, and Clean Water, which are considered to be major funds, while the remaining business-type activities are combined into a single aggregate presentation.

The government-wide financial statements include not only the State itself (known as the primary government), but also the activities of eight legally separate Component Units for which the State is financially accountable: the Connecticut Housing Finance Authority, the Connecticut Health and Educational Facilities Authority, the Connecticut Development Authority, the Connecticut Higher Education Supplemental Loan Authority, the Connecticut Resources Recovery Authority, the Connecticut Innovations, Incorporated, the Capital City Economic Development Authority, and the University of Connecticut Foundation, Incorporated. Financial information for these Component Units is reported separately from the financial information presented for the primary government itself. Financial information of the individual component units can be found in the basic financial statements following the fund statements, and complete financial statements of the individual component units can be obtained from their respective administrative offices.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and

changes in fund balance provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Debt Service Fund, the Transportation Fund, and the Restricted Grants and Accounts Fund, all of which are considered to be major funds. Data from other governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The State adopts a biennial budget for the General Fund, the Transportation Fund, and other Special Revenue funds. A budgetary comparison statement has been provided for the General Fund and the Transportation Fund to demonstrate compliance with the current fiscal year budgets.

Proprietary Funds

Proprietary funds (Enterprise funds and Internal Service funds) are used to show activities that operate more like those of commercial enterprises. Enterprise funds charge fees for services provided to outside customers. They are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the State's various functions. The State uses Internal Service funds to account for correction industries, information technology, and administrative services. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held by the State in a trustee or agency capacity for others. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes information regarding the State's progress on funding its obligation to provide pension and other postemployment benefits to its employees.

Other Information

In addition to the basic financial statements and accompanying notes, this report also contains the following information.

- Combining Fund Statements and Schedules – Nonmajor funds
- Statistical Section

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

NET ASSETS

As noted earlier, net assets may serve over time as a useful indicator of the State's financial position. During the current fiscal year, the combined net asset deficit of the State increased 121 percent to \$5.1 billion. In comparison, last year the combined net asset deficit increased 807 percent.

**State Of Connecticut's Net Assets
(Expressed in Millions)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008*	2009	2008*	2009	2008*
ASSETS:						
Current and Other Assets	\$ 4,273	\$ 5,122	\$ 3,861	\$ 3,805	\$ 8,134	\$ 8,927
Capital Assets	11,076	10,028	3,352	3,326	14,428	13,354
Total Assets	15,349	15,150	7,213	7,131	22,562	22,281
LIABILITIES:						
Current Liabilities	3,346	3,078	733	741	4,079	3,819
Long-term Liabilities	21,572	19,027	1,976	1,727	23,548	20,754
Total Liabilities	24,918	22,105	2,709	2,468	27,627	24,573
NET ASSETS:						
Invested in Capital Assets,						
Net of Related Debt	5,500	4,914	2,612	2,558	8,112	7,472
Restricted	1,618	1,641	1,470	1,757	3,088	3,398
Unrestricted	(16,687)	(13,510)	422	348	(16,265)	(13,162)
Total Net Assets (Deficit)	\$ (9,569)	\$ (6,955)	\$ 4,504	\$ 4,663	\$ (5,065)	\$ (2,292)

* Restated for comparative purposes. See Note 22.

The net asset deficit of the State's governmental activities increased \$2.6 billion (37.6 percent) to \$9.6 billion during the current fiscal year. Of this amount, \$7.1 billion was invested in capital assets (buildings, roads, bridges, etc.) or was restricted for various purposes, resulting in an unrestricted net asset deficit of \$16.7 billion. This deficit is the result of having long-term obligations that are greater than currently available resources. Specifically, the State has recorded the following outstanding long-term obligations which contributed to the deficit; a) general obligation bonds in the amount of \$7.2 billion which were issued to finance various municipal grant programs (e.g., school construction) and a contribution to a pension trust fund, and b) other long-term obligations in the amount of \$5.6 billion (e.g., net pension obligation and compensated absences).

Net assets of the State's business-type activities decreased \$0.2 billion (3.4 percent) to \$4.5 billion during the current fiscal year. Of this amount, \$4.1 billion was invested in capital assets or was restricted for various purposes, resulting in unrestricted net assets of \$0.4 billion. These resources cannot be used to make up for the net asset deficit of the State's governmental activities. The State can only use these net assets to finance the ongoing operations of its Enterprise funds (such as the University of Connecticut and Health Center, Bradley International Airport, and others).

Connecticut

CHANGE IN NET ASSETS

Changes in net assets for the years ended June 30, 2009 and 2008 were as follows:

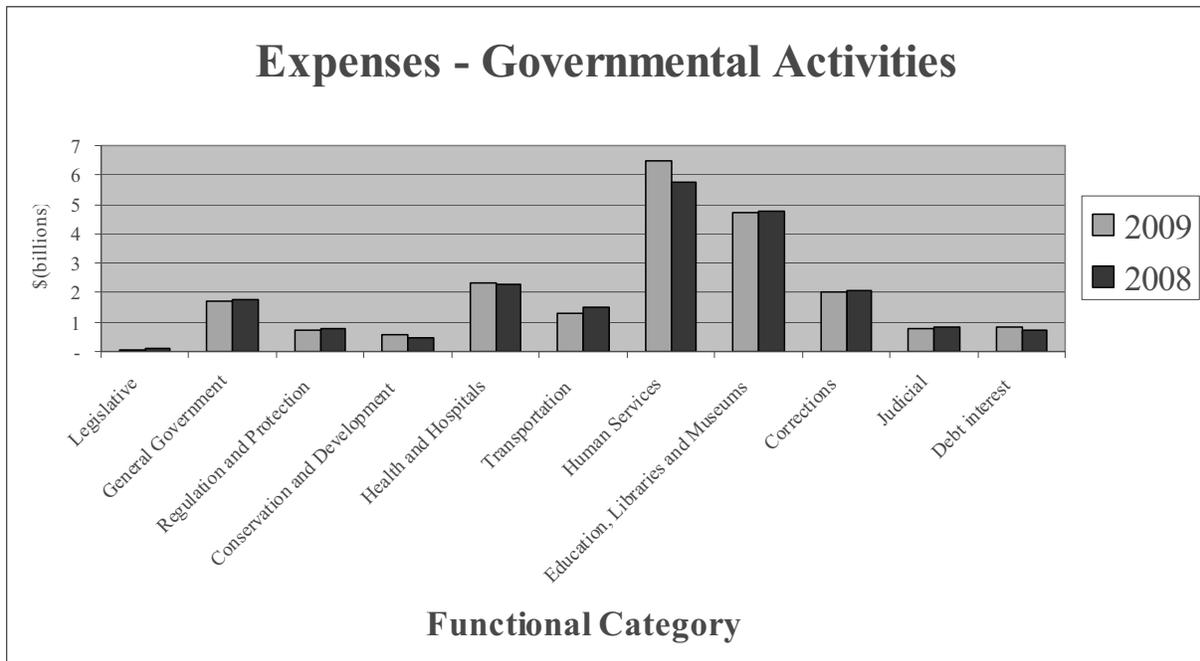
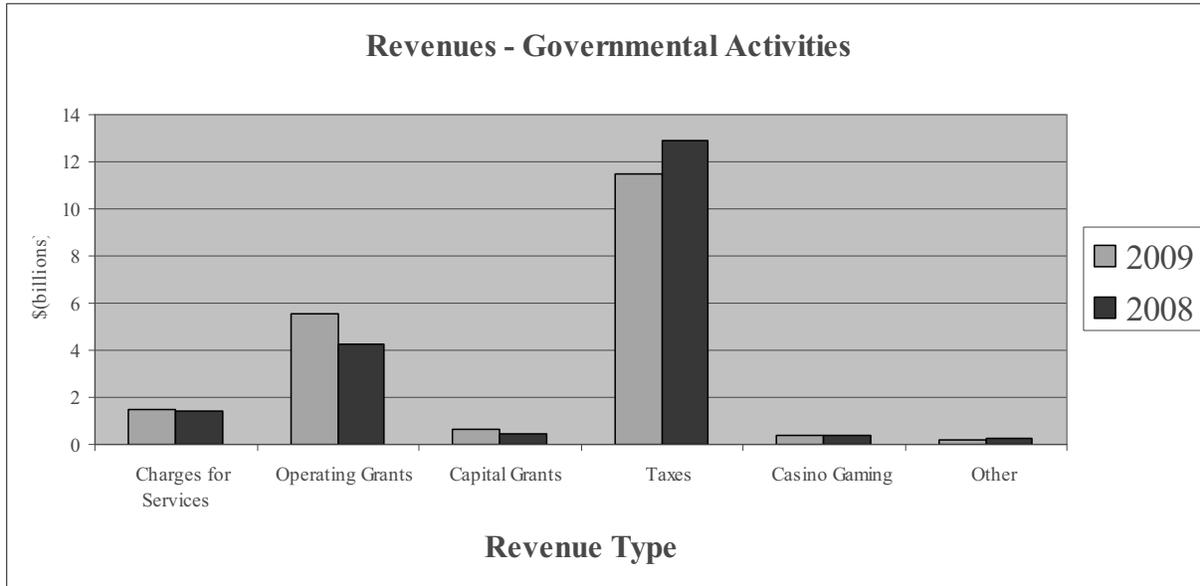
**State of Connecticut's Changes in Net Assets
(Expressed in Millions)**

	Governmental Activities		Business-Type Activities		Total		%change 09-08
	2009	2008	2009	2008	2009	2008	
REVENUES							
Program Revenues							
Charges for Services	\$ 1,490	\$ 1,448	\$ 3,108	\$ 3,000	\$ 4,598	\$ 4,448	3.4%
Operating Grants and Contributions	5,553	4,271	907	323	6,460	4,594	40.6%
Capital Grants and Contributions	646	442	64	36	710	478	48.5%
General Revenues							
Taxes	11,491	12,901	-	-	11,491	12,901	-10.9%
Casino Gaming Payments	378	411	-	-	378	411	-8.0%
Other	197	273	76	117	273	390	-30.0%
Total Revenues	19,755	19,746	4,155	3,476	23,910	23,222	3.0%
EXPENSES							
Legislative	32	112	-	-	32	112	-71.4%
General Government	1,735	1,738	-	-	1,735	1,738	-0.2%
Regulation and Protection	731	789	-	-	731	789	-7.4%
Conservation and Development	550	474	-	-	550	474	16.0%
Health and Hospitals	2,344	2,298	-	-	2,344	2,298	2.0%
Transportation	1,302	1,482	-	-	1,302	1,482	-12.1%
Human Services	6,478	5,744	-	-	6,478	5,744	12.8%
Education, Libraries and Museums	4,707	4,749	-	-	4,707	4,749	-0.9%
Corrections	2,043	2,085	-	-	2,043	2,085	-2.0%
Judicial	777	806	-	-	777	806	-3.6%
Interest and Fiscal Charges	810	734	-	-	810	734	10.4%
University of Connecticut & Health Center	-	-	1,725	1,626	1,725	1,626	6.1%
State Universities	-	-	639	611	639	611	4.6%
Bradley International Airport	-	-	68	68	68	68	0.0%
CT Lottery Corporation	-	-	723	732	723	732	-1.2%
Employment Security	-	-	1,574	632	1,574	632	149.1%
Clean Water	-	-	31	27	31	27	14.8%
Other	-	-	512	476	512	476	7.6%
Total Expenses	21,509	21,011	5,272	4,172	26,781	25,183	6.3%
Excess (Deficiency) Before Transfers and Special Items	(1,754)	(1,265)	(1,117)	(696)	(2,871)	(1,961)	46.4%
Special Items	13	-	85	-	-	-	
Transfers	(873)	(779)	873	779	-	-	0.0%
Increase (Decrease) in Net Assets	(2,614)	(2,044)	(159)	83	(2,773)	(1,961)	41.4%
Net Assets (Deficit) - Beginning (as restated)	(6,955)	(4,911)	4,663	4,580	(2,292)	(331)	592.4%
Net Assets (Deficit) - Ending	\$ (9,569)	\$ (6,955)	\$ 4,504	\$ 4,663	\$ (5,065)	\$ (2,292)	121.0%

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

GOVERNMENTAL ACTIVITIES

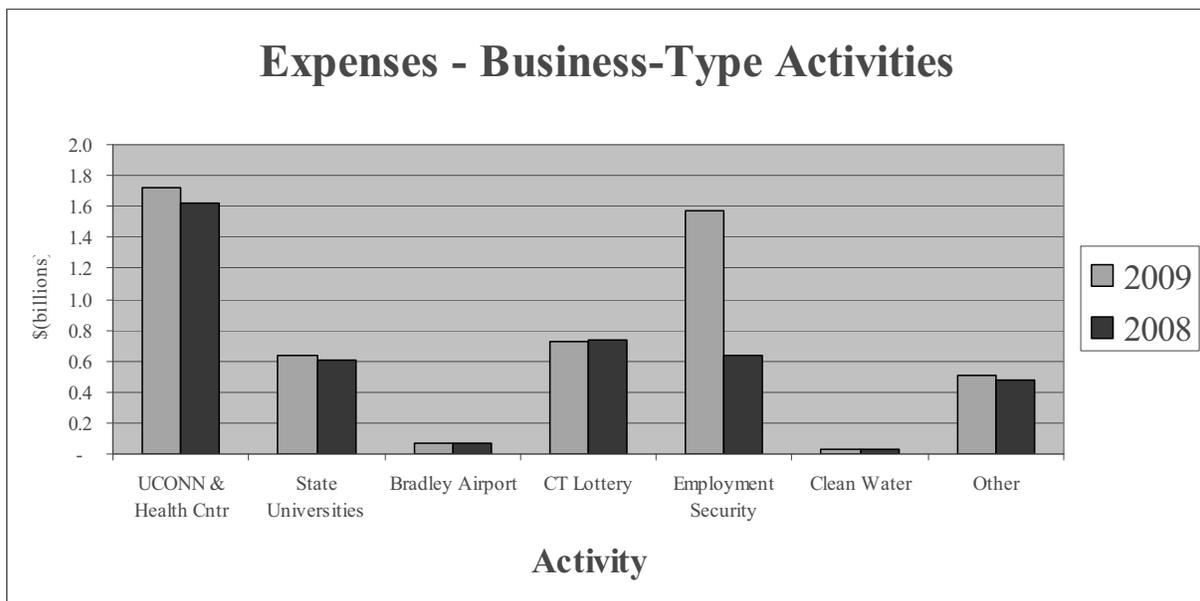
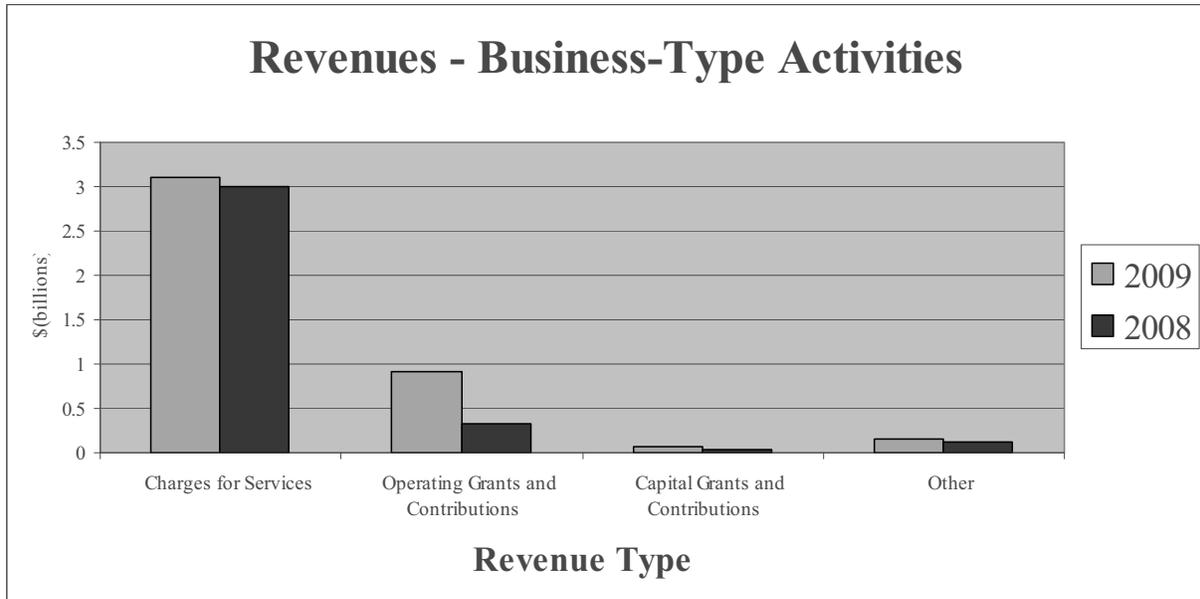
The following charts provide a two year comparison of governmental activities revenues and expenses.



During the year, total revenues of governmental activities increased slightly to \$19.8 billion, while total expenses increased 2.4 percent to \$21.5 billion. In comparison, last year total revenues and expenses increased 2.8 percent and 16.0 percent, respectively. The small increase in total revenues was due mainly to an increase in grant revenues of \$1.5 billion (31.5 percent) that was offset by a decrease in tax revenues of \$1.4 billion (10.9 percent). Although, total expenses exceeded total revenues by \$1.7 billion, this excess was increased by transfers of \$0.9 billion, resulting in a decrease in net assets of \$2.6 billion.

BUSINESS-TYPE ACTIVITIES

The following charts provide a two year comparison of business-type activities revenues and expenses.



During the year, total revenues of business-type activities increased 19.5 percent to \$4.2 billion, while total expenses increased by 26.4 percent to \$5.3 billion. In comparison, last year total revenues and expenses increased 3.5 percent and 6.9 percent, respectively. The increase in total expenses was due mainly to an increase in Employment Security expenses of \$1.0 billion or 149.1 percent. Although, total expenses exceeded total revenues by \$1.1 billion, this excess was reduced by transfers and special items of \$0.9 billion, resulting in a decrease in net assets of \$0.2 billion.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance serves as a useful measure of the State's net resources available for spending at the end of the fiscal year.

As of June 30, 2009, the State's governmental funds had fund balances of \$1.4 billion, a decrease of \$1.7 billion when compared to the prior year ending fund balances. Of the total governmental fund balances, \$3.2 billion represents reserved fund balance, meaning that this portion is not available for the new spending because it has already been committed for specific purposes. The remainder of fund balance is an unreserved deficit fund balance of \$1.8 billion.

General Fund

The General Fund is the chief operating fund of the State. As of June 30, 2009, the General Fund had a fund balance deficit of \$0.8 billion. Of this amount, \$1.5 billion was reserved for various purposes, leaving a deficit of \$2.3 billion in unreserved fund balance. Fund balance decreased by \$1.7 billion during the current fiscal year.

Debt Service Fund

As of June 30, 2009, the Debt Service Fund had a fund balance of \$679 million, all of which was reserved. Fund balance decreased by \$4 million during the current fiscal year.

Transportation Fund

As of June 30, 2009, the Transportation Fund had a fund balance of \$154 million. Of this amount, \$64 million was reserved for various purposes, leaving \$90 million in unreserved fund balance. Fund balance decreased by \$72 million during the current fiscal year.

Restricted Grants and Accounts Fund

As of June 30, 2009, the Restricted Grants and Accounts Fund had a fund balance of \$578 million, all of which was reserved. Fund balance decreased by \$38 million during the fiscal year.

Proprietary Funds

The State's Proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Accordingly, a discussion of the financial activities of the Proprietary funds has been provided in that section.

Fiduciary Funds

The State maintains Fiduciary funds for the assets of Pension and Other Employee Benefit Trust funds, an Investment Trust fund, and a Private-Purpose Trust fund. As of June 30, 2009, the net assets of the State's Fiduciary funds totaled \$21.6 billion, a decrease of \$5.5 billion when compared to the prior year ending net asset balance.

Budgetary Highlights-General Fund

The General Fund had a budget deficit estimated to be \$10 million at the beginning of the fiscal year. Because the economy continued to be in a recession during the fiscal year, the deficit estimate grew to \$946 million by the end of the fiscal year.

Although actual fund expenditures exceeded revenues by \$1,534 million, this excess was reduced by other financing sources of \$586 million, resulting in an actual deficit of \$948 million for the fiscal year. A portion of the 2008 surplus in the amount of \$179 million was spent during the fiscal year. This amount was reported as other financing source in the budgetary statement.

Actual revenues were lower than originally budgeted by \$1,276 million for the fiscal year. This negative revenue variance resulted mainly from a negative tax revenue variance of \$2,263 million that was offset by positive federal and transfer revenue variances of \$1,089 million. Some of the actual tax revenues that were lower than originally budgeted were as follows: personal income, \$1,290 million; sales and use, \$429 million; corporations, \$176 million; and real estate conveyance, \$113 million.

Final budgeted appropriations were almost the same as originally budgeted for the fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2009 totaled \$14.4 billion (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, infrastructure, and construction in progress. The net increase in the State's investment in capital assets for the fiscal year was \$1.1 billion, due mainly to a 10 percent increase in governmental activities' capital assets.

Major capital asset events during the fiscal year included the following:

- Additions to land of \$0.9 billion
- Additions to infrastructure of \$0.6 billion
- Depreciation expense of \$0.9 billion

The following table is a two year comparison of the investment in capital assets presented for both governmental and business-type activities:

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

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2009	2008*	2009	2008*	2009	2008*
Land	\$ 2,295	\$ 1,400	\$ 60	\$ 60	\$ 2,355	\$ 1,460
Buildings	1,209	1,116	2,493	2,406	3,702	3,522
Improvements Other than Buildings	222	174	252	249	474	423
Equipment	194	337	354	361	548	698
Infrastructure	5,819	5,659	-	-	5,819	5,659
Construction in Progress	1,337	1,342	193	250	1,530	1,592
Total	<u>\$ 11,076</u>	<u>\$ 10,028</u>	<u>\$ 3,352</u>	<u>\$ 3,326</u>	<u>\$ 14,428</u>	<u>\$ 13,354</u>

* Restated for comparative purposes. See Note 22.

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

**Long-Term Debt
Bonded Debt**

At the end of the current fiscal year, the State had total bonded debt of \$18.5 billion. Pursuant to various public and special acts, the State has authorized the issuance of the following types of debt: general obligation debt (payable from the General Fund), special tax obligation debt (payable from the Debt Service Fund), and revenue debt (payable from specific revenues of the Enterprise funds).

The following table is a two year comparison of bonded debt presented for both governmental and business-type activities:

State of Connecticut's Bonded Debt (in millions)

	Governmental		Business-Type		Total	
	Activities		Activities		Primary	Government
	2009	2008	2009	2008	2009	2008
General Obligation Bonds	\$ 13,444	\$ 13,092	\$ -	\$ -	\$ 13,444	\$ 13,092
Transportation Related Bonds	2,817	2,791	-	-	2,817	2,791
Revenue Bonds	-	-	1,602	1,358	1,602	1,358
Bond Anticipation Notes	228	-	-	-	228	-
Premiums and deferred amounts	420	348	32	20	452	368
Total	\$ 16,909	\$ 16,231	\$ 1,634	\$ 1,378	\$ 18,543	\$ 17,609

The State's total bonded debt increased by \$0.9 billion (5.3 percent) during the current fiscal year. This increase resulted mainly from an increase in general obligation bonds of \$0.6 billion (including bond anticipation notes) and an increase in revenue bonds of \$0.2 billion.

The State's General Obligation Bonds are rated Aa3, AA, and AA by Moody's Investor Service, Standard and Poor's Corporation, and Fitch Ratings, respectively. Special Tax Obligation Bonds are rated A1, AA, AA- by Moody's Investor Service, Standard and Poor's Corporation, and Fitch Ratings, respectively.

Section 3-21 of the Connecticut General Statutes provides that the total amount of bonds, notes or other evidences of indebtedness payable from General Fund tax receipts authorized by the General Assembly but have not been issued and the total amount of such indebtedness which has been issued and remains outstanding shall not exceed 1.6 times the total estimated General Fund tax receipts of the State for the current fiscal year. In computing the indebtedness at any time, revenue anticipation notes, refunded indebtedness, bond anticipation notes, tax increment financing, budget deficit bonding, revenue bonding, balances in debt retirement funds and other indebtedness pursuant to certain provisions of the General Statutes shall be excluded from the calculation. As of February 2009, the State had a debt incurring margin of \$5.9 billion.

Other Long-Term Debt

State of Connecticut's Other Long - Term Debt (in Millions)

	Governmental		Business-Type		Total	
	Activities		Activities		Primary	Government
	2009	2008	2009	2008	2009	2008
Net Pension Obligation	\$ 2,021	\$ 1,917	\$ -	\$ -	\$ 2,021	\$ 1,917
Net OPEB Obligation	2,543	1,234	-	-	2,543	1,234
Compensated Absences	503	482	135	130	638	612
Workers Compensation	460	413	-	-	460	413
Lottery Prizes	-	-	204	232	204	232
Other	91	66	186	163	277	229
Total	\$ 5,618	\$ 4,112	\$ 525	\$ 525	\$ 6,143	\$ 4,637

The State's other long-term obligations increased by \$1.5 billion (32.5 percent) during the fiscal year. This increase was due mainly to an increase in the Net OPEB Obligation of \$1.3 billion.

Additional information on the State's long-term debt can be found in Notes 17 and 18 of this report.

Economic Factors and Next Year's Budget

During the fiscal year, the State's economy continued to be in a recession. The State lost 65,100 payroll jobs over the fiscal year, bringing the unemployment rate to 8.00 percent – the highest rate for the last twenty years. New home permits and new auto registrations decreased 46.9 percent and 33.9 percent over the fiscal year, respectively. New business starts declined 8.8 percent, while business terminations increased 17.2 percent over the fiscal year. Personal income decreased 1.7 percent to \$193.6 billion for the fiscal year. Nationally, the economy showed signs of improvement by growing 3.5 percent in the third quarter of 2009, after posting declines of 6.4 percent and 0.7 percent in the first and second quarters of the year, respectively. However, the unemployment rate continued to grow, reaching 9.8 percent by the end of the third quarter of the year.

For fiscal year 2010, the General Fund had a budget surplus initially estimated to be \$2 million. Budgeted revenues were expected to increase 2.3 percent to \$17,372 million, while budgeted appropriations were expected to decrease 1.7 percent to \$17,370 million. However, due to the continuing economic recession, the Fund had an estimated budget deficit of \$515 million by the second half of the fiscal year. Budgeted revenues and appropriations were expected to be \$357.4 million lower and \$157.6 million higher than originally anticipated, respectively. To eliminate the estimated budget deficit, the Governor proposed spending cuts of \$284 million and transfers of cash from other state funds of \$53 million. Because some of the proposed spending cuts needed legislative approval, the Governor called the legislature into special session. At this writing, no legislation has been enacted to mitigate the Fiscal Year 2010 General Fund deficit. If the fiscal year closes with a deficit, additional borrowing will be required.

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, 2009

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ 641,367	\$ 647,787	\$ 1,289,154	\$ 199,372
Deposits with U.S. Treasury	-	243,629	243,629	-
Investments	482,427	50,011	532,438	287,104
Receivables, (Net of Allowances)	2,177,947	806,863	2,984,810	42,456
Due from Primary Government	-	-	-	13,108
Inventories	54,952	11,954	66,906	3,694
Restricted Assets	-	141,565	141,565	1,248,737
Internal Balances	(102,089)	102,089	-	-
Other Current Assets	17,536	14,536	32,072	2,900
Total Current Assets	<u>3,272,140</u>	<u>2,018,434</u>	<u>5,290,574</u>	<u>1,797,371</u>
Noncurrent Assets:				
Cash and Cash Equivalents	-	268,896	268,896	-
Due From Component Units	9,793	-	9,793	-
Investments	-	240,203	240,203	39,632
Receivables, (Net of Allowances)	235,818	608,024	843,842	166,081
Restricted Assets	679,779	684,507	1,364,286	4,329,972
Capital Assets, (Net of Accumulated Depreciation)	11,075,553	3,351,555	14,427,108	442,591
Other Noncurrent Assets	75,669	41,334	117,003	8,789
Total Noncurrent Assets	<u>12,076,612</u>	<u>5,194,519</u>	<u>17,271,131</u>	<u>4,987,065</u>
Total Assets	<u>15,348,752</u>	<u>7,212,953</u>	<u>22,561,705</u>	<u>6,784,436</u>
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	691,971	289,174	981,145	72,770
Notes Payable	353,085	-	353,085	-
Due to Component Units	13,108	-	13,108	-
Due to Other Governments	150,651	284	150,935	-
Current Portion of Long-Term Obligations	954,162	182,597	1,136,759	166,235
Amount Held for Institutions	-	-	-	446,227
Deferred Revenue	81,422	204,553	285,975	-
Medicaid Liability	584,992	-	584,992	-
Liability for Escheated Property	339,429	-	339,429	-
Other Current Liabilities	176,956	56,027	232,983	30,005
Total Current Liabilities	<u>3,345,776</u>	<u>732,635</u>	<u>4,078,411</u>	<u>715,237</u>
Noncurrent Liabilities:				
Non-Current Portion of Long-Term Obligations	21,572,165	1,976,366	23,548,531	4,264,368
Total Noncurrent Liabilities	<u>21,572,165</u>	<u>1,976,366</u>	<u>23,548,531</u>	<u>4,264,368</u>
Total Liabilities	<u>24,917,941</u>	<u>2,709,001</u>	<u>27,626,942</u>	<u>4,979,605</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	5,499,602	2,611,952	8,111,554	299,724
Restricted For:				
Transportation	68,439	-	68,439	-
Debt Service	642,100	42,380	684,480	17,504
Federal Grants and Other Accounts	576,383	-	576,383	-
Capital Projects	179,927	195,822	375,749	18,843
Unemployment Compensation	-	362,403	362,403	-
Clean Water and Drinking Water Projects	-	696,365	696,365	-
Bond Indenture Requirements	-	2,349	2,349	885,718
Loans	-	6,159	6,159	-
Permanent Investments or Endowments:				
Expendable	2,348	-	2,348	72,984
Nonexpendable	85,834	12,802	98,636	247,353
Other Purposes	62,696	152,169	214,865	39,904
Unrestricted (Deficit)	<u>(16,686,518)</u>	<u>421,551</u>	<u>(16,264,967)</u>	<u>222,801</u>
Total Net Assets (Deficit)	<u>\$ (9,569,189)</u>	<u>\$ 4,503,952</u>	<u>\$ (5,065,237)</u>	<u>\$ 1,804,831</u>

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

Statement of Activities

For The Fiscal Year Ended June 30, 2009

(Expressed in Thousands)

<u>Functions/Programs</u>	<u>Program Revenues</u>			
<u>Expenses</u>	<u>Charges for Services, Fees, Fines , and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary Government				
Governmental Activities:				
Legislative	\$ 32,159	\$ 2,701	\$ 44	\$ -
General Government	1,734,577	506,224	58,557	-
Regulation and Protection	730,701	525,057	143,551	-
Conservation and Development	549,811	133,395	74,549	-
Health and Hospitals	2,343,919	62,747	168,934	-
Transportation	1,302,395	78,136	-	646,416
Human Services	6,478,180	39,722	4,553,058	-
Education, Libraries, and Museums	4,707,240	27,365	425,986	-
Corrections	2,042,503	7,346	121,397	-
Judicial	776,981	107,578	6,612	-
Interest and Fiscal Charges	810,403	-	-	-
Total Governmental Activities	21,508,869	1,490,271	5,552,688	646,416
Business-Type Activities:				
University of Connecticut & Health Center	1,725,343	908,260	199,170	3,814
State Universities	639,397	323,874	53,013	49,537
Bradley International Airport	67,995	53,723	-	10,406
Connecticut Lottery Corporation	723,249	991,482	-	-
Employment Security	1,573,806	640,317	560,869	-
Clean Water	30,723	15,661	18,998	-
Other	511,542	174,532	75,000	-
Total Business-Type Activities	5,272,055	3,107,849	907,050	63,757
Total Primary Government	\$ 26,780,924	\$ 4,598,120	\$ 6,459,738	\$ 710,173
Component Units				
Connecticut Housing Finance Authority (12-31-08)	\$ 227,636	\$ 194,134	\$ -	\$ -
Connecticut Health and Educational Facilities Authority	5,546	7,067	-	-
Other	302,378	217,356	7,651	15,389
Total Component Units	\$ 535,560	\$ 418,557	\$ 7,651	\$ 15,389
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:				
Transfer from Component Unit				
Debt Reduction Transfer				
Transfer to the State				
Transfers-Internal Activities				
Total General Revenues, Contributions,				
Special Items, and Transfers				
Change in Net Assets				
Net Assets (Deficit)- Beginning (as restated)				
Net Assets (Deficit)- Ending				

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

Connecticut

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
\$ (29,414)	\$ -	\$ (29,414)	\$ -
(1,169,796)	-	(1,169,796)	-
(62,093)	-	(62,093)	-
(341,867)	-	(341,867)	-
(2,112,238)	-	(2,112,238)	-
(577,843)	-	(577,843)	-
(1,885,400)	-	(1,885,400)	-
(4,253,889)	-	(4,253,889)	-
(1,913,760)	-	(1,913,760)	-
(662,791)	-	(662,791)	-
(810,403)	-	(810,403)	-
<u>(13,819,494)</u>	<u>-</u>	<u>(13,819,494)</u>	<u>-</u>
-	(614,099)	(614,099)	-
-	(212,973)	(212,973)	-
-	(3,866)	(3,866)	-
-	268,233	268,233	-
-	(372,620)	(372,620)	-
-	3,936	3,936	-
-	(262,010)	(262,010)	-
<u>-</u>	<u>(1,193,399)</u>	<u>(1,193,399)</u>	<u>-</u>
<u>(13,819,494)</u>	<u>(1,193,399)</u>	<u>(15,012,893)</u>	<u>-</u>
-	-	-	(33,502)
-	-	-	1,521
<u>-</u>	<u>-</u>	<u>-</u>	<u>(61,982)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(93,963)</u>
5,657,309	-	5,657,309	-
437,444	-	437,444	-
3,301,096	-	3,301,096	-
1,407,084	-	1,407,084	-
492,566	-	492,566	-
196,034	-	196,034	-
377,805	-	377,805	-
153,819	-	153,819	-
42,493	75,933	118,426	48,178
-	-	-	23,317
13,150	-	13,150	-
-	85,000	85,000	-
-	-	-	(13,150)
<u>(873,590)</u>	<u>873,590</u>	<u>-</u>	<u>-</u>
<u>11,205,210</u>	<u>1,034,523</u>	<u>12,239,733</u>	<u>58,345</u>
<u>(2,614,284)</u>	<u>(158,876)</u>	<u>(2,773,160)</u>	<u>(35,618)</u>
<u>(6,954,905)</u>	<u>4,662,828</u>	<u>(2,292,077)</u>	<u>1,840,449</u>
<u>\$ (9,569,189)</u>	<u>\$ 4,503,952</u>	<u>\$ (5,065,237)</u>	<u>\$ 1,804,831</u>

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Governmental Fund Financial Statements

Major Funds

General Fund:

This fund is the State's general operating fund. It accounts for the financial resources and transactions not accounted for in other funds.

Debt Service Fund:

This fund is used to account for the accumulation of resources for and the payment of, principal and interest on special tax obligation bonds of the Transportation fund.

Transportation Fund:

to account for motor vehicle taxes, receipts and transportation related federal revenues collected for the purposes of payment of debt service requirements and budgeted appropriations made to the Department of Transportation. The Department of Transportation is responsible for all aspects of the planning, development, maintenance, and improvement of transportation in the state.

Restricted Grants and Accounts Fund:

This fund is used to account for resources which are restricted by Federal and other providers to be spent for specific purposes.

Balance Sheet

Governmental Funds

June 30, 2009

(Expressed in Thousands)

	<u>General</u>	<u>Debt Service</u>	<u>Transportation</u>	<u>Restricted Grants & Accounts</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Assets						
Cash and Cash Equivalents	\$ -	\$ -	\$ 102,776	\$ 8,089	\$ 519,438	\$ 630,303
Investments	387,263	-	-	-	95,164	482,427
Securities Lending Collateral	-	-	-	-	17,255	17,255
Receivables:						
Taxes, Net of Allowances	922,924	-	42,943	-	-	965,867
Accounts, Net of Allowances	188,859	-	10,560	11,641	29,791	240,851
Loans, Net of Allowances	-	-	-	-	235,818	235,818
From Other Governments	762,270	-	-	178,636	10,179	951,085
Interest	-	1,367	34	-	-	1,401
Other	-	-	-	-	2	2
Due from Other Funds	27,126	-	1,367	563,616	415,757	1,007,866
Due from Component Units	9,793	-	-	-	-	9,793
Inventories	24,357	-	26,856	-	-	51,213
Restricted Assets	-	679,384	-	-	395	679,779
Other Assets	-	-	-	-	208	208
Total Assets	<u>\$ 2,322,592</u>	<u>\$ 680,751</u>	<u>\$ 184,536</u>	<u>\$ 761,982</u>	<u>\$ 1,324,007</u>	<u>\$ 5,273,868</u>
Liabilities and Fund Balances						
Liabilities						
Accounts Payable and Accrued Liabilities	\$ 284,264	\$ -	\$ 25,069	\$ 153,832	\$ 60,632	\$ 523,797
Notes Payable	-	-	-	-	353,085	353,085
Due to Other Funds	939,237	1,367	-	3,209	89,485	1,033,298
Due to Component Units	-	-	-	444	12,664	13,108
Due to Other Governments	147,045	-	-	3,606	-	150,651
Deferred Revenue	667,502	-	5,289	22,551	36,484	731,826
Medicaid Liability	584,992	-	-	-	-	584,992
Liability For Escheated Property	339,429	-	-	-	-	339,429
Securities Lending Obligation	-	-	-	-	17,255	17,255
Other Liabilities	159,701	-	-	-	-	159,701
Total Liabilities	<u>3,122,170</u>	<u>1,367</u>	<u>30,358</u>	<u>183,642</u>	<u>569,605</u>	<u>3,907,142</u>
Fund Balances						
Reserved For:						
Petty Cash	840	-	-	-	-	840
Inventories	24,357	-	26,856	-	-	51,213
Loans	9,793	-	-	-	235,818	245,611
Continuing Appropriations	87,113	-	37,324	-	1,500	125,937
Debt Service	-	679,384	-	-	-	679,384
Restricted Purposes	-	-	-	578,340	88,182	666,522
Budget Reserve Fund	1,381,748	-	-	-	-	1,381,748
Unreserved Reported In:						
General Fund	(2,303,429)	-	-	-	-	(2,303,429)
Transportation Fund	-	-	89,998	-	-	89,998
Special Revenue Funds	-	-	-	-	247,763	247,763
Capital Project Funds	-	-	-	-	181,139	181,139
Total Fund Balances	<u>(799,578)</u>	<u>679,384</u>	<u>154,178</u>	<u>578,340</u>	<u>754,402</u>	<u>1,366,726</u>
Total Liabilities and Fund Balances	<u>\$ 2,322,592</u>	<u>\$ 680,751</u>	<u>\$ 184,536</u>	<u>\$ 761,982</u>	<u>\$ 1,324,007</u>	<u>\$ 5,273,868</u>

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

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2009

(Expressed in Thousands)

Total Fund Balance - Governmental Funds \$ 1,366,726

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	2,880,415	
Equipment	1,542,647	
Infrastructure	14,047,034	
Other Capital Assets	2,332,376	
Accumulated Depreciation	<u>(9,788,408)</u>	11,014,064

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. 74,918

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. 650,533

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. (10,659)

Long-term liabilities are not due and payable in the current period and therefore
are not reported in the funds (Note 17).

Net Pension Obligation	(2,020,664)	
Net OPEB Obligation	(2,542,958)	
Worker's Compensation	(459,778)	
Capital Leases	(47,129)	
Compensated Absences	(498,471)	
Claims and Judgments	<u>(43,690)</u>	(5,612,690)

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 17).

Bonds Payable	(16,488,700)	
Unamortized Premiums	(613,861)	
Less: Deferred Loss on Refundings	193,825	
Accrued Interest Payable	<u>(143,345)</u>	<u>(17,052,081)</u>

Net Assets of Governmental Activities \$ (9,569,189)

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, 2009

(Expressed in Thousands)

	<u>General</u>	<u>Debt Service</u>	<u>Transportation</u>	<u>Restricted Grants & Accounts</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Taxes	\$ 10,703,681	\$ -	\$ 688,213	\$ -	\$ 24,872	\$ 11,416,766
Assessments	-	-	-	-	28,129	28,129
Licenses, Permits and Fees	160,935	-	297,292	7,450	81,194	546,871
Tobacco Settlement	-	-	-	-	153,819	153,819
Federal Grants and Aid	4,111,553	-	-	1,831,921	74,186	6,017,660
Charges for Services	32,558	-	62,497	-	6,445	101,500
Fines, Forfeits and Rents	-	-	30,440	-	2,401	32,841
Casino Gaming Payments	377,805	-	-	-	-	377,805
Investment Earnings	18,731	11,696	2,914	3,122	6,824	43,287
Miscellaneous	152,158	-	5,428	547,400	85,024	790,010
Total Revenues	15,557,421	11,696	1,086,784	2,389,893	462,894	19,508,688
Expenditures						
Current:						
Legislative	99,453	-	-	2,635	-	102,088
General Government	1,223,277	-	2,193	285,698	196,141	1,707,309
Regulation and Protection	377,126	-	86,122	84,445	202,780	750,473
Conservation and Development	142,478	-	-	107,273	261,136	510,887
Health and Hospitals	1,989,034	-	-	216,938	16,525	2,222,497
Transportation	-	-	630,912	633,487	3,870	1,268,269
Human Services	5,589,908	-	-	455,426	14,524	6,059,858
Education, Libraries, and Museums	3,233,199	-	-	468,655	699,569	4,401,423
Corrections	1,978,251	-	-	23,439	9,287	2,010,977
Judicial	745,375	-	-	13,664	16,672	775,711
Capital Projects	-	-	-	-	438,724	438,724
Debt Service:						
Principal Retirement	886,789	278,770	723	-	-	1,166,282
Interest and Fiscal Charges	571,936	178,937	10,068	148,308	9,384	918,633
Total Expenditures	16,836,826	457,707	730,018	2,439,968	1,868,612	22,333,131
Excess (Deficiency) of Revenues Over Expenditures	(1,279,405)	(446,011)	356,766	(50,075)	(1,405,718)	(2,824,443)
Other Financing Sources (Uses)						
Bonds Issued	55,585	-	-	-	1,808,015	1,863,600
Premiums on Bonds Issued	720	39,109	-	-	70,731	110,560
Transfers In	624,864	423,049	25,459	91,098	159,295	1,323,765
Transfers Out	(1,116,820)	(16,942)	(454,341)	(79,061)	(525,381)	(2,192,545)
Refunding Bonds Issued	-	586,940	-	-	-	586,940
Payment to Refunded Bond Escrow Agent	-	(590,397)	-	-	-	(590,397)
Special Item: Transfer from Component Unit	13,150	-	-	-	-	13,150
Total Other Financing Sources (Uses)	(422,501)	441,759	(428,882)	12,037	1,512,660	1,115,073
Net Change in Fund Balances	(1,701,906)	(4,252)	(72,116)	(38,038)	106,942	(1,709,370)
Fund Balances - Beginning (as restated)	903,290	683,636	220,376	616,378	647,460	3,071,140
Changes in Reserves for Inventories	(962)	-	5,918	-	-	4,956
Fund Balances - Ending	\$ (799,578)	\$ 679,384	\$ 154,178	\$ 578,340	\$ 754,402	\$ 1,366,726

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, 2009

(Expressed in Thousands)

Net Change in Fund Balances - Total Governmental Funds	\$	(1,709,370)
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	(1,863,600)	
Refunding Bonds Issued	(586,940)	
Premium on Bonds Issued	<u>(110,560)</u>	(2,561,100)
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	1,166,282	
Payments to Refunded Bond Escrow Agent	590,397	
Capital Lease Payments	<u>4,620</u>	1,761,299
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	1,948,972	
Depreciation Expense	(851,964)	
Retirements	<u>(53,307)</u>	1,043,701
Inventories are reported as expenditures in the governmental funds when purchased. However, in the Statement of Activities the cost of these assets is recognized when those assets are consumed. This is the amount by which purchases exceeded consumption of inventories.		
		4,956
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	(22,760)	
Decrease in Interest Accreted on Capital Appreciation Debt	99,210	
Amortization of Bond Premium	57,756	
Amortization of Loss on Debt Refundings	(29,801)	
Increase in Compensated Absences Liability	(20,913)	
Increase in Workers Compensation Liability	(47,159)	
Increase in Claims and Judgments Liability	(30,055)	
Increase in Net Pension Obligation	(104,127)	
Increase in Net OPEB Obligation	<u>(1,308,562)</u>	(1,406,411)
Because some revenues will not be collected for several months after the state's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues decreased by this amount this year		
		246,337
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		
		2,481
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	10,286	
Amortization of Debt Issue Costs	<u>(6,463)</u>	3,823
Change in Net Assets of Governmental Activities	\$	<u>(2,614,284)</u>

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

Statement of Revenues, Expenditures, and Changes in Fund Balances

Budget and Actual - Non-GAAP Budgetary Basis

General and Transportation Funds

For the Fiscal Year Ended June 30, 2009

(Expressed in Thousands)

	General Fund			Variance with Final Budget positive (negative)
	Budget		Actual	
	Original	Final		
Revenues				
Budgeted:				
Taxes, Net of Refunds	\$ 12,971,100	\$ 10,703,200	\$ 10,708,262	\$ 5,062
Operating Transfers In	398,300	403,000	402,995	(5)
Casino Gaming Payments	449,000	377,900	377,805	(95)
Licenses, Permits, and Fees	153,500	157,200	162,474	5,274
Other	324,000	282,700	278,406	(4,294)
Federal Grants	2,768,100	3,623,100	3,619,490	(3,610)
Refunds of Payments	(600)	(700)	(662)	38
Operating Transfers Out	(86,300)	(86,300)	(86,300)	-
Transfer to the Resources of the General Fund	-	238,503	238,331	(172)
Transfer Out - Transportation Strategy Board	-	-	-	-
Total Revenues	<u>16,977,100</u>	<u>15,698,603</u>	<u>15,700,801</u>	<u>2,198</u>
Expenditures				
Budgeted:				
Legislative	80,761	78,784	71,555	7,229
General Government	650,870	567,521	520,115	47,406
Regulation and Protection	293,421	329,253	286,822	42,431
Conservation and Development	130,416	125,982	113,329	12,653
Health and Hospitals	1,675,088	1,699,449	1,662,540	36,909
Transportation	15,854	2,854	(50)	2,904
Human Services	5,026,218	5,094,923	5,041,515	53,408
Education, Libraries, and Museums	3,993,286	4,064,566	4,019,381	45,185
Corrections	1,591,890	1,642,166	1,577,167	64,999
Judicial	550,328	564,910	543,078	21,832
Non Functional	3,779,886	3,600,383	3,399,403	200,980
Total Expenditures	<u>17,788,018</u>	<u>17,770,791</u>	<u>17,234,855</u>	<u>535,936</u>
Appropriations Lapsed	<u>117,480</u>	<u>456,591</u>	<u>-</u>	<u>(456,591)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(693,438)</u>	<u>(1,615,597)</u>	<u>(1,534,054)</u>	<u>81,543</u>
Other Financing Sources (Uses)				
Prior Year Appropriations Carried Forward	504,098	504,098	504,098	-
Appropriations Continued to Fiscal Year 2010	-	-	(88,771)	(88,771)
Transfer of 2008 Surplus	179,420	179,420	179,420	-
Miscellaneous Adjustments	-	(13,699)	(8,271)	5,428
Total Other Financing Sources (Uses)	<u>683,518</u>	<u>669,819</u>	<u>586,476</u>	<u>(83,343)</u>
Net Change in Fund Balance	<u>\$ (9,920)</u>	<u>\$ (945,778)</u>	<u>(947,578)</u>	<u>\$ (1,800)</u>
Budgetary Fund Balances - July 1			684,405	
Changes in Reserves			<u>(594,795)</u>	
Budgetary Fund Balances - June 30			<u>\$ (857,968)</u>	

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

Connecticut

Transportation Fund

Budget		Actual	Variance with Final Budget positive (negative)
Original	Final		
\$ 730,500	\$ 687,600	\$ 687,973	\$ 373
-	-	-	-
-	-	-	-
407,300	364,400	363,212	(1,188)
47,000	15,600	15,583	(17)
-	-	-	-
(3,000)	(2,400)	(2,772)	(372)
(9,500)	(9,500)	(9,500)	-
-	(6,492)	(6,492)	-
(15,300)	(15,300)	(15,300)	-
<u>1,157,000</u>	<u>1,033,908</u>	<u>1,032,704</u>	<u>(1,204)</u>
-	-	-	-
2,517	2,518	2,152	366
79,259	79,602	59,677	19,925
-	-	-	-
-	-	-	-
517,321	528,594	512,908	15,686
-	-	-	-
-	-	-	-
-	-	-	-
604,823	595,516	553,464	42,052
<u>1,203,920</u>	<u>1,206,230</u>	<u>1,128,201</u>	<u>78,029</u>
11,000	42,553	-	(42,553)
<u>(35,920)</u>	<u>(129,769)</u>	<u>(95,497)</u>	<u>34,272</u>
38,693	38,693	38,693	-
-	-	(37,324)	(37,324)
-	-	-	-
-	8,665	9,429	764
<u>38,693</u>	<u>47,358</u>	<u>10,798</u>	<u>(36,560)</u>
<u>\$ 2,773</u>	<u>\$ (82,411)</u>	<u>(84,699)</u>	<u>\$ (2,288)</u>
		216,963	
		<u>(1,369)</u>	
		<u>\$ 130,895</u>	

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Proprietary Fund Financial Statements

Major Funds

University of Connecticut and Health Center:

This fund is used to account for the operations of the University of Connecticut a comprehensive institution of higher education, which includes the University of Connecticut Health Center and John Dempsey Hospital.

State Universities:

This fund is used to account for the operations of the State University System which consist of four universities: Central, Eastern, Southern, and Western.

Bradley International Airport:

The airport is owned by the State of Connecticut and is operated by the Bureau of Aviation and Ports of the State of Connecticut, Department of Transportation and the Board of Directors of the Airport. In 1982, the State issued the Airport, 1982 series Revenue Bonds in the aggregate principal amount of \$100,000,000 and established the Airport as an enterprise fund. The State also donated in the same year capital assets having a net book value of \$33.3 million to the enterprise fund.

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.

Statement of Net Assets

Proprietary Funds

June 30, 2009

(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	\$ 295,375	\$ 127,199	\$ 48,316	\$ 23,420
Deposits with U.S. Treasury	-	-	-	-
Investments	3,331	13,519	-	33,161
Receivables:				
Accounts, Net of Allowances	112,080	157,202	4,188	16,530
Loans, Net of Allowances	2,573	1,917	-	-
Interest	-	-	-	6,321
From Other Governments	-	2,058	9,816	-
Due from Other Funds	54,050	43,459	-	-
Inventories	10,526	-	-	-
Restricted Assets	128,910	-	12,655	-
Other Current Assets	9,468	1,932	185	2,403
Total Current Assets	<u>616,313</u>	<u>347,286</u>	<u>75,160</u>	<u>81,835</u>
Noncurrent Assets:				
Cash and Cash Equivalents	1,472	105,578	-	-
Investments	9,497	26,662	-	168,315
Receivables:				
Loans, Net of Allowances	9,548	9,334	-	-
Restricted Assets	25,967	-	105,187	-
Capital Assets, Net of Accumulated Depreciation	1,664,600	864,985	302,476	2,786
Other Noncurrent Assets	2,373	2,727	6,249	4,997
Total Noncurrent Assets	<u>1,713,457</u>	<u>1,009,286</u>	<u>413,912</u>	<u>176,098</u>
Total Assets	<u>2,329,770</u>	<u>1,356,572</u>	<u>489,072</u>	<u>257,933</u>
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	132,388	58,352	11,967	17,553
Due to Other Funds	17,722	3,234	10,923	-
Due to Other Governments	-	-	-	-
Current Portion of Long-Term Obligations	54,498	21,152	10,145	35,077
Deferred Revenue	29,129	169,865	1,513	815
Other Current Liabilities	18,932	7,540	-	29,003
Total Current Liabilities	<u>252,669</u>	<u>260,143</u>	<u>34,548</u>	<u>82,448</u>
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	331,512	324,066	188,836	168,890
Total Noncurrent Liabilities	<u>331,512</u>	<u>324,066</u>	<u>188,836</u>	<u>168,890</u>
Total Liabilities	<u>584,181</u>	<u>584,209</u>	<u>223,384</u>	<u>251,338</u>
Net Assets (Deficit)				
Invested in Capital Assets, Net of Related Debt	1,358,703	668,424	109,991	2,786
Restricted For:				
Debt Service	10,397	-	27,475	-
Unemployment Compensation	-	-	-	-
Clean and Drinking Water Projects	-	-	-	-
Capital Projects	121,251	-	74,571	-
Nonexpendable Purposes	10,819	1,963	-	-
Bond Indentures	-	-	2,349	-
Loans	6,159	-	-	-
Other Purposes	19,458	69,174	-	6,595
Unrestricted (Deficit)	218,802	32,802	51,302	(2,786)
Total Net Assets (Deficit)	<u>\$ 1,745,589</u>	<u>\$ 772,363</u>	<u>\$ 265,688</u>	<u>\$ 6,595</u>

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

Connecticut

	Business-Type Activities			Governmental
	Enterprise Funds			Activities
Employment Security	Clean Water	Other Funds	Total	Internal Service Funds
\$ -	\$ 970	\$ 152,507	\$ 647,787	\$ 11,064
243,629	-	-	243,629	-
-	-	-	50,011	-
148,509	46,617	15,332	500,458	241
-	253,105	10,033	267,628	-
-	8,780	589	15,690	-
10,874	24	315	23,087	-
1,797	-	76,626	175,932	2,926
-	-	1,428	11,954	3,739
-	-	-	141,565	-
-	-	548	14,536	73
<u>404,809</u>	<u>309,496</u>	<u>257,378</u>	<u>2,092,277</u>	<u>18,043</u>
-	123,478	38,368	268,896	-
-	35,729	-	240,203	-
-	528,064	61,078	608,024	-
-	487,401	65,952	684,507	-
-	-	516,708	3,351,555	61,489
-	23,514	1,474	41,334	751
-	1,198,186	683,580	5,194,519	62,240
<u>404,809</u>	<u>1,507,682</u>	<u>940,958</u>	<u>7,286,796</u>	<u>80,283</u>
158	8,195	60,561	289,174	18,981
41,964	-	-	73,843	66,931
284	-	-	284	-
-	53,745	7,980	182,597	244
-	-	3,231	204,553	129
-	-	552	56,027	-
<u>42,406</u>	<u>61,940</u>	<u>72,324</u>	<u>806,478</u>	<u>86,285</u>
-	806,053	157,009	1,976,366	4,657
-	806,053	157,009	1,976,366	4,657
<u>42,406</u>	<u>867,993</u>	<u>229,333</u>	<u>2,782,844</u>	<u>90,942</u>
-	-	472,048	2,611,952	54,871
-	-	4,508	42,380	-
362,403	-	-	362,403	-
-	604,902	91,463	696,365	-
-	-	-	195,822	-
-	-	20	12,802	-
-	-	-	2,349	-
-	-	-	6,159	-
-	-	56,942	152,169	-
-	34,787	86,644	421,551	(65,530)
<u>\$ 362,403</u>	<u>\$ 639,689</u>	<u>\$ 711,625</u>	<u>\$ 4,503,952</u>	<u>\$ (10,659)</u>

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

For The Fiscal Year Ended June 30, 2009

(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	\$ 807,164	\$ 306,912	\$ 42,622	\$ 991,303
Assessments	-	-	-	-
Federal Grants, Contracts and Other Aid	152,855	33,896	-	-
State Grants, Contracts and Other Aid	27,853	16,073	-	-
Private Gifts and Grants	40,132	3,044	-	-
Interest on Loans	-	-	-	-
Other	60,576	13,707	-	173
Total Operating Revenues	1,088,580	373,632	42,622	991,476
Operating Expenses				
Salaries, Wages and Administrative	1,502,379	565,085	40,342	94,962
Lottery Prize Awards	-	-	-	604,712
Unemployment Compensation	-	-	-	-
Claims Paid	-	-	-	-
Depreciation and Amortization	117,969	50,375	17,863	477
Other	89,910	23,937	-	8,428
Total Operating Expenses	1,710,258	639,397	58,205	708,579
Operating Income (Loss)	(621,678)	(265,765)	(15,583)	282,897
Nonoperating Revenue (Expenses)				
Interest and Investment Income	10,089	4,533	3,304	15,174
Interest and Fiscal Charges	(15,085)	-	(9,790)	(14,670)
Other	18,850	3,255	11,101	6
Total Nonoperating Revenues (Expenses)	13,854	7,788	4,615	510
Income (Loss) Before Capital Contributions, Grants, Transfers, and Special Item	(607,824)	(257,977)	(10,968)	283,407
Capital Contributions	3,814	49,537	10,406	-
Federal Capitalization Grants	-	-	-	-
Transfers In	688,737	248,412	9,647	-
Transfers Out	-	-	-	(283,000)
Special Item: Debt Reduction Transfer	-	-	-	-
Change in Net Assets	84,727	39,972	9,085	407
Total Net Assets (Deficit) - Beginning (as restated)	1,660,862	732,391	256,603	6,188
Total Net Assets (Deficit) - Ending	\$ 1,745,589	\$ 772,363	\$ 265,688	\$ 6,595

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

Connecticut

<u>Business-Type Activities</u>				<u>Governmental</u>
<u>Enterprise Funds</u>				<u>Activities</u>
<u>Employment Security</u>	<u>Clean Water</u>	<u>Other Funds</u>	<u>Totals</u>	<u>Internal Service Funds</u>
\$ -	\$ -	\$ 132,856	\$ 2,280,857	\$ 88,644
616,419	-	36,465	652,884	-
560,869	-	47,689	795,309	-
13,180	-	17,084	74,190	-
-	-	3,699	46,875	-
-	13,386	1,621	15,007	-
10,718	-	3,590	88,764	30
<u>1,201,186</u>	<u>13,386</u>	<u>243,004</u>	<u>3,953,886</u>	<u>88,674</u>
-	465	425,447	2,628,680	63,252
-	-	-	604,712	-
1,573,806	-	-	1,573,806	-
-	-	38,352	38,352	-
-	-	19,086	205,770	18,814
-	-	22,856	145,131	-
<u>1,573,806</u>	<u>465</u>	<u>505,741</u>	<u>5,196,451</u>	<u>82,066</u>
<u>(372,620)</u>	<u>12,921</u>	<u>(262,737)</u>	<u>(1,242,565)</u>	<u>6,608</u>
19,637	17,573	5,623	75,933	87
-	(30,258)	(5,691)	(75,494)	(45)
-	2,275	(110)	35,377	(106)
<u>19,637</u>	<u>(10,410)</u>	<u>(178)</u>	<u>35,816</u>	<u>(64)</u>
<u>(352,983)</u>	<u>2,511</u>	<u>(262,915)</u>	<u>(1,206,749)</u>	<u>6,544</u>
-	-	-	63,757	3,450
-	18,998	6,528	25,526	-
-	983	243,708	1,191,487	-
(25,250)	-	(9,647)	(317,897)	(7,513)
-	-	85,000	85,000	-
<u>(378,233)</u>	<u>22,492</u>	<u>62,674</u>	<u>(158,876)</u>	<u>2,481</u>
<u>740,636</u>	<u>617,197</u>	<u>648,951</u>	<u>4,662,828</u>	<u>(13,140)</u>
<u>\$ 362,403</u>	<u>\$ 639,689</u>	<u>\$ 711,625</u>	<u>\$ 4,503,952</u>	<u>\$ (10,659)</u>

Statement of Cash Flows Proprietary Funds

For the Fiscal Year Ended June 30, 2009
(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	\$ 819,476	\$ 302,736	\$ 43,916	\$ 987,364
Payments to Suppliers	(495,144)	(177,892)	(24,890)	(28,776)
Payments to Employees	(1,036,579)	(400,950)	(15,188)	(13,997)
Other Receipts (Payments)	297,496	66,722	-	(675,276)
Net Cash Provided by (Used in) Operating Activities	<u>(414,751)</u>	<u>(209,384)</u>	<u>3,838</u>	<u>269,315</u>
Cash Flows from Noncapital Financing Activities				
Proceeds from Sale of Bonds	-	-	-	-
Retirement of Bonds and Annuities Payable	-	-	-	(37,906)
Interest on Bonds and Annuities Payable	-	-	-	(15,994)
Transfers In	454,808	240,257	9,647	-
Transfers Out	-	-	-	(283,000)
Other Receipts (Payments)	23,437	3,192	-	7,913
Net Cash Flows from Noncapital Financing Activities	<u>478,245</u>	<u>243,449</u>	<u>9,647</u>	<u>(328,987)</u>
Cash Flows from Capital and Related Financing Activities				
Additions to Property, Plant and Equipment	(93,504)	(26,320)	(19,707)	(326)
Proceeds from Capital Debt	150,000	-	-	-
Principal Paid on Capital Debt	(76,148)	(19,163)	(9,605)	-
Interest Paid on Capital Debt	(52,307)	-	(10,259)	-
Transfer In	120,342	-	-	-
Federal Grant	2,182	-	-	-
Capital Contributions	-	18,061	4,008	-
Other Receipts (Payments)	398	58	18,645	-
Net Cash Flows from Capital and Related Financing Activities	<u>50,963</u>	<u>(27,364)</u>	<u>(16,918)</u>	<u>(326)</u>
Cash Flows from Investing Activities				
Proceeds from Sales and Maturities of Investments	-	3,040	-	37,792
Purchase of Investment Securities	(37)	(1,933)	-	(7,913)
Interest on Investments	10,984	5,104	3,558	16,504
(Increase) Decrease in Restricted Assets	-	-	-	-
Other Receipts (Payments)	969	-	(834)	-
Net Cash Flows from Investing Activities	<u>11,916</u>	<u>6,211</u>	<u>2,724</u>	<u>46,383</u>
Net Increase (Decrease) in Cash and Cash Equivalents	126,373	12,912	(709)	(13,615)
Cash and Cash Equivalents - Beginning of Year	318,605	219,865	136,995	37,035
Cash and Cash Equivalents - End of Year	<u>\$ 444,978</u>	<u>\$ 232,777</u>	<u>\$ 136,286</u>	<u>\$ 23,420</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities				
Operating Income (Loss)	\$ (621,678)	\$ (265,765)	\$ (15,583)	\$ 282,897
Adjustments not Affecting Cash:				
Depreciation and Amortization	117,969	50,375	17,863	477
Other	84,006	93	(13)	97
Change in Assets and Liabilities:				
(Increase) Decrease in Receivables, Net	5,442	(16,251)	1,294	(4,117)
(Increase) Decrease in Due from Other Funds	(7,636)	305	-	-
(Increase) Decrease in Inventories and Other Assets	1,790	(302)	-	(1,250)
Increase (Decrease) in Accounts Payables & Accrued Liabilities:	5,356	22,161	277	(8,789)
Increase (Decrease) in Due to Other Funds	-	-	-	-
Total Adjustments	<u>206,927</u>	<u>56,381</u>	<u>19,421</u>	<u>(13,582)</u>
Net Cash Provided by (Used In) Operating Activities	<u>\$ (414,751)</u>	<u>\$ (209,384)</u>	<u>\$ 3,838</u>	<u>\$ 269,315</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets				
Cash and Cash Equivalents - Current	\$ 295,375	\$ 127,199	\$ 48,316	
Cash and Cash Equivalents - Noncurrent	1,472	105,578	-	
Cash and Cash Equivalents - Restricted	148,131	-	87,970	
	<u>\$ 444,978</u>	<u>\$ 232,777</u>	<u>\$ 136,286</u>	

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

Connecticut

Business-Type Activities				Governmental	
Enterprise Funds				Activities	
Employment Security	Clean Water	Other	Totals	Internal Service Funds	
\$ 594,302	\$ 66,556	\$ 169,483	\$ 2,983,833	\$ 89,477	
-	-	(85,468)	(812,170)	(37,258)	
-	(441)	(327,413)	(1,794,568)	(31,402)	
(588,689)	(119,398)	71,408	(947,737)	(4,004)	
<u>5,613</u>	<u>(53,283)</u>	<u>(171,990)</u>	<u>(570,642)</u>	<u>16,813</u>	
-	365,960	29,675	395,635	-	
-	(46,897)	(115,258)	(200,061)	-	
-	(23,635)	(1,794)	(41,423)	-	
-	982	235,320	941,014	-	
(25,250)	-	(9,647)	(317,897)	-	
-	17,855	110,817	163,214	-	
<u>(25,250)</u>	<u>314,265</u>	<u>249,113</u>	<u>940,482</u>	<u>-</u>	
-	-	(12,104)	(151,961)	(22,534)	
-	-	-	150,000	-	
-	-	-	(104,916)	-	
-	-	(3,437)	(66,003)	-	
-	-	3,690	124,032	-	
-	19,167	5,297	26,646	-	
-	-	-	22,069	-	
-	-	(47,362)	(28,261)	(130)	
<u>-</u>	<u>19,167</u>	<u>(53,916)</u>	<u>(28,394)</u>	<u>(22,664)</u>	
-	-	-	40,832	-	
-	-	-	(9,883)	-	
19,637	17,723	6,266	79,776	87	
-	(28,493)	(11,630)	(40,123)	-	
-	(268,409)	(20,492)	(288,766)	(21)	
<u>19,637</u>	<u>(279,179)</u>	<u>(25,856)</u>	<u>(218,164)</u>	<u>66</u>	
-	970	(2,649)	123,282	(5,785)	
-	-	155,156	867,656	16,849	
<u>\$ -</u>	<u>\$ 970</u>	<u>\$ 152,507</u>	<u>\$ 990,938</u>	<u>\$ 11,064</u>	
\$ (372,620)	\$ 12,921	\$ (262,737)	\$ (1,242,565)	\$ 6,608	
-	-	19,086	205,770	18,814	
-	-	(4,673)	79,510	(4,700)	
(21,011)	(66,204)	64,419	(36,428)	593	
(1,106)	-	-	(8,437)	239	
367,290	-	(310)	367,218	278	
-	-	12,225	31,230	(5,019)	
<u>33,060</u>	<u>-</u>	<u>-</u>	<u>33,060</u>	<u>-</u>	
<u>378,233</u>	<u>(66,204)</u>	<u>90,747</u>	<u>671,923</u>	<u>10,205</u>	
<u>\$ 5,613</u>	<u>\$ (53,283)</u>	<u>\$ (171,990)</u>	<u>\$ (570,642)</u>	<u>\$ 16,813</u>	

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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.

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2009

(Expressed in Thousands)

	<u>Pension & Other Employee Benefit Trust Funds</u>	<u>Investment Trust Fund External Investment Pool</u>	<u>Private- Purpose Trust Fund Escheat Securities</u>	<u>Agency Funds</u>	<u>Total</u>
Assets					
Cash and Cash Equivalents	\$ 112,518	\$ -	\$ -	\$ 91,928	\$ 204,446
Receivables:					
Accounts, Net of Allowances	16,735	-	-	4,941	21,676
From Other Governments	3,104	-	-	-	3,104
From Other Funds	1,802	-	-	5,612	7,414
Interest	607	943	-	23	1,573
Investments	20,295,775	1,107,232	-	-	21,403,007
Inventories	-	-	-	452	452
Securities Lending Collateral	3,358,101	-	-	-	3,358,101
Other Assets	-	17	88,297	364,621	452,935
Total Assets	<u>23,788,642</u>	<u>1,108,192</u>	<u>88,297</u>	<u>\$ 467,577</u>	<u>25,452,708</u>
Liabilities					
Accounts Payable and Accrued Liabilities	20,951	524	-	\$ 9,116	30,591
Securities Lending Obligation	3,358,101	-	-	-	3,358,101
Due to Other Funds	3,209	-	-	16,857	20,066
Funds Held for Others	-	-	-	441,604	441,604
Total Liabilities	<u>3,382,261</u>	<u>524</u>	<u>-</u>	<u>\$ 467,577</u>	<u>3,850,362</u>
Net Assets					
Held in Trust For:					
Employees' Pension Benefits (Note 13)	20,298,248	-	-		20,298,248
Other Employee Benefits (Note 15)	108,133	-	-		108,133
Individuals, Organizations, and Other Governments	-	1,107,668	88,297		1,195,965
Total Net Assets	<u>\$ 20,406,381</u>	<u>\$ 1,107,668</u>	<u>\$ 88,297</u>		<u>\$ 21,602,346</u>

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

Statement of Changes in Fiduciary Net Assets Fiduciary Funds

For the Fiscal Year Ended June 30, 2009

(Expressed in Thousands)

	<u>Pension & Other Employee Benefit Trust Funds</u>	<u>Investment Trust Fund External Investment Pool</u>	<u>Private- Purpose Trust Fund Escheat Securities</u>	<u>Total</u>
Additions				
Contributions:				
Plan Members	\$ 400,599	\$ -	\$ -	\$ 400,599
State	1,727,708	-	-	1,727,708
Municipalities	36,102	-	-	36,102
Total Contributions	2,164,409	-	-	2,164,409
Investment Income	(4,426,734)	19,055	-	(4,407,679)
Less: Investment Expense	(93,228)	(318)	-	(93,546)
Net Investment Income	(4,519,962)	18,737	-	(4,501,225)
Escheat Securities Received	-	-	21,700	21,700
Pool's Share Transactions	-	132,131	-	132,131
Transfers In	2,703	-	-	2,703
Other	7,339	-	-	7,339
Total Additions	(2,345,511)	150,868	21,700	(2,172,943)
Deductions				
Administrative Expense	2,883	-	-	2,883
Benefit Payments and Refunds	3,111,267	-	-	3,111,267
Escheat Securities Returned or Sold	-	-	6,891	6,891
Distributions to Pool Participants	-	18,737	-	18,737
Other	2,740	-	21,858	24,598
Total Deductions	3,116,890	18,737	28,749	3,164,376
Change in Net Assets Held In Trust For:				
Pension and Other Employee Benefits	(5,462,401)	-	-	(5,462,401)
Individuals, Organizations, and Other Governments	-	132,131	(7,049)	125,082
Net Assets - Beginning	25,868,782	975,537	95,346	26,939,665
Net Assets - Ending	\$ 20,406,381	\$ 1,107,668	\$ 88,297	\$ 21,602,346

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

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Component Unit Financial Statements

Major Component Units

Connecticut Housing Finance Authority:

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

Connecticut Health and Educational Facilities Authority:

the Connecticut Health and Educational Facilities Authority is a public instrumentality and political subdivision of the State. The Authority was created to assist certain health care institutions, institutions of higher education, and qualified for-profit and not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to programs for these institutions.

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Statement of Net Assets Component Units

June 30, 2009

(Expressed in Thousands)

	Connecticut Housing Finance Authority (12-31-08)	Connecticut Health and Educational Facilities Authority	Other Component Units	Total
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ -	\$ 3,596	\$ 195,776	\$ 199,372
Investments	-	115	286,989	287,104
Receivables:				
Accounts, Net of Allowances	-	123	25,598	25,721
Loans, Net of Allowances	-	-	16,045	16,045
Other	-	-	690	690
Due From Primary Government	-	-	13,108	13,108
Restricted Assets	752,031	446,230	50,476	1,248,737
Inventories	-	-	3,694	3,694
Other Current Assets	-	154	2,746	2,900
Total Current Assets	<u>752,031</u>	<u>450,218</u>	<u>595,122</u>	<u>1,797,371</u>
Noncurrent Assets:				
Investments	-	-	39,632	39,632
Accounts, Net of Allowances	-	-	23,082	23,082
Loans, Net of Allowances	-	-	142,999	142,999
Restricted Assets	4,236,186	10,045	83,741	4,329,972
Capital Assets, Net of Accumulated Depreciation	3,173	349	439,069	442,591
Other Noncurrent Assets	-	-	8,789	8,789
Total Noncurrent Assets	<u>4,239,359</u>	<u>10,394</u>	<u>737,312</u>	<u>4,987,065</u>
Total Assets	<u>4,991,390</u>	<u>460,612</u>	<u>1,332,434</u>	<u>6,784,436</u>
Liabilities				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	35,928	1,372	35,470	72,770
Current Portion of Long-Term Obligations	138,514	-	27,721	166,235
Amount Held for Institutions	-	446,227	-	446,227
Other Liabilities	29,068	-	937	30,005
Total Current Liabilities	<u>203,510</u>	<u>447,599</u>	<u>64,128</u>	<u>715,237</u>
Noncurrent Liabilities:				
Noncurrent Portion of Long-Term Obligations	<u>3,898,989</u>	<u>2,225</u>	<u>363,154</u>	<u>4,264,368</u>
Total Noncurrent Liabilities	<u>3,898,989</u>	<u>2,225</u>	<u>363,154</u>	<u>4,264,368</u>
Total Liabilities	<u>4,102,499</u>	<u>449,824</u>	<u>427,282</u>	<u>4,979,605</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,173	349	296,202	299,724
Restricted:				
Debt Service	-	-	17,504	17,504
Bond Indentures	885,718	-	-	885,718
Expendable Endowments	-	-	72,984	72,984
Nonexpendable Endowments	-	-	247,353	247,353
Capital Projects	-	-	18,843	18,843
Other Purposes	-	7,820	32,084	39,904
Unrestricted	-	2,619	220,182	222,801
Total Net Assets	<u>\$ 888,891</u>	<u>\$ 10,788</u>	<u>\$ 905,152</u>	<u>\$ 1,804,831</u>

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

Statement of Activities

Component Units

For The Fiscal Year Ended June 30, 2009

(Expressed in Thousands)

<u>Functions/Programs</u>	<u>Program Revenues</u>			
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Connecticut Housing Finance Authority (12/31/08)	\$ 227,636	\$ 194,134	\$ -	\$ -
Connecticut Health and Educational Facilities Authority	5,546	7,067	-	-
Other Component Units	<u>302,378</u>	<u>217,356</u>	<u>7,651</u>	<u>15,389</u>
Total Component Units	<u>\$ 535,560</u>	<u>\$ 418,557</u>	<u>\$ 7,651</u>	<u>\$ 15,389</u>

General Revenues:

Investment Income (Loss)

Contributions to Endowments

Special Item: Transfer to the State

Total General Revenues,

Contributions, and Special Item

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

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

**Net (Expense) Revenue and
Changes in Net Assets**

Connecticut Housing Finance Authority (12-31-08)	Connecticut Health & Educational Facilities Authority	Other Component Units	Totals
\$ (33,502)	\$ -	\$ -	\$ (33,502)
-	1,521	-	1,521
-	-	(61,982)	(61,982)
<u>(33,502)</u>	<u>1,521</u>	<u>(61,982)</u>	<u>(93,963)</u>
106,196	301	(58,319)	48,178
-	-	23,317	23,317
-	(13,150)	-	(13,150)
<u>106,196</u>	<u>(12,849)</u>	<u>(35,002)</u>	<u>58,345</u>
72,694	(11,328)	(96,984)	(35,618)
816,197	22,116	1,002,136	1,840,449
<u>\$ 888,891</u>	<u>\$ 10,788</u>	<u>\$ 905,152</u>	<u>\$ 1,804,831</u>

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Notes to the Financial Statements

June 30, 2009

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, 2008.

Connecticut Resources Recovery Authority

The Authority is a public instrumentality and political subdivision of the State. It is responsible for implementing the State Solid Waste Management Plan by determining the location of and constructing solid waste management projects; owning, operating, and maintaining waste management projects; or making provisions for operation and maintenance by contracting with private industry.

Connecticut Higher Education Supplemental Loan Authority

The Authority is a public instrumentality and political subdivision of the State. It was created to assist students, their parents, and institutions of higher education to finance the cost of higher education through its Bond funds.

Connecticut Health and Educational Facilities Authority

The Authority is a public instrumentality and political subdivision of the State. The purpose of the Authority is to assist certain health care institutions, institutions of higher education, and qualified for-profit and not-for-profit institutions in the financing and refinancing of projects to be undertaken in relation to programs for these institutions.

Connecticut Innovations, Incorporated

The Authority is a public instrumentality and political subdivision of the State. It was established to stimulate and promote technological innovation and application of technology within Connecticut and encourage the development of new products, innovations, and inventions or markets in Connecticut by providing financial and technical assistance.

Capital City Economic Development Authority

The Authority is a public instrumentality and political subdivision of the State. It was established in 1998 to stimulate new investment in Connecticut; to attract and service large conventions, tradeshow, exhibitions, conferences, and local consumer shows, and events; to encourage the diversification of the state economy; to strengthen Hartford's role as the region's major business and industry employment center and seat of government; to encourage residential housing development in downtown Hartford; and to construct, operate, maintain and market a convention center project in Hartford.

University of Connecticut Foundation, Incorporated

The University of Connecticut Foundation, Incorporated is a nongovernmental nonprofit corporation created exclusively to solicit, receive, and administer gifts and financial resources from private sources for the benefit of all campuses and programs of the University of Connecticut and Health Center, a major Enterprise fund.

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

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

Blended Component Units

Connecticut Lottery Corporation

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

c. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

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

1. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds issued to buy, construct, or improve those assets.
2. Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories.

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

Fund Financial Statements

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

The State reports the following major governmental funds:

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

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

Transportation - This fund is used to account for motor fuel taxes, vehicle registration and driver license fees, and other revenue collected for the purpose of payment of transportation related bonds and budgeted appropriations of the Department of Transportation. The Department of Transportation is responsible for all aspects of the planning, development, maintenance, and improvement of transportation in the State.

Restricted Grants and Accounts - This fund is used to account for resources which are restricted by Federal and other providers to be spent for specific purposes.

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, 12, and 14.

Investment Trust Fund - This fund accounts for the external portion of the State's Short-Term Investment Fund, an investment pool managed by the State Treasurer.

Private-Purpose Trust Fund - This fund accounts for escheat securities held in trust for individuals by the State Treasurer.

Agency Funds - These funds account for deposits, investments, and other assets held by the State as an agent for inmates and patients of State institutions, insurance companies, municipalities, and private organizations.

**d. Measurement Focus and Basis of Accounting
Government-wide, Proprietary, and Fiduciary Fund
Financial Statements**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Taxes and casino gaming payments are recognized as revenues in the period when the underlying exchange transaction has occurred. Grants and similar items are recognized as revenues in the period when all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the State's enterprise and internal service funds are charges to customers for sales and services, assessments, and intergovernmental revenues. Operating expenses for enterprise and internal service funds include salaries, wages, and administrative expenses, unemployment compensation, claims paid, and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. This option is followed by the following component units of the State: the Connecticut Development Authority and the Connecticut Health and Educational Facilities Authority.

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Sales and use taxes, personal income taxes, public service corporation taxes, special fuel taxes, federal grants, and casino gaming payments are considered to be susceptible to accrual. Licenses, permits, and fees are not considered to be susceptible to accrual and are recognized as revenues when the cash is collected. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general-long term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the State's policy to use unrestricted resources first, and then restricted resources, as they are needed.

e. Budgeting Process

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

Budgetary control is maintained at the individual appropriation account level by agency as established in authorized appropriation bills and is reported in the Annual Report of the State Comptroller. A separate document is necessary because the level of legal control is more detailed than reflected in the

CAFR. Before an agency can utilize funds appropriated for a particular purpose, such funds must be allotted for the specific purpose by the Governor and encumbered by the Comptroller upon request by the agency. Such funds can then be expended by the Treasurer only upon a warrant, draft or order of the Comptroller drawn at the request of the responsible agency. The allotment process maintains expenditure control over special revenue, enterprise, and internal service funds that are not budgeted as part of the annual appropriation act.

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

All funds, except fiduciary funds, use encumbrance accounting. Under this method of accounting, purchase orders, contracts, and other commitments for the expenditures of the fund are recorded in order to reserve that portion of the applicable appropriation. All encumbrances lapse at year-end and, generally, all appropriations lapse at year-end except for certain continuing appropriations (continuing appropriations are defined as carryforwards 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. Carryforward 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 2009 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.

In the Statement of cash flows, certain Enterprise funds exclude from cash and cash equivalents investments in STIF reported as noncurrent or restricted assets.

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 a comparison of other State bonds.
- 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 an independent valuation committee of the Corporation, after giving consideration to pertinent information about the companies comprising the investments, including but not limited to recent sales prices of the issuer’s securities, sales growth, progress toward business goals, and other operating data.

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

Inventories

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

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, railways, and similar items), are reported in the applicable governmental or

business-type activities columns in the government-wide financial statements. Capital assets are defined by the State as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated fair market value at the date of donation.

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

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

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

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

Securities Lending Transactions (see Note 4)

Assets, liabilities, income, and expenses arising from securities lending transactions of the Combined Investment Funds are allocated ratably to the participant funds based on their equity in the Combined Investment Funds.

Deferred Revenues

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

Long-term Obligations

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

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 Special Act No. 09-06, the General Assembly enacted an Early Retirement Incentive Program in order to mitigate the deficit of the General Fund of the State. 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, except for one modification. The modification provides that the balance of any compensated absences shall be paid in three equal annual installments beginning during fiscal year ending June 30, 2013.

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 18).

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)	\$ (947,578)	\$ (84,699)
Adjustments:		
Increases (decreases) in revenue accruals:		
Receivables and Other Assets	385,400	(949)
(Increases) decreases in expenditure accruals:		
Accounts Payable and Other Liabilities	(601,590)	11,342
Salaries and Fringe Benefits Payable	56,609	(792)
Decrease in Continuing Appropriations	(415,327)	(1,368)
Transfer of 2008 Surplus	(179,420)	-
Fund Reclassification-Bus Operations	-	4,350
Net change in fund balances (GAAP basis)	<u>\$ (1,701,906)</u>	<u>\$ (72,116)</u>

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

1. Revenues are recorded when received in cash except for certain year-end accruals (budgetary basis) as opposed to revenues being recorded when they are susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budgetary basis) as opposed to expenditures being recorded when the related fund liability is incurred (GAAP basis).
3. For budgetary reporting purposes, continuing appropriations are reported with other financing sources and uses in the determination of the budgetary surplus or deficit to more fully demonstrate compliance with authorized spending for the year. For GAAP purposes, continuing appropriations are excluded from operations and reported as reserved fund balance.

Note 3 Nonmajor Fund Deficits

The following funds have deficit fund/net assets balances at June 30, 2009, none of which constitutes a violation of statutory provisions (amounts in thousands).

<u>Special Revenue</u>	
Insurance	\$ 664
<u>Enterprise</u>	
Bradley Parking Garage	\$ 19,146
<u>Internal Service</u>	
Administrative Services	\$ 30,972

Note 4 Cash Deposits and Investments

According to GASB Statement No. 40, “*Deposit and Investment Risk Disclosures*”, the State needs to make certain disclosures about deposit and investment risks that have the potential to result in losses. Thus, the following deposit and investment risks are discussed in this note:

Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment.

Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Concentration of Credit Risk - the risk of loss attributed to the magnitude of an investment in a single issuer.

Custodial Credit Risk (deposits) - the risk that, in the event of a bank failure, the State’s deposits may not be recovered.

Custodial Credit Risk (investments) - the risk that, in the event of a failure of the counterparty, the State will not be able to recover the value of investments or collateral securities that are in the possession of an outside party.

Foreign Currency Risk - the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

Primary Government

The State Treasurer is the chief fiscal officer of State government and is responsible for the prudent management and investment of monies of State funds and agencies as well as monies of pension and other trust funds. The State Treasurer with the advice of the Investment Advisory Council, whose members include outside investment professionals and pension beneficiaries, establishes investment policies and guidelines. Currently, the State Treasurer manages one Short-Term Investment Fund, one Medium-Term Investment Fund, and eleven Combined Investment Funds.

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 accompanying financial statements. Instead, investments in the internal portion of STIF by participant funds are reported as cash equivalents in the government-wide and fund financial statements.

As of June 30, 2009, STIF had the following investments and maturities (amounts in thousands):

Investment Type	Short-Term Investment Fund		
	Amortized Cost	Investment Maturities (in years)	
		Less Than 1	1-5
Floating Rate Notes	\$ 116,033	\$ 116,033	\$ -
Federal Agency Securities	436,897	100,844	336,053
Money Market Funds	163,803	163,803	-
Total Investments	<u>\$ 716,733</u>	<u>\$ 380,680</u>	<u>\$ 336,053</u>

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, 2009, the weighted average maturity of the STIF was 9 days. Additionally, STIF is allowed by policy to invest in floating-rate securities, and investments in such securities with maturities up to two years are limited to no more than 20 percent of the overall portfolio. For purposes of the fund's 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, 2009, the amount of STIF's investments in variable-rate securities was \$503 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, 2009, STIF's investments were rated by Standard and Poor's as follows (amounts in thousands):

Investment Type	Short-Term Investment Fund				
	Amortized Cost	Quality Ratings			
		AAA	AA	A	Unrated
Floating Rate Notes	\$ 116,034	\$ -	\$ 5,000	\$ 66,589	\$ 44,445
Federal Agency Securities	436,896	436,896	-	-	-
Money Market Funds	163,803	163,803	-	-	-
Total Investments	<u>\$ 716,733</u>	<u>\$ 600,699</u>	<u>\$ 5,000</u>	<u>\$ 66,589</u>	<u>\$ 44,445</u>

Concentration of Credit Risk

STIF reduces its exposure to this risk by requiring that not more than 10 percent of its portfolio be invested in securities of any one issuer, except for overnight or two-business day repurchase agreements and U.S. government and agency securities. As of June 30, 2009, STIF's investments in any one issuer that represents more than 5 percent of total investments were as follows (amounts in thousands):

Investment Issuer	Amortized Cost
Beta Finance	\$ 50,000
FHLB	\$ 78,000
FHLMC	\$ 228,030
FNMA	\$ 74,983
Gryphon	\$ 44,445

Custodial Credit Risk-Bank Deposits-Nonnegotiable Certificate of Deposits and NOW Accounts (amounts in thousands):

The STIF follows policy parameters that limit deposits in any one entity to a maximum of ten percent of assets. Further, the certificate of deposits must be issued from commercial banks whose short-term debt is rated at least A-1 by Standard and Poor's and F-1 by Fitch and whose long-term debt is rated at least A and its issuer rating is at least "C". As of June 30, 2009, \$879,500 of the bank balance of STIF's deposits of \$3,830,000 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 796,500
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	83,000
Total	<u>\$ 879,500</u>

Short-Term Plus Investment Fund (STIF Plus)

STIF Plus is a money market and short-term bond 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 Plus in U.S. government and agency obligations, certificates of deposit, commercial paper, corporate bonds, saving accounts, bankers' acceptance, repurchase agreements, and asset-backed securities. STIF Plus' investments are reported at fair value on the fund's statement of net assets.

For financial reporting purposes, STIF Plus is considered to be an internal investment pool and is not reported in the accompanying financial statements. Instead, investments in STIF Plus by participant funds are reported as other investments in the government-wide and fund financial statements.

As of June 30, 2009, STIF Plus had the following investments and maturities (amount in thousands):

Investment Type	Short-Term Plus Investment Fund		
	Fair Value	Investment Maturities (in years)	
		Less Than 1	1-5
Federal Agency Securities	\$ 5,071	\$ 5,071	\$ -
Corporate Notes	73,019	30,541	42,478
Asset Backed Securities	10,279	-	10,279
Repurchase Agreements	485	485	-
Total Investments	\$ 88,854	\$ 36,097	\$ 52,757

Interest Rate Risk

STIF Plus' policy for managing this risk is to perform, on a quarterly basis, an interest rate sensitivity analysis on the duration and the market value of the portfolio to determine the potential effect of a 200 basis point movement in interest rates. As of June 30, 2009, the weighted average maturity of STIF Plus was 109 days. In addition, STIF Plus is allowed to invest in floating-rate debt securities. For purposes of the fund's weighted average maturity calculation, variable-rate securities are calculated using their rate reset date. Because these securities reprise frequently to prevailing market rates, interest rate risk is substantially reduced. As of June 30, 2009, STIF Plus's investment in variable-rate securities was \$79.9 million.

Credit Risk

The STIF Plus manages its credit risk by investing only in debt securities that fall within the highest short-term or long-term rating categories by nationally recognized rating organizations. As of June 30, 2009, STIF Plus' investments

were rated by Standard and Poor's as follows (amounts in thousands):

Investment Type	Short-Term Plus Investment Fund				
	Fair Value	Quality Ratings			
		AAA	AA	A	D
Federal Agency Securities	\$ 5,071	\$ 5,071	\$ -	\$ -	\$ -
Corporate Notes	73,019	-	29,335	43,684	-
Asset Backed Securities	10,279	9,721	-	-	558
Repurchase Agreements	485	-	-	485	-
Total	\$ 88,854	\$ 14,792	\$ 29,335	\$ 44,169	\$ 558

Concentration of Credit Risk

STIF Plus' policy for managing this risk is to limit the amount it may invest in any single federal agency to an amount not to exceed 15 percent. As of June 30, 2009, STIF Plus' investments in any one issuer that represents more than 5 percent of total investments were as follows (amounts in thousands):

Investment Issuer	Fair Value
Bank of America	\$ 8,784
Citigroup	\$ 11,555
FHLMC	\$ 5,071
GE Capital Corp	\$ 14,534
Goldman Sachs	\$ 9,575
HSBC	\$ 4,869
Merrill Lynch	\$ 8,901
Wells Fargo	\$ 14,801

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 accompanying financial statements. Instead, investments in the CIFS by participant funds are reported as equity in the CIFS in the government-wide and fund financial statements. As of June 30, 2009, the amount of equity in the CIFS reported in the financial statements was as follows (amounts in thousands):

	Primary Government		Fiduciary Funds
	Governmental Activities	Business-Type Activities	
Equity in the CIFS	\$ 85,834	\$ 559	\$ 20,295,775
Other Investments	396,593	49,452	1,107,232
Total Investments-Current	\$ 482,427	\$ 50,011	\$ 21,403,007

Connecticut

As of June 30, 2009, the CIFS had the following investments and maturities (amounts in thousands):

Combined Investment Funds

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
Cash Equivalents	\$ 1,466,778	\$ 1,439,200	\$ -	\$ -	\$ 27,578
Asset Backed Securities	122,298	5,810	100,989	15,499	-
Government Securities	2,531,238	208,995	788,253	762,585	771,405
Government Agency Securities	978,443	1,419	40,941	66,235	869,848
Mortgage Backed Securities	480,456	815	18,514	18,911	443,210
Corporate Debt	1,756,610	229,634	607,786	623,225	294,971
Convertible Debt	28,687	580	13,963	4,586	9,558
Mutual Fund	318,934	-	-	-	318,934
Total Debt Instruments	7,683,444	\$ 1,886,453	\$ 1,570,446	\$ 1,491,041	\$ 2,735,504
Common Stock	9,568,436				
Preferred Stock	48,399				
Real Estate Investment Trust	65,333				
Mutual Fund	570,811				
Limited Liability Corporation	3,329				
Trusts	4,656				
Limited Partnerships	2,486,773				
Total Investments	\$ 20,431,181				

Interest Rate Risk

CIFS' investment managers are given full discretion to manage their portion of CIFS' assets within their respective guidelines and constraints. The guidelines and constraints require each manager to maintain a diversified portfolio at all times. In addition, each core manager is required to maintain a target duration that is similar to its respective benchmark which is typically the Lehman Brother Aggregate-an intermediate duration index.

Credit Risk

The CIFS minimizes exposure to this risk in accordance with a comprehensive investment policy statement, as developed by the Office of the Treasurer and the State's Investment Advisory Council, which provides policy guidelines for the CIFS and includes an asset allocation plan. The asset allocation plan's main objective is to maximize investment returns over the long term at an acceptable level of risk. As of June 30, 2009, CIFS' debt investments were rated by Moody's as follows (amounts in thousands):

Combined Investment Funds

	Fair Value	Asset		Government		Mortgage		Convertible Debt	Mutual Fund
		Cash Equivalents	Backed Securities	Government Securities	Agency Securities	Backed Securities	Corporate Debt		
Aaa	\$ 3,035,622	\$ -	\$ 78,677	\$ 1,774,059	\$ 850,931	\$ 227,600	\$ 104,355	\$ -	\$ -
Aa	225,537	-	49	47,274	-	20,755	157,459	-	-
A	560,822	-	720	77,067	-	12,603	470,149	283	-
Baa	516,518	-	3,632	157,264	-	31,274	324,348	-	-
Ba	409,308	-	490	203,491	-	22,578	181,164	1,585	-
B	337,959	-	-	59,211	-	21,900	253,563	3,285	-
Caa	151,164	-	-	-	-	23,318	127,630	216	-
Ca	21,336	-	-	2,401	-	1,971	16,964	-	-
C	1,687	-	-	-	-	495	1,192	-	-
Prime 1	510,556	510,000	556	-	-	-	-	-	-
Not Rated	1,912,935	956,778	38,174	210,471	127,512	117,962	119,786	23,318	318,934
Total	\$ 7,683,444	\$ 1,466,778	\$ 122,298	\$ 2,531,238	\$ 978,443	\$ 480,456	\$ 1,756,610	\$ 28,687	\$ 318,934

Connecticut

Foreign Currency Risk

The CIFS manage exposure to this risk by utilizing a strategic hedge ratio of 50 percent for the developed market portion of the International Stock Fund (a Combined Investment Fund). This strategic hedge ratio represents the neutral stance or desired long-term exposure to currency for the ISF. To implement this policy, currency specialists actively manage the currency portfolio as an overlay strategy to the equity investment managers. These specialists may manage the portfolio passively or actively depending on opportunities in the market place. While managers within the fixed income portion of the portfolio are allowed to invest in non-U.S. denominated securities, managers are required to limit that investment to a portion of their respective portfolios. As of June 30, 2009, CIFS' foreign deposits and investments were as follows (amounts in thousands):

Foreign Currency	Combined Investment Funds								
	Fixed Income Securities						Equities		
	Total	Cash	Government Securities	Mutual Funds	Corporate Debt	Convertible Securities	Common Stock	Preferred Stock	Real Estate Investment Trust
Argentine Peso	\$ 27	\$ 27	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Australian Dollar	245,216	1,230	16,318	-	10,761	-	216,606	-	301
Brazilian Real	106,436	548	26,188	-	5,239	-	38,336	36,125	-
Canadian Dollar	74,164	304	-	-	-	-	73,860	-	-
Chilean Peso	1,973	1	-	-	996	-	976	-	-
Colombian Peso	8,389	-	7,202	-	1,187	-	-	-	-
Czech Koruna	12,243	416	-	-	-	-	11,827	-	-
Danish Krone	28,656	463	-	-	-	-	28,193	-	-
Egyptian Pound	7,873	16	957	-	-	-	6,900	-	-
Euro Currency	1,378,709	4,767	57,612	-	4,044	-	1,304,610	7,454	222
Hong Kong Dollar	315,551	1,183	-	-	-	-	313,412	-	956
Hungarian Forint	16,697	5	16,607	-	85	-	-	-	-
Iceland Krona	2	2	-	-	-	-	-	-	-
Indonesian Rupiah	31,307	192	8,232	-	5,061	-	17,822	-	-
Israeli Shekel	6,998	190	-	-	-	-	6,808	-	-
Japanese Yen	959,443	2,694	-	12,266	-	623	941,241	-	2,619
Kazakhstan Tenge	424	-	-	-	424	-	-	-	-
Malaysian Ringgit	40,324	127	10,698	-	8,563	-	20,936	-	-
Mexican Peso	46,820	1,299	36,314	-	562	-	8,645	-	-
Moroccan Dirham	1,547	77	-	-	-	-	1,470	-	-
New Russian Rubel	3,233	70	-	-	3,163	-	-	-	-
New Taiwan Dollar	69,883	723	-	-	-	-	69,160	-	-
New Zealand Dollar	41,035	172	31,778	-	-	-	9,076	-	9
Norwegian Krone	26,912	169	-	-	-	-	26,743	-	-
Pakistan Rupee	179	179	-	-	-	-	-	-	-
Peruvian Nuevo Sol	900	-	895	-	-	-	5	-	-
Philippine Peso	7,560	68	-	-	-	-	7,492	-	-
Polish Zloty	47,061	51	30,993	-	-	-	16,017	-	-
Pound Sterling	759,347	1,602	7,224	-	9,271	-	737,344	-	3,906
Singapore Dollar	75,620	2,591	-	-	-	-	68,956	-	4,073
South African Rand	82,667	1,517	23,256	-	1,585	-	56,309	-	-
South Korean Won	272,920	240	772	-	-	-	269,672	2,236	-
Swedish Krona	74,153	757	-	-	-	-	73,396	-	-
Swiss Franc	332,481	1,952	7,900	-	-	-	322,629	-	-
Thailand Baht	46,847	116	9,367	-	201	-	37,163	-	-
Turkish Lira	58,159	71	13,203	-	-	-	44,885	-	-
Total	\$ 5,181,756	\$ 23,819	\$ 305,516	\$ 12,266	\$ 51,142	\$ 623	\$ 4,730,489	\$ 45,815	\$ 12,086

Connecticut

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 Liquidity Account which is a cash management pool investing in highly liquid money market securities. As of June 30, 2009, the CIFS had deposits with a bank balance of \$16.9 million which was uninsured and uncollateralized.

Complete financial information about the STIF, STIF Plus, and the CIFS can be obtained from financial statements issued by the Office of the State Treasurer.

Other Investments

As of June 30, 2009, the State had other investments and maturities as follows (amounts in thousands):

Investment Type	Other Investments				
	Fair Value	<u>Investment Maturities (in years)</u>			More Than 10
		Less Than 1	1-5	6-10	
Repurchase Agreements	\$ 2,773	\$ 2,773	\$ -	\$ -	\$ -
State Bonds	49,114	4,738	17,866	16,118	10,392
U.S. Government Securities	67,300	32,278	15,823	10,472	8,727
Guaranteed Investment Contracts	430,113	15,006	149,223	145,937	119,947
Tax Exempt Proceeds Fund	18,804	18,804	-	-	-
Money Market Funds	396	396	-	-	-
Total Debt Investments	568,500	<u>\$ 73,995</u>	<u>\$ 182,912</u>	<u>\$ 172,527</u>	<u>\$ 139,066</u>
Annuity Contracts	201,476				
Endowment Pool	9,347				
Limited Partnership	150				
Total Investments	\$ 779,473				

Credit Risk

As of June 30, 2009, other investments were rated by Standard and Poor's as follows (amounts in thousands):

Investment Type	Other Investments				
	Fair Value	<u>Quality Ratings</u>			
		AAA	AA	A	Unrated
Repurchase Agreements	\$ 2,773	\$ 2,773	\$ -	\$ -	\$ -
State Bonds	49,114	-	49,114	-	-
Guaranteed Investment Contracts	430,113	75,480	290,013	64,620	-
Tax Exempt Proceeds Fund	18,804	-	-	-	18,804
Money Market Funds	396	396	-	-	-
Total	\$ 501,200	\$ 78,649	\$ 339,127	\$ 64,620	\$ 18,804

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, 2009, \$124,288 of the bank balance of the Primary Government of \$379,443 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 110,207
Uninsured and collateral held by trust department of either the pledging bank or another bank not in the name of the State	14,081
Total	\$ 124,288

Connecticut

Component Units

The Connecticut Housing Finance Authority (CHFA) and the Connecticut Health and Education Facilities Authority (CHEFA) reported the following investments and maturities as of 12-31-08 and 6-30-09, respectively (amounts in thousands):

Major Component Units

Investment Type	Fair Value	Investment Maturities (in years)		
		Less Than 1	1-5	More Than 10
Collateralized Mortgage Obligations	\$ 1,014	\$ -	\$ -	\$ 1,014
Corporate Finance Bonds	4,610	-	4,610	-
Federated Funds	1,923	1,923	-	-
Fidelity Tax Exempt Fund	17,829	17,829	-	-
GNMA Program Assets	1,064,051	-	-	1,064,051
Guaranteed Investment Contracts	127,943	23,963	103,980	-
Mortgage Backed Securities	2,631	-	673	1,958
Repurchase Agreements	3,591	-	-	3,591
U.S. Government Securities	2,170	1,264	-	906
Structured Securities	628	-	-	628
Money Market Funds	308,403	308,403	-	-
Certificate of Deposits	2,000	2,000	-	-
Total	\$ 1,536,793	\$ 355,382	\$ 109,263	\$ 1,072,148

The CHFA and the CHEFA own 71.5 percent and 28.5 percent of the above investments, respectively. GNMA Program Assets represent securitized home mortgage loans of CHFA which are guaranteed by the Government National Mortgage Association.

Interest Rate Risk

CHFA

Exposure to declines in fair value is substantially limited to GNMA Program Assets. The Authority's investment policy requires diversification of its investment portfolio to eliminate the risk of loss resulting from, among other things, an over-concentration of assets in a specific maturity.

CHEFA

The Authority manages its exposure to this risk by designing its portfolio of unrestricted investments with the objective of regularly exceeding the average return of 90 day U.S. Treasury Bills. This is considered to be a benchmark for riskless investment transactions and therefore represents a minimum standard for the portfolio's rate of return. The Authority's policy as it relates to restricted investments provides that all restricted accounts be invested in strict accordance with the bond issue trust indentures, with the above policy and with applicable Connecticut State Law.

Credit Risk

CHFA

The Authority's investments are limited by state Statutes to United States Government obligations, including its agencies or instrumentalities, investments guaranteed by the state, investments in the CIFS, and other obligations which are legal investments for savings banks in the state. Repurchase agreements, certificate of deposits, and the Federated and Fidelity 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, the Federal Home Loan Mortgage Corporation or the United States Department of Housing and Urban Development mortgage pools.

CHEFA

The Authority has an investment policy that would further limit its investment choices beyond those limited by state statutes for both unrestricted and restricted investments. For example, investments that may be purchased by the Authority with the written approval of an officer, provided that the investment has a maturity of one year or less, are obligations issued or guaranteed by the U.S. Government, the State's Short-Term Investment Fund (STIF), etc.

Connecticut

CHFA's and CHEFA's investments were rated as of 12-31-08 and 6-30-09, respectively, as follows (amounts in thousands):

Component Units

Investment Type	Fair Value	Quality Ratings				
		AAA	AA	BBB	D	Unrated
Collateralized Mortgage Obligations	\$ 1,014	\$ -	\$ -	\$ -	\$ -	\$ 1,014
Corporate Finance Bonds	4,610	-	-	4,610	-	-
Federated Funds	1,923	-	-	-	-	1,923
Fidelity Tax Exempt Fund	17,829	-	-	-	-	17,829
GNMA Assets	1,064,051	-	-	-	-	1,064,051
Guaranteed Investment Contracts	127,943	289	127,654	-	-	-
Mortgage Backed Securities	2,631	-	-	-	-	2,631
Repurchase Agreements	3,591	-	-	-	-	3,591
Structured Securities	628	-	-	-	628	-
Money Market Funds	308,403	308,403	-	-	-	-
Certificate of Deposits	2,000	-	-	-	-	2,000
Total	\$ 1,534,623	\$ 308,692	\$ 127,654	\$ 4,610	\$ 628	\$ 1,093,039

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. As of December 31, 2008, the Authority had no investments in any one issuer that represents 5 percent or more of total investments, other than investments guaranteed by the U.S. Government (GNMA Program Assets).

CHEFA

For unrestricted investments, the Authority places limits on the amount of investment in any one issuer. No issuer other than the United States Treasury or the State's Short-Term Investment Fund shall constitute greater than 5 percent of unrestricted investments, except for qualified money market or mutual bond funds, none of which shall constitute greater than 50 percent of general fund investments. At year end, the Authority was in compliance with this policy. The Authority places no limit on the amount of investments in any one issuer for restricted investments. At year end, the Authority's guaranteed investment contracts with Trinity Funding LLC exceeded 5 percent of the Authority's portfolio.

Security Lending Transactions

Certain of the Combined Investment Funds are permitted by State Statute to engage in security lending transactions to provide incremental returns to the funds. The funds' master custodian is authorized to lend available securities to authorized broker-dealers and banks subject to a form loan agreement.

During the year, the master custodian lent certain securities and received cash or other collateral as indicated on the Securities Lending Authorization Agreement. The master custodian did not have the ability to pledge or sell collateral securities received absent a borrower default. Borrowers were required to deliver collateral for each loan equal to at least 100 percent of the market value of the loaned securities.

According to the Agreement, the master custodian has an obligation to indemnify the funds in the event any borrower failed to return the loaned securities or pay distributions thereon. There were no such failures during the fiscal year that resulted in a declaration and notice of Default of the Borrower (other than the default by Lehman Brothers which resulted in no loss to the funds). During the fiscal year, the funds and the borrowers maintained the right to terminate all securities lending transactions upon notice. The cash collateral received on each loan was invested in an individual account known as the State of Connecticut Collateral Investment Trust. At year end, the funds had no credit exposure to borrowers because the value of the collateral held and the market value of securities on loan were \$3,386.8 million and \$3,281.1 million, respectively.

Under normal circumstances, the average duration of collateral investments is managed so that it will not exceed (a) 120 days or (b) the average duration of the loans by more than 45 days. If any of these limits is exceeded for any 3-day period, the Trustee shall take certain actions. At year end, the average duration of the collateral investments was 41.03 days; the average duration of the loans was unknown, although it is assumed to remain at 1 day.

Note 5 Receivables-Current

As of June 30, 2009, current receivables consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Taxes	\$ 1,155,267	\$ -	\$ -
Accounts	996,432	591,272	26,582
Loans-Current Portion	-	267,628	18,179
Other Governments	951,085	23,087	-
Interest	1,401	10,782	542
Other (1)	18,502	4,908	148
Total Receivables	3,122,687	897,677	45,451
Allowance for			
Uncollectibles	(944,740)	(90,814)	(2,995)
Receivables, Net	<u>\$ 2,177,947</u>	<u>\$ 806,863</u>	<u>\$ 42,456</u>

Connecticut

(1) Includes a reconciling amount of \$18,500 from fund financial statements to government-wide financial statements.

Note 6 Taxes Receivable

Taxes receivable consisted of the following as of June 30, 2009 (amounts in thousands):

	Governmental Activities		
	General	Transportation	Total
	Fund	Fund	
Sales and Use	\$ 459,628	\$ -	\$ 459,628
Income Taxes	335,523	-	335,523
Corporations	104,932	-	104,932
Gasoline and Special Fuel	-	43,304	43,304
Various Other	211,880	-	211,880
Total Taxes Receivable	1,111,963	43,304	1,155,267
Allowance for Uncollectibles	(189,039)	(361)	(189,400)
Taxes Receivable, Net	\$ 922,924	\$ 42,943	\$ 965,867

Note 7 Receivables-Noncurrent

Noncurrent receivables for the primary government and its component units, as of June 30, 2009, consisted of the following (amounts in thousands):

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units
Accounts	\$ -	\$ -	\$ 47,656
Loans	245,386	610,889	129,958
Total Receivables	245,386	610,889	177,614
Allowance for Uncollec	(9,568)	(2,865)	(11,533)
Receivables, Net	\$ 235,818	\$ 608,024	\$ 166,081

The Clean Water fund (business-type activities) loans funds to qualified municipalities for planning, design, and construction of water quality projects. These loans are payable over a 20 year period at an annual interest rate of 2 percent and are secured by the full faith and credit or revenue pledges of the municipalities, or both. At year end, the noncurrent portion of loans receivable was \$528 million.

The Connecticut Higher Education Supplemental Loan Authority (a component unit) makes loans to individuals from the proceeds of bonds issued by the Authority. The loans bear interest rates ranging from 0 percent to 9.7 percent. At year end, the noncurrent portion of loans receivable was \$106.9 million.

Note 8 Restricted Assets

Restricted assets are defined as resources that are restricted by legal or contractual requirements. As of June 30, 2009,

restricted assets were comprised of the following (amounts in thousands):

	Total Restricted Assets			
	Cash & Cash Equivalents	Investments	Loans, Net of Allowances	Other
Governmental Activities:				
Debt Service	\$ 679,384	\$ -	\$ -	\$ -
Environmental	395	-	-	-
Total-Governmental Activities	\$ 679,779	\$ -	\$ -	\$ -
Business-Type Activities:				
Bradley International Airport	\$ 87,970	\$ 28,258	\$ -	\$ 1,614
UConn/Health Center	148,131	-	-	6,746
Clean Water	175,642	311,759	-	-
Other Proprietary	26,785	39,167	-	-
Total-Business-Type Activities	\$ 438,528	\$ 379,184	\$ -	\$ 8,360
Component Units:				
CHFA	\$ 551,591	\$ 1,077,719	\$ 3,196,823	\$ 162,084
CHEFA	455,959	-	-	316
Other Component Units	117,856	16,125	-	236
Total-Component Units	\$ 1,125,406	\$ 1,093,844	\$ 3,196,823	\$ 162,636

Note 9 Current Liabilities

a. Accounts Payable and Accrued Liabilities

As of June 30, 2009, accounts payable and accrued liabilities consisted of the following (amounts in thousands):

	Total Payables & Accrued Liabilities			
	Vendors	Salaries and Benefits	Interest	Other
Governmental Activities:				
General	\$ 41,767	\$ 242,497	\$ -	\$ -
Transportation	11,900	13,169	-	-
Other Governmental	187,091	24,642	-	2,731
Internal Service	2,545	2,167	-	14,269
Reconciling amount from fund financial statements to government-wide financial statements	-	-	143,345	5,848
Total-Governmental Activities	\$ 243,303	\$ 282,475	\$ 143,345	\$ 22,848
Business-Type Activities:				
UConn/Health Center	\$ 28,769	\$ 79,464	\$ -	\$ 24,155
State Universities	14,029	42,294	2,029	-
Other Proprietary	22,991	31,936	19,238	24,269
Total-Business-Type Activities	\$ 65,789	\$ 153,694	\$ 21,267	\$ 48,424

b. Notes Payable

Notes payable consist of the short-term portion of Bond Anticipation Notes as described in Note 18. The activity for the notes for the year ended June 30, 2009 was as follows (amounts in thousands):

	Beginning			Ending Balance
	Balance	Additions	Reductions	
Bond Anticipation Notes	\$ -	\$ 353,085	\$ -	\$ 353,085

Connecticut

Note 10 Capital Assets

Capital asset activity for the year was as follows (amounts in thousands):

	<u>Beginning Balance (1)</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets not being Depreciated:				
Land	\$ 1,399,842	\$ 948,028	\$ 53,307	\$ 2,294,563
Construction in Progress	<u>1,342,448</u>	<u>809,315</u>	<u>814,600</u>	<u>1,337,163</u>
Total Capital Assets not being Depreciated	2,742,290	1,757,343	867,907	3,631,726
Other Capital Assets:				
Buildings	2,754,166	164,332	36,317	2,882,181
Improvements Other than Buildings	463,726	72,192	65,748	470,170
Equipment	1,718,326	144,367	140,825	1,721,868
Infrastructure	<u>11,629,766</u>	<u>647,748</u>	<u>-</u>	<u>12,277,514</u>
Total Other Capital Assets at Historical Cost	16,565,984	1,028,639	242,890	17,351,733
Less: Accumulated Depreciation For:				
Buildings	1,637,572	72,055	36,317	1,673,310
Improvements Other than Buildings	290,342	23,692	65,748	248,286
Equipment	1,381,206	287,552	140,825	1,527,933
Infrastructure	<u>5,971,020</u>	<u>487,357</u>	<u>-</u>	<u>6,458,377</u>
Total Accumulated Depreciation	9,280,140	870,656 *	242,890	9,907,906
Other Capital Assets, Net	<u>7,285,844</u>	<u>157,983</u>	<u>-</u>	<u>7,443,827</u>
Governmental Activities, Capital Assets, Net	<u>\$ 10,028,134</u>	<u>\$ 1,915,326</u>	<u>\$ 867,907</u>	<u>\$ 11,075,553</u>

(1) Restated. See Note No. 22.

* Depreciation expense was charged to functions as follows:

Governmental Activities:

Legislative	\$ 5,918
General Government	61,532
Regulation and Protection	30,807
Conservation and Development	15,699
Health and Hospitals	14,393
Transportation	611,681
Human Services	2,282
Education, Libraries and Museums	36,551
Corrections	51,002
Judicial	22,099
Capital assets held by the government's internal service funds are charged to the various functions based on the usage of the assets	<u>18,692</u>
Total Depreciation Expense	<u>\$ 870,656</u>

	<u>Beginning Balance (1)</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital Assets not being Depreciated:				
Land	\$ 59,969	\$ -	\$ 341	\$ 59,628
Construction in Progress	<u>249,661</u>	<u>61,974</u>	<u>118,500</u>	<u>193,135</u>
Total Capital Assets not being Depreciated	309,630	61,974	118,841	252,763
Capital Assets being Depreciated:				
Buildings	3,583,211	208,005	7,463	3,783,753
Improvements Other Than Buildings	472,244	22,461	2	494,703
Equipment	<u>930,661</u>	<u>69,349</u>	<u>60,853</u>	<u>939,157</u>
Total Other Capital Assets at Historical Cost	4,986,116	299,815	68,318	5,217,613
Less: Accumulated Depreciation For:				
Buildings	1,177,411	119,113	5,519	1,291,005
Improvements Other Than Buildings	222,742	20,688	-	243,430
Equipment	<u>569,643</u>	<u>65,551</u>	<u>50,808</u>	<u>584,386</u>
Total Accumulated Depreciation	1,969,796	205,352	56,327	2,118,821
Other Capital Assets, Net	<u>3,016,320</u>	<u>94,463</u>	<u>11,991</u>	<u>3,098,792</u>
Business-Type Activities, Capital Assets, Net	<u>\$ 3,325,950</u>	<u>\$ 156,437</u>	<u>\$ 130,832</u>	<u>\$ 3,351,555</u>

(1) Restated. See Note No. 22.

Component Units

Capital assets of the component units consisted of the following as of June 30, 2009 (amounts in thousands):

Land	\$ 29,031
Buildings	8,881
Improvements other than Buildings	2,851
Machinery and Equipment	724,056
Construction in Progress	14,226
Total Capital Assets	779,045
Accumulated Depreciation	(336,454)
Capital Assets, net	\$ 442,591

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 and Funding Policy

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

	SERS 6/30/2008	TRS 6/30/2008	JRS 6/30/2008
Retirees and beneficiaries receiving benefits	38,093	28,787	225
Terminated plan members entitled to but not yet receiving benefits	1,592	1,394	1
Active plan members	53,196	51,738	220
Total	92,881	81,919	446

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 regular and Hazardous Duty members are required to contribute 2 percent and 4 percent of their annual salary, respectively, 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 II Plan Hazardous Duty members are required to contribute 4 percent of their annual salary; Tier

IIA Plan regular and Hazardous Duty members are required to contribute 2 percent and 5 percent of their annual salary, respectively. The State is required to contribute at an actuarially determined rate. Administrative costs of the plan are funded by the State.

Teachers' Retirement System

Plan Description

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

Funding Policy

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

Judicial Retirement System

Plan Description

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

Funding Policy

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

Annual Pension Cost and Net Pension Obligation

The State's annual pension cost and net pension obligation for each plan for the current year were as follows (amounts in thousands):

	SERS	TRS	JRS
Annual required contribution	\$ 753,698	\$ 539,303	\$ 14,172
Interest on net pension obligation	203,745	(40,843)	4
Adjustment to annual required contribution	(146,667)	33,963	(2)
Annual pension cost	810,776	532,423	14,174
Contributions made	699,770	539,303	14,173
Increase (decrease) in net pension obligation	111,006	(6,880)	1
Net pension obligation beginning of year	2,396,999	(480,510)	48
Net pension obligation/(asset) end of year	\$ 2,508,005	\$ (487,390)	\$ 49

Connecticut

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

	Fiscal Year	Pension Cost (APC)	of APC Contributed	Pension Obligation/(Asset)
SERS	2007	\$ 725,009	91.6%	\$ 2,332,327
	2008	\$ 776,227	91.7%	\$ 2,396,999
	2009	\$ 810,776	86.3%	\$ 2,508,005
TRS	2007	\$ 441,802	93.3%	\$ 1,495,542
	2008	\$ 542,508	464.2%	\$ (480,510)
	2009	\$ 532,423	101.3%	\$ (487,390)
JRS	2007	\$ 12,376	100%	\$ 47
	2008	\$ 13,435	100%	\$ 48
	2009	\$ 14,174	100%	\$ 49

Funded Status and Funding Progress

The following is funded status information for each plan as of June 30, 2008 the most recent actuarial valuation date (amounts in millions):

	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SERF	\$ 9,990.2	\$ 19,243.4	\$ 9,253.2	51.9%	\$ 3,497.4	264.6%
TRF	\$ 15,271.0	\$ 21,801.0	\$ 6,530.0	70.0%	\$ 3,399.3	192.1%
JRF	\$ 191.7	\$ 267.0	\$ 75.3	71.8%	\$ 34.0	221.5%

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

The following is information as of the most recent actuarial valuation:

	SERF 6/30/2008	TRF 6/30/2008	JRS 6/30/08
Valuation Date	6/30/2008	6/30/2008	6/30/08
Actuarial Cost Method	Projected unit credit cost method	Entry age actuarial cost method using level percent of payroll funding	Projected unit credit cost method
Amortization Method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Remaining Amortization Period	24 Years	29.2 years	23 Years
Asset Valuation Method	5-year smoothed market	4-year smoothed market	5-year smoothed market
Actuarial Assumptions:			
Investment Rate of Return	8.25%	8.5%	8.25%
Projected Salary Increases	4.0%-20.0%	4.0%-7.5%	5.25%
Includes inflation at	4.0%	4.0%	5.25%
Cost-of-Living Adjustments	2.7%-3.6%	2.0%-3.0%	2.75%-5.25%

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 \$35.3 million and \$21.7 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.

Connecticut

Plan Descriptions and Contribution Information

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

	<u>CMERS</u> <u>7/1/2007</u>	<u>CPJERS</u> <u>12/31/2007</u>
Retirees and beneficiaries receiving benefits	5,263	277
Terminated plan members entitled to but not receiving benefits	495	28
Active plan members	<u>8,695</u>	<u>409</u>
Total	<u>14,453</u>	<u>714</u>
Number of participating employers	164	1

Connecticut Municipal Employees' Retirement System

Plan Description

CMERS is a cost-sharing multiple-employer defined benefit pension plan that covers fire, police, and other personnel (except teachers) of participating municipalities in the State. Plan benefits, cost-of-living adjustments, contribution requirements of plan members and participating municipalities, and other plan provisions are described in Chapters 7-425 to 7-451 of the General Statutes. The plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments to plan members and their beneficiaries.

Contributions

Plan members are required to contribute 2.28 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 Fund 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.

Statement of Fiduciary Net Assets (000's)

	State		Connecticut				Total
	Employees'	Teachers'	Judicial	Municipal Employees'	Probate Judges'	Other	
Assets							
Cash and Cash Equivalents	\$ -	\$ 2,729	\$ 2	\$ -	\$ -	\$ 220	\$ 2,951
Receivables:							
Accounts, Net of Allowances	2,289	9,216	7	5,219	4	-	16,735
From Other Governments	-	3,104	-	-	-	-	3,104
From Other Funds	21	144	-	-	-	-	165
Interest	189	372	4	38	3	-	606
Investments	7,320,844	11,396,682	148,168	1,345,096	66,306	864	20,277,960
Securities Lending Collateral	<u>1,216,042</u>	<u>1,834,046</u>	<u>29,704</u>	<u>262,857</u>	<u>12,018</u>	<u>145</u>	<u>3,354,812</u>
Total Assets	<u>8,539,385</u>	<u>13,246,293</u>	<u>177,885</u>	<u>1,613,210</u>	<u>78,331</u>	<u>1,229</u>	<u>23,656,333</u>
Liabilities							
Accounts Payable and Accrued Liabilities	64	-	-	-	-	-	64
Securities Lending Obligation	1,216,042	1,834,046	29,704	262,857	12,018	145	3,354,812
Due to Other Funds	<u>499</u>	<u>1,567</u>	<u>-</u>	<u>1,128</u>	<u>15</u>	<u>-</u>	<u>3,209</u>
Total Liabilities	<u>1,216,605</u>	<u>1,835,613</u>	<u>29,704</u>	<u>263,985</u>	<u>12,033</u>	<u>145</u>	<u>3,358,085</u>
Net Assets							
Held in Trust For Employee							
Pension Benefits	<u>7,322,780</u>	<u>11,410,680</u>	<u>148,181</u>	<u>1,349,225</u>	<u>66,298</u>	<u>1,084</u>	<u>20,298,248</u>
Total Net Assets	<u>\$ 7,322,780</u>	<u>\$ 11,410,680</u>	<u>\$ 148,181</u>	<u>\$ 1,349,225</u>	<u>\$ 66,298</u>	<u>\$ 1,084</u>	<u>\$ 20,298,248</u>

Connecticut

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	\$ 70,847	\$ 241,145	\$ 1,618	\$ 15,337	\$ 291	\$ 38	\$ 329,276
State	699,770	539,303	14,173	-	-	-	1,253,246
Municipalities	-	156	-	35,937	-	-	36,093
Total Contributions	770,617	780,604	15,791	51,274	291	38	1,618,615
Investment Income	(1,673,282)	(2,476,319)	(25,788)	(238,441)	(12,083)	(54)	(4,425,967)
Less: Investment Expenses	(35,132)	(52,245)	(541)	(5,006)	(254)	-	(93,178)
Net Investment Income	(1,708,414)	(2,528,564)	(26,329)	(243,447)	(12,337)	(54)	(4,519,145)
Transfers In	-	-	-	-	2,703	-	2,703
Other	-	277	-	-	-	-	277
Total Additions	(937,797)	(1,747,683)	(10,538)	(192,173)	(9,343)	(16)	(2,897,550)
Deductions							
Administrative Expense	846	-	10	-	-	-	856
Benefit Payments and Refunds	1,070,474	1,396,098	18,522	90,925	3,095	2	2,579,116
Other	-	-	7	24	2,709	-	2,740
Total Deductions	1,071,320	1,396,098	18,539	90,949	5,804	2	2,582,712
Changes in Net Assets	(2,009,117)	(3,143,781)	(29,077)	(283,122)	(15,147)	(18)	(5,480,262)
Net Assets Held in Trust For Employee Pension Benefits:							
Beginning of Year	9,331,897	14,554,461	177,258	1,632,347	81,445	1,102	25,778,510
End of Year	\$ 7,322,780	\$ 11,410,680	\$ 148,181	\$ 1,349,225	\$ 66,298	\$ 1,084	\$ 20,298,248

Note 14 Other Postemployment Benefits (OPEB)

The State sponsors two defined benefit OPEB plans: the State Employee OPEB Plan (SEOPEBP) and the Retired Teacher Healthcare Plan (RTHP). SEOPEBP is administered by the State Comptroller (Healthcare Policy and Benefit Division), and RTHP is administered by the Teachers' Retirement Board. None of these plans issues stand-alone financial statements. However, financial statements for these plans are presented in Note No. 15.

State Employee OPEB Plan

Plan Description

SEOPEBP is a single-employer defined benefit OPEB plan that covers retired employees of the State who are receiving benefits from any State-sponsored retirement system, except the Teachers' Retirement System and the Municipal Employees' Retirement System. The plan provides healthcare and life insurance benefits to eligible retirees and their spouses. Plan benefits, required contributions of plan participants and the State, and other plan provisions are described in Sections 5-257 and 5-259 of the General Statutes.

Plan Funding

The contribution requirements of the plan members and the State are established and may be amended by the State legislature, or by agreement between the State and employees unions, upon approval by the State legislature. The cost of providing plan benefits is financed approximately 100 percent by the State on a pay-as-you-go basis through an annual appropriation in the General fund. Administrative costs of the plan are financed by the State.

In the prior fiscal year, a limited actuarial valuation of the plan disclosed that the plan had an estimated liability of

\$23.7 billion as of June 30, 2008. A full actuarial valuation of the plan was to be performed in the current fiscal year, but it was not completed on time. Thus, required disclosures on funded status, funding progress, and actuarial methods and assumptions for the plan could not be made in this note. These disclosures will be made starting next fiscal year.

Retired Teacher Healthcare Plan

Plan Description

RTHP is a single-employer defined benefit OPEB plan that covers retired teachers and administrators of public schools in the State who are receiving benefits from the Teachers' Retirement System. The plan provides healthcare insurance benefits to eligible retirees and their spouses. Plan benefits, required contributions of plan participants and the State, and other plan provisions are described in Section 10-183 of the General Statutes. As of June 30, 2008 (date of the latest actuarial valuation), the plan had 30,619 retirees and beneficiaries receiving benefits.

Plan Funding

The contribution requirements of plan members and the State are established and may be amended by the State legislature. The cost of providing plan benefits is financed on a pay-as-you-go basis as follows: active teachers pay for one third of plan costs through a contribution of 1.25 percent of their annual salaries, retired teachers pay for one third of plan costs through monthly premiums, and the State pays for one third of plan costs through an annual appropriation in the General Fund. Administrative costs of the plan are financed by the State.

Connecticut

Annual OPEB Cost and Net OPEB Obligation

The State's annual OPEB cost and the net OPEB obligation for each plan for the current fiscal year were as follows (amounts in thousands):

	<u>SEOPEBP</u>	<u>RTHP</u>
Annual Required Contribution	\$ 1,703,712	\$ 116,667
Interest on Net OPEB Obligation	7,667	458
Adjustment to Annual Required Contribution	<u>(42,058)</u>	<u>(3,421)</u>
Annual OPEB Cost	1,669,321	113,704
Contributions Made	<u>452,029</u>	<u>22,433</u>
Increase in net OPEB Obligation	1,217,292	91,271
Net OPEB Obligation - Beginning of Year	<u>1,139,042</u>	<u>95,353</u>
Net OPEB Obligation - End of Year	<u>\$ 2,356,334</u>	<u>\$ 186,624</u>

In addition, other related information for each plan for the current and prior fiscal years was as follows:

	<u>Fiscal</u>	<u>Annual</u>	<u>Percentage of</u>	<u>Net</u>
	<u>Year</u>	<u>OPEB</u>	<u>Annual OPEB</u>	<u>OPEB</u>
		<u>Cost</u>	<u>Cost Contributed</u>	<u>Obligation</u>
SEOPEBP	2009	\$ 1,669,321	27.1%	\$ 2,356,334
	2008	\$ 1,602,739	28.9%	\$ 1,139,042
RTHP	2009	\$ 113,704	19.7%	\$ 186,624
	2008	\$ 116,123	17.9%	\$ 95,353

Funded Status and Funding Progress

The following is funded status information for the RTHP as of June 30, 2008, date of the latest actuarial valuation (amounts in million):

	<u>Actuarial</u>	<u>Actuarial</u>	<u>Unfunded</u>	<u>Funded</u>	<u>Covered</u>	<u>UAAAL as a</u>
	<u>Value of</u>	<u>Accrued</u>	<u>AAL</u>	<u>Ratio</u>	<u>Payroll</u>	<u>Percentage of</u>
	<u>Assets</u>	<u>Liability (AAL)</u>	<u>(UAAAL)</u>	<u>(a/b)</u>	<u>(c)</u>	<u>Covered Payroll</u>
	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>			<u>((b-a)/c)</u>
RTHP	\$ -	\$ 2,318.8	\$ 2,318.8	0.0%	\$ 3,399.3	68.2%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding in progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets is increasing

or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the State and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the State and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions were as follows:

	<u>RTHP</u>
Actuarial Valuation Date	6-30-08
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Percent Open
Remaining Amortization Period	30 Years
Asset Valuation Method	n/a
Actuarial Assumptions:	
Investment Rate of Return	4.50%
Projected Salary Increases	4.0%-7.5%
Healthcare Inflation Rate	9% Initial, 4% Ultimate

Other OPEB Plan

The State acts solely as the administrator and custodian of the assets of the Policemen and Firemen Survivors' Benefit Fund (PFSBF). The State makes no contribution to and has only a fiduciary responsibility for this fund. The fund does not issue stand-alone financial statements. However, financial statements for this fund are presented in Note No. 15.

Plan Description

PFSBF is a cost-sharing multiple-employer defined benefit OPEB plan that covers policemen and firemen of participating municipalities in the State. As of 6/30/09 there were 8 municipalities participating in the plan with a total membership of 608 active members. The plan provides survivor benefits upon the death of an active or retired member of the fund to his spouse and dependent children. Plan benefits, contribution requirements of plan members and participant municipalities, and other plan provisions are described in Sections 7-323a to 7-323i of the General Statutes.

Contributions

Plan members are required to contribute one percent of their annual salary. Participating municipalities are required to contribute at an actuarially determined rate. Administrative costs of the plan are financed by participating municipalities.

Connecticut

Note 15 OPEB Trust Fund Financial Statements

The financial statements of the OPEB trust funds are prepared using the accrual basis of accounting. Plan member and municipality contributions are recognized in the period in which they are due. State contributions are recognized in the period they are appropriated. Benefits are recognized when due and payable in accordance with the terms of each plan. Investment income and related investment expense of the Combined Investment Funds are allocated ratably to the PFSBF trust fund based on the fund's equity in the Combined Investment Funds.

Statement of Fiduciary Net Assets (000's)

	<u>State Employees'</u>	<u>Retired Teachers'</u>	<u>Policemen and Firemen</u>	<u>Total</u>
Assets				
Cash and Cash Equivalents	\$ 31,733	\$ 77,832	\$ 2	\$ 109,567
Receivables:				
From Other Funds	70	1,567	-	1,637
Interest	-	-	1	1
Investments	-	-	17,815	17,815
Securities Lending Collateral	-	-	3,289	3,289
Total Assets	<u>31,803</u>	<u>79,399</u>	<u>21,107</u>	<u>132,309</u>
Liabilities				
Accounts Payable	7,142	13,745	-	20,887
Securities Lending Obligation	-	-	3,289	3,289
Total Liabilities	<u>7,142</u>	<u>-</u>	<u>3,289</u>	<u>3,289</u>
Net Assets				
Held in Trust For Other				
Postemployment Benefits	24,661	65,654	17,818	108,133
Total Net Assets	<u>\$ 24,661</u>	<u>\$ 65,654</u>	<u>\$ 17,818</u>	<u>\$ 108,133</u>

Statement of Changes in Fiduciary Net Assets (000's)

	<u>State Employees'</u>	<u>Retired Teachers'</u>	<u>Policemen and Firemen</u>	<u>Total</u>
Additions				
Contributions:				
Plan Members	\$ -	\$ 70,864	\$ 459	\$ 71,323
State	452,029	22,433	-	474,462
Municipalities	-	-	9	9
Total Contributions	<u>452,029</u>	<u>93,297</u>	<u>468</u>	<u>545,794</u>
Investment Income	527	1,074	(2,368)	(767)
Less: Investment Expenses	-	-	(50)	(50)
Net Investment Income	<u>527</u>	<u>1,074</u>	<u>(2,418)</u>	<u>(817)</u>
Other	-	7,062	-	7,062
Total Additions	<u>452,556</u>	<u>101,433</u>	<u>(1,950)</u>	<u>552,039</u>
Deductions				
Administrative Expense	-	2,027	-	2,027
Benefit Payments and Refunds	437,945	93,369	837	532,151
Total Deductions	<u>437,945</u>	<u>95,396</u>	<u>837</u>	<u>534,178</u>
Changes in Net Assets	14,611	6,037	(2,787)	17,861
Net Assets Held in Trust For Other Postemployment Benefits:				
Beginning of Year (as restated)	10,050	59,617	20,605	90,272
End of Year	<u>\$ 24,661</u>	<u>\$ 65,654</u>	<u>\$ 17,818</u>	<u>\$ 108,133</u>

Note 16 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):

2010	\$ 31,804
2011	27,800
2012	17,845
2013	17,761
2014	17,983
Thereafter	<u>12,182</u>
Total	<u>\$ 125,375</u>

Contingent revenues for the year ended June 30, 2009, were \$.3 million.

State as Lessee

Obligations under capital and operating leases as of June 30, 2009, were as follows (amounts in thousands):

	<u>Noncancelable Operating Leases</u>	<u>Capital Leases</u>
2010	\$ 80,122	\$ 7,916
2011	58,090	7,855
2012	40,208	7,300
2013	36,890	7,168
2014	14,295	4,008
2015-2019	24,134	14,786
2020-2024	63,205	7,819
2025-2029	3,440	6,110
2030-2034	-	2,432
Total minimum lease payments	<u>\$ 320,384</u>	<u>65,394</u>
Less: Amount representing interest costs		18,265
Present value of minimum lease payments		<u>\$ 47,129</u>

Minimum capital lease payments were discounted using an interest rate of approximately 6 percent.

Connecticut

Rental payments on noncancelable operating leases charged to expenses during the year ended June 30, 2009, were \$129.4 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 \$296 million at June 30, 2009.

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 17 Long-Term Debt

The following is a summary of changes in long-term debt of the primary government for the year ended June 30, 2009, (amounts in thousands):

Governmental Activities	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Amounts due within one year
Bonds:					
General Obligation	\$ 13,092,570	\$ 1,409,655	\$ 1,058,700	\$ 13,443,525	\$ 611,644
Transportation	2,790,682	812,725	786,392	2,817,015	144,101
	15,883,252	2,222,380	1,845,092	16,260,540	755,745
Plus/(Less) premiums and deferred amounts	348,228	99,763	27,955	420,036	74,564
Total Bonds	16,231,480	2,322,143	1,873,047	16,680,576	830,309
Bond Anticipation Notes:	-	228,160	-	228,160	-
Other Liabilities:					
Net Pension Obligation	1,916,537	1,357,372	1,253,245	2,020,664	-
Net OPEB Obligation	1,234,395	1,783,025	474,462	2,542,958	-
Compensated Absences	481,964	30,592	9,889	502,667	26,392
Workers' Compensation	412,619	143,104	95,945	459,778	88,067
Capital Leases	51,748	-	4,619	47,129	5,466
Claims and Judgments	13,635	40,091	10,036	43,690	3,928
Contracts Payable & Other	1,117	-	412	705	-
Total Other Liabilities	4,112,015	3,354,184	1,848,608	5,617,591	123,853
Governmental Activities Long-Term Liabilities					
	\$ 20,343,495	\$ 5,904,487	\$ 3,721,655	\$ 22,526,327	\$ 954,162
In prior years, the General and Transportation funds have been used to liquidate other liabilities.					
Business-Type Activities					
Revenue Bonds	\$ 1,358,084	\$ 390,807	\$ 147,094	\$ 1,601,797	\$ 94,118
Plus/(Less) premiums, discounts and deferred amounts	19,779	18,979	6,476	32,282	95
Total Revenue Bonds	1,377,863	409,786	153,570	1,634,079	94,213
Lottery Prizes	232,283	8,249	36,565	203,967	35,077
Compensated Absences	130,005	29,890	25,246	134,649	39,254
Other	162,969	35,636	12,337	186,268	14,053
Total Other Liabilities	525,257	73,775	74,148	524,884	88,384
Business-Type Long-Term Liabilities	\$ 1,903,120	\$ 483,561	\$ 227,718	\$ 2,158,963	\$ 182,597

Connecticut

Starting this fiscal year, the liability for claims and judgments (Governmental Activities) includes a pollution remediation liability of approximately \$40 million. This liability represents the State's share of the cost of cleaning up certain polluted sites in the state under federal and state superfund regulations. The liability was estimated using the cash flow technique.

As of June 30, 2009, long-term debt of component units consisted of the following (amounts in thousands):

Long-Term Debt	Balance June 30, 2009	Amounts due within year
Bonds Payable	\$ 4,162,391	\$ 108,807
Escrow Deposits	172,992	45,451
Closure of Landfill:	63,389	11,104
Due to State	9,793	-
Deferred Revenue	2,983	455
Other	19,055	418
Total	\$ 4,430,603	\$ 166,235

Note 18 Bonded Debt

a. Bond Anticipation Notes

As of June 30, 2009, \$581.2 million in Bond Anticipation Notes bearing interest rates from 2 percent to 4 percent were outstanding. Of these notes, \$353.1 million mature in April 2010 and are reported as short-term liabilities of the Capital Projects and Special Revenue funds. The \$228.1 million long-term portion of the notes mature on June 1, 2011.

Future amounts needed to pay principal and interest on these notes are as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2011	\$ 228,160	\$ 18,685	\$ 246,845
Total	\$ 228,160	\$ 18,685	\$ 246,845

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, 2009, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Capital Improvements	2009-2027	2.00-7.372%	\$ 2,237,466	\$ 260,411
School Construction	2009-2028	2.00-6.777%	3,805,450	88,451
Municipal & Other				
Grants & Loans	2009-2022	2.00-7.312%	1,087,237	157,143
Elderly Housing	2009-2027	2.299-6.795%	113,837	97,979
Elimination of Water Pollution	2009-2023	3.00-7.312%	218,710	581,384
General Obligation				
Refunding	2009-2022	2.00-6.00%	3,355,698	-
Pension Obligation	2009-2032	4.20-6.27%	2,276,578	-
Miscellaneous	2009-2036	2.50-6.75%	101,675	67,058
			13,196,651	\$ 1,252,426
Accretion-Variou Capital Appreciation Bonds			246,874	
Total			\$ 13,443,525	

Future amounts needed to pay principal and interest on general obligation bonds outstanding at June 30, 2009, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2010	\$ 952,740	\$ 744,694	\$ 1,697,434
2011	938,464	646,979	1,585,443
2012	883,664	583,703	1,467,367
2013	810,716	525,080	1,335,796
2014	780,168	474,528	1,254,696
2015-2019	3,425,400	1,801,441	5,226,841
2020-2024	2,585,186	1,271,921	3,857,107
2025-2029	1,838,623	645,626	2,484,249
2030-2034	973,005	120,858	1,093,863
2035-2039	8,685	1,083	9,768
Total	\$ 13,196,651	\$ 6,815,913	\$ 20,012,564

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, 2009, were as follows (amounts in thousands):

Purpose of Bonds	Final Maturity Dates	Original Interest Rates	Amount Outstanding	Authorized But Unissued
Infrastructure				
Improvements	2009-2027	2.00-7.125%	\$ 2,817,015	\$ 1,556,672
Specific Highways	2009	4.80%	-	4,066
General Obligation				
Other	2009	7.513%	-	1
			2,817,015	\$ 1,560,739
Accretion-Variou Capital Appreciation Bonds			-	
Total			\$ 2,817,015	

Future amounts required to pay principal and interest on transportation related bonds outstanding at June 30, 2009, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2010	\$ 285,315	\$ 132,600	\$ 417,915
2011	255,870	118,005	373,875
2012	239,085	105,450	344,535
2013	271,735	92,891	364,626
2014	224,095	81,167	305,262
2015-2019	782,260	279,790	1,062,050
2020-2024	531,650	118,364	650,014
2025-2029	227,005	22,811	249,816
Total	\$ 2,817,015	\$ 951,078	\$ 3,768,093

Connecticut

Variable-Rate Demand Bonds

As of June 30, 2009, variable-rate demand bonds included in bonded debt were as follows (amounts in thousands).

<u>Bond Type</u>	<u>Outstanding</u>	<u>Issuance</u>	<u>Maturity</u>
	<u>Principal</u>	<u>Year</u>	<u>Year</u>
Special Tax Obligation	\$ 43,000	1990	2010
General Obligation	50,000	1997	2014
General Obligation	100,000	2001	2021
General Obligation	280,000	2005	2023
Total	<u>\$ 473,000</u>		

The State entered into various remarketing and standby bond purchase agreements with certain brokerage firms and banks upon the issuance of the bonds.

The bonds were issued bearing a weekly interest rate, which is determined by the State's remarketing agents. The State has the option of changing at any time the weekly interest rate on the bonds to another interest rate, such as a flexible rate or a daily rate. Bonds bearing interest at the weekly rate are subject to purchase at the option of the bondholder at a purchase price equal to principal plus accrued interest, if any, on a minimum seven days' notice of tender to the State's agent. In addition, the bonds are subject to mandatory purchase upon (1) conversion from the weekly interest rate to another interest rate and (2) substitution or expiration of the standby bond purchase agreements. The State's remarketing agent is responsible for using its best efforts to remarket bonds properly tendered for purchase by bondholders from time to time. The State is required to pay the remarketing agents a quarterly fee of .05 percent per annum of the outstanding principal amount of the bonds.

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 .11 percent to .15 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 were 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,
 2001 GO expires in the year 2015, and
 2005 GO expires 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 eight separate pay-fixed, receive-variable interest rate swaps in effect 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 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, 2009, 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 Consumer Price Index (CPI) related 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 nonamortizing and mature on the same date.

<u>Associated Bond Issue</u>	<u>Notional Amounts</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values (000's)</u>	<u>SWAP</u>	<u>Counterparty Credit Rating</u>
	<u>(000's)</u>					<u>Termination Date</u>	
1990 STO	\$ 25,800	12/19/1990	5.746%	65% of LIBOR	\$ (1,215)	12/1/2010	A3/A-/BBB
1990 STO	17,200	12/19/1990	5.709%	65% of LIBOR	(821)	12/1/2010	Aa2/A+/A
2001 GO	20,000	6/28/2001	4.330%	CPI plus 1.43%	(720)	6/15/2012	A2/A/nr
2005 GO	140,000	3/24/2005	3.392%	60% of LIBOR plus 30bp	(7,295)	3/1/2023	Aa1/AAA/nr
2005 GO	140,000	3/24/2005	3.401%	60% of LIBOR plus 30bp	(7,363)	3/1/2023	Aa3/A+/nr
2005 GO	15,620	4/27/2005	3.990%	CPI plus .65%	(1,466)	6/1/2016	A2/A/nr
2005 GO	20,000	4/27/2005	5.070%	CPI plus 1.73%	(2,107)	6/1/2017	A2/A/nr
2005 GO	20,000	4/27/2005	5.200%	CPI plus 1.79%	(2,062)	6/1/2020	AAA/nr/nr
Total	<u>\$ 398,620</u>				<u>(23,049)</u>		

Fair value

As of June 30, 2009, all of the swaps had negative fair values because interest rates had declined since the time when the swaps were undertaken. 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.

Connecticut

Credit Risk

As of June 30, 2009, the State had no credit risk exposure on any of the swaps because the swaps had negative fair value. However, should interest rates change and the fair values of the swaps become positive, the State would be exposed to credit risk in the amount of the swaps' fair value.

The swap agreements contain varying collateral agreements with the counterparties. With the exception of the 2005 swap with a credit rating of Aa1/AAA/nr, the 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 1990 swap agreement and the 2001 swap agreement do not have collateral provisions. Given the negative fair values, no collateral was required to be posted for any of the swaps at June 30, 2009. The State is not required to post collateral for any of the swaps.

Two separate counter parties, with credit ratings of Aa1/AAA/nr and Aa3/A+/nr, hold equal positions totaling approximately 70 percent of the notional amount of the swaps outstanding. The lowest rated counterparty, rated A3/A-/BBB holds one swap of approximately 6 percent of the notional amount of the swaps outstanding, while another counter party, rated A2/A/nr, holds three swaps of approximately 14 percent. The remaining two swaps are held by counter parties rated Aa2/A+/A or better.

Basis Risk

The State's variable-rate bond coupon payments are equivalent to the Securities Industry and Financial Markets Association Municipal Swap (SIFMA) index rate, or the CPI floating rate. For those swaps for which the State receives a variable-rate payment other than CPI, the State is exposed to basis risk should the relationship between the London Interbank Offered Rate (LIBOR) and SIFMA converge. If a change occurs that results in the rates moving to convergence, the synthetic rate on the bonds would change, and the expected cost savings may not be realized. As of June 30, 2009, the SIFMA rate was 0.35 percent, whereas 65 percent and 60 percent plus 30bp of LIBOR were 0.201 and 0.485 percent, respectively. The State recognizes this basis risk by including an amount for basis risk in its debt service budget. For fiscal year 2009, 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 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, 2009, 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	Variable-Rate Bonds		Interest Rate		Total
	Ending June 30,	Principal	Interest	SWAP, Net	
2010	\$ 20,800	\$ 5,913	\$ 9,846	\$ 36,559	
2011	22,200	5,730	8,651	36,581	
2012	20,000	5,661	8,129	33,790	
2013	-	5,651	7,273	12,924	
2014	-	5,651	7,273	12,924	
2015-2019	195,620	21,032	30,177	246,829	
2020-2024	140,000	2,886	5,656	148,542	
Total	\$ 398,620	\$ 52,524	\$ 77,005	\$ 528,149	

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, 2009, were as follows (amounts in thousands):

Funds	Final Maturity Dates	Original Interest Rates	Amount Outstanding (000's)
Uconn	2010-2033	2.0-6.0%	\$ 177,616
State Universities	2010-2034	2-6.0%	295,397
Bradley International Airport	2010-2033	2.5-5.25%	198,930
Clean Water	2010-2028	2-5%	827,103
Bradley Parking Garage	2010-2024	6.125-6.6%	44,655
Drinking Water	2010-2028	2-5%	58,096
Total Revenue Bonds			1,601,797
Plus/(Less) premiums, discounts and deferred amounts:			
Uconn			(4,342)
State Universities			1,514
Bradley International Airport			51
Clean Water			35,059
Other			-
Revenue Bonds, net			\$ 1,634,079

The University of Connecticut has issued Student fee revenue bonds to finance the costs of buildings, improvements and renovations to certain revenue-generating capital projects. Revenues used for payments on the bonds are derived from various fees charged to students.

The Connecticut State University System has issued revenue bonds that finance the costs of auxiliary enterprise buildings, improvements and renovations to certain student housing

related facilities. Revenues used for payments on the bonds are derived from various fees charged to students.

Bradley Airport has issued various revenue bonds to finance costs of improvements to the airport. As of June 30, 2009, the following bonds were outstanding:

- a) 2004 Airport Revenue Refunding Bonds in the amount of \$10.7 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 \$170.9 million and 2001 Bradley International Airport Refunding Bonds in the amount of \$17.3 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.

As of June 30, 2009, Bradley airport has entered into interest rate swap agreements for \$152.4 million of its variable rate bonds. Details on these agreements are disclosed under the separately issued audited financial statements of the fund.

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. As of June 30, 2009, the Clean Water Fund has entered into interest rate swap agreements for \$121.4 million of its variable rate bonds. Details on these agreements are disclosed under the separately issued audited financial statements of the fund.

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

Future amounts needed to pay principal and interest on revenue bonds outstanding at June 30, 2009, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2010	\$ 94,119	\$ 74,117	\$ 168,236
2011	99,912	71,054	170,966
2012	101,162	67,453	168,615
2013	103,543	62,348	165,891
2014	89,937	57,860	147,797
2015-2019	437,230	222,327	659,557
2020-2024	366,489	118,422	484,911
2025-2029	224,665	42,880	267,545
2030-2034	82,650	6,937	89,587
2035-2039	2,090	85	2,175
Total	<u>\$ 1,601,797</u>	<u>\$ 723,483</u>	<u>\$ 2,325,280</u>

d. Component Units

Component units' revenue bonds outstanding at June 30, 2009, were as follows (amounts in thousands):

<u>Component Unit</u>	<u>Final Maturity Date</u>	<u>Interest Rates</u>	<u>Amount Outstanding (000's)</u>
CT Development Authority	2009-2020	3.9-6%	\$ 22,585
CT Housing Finance Authority	2009-2049	1.5-9.36%	3,870,056
CT Resources Recovery Authority	2009-2016	5.125-5.5%	20,343
CT Higher Education Supplemental Loan Authority	2009-2028	0.0-9.7%	138,710
Capital City Economic Development Authority	2009-2033	3.1-5%	105,115
UConn Foundation	2009-2029	3.875-5.5%	<u>6,955</u>
Total Revenue Bonds			4,163,764
Plus/(Less) premiums, discounts, and deferred amounts:			
CDA			13
CRRA			(360)
CCEDA			(327)
CHESLA			<u>(699)</u>
Revenue Bonds, net			<u>\$ 4,162,391</u>

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. As of June 30, 2009 no bonds were outstanding under the Umbrella Program. Bonds issued under the Self-Sustaining Bond Program are discussed in the no-commitment debt section of this note. In addition, the Authority had \$22.6 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, 2008, bonds outstanding under the bond resolution and the indenture were \$3,813.4 million and \$56.6 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 (\$273.5 million at 12/31/08) on all outstanding bonds. As of December 31, 2008, the Authority has entered into interest rate swap agreements for \$963.5 million of its variable rate

bonds. Details on these agreements are disclosed under the separately issued audited financial statements of the Authority.

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 \$20.3 million.

The Capital City Economic Development Authority revenue bonds are issued to provide sufficient funds for carrying out its purposes. The bonds are not debt of the State of Connecticut. However, the Authority and the State have entered into a contract for financial assistance, pursuant to which the State will be obligated to pay principal and interest on the bonds in an amount not to exceed \$9.0 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, 2009, were as follows (amounts in thousands):

Year Ending June 30,	Principal	Interest	Total
2010	\$ 115,034	\$ 174,396	\$ 289,430
2011	136,732	168,995	305,727
2012	126,744	162,634	289,378
2013	116,788	175,401	292,189
2014	130,181	155,596	285,777
2015-2019	714,302	681,909	1,396,211
2020-2024	759,646	515,839	1,275,485
2025-2029	850,102	342,971	1,193,073
2030-2034	768,355	179,981	948,336
2035-2039	429,525	43,219	472,744
2040-2044	16,355	2,525	18,880
Total	\$ 4,163,764	\$ 2,603,466	\$ 6,767,230

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, 2009 were \$979.8 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, 2009 were \$83.9 million. Of this amount, \$40.4 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, 2009, were \$6,824.0 million, of which \$296.7 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 \$74.2 million of general obligation bonds with an average interest rate of 2.71 percent to refund \$73.3 million of general obligation bonds with an average interest rate of 4.44 percent. The reacquisition price exceeded the carrying amount of the old debt by \$2.0 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 refunded these bonds to reduce its total debt service payments over the next fifteen years by \$2.5 million and to obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of \$3.5 million. As of June 30, 2009, \$2,482.6 million of outstanding general obligation, special tax

obligation, and revenue bonds had been advanced refunded and are, accordingly, considered defeased.

In addition, \$506.3 million of variable-rate Special Tax Obligation bonds were advance refunded during the year.

Note 19 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.

<u>Risk of Loss</u>	<u>Risk Financed by</u>	
	<u>Purchase of Commercial Insurance</u>	<u>Self-Insurance</u>
Liability (Torts):		
-General (State buildings, parks, or grounds)		X
-Other	X	
Theft of, damage to, or destruction of assets	X	
Business interruptions	X	
Errors or omissions:		
-Professional liability	X	
-Medical malpractice (John Dempsey Hospital)		X
Injuries to employees		X
Natural disasters	X	

For the general liability risk, the State is self-insured because it has sovereign immunity. This means that the State cannot be sued for liability without its permission. For other liability risks, the State purchases commercial insurance only if the State can be held liable under a particular statute (e.g. per Statute the State can be held liable for injuries suffered by a person on a defective State highway), or if it is required by a contract.

For the risk of theft, of damage to, or destruction of assets (particularly in the automobile fleet), the State insures only leased cars and vehicles valued at more than \$100 thousand. When purchasing commercial insurance the State may retain some of the risk by assuming a deductible or self-insured retention amount in the insurance policy. This amount varies greatly because the State carries a large number of insurance policies covering various risks. The highest deductible or self-insured retention amount assumed by the State is \$25 million, which is carried in a railroad liability policy.

The State records its risk management activities related to the medical malpractice risk in the University of Connecticut fund, an Enterprise fund. At year-end, liabilities for unpaid claims are recorded in the statement of net assets (government-wide and proprietary fund statements) when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The liabilities are determined based on the ultimate cost of settling the claims, including an amount for claims that have been incurred but not reported and claim adjustment expenses. The liabilities are actuarially determined and the unpaid liability for medical malpractice is reported at its present value, using a discount rate of 5 percent. In the General Fund, the liability for unpaid claims is only recorded if the liability is due for payment at year-end. Settlements have not exceeded coverages for each of the past three fiscal years. Changes in the claims liabilities during the last two fiscal years were as follows (amounts in thousands):

	<u>Governmental Activities Workers' Compensation</u>	<u>Business-Type Activities Medical Malpractice</u>
Balance 6-30-07	\$ 382,128	\$ 20,000
Incurred claims	115,558	3,291
Paid claims	<u>(85,067)</u>	<u>(2,001)</u>
Balance 6-30-08	412,619	21,290
Incurred claims	143,104	8,790
Paid claims	<u>(95,945)</u>	<u>(4,856)</u>
Balance 6-30-09	<u>\$ 459,778</u>	<u>\$ 25,224</u>

Connecticut

Note 20 Interfund Receivables and Payables

Interfund receivable and payable balances at June 30, 2009, were as follows (amounts in thousands):

	Balance due to fund(s)											Total
	General	Transportation	Restricted Grants & Accounts	Other Governmental	UConn	State Universities	Other Proprietary	Employment Security	Internal Services	Fiduciary	Component Units	
Balance due from fund(s)												
General	\$ -	\$ -	\$ 553,105	\$ 280,655	\$ 52,218	\$ 21,720	\$ 20,969	\$ 1,797	\$ 2,926	\$ 5,847	\$ -	\$ 939,237
Debt Service	-	1,367	-	-	-	-	-	-	-	-	-	1,367
Restricted Grants & Accounts	3,133	-	-	76	-	-	-	-	-	-	444	3,653
Other Governmental	2,626	-	-	7,631	1,832	21,739	55,657	-	-	-	12,664	102,149
UConn	17,722	-	-	-	-	-	-	-	-	-	-	17,722
State Universities	3,234	-	-	-	-	-	-	-	-	-	-	3,234
Employment Security	-	-	-	41,964	-	-	-	-	-	-	-	41,964
Other Proprietary	412	-	10,511	-	-	-	-	-	-	-	-	10,923
Internal Services	-	-	-	66,931	-	-	-	-	-	-	-	66,931
Fiduciary	-	-	-	18,500	-	-	-	-	-	1,567	-	20,067
Component Units	9,793	-	-	-	-	-	-	-	-	-	-	9,793
Total	\$ 36,920	\$ 1,367	\$ 563,616	\$ 415,757	\$ 54,050	\$ 43,459	\$ 76,626	\$ 1,797	\$ 2,926	\$ 7,414	\$ 13,108	\$ 1,217,040

Interfund receivables and payables arose because of interfund loans and other interfund balances outstanding at year end.

Note 21 Interfund Transfers

Interfund transfers for the fiscal year ended June 30, 2009, consisted of the following (amounts in thousands):

	Amount transferred to fund(s)										Total
	General	Debt Service	Transportation	Restricted Grants & Accounts	Other Governmental	UConn	State Universities	Other Proprietary	Fiduciary		
Amount transferred from fund(s)											
General	\$ -	\$ -	\$ -	\$ -	\$ 101,712	\$ 536,282	\$ 238,315	\$ 240,511	\$ -	\$ 1,116,820	
Debt Service	-	-	16,797	145	-	-	-	-	-	16,942	
Transportation	6,492	423,049	-	15,300	9,500	-	-	-	-	454,341	
Restricted Grants & Accounts	78,373	-	-	-	688	-	-	-	-	79,061	
Other Governmental	249,486	-	8,662	75,653	22,145	152,455	10,097	4,180	2,703	525,381	
Internal Service	7,513	-	-	-	-	-	-	-	-	7,513	
Connecticut Lottery	283,000	-	-	-	-	-	-	-	-	283,000	
Employment Security	-	-	-	-	25,250	-	-	-	-	25,250	
Other Proprietary	-	-	-	-	-	-	-	9,647	-	9,647	
Total	\$ 624,864	\$ 423,049	\$ 25,459	\$ 91,098	\$ 159,295	\$ 688,737	\$ 248,412	\$ 254,338	\$ 2,703	\$ 2,517,955	

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 22 Restatement of Fund Balance/Net Assets, and Restricted Assets

As of June 30, 2009, the beginning net assets/fund balances for the following funds and activities were restated as follows (amounts in thousands):

	Balance 6-30-08 Previously Reported	Correction of Reported Assets/Liabilities	Balance 6-30-08 as Restated
Governmental Funds and Activities			
Major Funds:			
Restricted Grants and Accounts	\$ 666,022	\$ (49,644)	\$ 616,378
Total Governmental Funds	\$ 3,120,784	\$ (49,644)	\$ 3,071,140
Governmental Activities:			
Capital Assets	\$ 10,045,466	\$ (17,332)	\$ 10,028,134
Net Assets of Governmental Activities	\$ (6,887,929)	\$ (66,976)	\$ (6,954,905)
Proprietary Funds and Business-Type Activities			
Major Funds:			
State Universities	\$ 754,043	\$ (21,652)	\$ 732,391
Total Proprietary Funds	\$ 4,684,480	\$ (21,652)	\$ 4,662,828
Net Assets of Business-Type Activities	\$ 4,684,480	\$ (21,652)	\$ 4,662,828

The beginning fund balance of the Restricted fund, a governmental fund, was adjusted to correct an overstatement in the balance of accounts receivable reported last year.

The beginning net asset balance of governmental activities was adjusted to correct a net overstatement in the balance of capital assets reported last year.

The beginning net assets balance of the State Universities fund, a proprietary fund, was adjusted to reflect the cumulative effect of a change in the depreciation method for library books, a capital asset.

As of June 30, 2009, the government-wide statement of net assets reported \$3,088 of restricted net assets, of which \$300 million was restricted by enabling legislation.

Note 23 Related Organizations

The Community Economic Development Fund and the Connecticut Student Loan Foundation are legally separate organizations that are related to the State because the State appoints a voting majority of the organizations' governing board. However, the State's accountability for these organizations does not extend beyond making the appointments.

Note 24 New Accounting Pronouncements

In fiscal year 2009, the State implemented the following Statements issued by the Governmental Accounting Standards Board: Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations"; Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"; and Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards".

Statement No. 49 establishes accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. Previously, the GAAP hierarchy for state and local governments was set forth in an American Institute of Certified Public Accountants' auditing standard, rather than in GASB's authoritative literature.

Statement No. 56 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance presented in American Institute of Certified Public Accountants' auditing standards. This guidance deals with financial reporting of related party transactions, going concern considerations, and subsequent events.

Note 25 Commitments and Contingencies

A. Commitments

Primary Government

Commitments are defined as "existing arrangements to enter into future transactions or events, such as long-term contractual obligations with suppliers for future purchases at specified prices and sometimes at specified quantities." As of June 30, 2009, the Departments of Transportation and Public Works had contractual commitments of approximately \$936 million for infrastructure and other construction projects. Additionally, other commitments were approximately as follows:

School construction and alteration grant program \$2,821 million.

Clean and drinking water loan programs \$433 million.

Various programs and services \$3,269 million.

All commitments are expected to be funded by federal grants, bond proceeds, and other resources.

Component Units

As of December 31, 2008, the Connecticut Housing Finance Authority had mortgage loan commitments of approximately \$146 million.

B. Contingent Liabilities

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

In 2002 the City of Waterbury issued \$97.5 million of General Obligation Special Capital Reserve Fund Bonds. These bonds are secured by a Special Capital Reserve Fund for which the State may be contingently liable as explained previously in Note 18 – Component Units.

Amounts received or receivable by the State from grant agencies are subject to audit and adjustment by grantor agencies, mainly the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the federal government cannot be determined at this time, although the State expects such amounts, if any, to be immaterial.

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 26 Subsequent Events

In July 2009, the State issued \$115.8 million of Clean Water Fund revenue bonds. The bonds will mature in years 2010 through 2022 and bear interest rates ranging from 1.5 percent to 5.0 percent.

In October 2009, the State issued \$196 million of Special Tax Obligation Transportation Infrastructure bonds. The

bonds will mature in years 2010 through 2029 and bear interest rates ranging from 2.5 percent to 5.0 percent.

In October 2009, the State issued \$304 million Special Tax Obligation "Taxable Build America" Bonds. The bonds will mature in years 2020 through 2029 and bear interest rates ranging from 4.86 percent to 5.74 percent.

In October 2009, the State issued \$49.8 million of Special tax obligation refunding bonds. The bonds will mature in years 2010 through 2014 and bear interest rates ranging from 2.50 percent to 5.00 percent.

In December 2009, the State issued \$915.8 million of General Obligation Economic Recovery Notes. The notes will mature in years 2012 through 2016 and bear interest rates ranging from 2.00 percent to 5.00 percent.

In December 2009, the State issued \$165.8 million of General Obligation Bonds. The bonds will mature in years 2012 through 2014 and bear an interest rate of 5.00 percent.

In December 2009, the State issued \$450.0 million of General Obligation "Taxable Build America" Bonds. The bonds will mature in years 2020 through 2029 and bear interest rates ranging from 4.95 percent to 5.63 percent.

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***Required
PERS
Supplementary
Information***

**Pension and Other Postemployment Benefit Plans
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
<u>SERS</u>						
6/30/2003	\$8,058.6	\$14,223.8	\$6,165.2	56.7%	\$2,654.3	232.3%
6/30/2004	\$8,238.3	\$15,128.5	\$6,890.2	54.5%	\$2,816.7	244.6%
6/30/2005	\$8,517.7	\$15,987.5	\$7,469.8	53.3%	\$2,980.1	250.7%
6/30/2006	\$8,951.4	\$16,830.3	\$7,878.9	53.2%	\$3,107.9	253.5%
6/30/2007	\$9,585.1	\$17,888.1	\$8,303.0	53.6%	\$3,310.4	250.8%
6/30/2008	\$9,990.2	\$19,243.4	\$9,253.2	51.9%	\$3,497.4	264.6%
6/30/2009 *	\$-	\$-	\$-	0.0%	\$-	0.0%

*No actuarial valuation was performed.

<u>TRS</u>						
6/30/2003 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2004	\$9,847.0	\$15,070.5	\$5,223.5	65.3%	\$2,930.8	178.2%
6/30/2005 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2006	\$10,190.3	\$17,112.8	\$6,922.5	59.5%	\$3,137.7	220.6%
6/30/2007 *	\$-	\$-	\$-	0.0%	\$-	0.0%
6/30/2008	\$15,271.0	\$21,801.0	\$6,530.0	70.0%	\$3,399.3	192.1%
6/30/2009 *	\$-	\$-	\$-	0.0%	\$-	0.0%

*No actuarial valuation was performed.

<u>JRS</u>						
6/30/2003	\$142.8	\$211.1	\$68.3	67.6%	\$27.8	245.7%
6/30/2004	\$150.9	\$219.8	\$68.9	68.7%	\$28.9	238.4%
6/30/2005	\$160.3	\$235.0	\$74.7	68.2%	\$30.2	247.8%
6/30/2006	\$169.7	\$246.9	\$77.2	68.7%	\$31.8	242.8%
6/30/2007	\$182.4	\$261.2	\$78.8	69.8%	\$33.8	233.1%
6/30/2008	\$191.7	\$267.0	\$75.3	71.8%	\$34.0	221.5%
6/30/2009 *	\$-	\$-	\$-	0.0%	\$-	0.0%

*No actuarial valuation was performed.

<u>RTHP</u>						
6/30/2008	\$-	\$2,318.8	\$2,318.8	0.0%	\$3,399.3	68.2%
6/30/2009 *	\$-	\$-	\$-	0.0%	\$-	0.0%

*No actuarial valuation was performed.

Only one actuarial valuation is presented because GASB Statement No. 45 was implemented in fiscal year 2008.

Pension and Other Postemployment Benefit Plans Required Supplementary Information Schedules of Employer Contributions

(Expressed in Millions)

Fiscal Year	<u>SERS</u>		<u>TRS</u>		<u>JRS</u>		<u>RTHP</u>	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2003	\$421.5	100.0%	\$221.2	81.3%	\$10.1	100.0%	\$0.0	0.0%
2004	\$470.3	100.0%	\$270.5	68.5%	\$11.6	100.0%	\$0.0	0.0%
2005	\$518.8	100.0%	\$281.4	65.8%	\$12.2	100.0%	\$0.0	0.0%
2006	\$623.1	100.0%	\$396.2	100.0%	\$11.7	100.0%	\$0.0	0.0%
2007	\$663.9	100.0%	\$416.0	99.0%	\$12.4	100.0%	\$0.0	0.0%
2008	\$716.9	99.2%	\$518.6	485.7%	\$13.4	100.0%	\$116.1	17.9%
2009	\$753.7	92.8%	\$539.3	100.0%	\$14.2	100.0%	\$116.7	19.2%

For RTHP required information is presented starting with fiscal year 2008 because GASB Statement No. 45 was implemented in that year.

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APPENDIX III-D



NANCY WYMAN
COMPTROLLER

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

MARK E. OJAKIAN
DEPUTY COMPTROLLER

February 17, 2010

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, 2005-2009. This review also covered the accompanying statements of unappropriated surplus, revenues and expenditures for the years ended on those dates. The statements are based on the annual report of the Office of the State Comptroller, which is prepared in compliance with Section 3-115 of the General Statutes, as well as reports of the Auditors of Public Accounts with respect to the balance sheets and related statements for the fiscal years ending June 30, 2005-2009.

The statements have been prepared on a modified cash basis of accounting for appropriated funds and on a cash basis of accounting for all other funds. These methods of accounting have been applied consistently and in accordance with the governing statutory requirements for all periods shown.

Sincerely,

A handwritten signature in cursive script that reads "Nancy Wyman".

Nancy Wyman
State Comptroller

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

STATE CAPITOL

210 CAPITOL AVENUE

HARTFORD, CONNECTICUT 06106-1559

KEVIN P. JOHNSTON

ROBERT G. JAEKLE

**INDEPENDENT AUDITORS' REPORT
CERTIFICATE OF AUDIT**

We have audited the accompanying balance sheet of the General Fund of the State of Connecticut as of June 30, 2005, 2006, 2007, 2008 and 2009 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 do not purport to, and do not, present fairly the financial position of the State of Connecticut as of June 30, 2005, 2006, 2007, 2008 and 2009, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position – modified cash basis of the General Fund of the State of Connecticut as of June 30, 2005, 2006, 2007, 2008 and 2009, and the results of its operations – modified cash basis for the years then ended, in conformity with the basis of accounting described in Note (a) to Appendix III-D-4.

As discussed in the litigation section of the accompanying Official Statement, the State of Connecticut is a defendant in certain legal proceedings. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements. However, as indicated in that section, an adverse judgement in any one of these cases could have a material fiscal impact on the State.

Handwritten signature of Kevin P. Johnston in black ink.

Kevin P. Johnston
Auditor of Public Accounts

Handwritten signature of Robert G. Jaekle in black ink.

Robert G. Jaekle
Auditor of Public Accounts

February 1, 2010
State Capitol
Hartford, Connecticut

GENERAL FUND^(a)

**Balance Sheet
As of June 30
(In Thousands)**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Assets					
Cash and Short-Term Investments	\$ 102,329	\$ 208,659	\$ 30,148	\$ --	\$ --
Accrued Taxes Receivable	923,537	949,567	1,111,655	1,133,886	976,536
Accrued Accounts Receivable	33,815	35,289	36,080	32,874	29,913
Federal and Other Grants Receivable and Unexpended Balances	--	--	--	--	--
Investments	--	--	--	--	--
Due from Other Funds	1,200	--	--	--	--
Loans Receivable	18,559	15,939	13,320	--	--
Total Assets	<u>\$ 1,079,440</u>	<u>\$ 1,209,454</u>	<u>\$ 1,191,203</u>	<u>\$ 1,166,760</u>	<u>\$ 1,006,449</u>
Liabilities, Reserves and Surplus					
Liabilities					
Deficiency in Cash and Short-Term Investments	--	--	--	\$ 477,251	\$ 1,863,042
Accounts Payable	--	--	--	--	--
Deferred Restricted Accounts and Federal and Other Grant Revenue	--	--	--	--	--
Due to Other Funds	\$ 4,332	\$ 18,198	\$ 9,975	\$ 5,103	\$ 1,374
Total Liabilities	<u>\$ 4,332</u>	<u>\$ 18,198</u>	<u>\$ 9,975</u>	<u>\$ 482,354</u>	<u>\$ 1,864,416</u>
Reserves					
Petty Cash Funds	\$ 971	\$ 912	\$ 918	\$ 886	\$ 840
Statutory Surplus Reserves	379,715	446,490	269,240	179,420	--
Appropriations Continued to Following Year	<u>694,422</u>	<u>702,854</u>	<u>831,070</u>	<u>504,100</u>	<u>88,772</u>
Reserved FY 06 Surplus for FY 07 Operations	--	41,000	--	--	--
Reserved FY 07 Surplus for FY 08 Operations	--	--	80,000	--	--
Total Reserves	<u>\$ 1,075,108</u>	<u>\$ 1,191,256</u>	<u>\$ 1,181,228</u>	<u>\$ 684,406</u>	<u>\$ 89,612</u>
Unappropriated Surplus (Deficit)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(947,579)</u>
Total Liabilities, Reserves and Surplus	<u>\$ 1,079,440</u>	<u>\$ 1,209,454</u>	<u>\$ 1,191,203</u>	<u>\$ 1,166,760</u>	<u>\$ 1,006,449</u>

(a) The State of Connecticut's policy, which was formulated in accordance with State fiscal statutes, is to prepare the accompanying financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and budget laws of the State of Connecticut. The modified cash basis of accounting, as used by the State, records expenditures when they are paid and recognizes revenues when received, except for the accrual at June 30 of State collections in July and August of certain taxes levied, Indian gaming payments, and the accounting for restricted grants on an earned basis. Certain accrual dates for various revenues have been extended and may not reflect the same accrual date through the years reflected herein.

(b) Under the provisions of Public Act No. 09-2 of the June 2009 Special Session, the accumulated deficit as of June 30, 2009 was financed through the issuance of economic recovery notes.

GENERAL FUND

**Statement of Revenues, Expenditures and Changes in Unappropriated Surplus
Fiscal Year Ended June 30
(In Thousands)**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Unappropriated Surplus (Deficit), July 1	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Resources from Reserve for Debt					
Avoidance/ERN	--	--	--	--	--
Total Revenues (per Appendix III-D-6)	14,062,863	14,998,721	15,742,561	16,418,786	15,700,801
Total Expenditures (per Appendix III-D-7)	13,333,703 ^(a)	14,499,616 ^(b)	15,293,735 ^(c)	16,627,447 ^(d)	17,234,855 ^(e)
Operating Balance	729,160	499,105	448,826	(208,661)	(1,534,054)
Reserved for Prior Year Appropriations					
Less Appropriations Carried Forward	(481,561)	(8,432)	(128,216)	326,972	415,327
Transferred (Out) or Reserved for:					
Budget Reserve Fund	(363,863)	(446,490)	(269,240)	-0-	-0-
Reserve for Debt Retirement/Avoidance	(15,851)	(41,000)	(80,000)	(99,420)	-0-
Other Adjustments	(18,185)	(19,035)	(12,370)	(18,891)	(8,271)
Reserved from Prior Year	<u>150,300</u>	<u>15,852</u>	<u>41,000</u>	<u>-0-</u>	<u>179,420</u>
Subtotal	-0-	-0-	-0-	-0-	(947,578)
Transferred from Budget Reserve Fund	--	--	--	--	--
Unappropriated Surplus (Deficit), June 30	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ (947,578)</u>

- (a) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of (\$481,561).
- (b) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of (\$8,432).
- (c) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of (\$128,216).
- (d) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$326,972.
- (e) Total Expenditures includes prior year appropriations less appropriations carried forward to the next fiscal year in the amount of \$415,327.

GENERAL FUND
Statement of Revenues
Fiscal Year Ended June 30
(In Thousands)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Taxes:					
Personal Income	\$ 5,570,724	\$ 6,156,373	\$ 6,749,462	\$ 7,512,688	\$ 6,385,856
Sales and Use	3,290,366	3,401,966	3,496,110	3,582,317	3,318,752
Corporations	678,970	787,702	890,730	733,942 ^(c)	615,921
Insurance Companies	257,152	269,902	253,016	227,221	202,217
Inheritance and Estate	253,907	196,258	179,922	170,619	238,337
Alcoholic Beverages	44,235	45,998	46,007	47,077	47,065
Cigarettes	273,979	272,230	269,525	335,197	317,774
Admissions, Dues, Cabaret	31,699	35,367	33,439	37,277	36,040
Oil Companies	143,548	212,091	144,404	205,483	104,413
Public Service Corporations	196,819	225,263	235,502	237,113	268,495
Real Estate Conveyance	207,631	207,457	211,222	158,544	90,802
Miscellaneous	39,028	142,180	144,517	139,980	143,305
Refunds of Taxes	(681,279)	(730,849)	(746,539)	(852,184)	(1,052,286)
R&D Credit Exchange	(8,850)	(6,694)	(5,983)	(11,363)	(8,428)
Other Revenue:					
Licenses, Permits, Fees	143,250	157,400	151,738	171,739	162,474
Sales of Commodities and Services	35,148	34,612	35,529	30,066	32,558
Transfer – Special Revenue	273,894	289,946	283,808	287,604	287,195
Investment Income	15,294	53,702	83,610	63,943	18,806
Transfers — To Other Funds ^(a)	(85,000)	(86,300)	(86,300)	(86,300)	(86,300)
Fines, Escheats and Rents	170,732	91,456	51,782	59,922	64,018
Miscellaneous	153,982	176,595	188,324	140,089	163,023
Refunds of Payments	(374)	(438)	(514)	(501)	(662)
Federal Grants	2,497,670	2,549,577	2,602,774	2,701,603	3,619,490
Indian Gaming Payments	417,838	427,527	430,476	411,410	377,805
Statutory Transfers From Other Funds	142,500	89,400	100,000	115,300	354,131
Total Revenues^(b)	<u>\$ 14,062,863</u>	<u>\$ 14,998,721</u>	<u>\$ 15,742,561</u>	<u>\$ 16,418,786</u>	<u>\$ 15,700,801</u>

(a) Transfer to Pequot/Mohegan Fund.

(b) See Operating Balance on Appendix III-D-5 for surplus or deficit for each fiscal year.

(c) For Fiscal Year ending June 30, 2008, the Corporation Business Tax accrual date was changed to the last day of July from August 15th (as in the prior fiscal years). The Corporation Business Tax is now consistent with other tax accruals. The Comptroller's decision to make this change is within her constitutional powers under Section 24, Article Fourth of the Connecticut State Constitution and her statutory powers under Public Act No. 08-111.

GENERAL FUND
Statement of Expenditures
Fiscal Year Ended June 30
(In Thousands)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Legislative	\$ 63,220	\$ 62,159	\$ 68,141	\$ 72,488	\$ 71,555
General Government					
Executive	9,558	9,821	10,441	12,572	11,841
Financial Administration	332,330	361,310	414,664	499,320	424,610
Legal	<u>67,250</u>	<u>71,387</u>	<u>75,535</u>	<u>90,957</u>	<u>83,664</u>
Total General Government	<u>409,138</u>	<u>442,518</u>	<u>500,640</u>	<u>602,849</u>	<u>520,115</u>
Regulation and Protection of Persons and Property					
Public Safety	138,586	150,624	163,838	193,796	189,394
Regulative	<u>75,311</u>	<u>86,756</u>	<u>101,843</u>	<u>87,196</u>	<u>97,428</u>
Total Regulation and Protection	<u>213,897</u>	<u>237,380</u>	<u>265,681</u>	<u>280,992</u>	<u>286,822</u>
Conservation and Development					
Agriculture	10,283	10,765	11,557	15,960	12,276
Environment	35,244	35,215	36,477	39,965	39,038
Historical Sites, Commerce and Industry	<u>47,958</u>	<u>44,907</u>	<u>48,227</u>	<u>63,833</u>	<u>62,015</u>
Total Conservation and Development	<u>93,485</u>	<u>90,887</u>	<u>96,261</u>	<u>119,758</u>	<u>113,329</u>
Health and Hospitals					
Public Health	77,482	84,149	90,753	103,265	108,878
Mental Retardation	752,463	820,250	870,600	937,962	970,322
Mental Health	<u>453,290</u>	<u>487,864</u>	<u>512,426</u>	<u>565,484</u>	<u>583,339</u>
Total Health and Hospitals	<u>1,283,235</u>	<u>1,392,263</u>	<u>1,473,779</u>	<u>1,606,711</u>	<u>1,662,539</u>
Transportation	<u>1,203</u>	<u>1,810</u>	<u>2,103</u>	<u>127</u>	<u>(50)</u>
Human Services	<u>3,908,030</u>	<u>4,181,893</u>	<u>4,221,641</u>	<u>4,629,658</u>	<u>5,041,515</u>
Education, Libraries and Museums					
Department of Education	2,091,313	2,232,795	2,312,000	2,569,432	2,671,600
Education of the Blind and Deaf	14,195	14,339	13,864	15,337	13,537
University of Connecticut	270,278	205,807	222,567	234,481	234,058
Higher Education and the Arts	71,207	126,706	153,625	192,594	198,638
Libraries	10,155	11,188	11,795	13,248	13,100
Teachers Retirement	199,993	418,469	435,051	541,671	564,062
Community—Technical Colleges	126,921	135,802	145,503	161,778	161,451
State University	<u>138,481</u>	<u>145,520</u>	<u>155,102</u>	<u>164,254</u>	<u>162,935</u>
Total Education, Libraries and Museums	<u>2,922,543</u>	<u>3,290,626</u>	<u>3,449,507</u>	<u>3,892,795</u>	<u>4,019,381</u>
Corrections	<u>1,239,564</u>	<u>1,339,289</u>	<u>1,430,316</u>	<u>1,549,792</u>	<u>1,577,167</u>
Judicial	<u>405,818</u>	<u>438,123</u>	<u>474,067</u>	<u>515,738</u>	<u>543,078</u>
Non-Functional					
Debt Service	1,256,859	1,306,091	1,472,839	1,409,878	1,464,072
Miscellaneous	<u>1,536,711</u>	<u>1,716,576</u>	<u>1,838,760</u>	<u>1,946,661</u>	<u>1,935,332</u>
Total Non-Functional	<u>2,793,570</u>	<u>3,022,667</u>	<u>3,311,599</u>	<u>3,356,539</u>	<u>3,399,404</u>
Totals	<u>13,333,703</u>	<u>14,499,615</u>	<u>15,293,735</u>	<u>16,627,447</u>	<u>17,234,855</u>
Total Expenditures^(a)	<u>\$13,333,703</u>	<u>\$14,499,615</u>	<u>\$15,293,735</u>	<u>\$16,627,447</u>	<u>\$17,234,855</u>

(a) See Operating Balance on **Appendix III-D-5** for surplus or deficit for each fiscal year.

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GENERAL FUND REVENUES AND EXPENDITURES
AUDITED FINAL BUDGET FOR FISCAL YEAR 2008-09
ADOPTED AND ESTIMATED BUDGET FOR FISCAL YEAR 2009-10
ADOPTED BUDGET FOR FISCAL YEAR 2010-11

(In Millions)

	Final Budget <u>2008-09^(c)</u>	Revised Adopted Budget <u>2009-10^(f)</u>	Estimated Budget <u>2009-10^(g)</u>	Revised Adopted Budget <u>2010-11^(f)</u>
Revenues				
<u>Taxes</u>				
Personal Income Tax	\$ 6,385.9	\$ 6,630.7	\$ 6,423.0	\$ 6,654.7
Sales & Use	3,318.8	3,166.7	3,076.1	3,095.4
Corporation	615.9	721.6	706.6	731.9
Public Service	268.5	272.3	271.2	278.3
Inheritance & Estate	238.3	208.7	196.2	102.0
Insurance Companies	202.2	202.7	200.2	216.8
Cigarettes	317.8	392.6	387.6	403.1
Real Estate Conveyance	90.8	94.5	94.5	117.5
Oil Companies	104.4	98.9	124.4	75.5
Alcoholic Beverages	47.1	48.0	47.6	48.5
Admissions and Dues	36.0	37.1	37.1	37.6
Miscellaneous	143.3	143.7	145.5	144.7
Total Taxes	<u>\$11,769.0</u>	<u>\$12,017.5</u>	<u>\$11,710.0</u>	<u>\$11,906.0</u>
Less Refunds of Taxes	(1,052.3)	(1,080.5)	(1,145.5)	(983.3)
Less R&D Credit Exchange	(8.4)	(9.4)	(9.4)	(10.5)
Net Taxes	<u>\$10,708.3</u>	<u>\$10,927.6</u>	<u>\$10,555.1</u>	<u>\$10,912.2</u>
<u>Other Revenues</u>				
Transfers- Special Revenues	287.2	293.4	293.4	295.1
Indian Gaming Payments	377.8	384.1	371.0	391.7
Licenses, Permits, Fees	162.5	281.8	264.9	265.6
Sales of Commodities & Services	32.6	33.2	33.2	34.3
Rents, Fines & Escheats	64.0	97.3	170.0	103.4
Investment Income	18.8	10.0	10.0	10.0
Miscellaneous	163.0	208.0	177.6	218.5
Less Refunds of Payments	(0.7)	(0.7)	(0.7)	(0.7)
Total Other Revenue	<u>\$ 1,105.2</u>	<u>\$ 1,307.1</u>	<u>\$ 1,319.4</u>	<u>\$ 1,317.9</u>
<u>Other Sources</u>				
Federal Grants	3,619.5	4,051.8 ^(h)	4,094.0 ^(h)	3,770.4 ^(h)
Transfers to the Resources of the G.F.	238.3 ^(d)	1,121.9 ⁽ⁱ⁾	1,096.7 ⁽ⁱ⁾	1,678.0 ⁽ⁱ⁾
Transfers from Tobacco Settlement Funds	115.8	107.3	107.3	106.1
Transfers to Other Funds ^(a)	(86.3)	(143.3)	(143.0)	(187.8)
Total Other Sources	<u>\$ 3,887.3</u>	<u>\$ 5,137.7</u>	<u>\$ 5,155.0</u>	<u>\$ 5,366.7</u>
Total Budgeted Revenue ^(b)	<u>\$15,700.8</u>	<u>\$17,372.4</u>	<u>\$17,029.5</u>	<u>\$17,596.8</u>

	Final Budget 2008-09 ^(c)	Revised Adopted Budget 2009-10 ^(f)	Estimated Budget 2009-10 ^(g)	Revised Adopted Budget 2010-11 ^(f)
Appropriations/Expenditures				
Legislative	\$ 71.5	\$ 79.3	\$ 79.3	\$ 82.4
General Government	492.5	543.7	553.8	552.4
Regulation & Protection	305.5	272.7	279.7	276.6
Conservation & Development	94.9	149.7	149.7	141.4
Health & Hospitals	1,655.5	1,705.5	1,736.0	1,737.4
Human Services	4,937.9	5,066.5	5,191.5	4,996.8
Education, Libraries & Museums	3,801.9	4,023.4	4,023.4	4,103.6
Corrections	1,577.2	1,568.8	1,589.8	1,560.3
Judicial	542.8	561.0	561.0	574.9
Non- Functional				
Debt Service	1,469.3	1,662.3	1,662.3	1,702.7
Miscellaneous	1,870.7	2,211.0	2,211.0	2,396.5
Subtotal	\$ 16,819.6	\$ 17,843.9	\$ 18,037.5	\$ 18,125.0
Other Reductions and Lapses	-	(473.3)	(524.3)	(530.4)
Net Appropriations/Expenditures	\$ 16,819.6	\$ 17,370.6	\$ 17,513.0	\$ 17,594.7
Surplus (or Deficit) from Operations	(1,118.9)		(483.5)	2.1
Miscellaneous Adjustments	(8.3)		(17.0)	-
Statutory Transfer from Restricted Purposes	179.4		-	-
Balance^(b)	\$ (947.6)	\$ 1.8	\$ (500.5)	\$ 2.1

NOTE: Columns may not add due to rounding.

- (a) Transfer \$86.3 million to Mashantucket Pequot and Mohegan Fund for grants to towns in fiscal year 2008-09; transfer \$61.8 million to the Mashantucket Pequot Fund for grants to towns, \$81.2 million to the Special Transportation Fund, and \$0.2 million to the Community Investment Account in fiscal year 2009-10; and transfer \$61.8 million to the Mashantucket Pequot Fund for grants to towns and \$126.0 million to the Special Transportation Fund in fiscal year 2010-11.
- (b) 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. Per Section 4-30a of the Connecticut General Statutes, as amended by Public Act No. 09-2 of the June 2009 Special Session, after the accounts for the fiscal year are closed, beginning with the fiscal year ending June 30, 2010, and each fiscal year thereafter, until and including the fiscal year ending June 30, 2017, if the Comptroller determines there exists an unappropriated surplus in the General Fund, the amount of any such surplus is first to be used for redeeming prior to maturity any outstanding notes issued under such Act, and any amount beyond that required to redeem such notes shall be used to reduce the obligations of the State under the financing plan authorized under Section 88 of Public Act No. 09-3 of the June Special Session.
- (c) Per the Comptroller's annual report for the fiscal year ending June 30, 2009, as adjusted by the Office of Policy and Management to exclude expenditures of appropriations carried over from the prior fiscal year and to include expenditures of appropriations carried into the next fiscal year. The Treasurer issued \$915,795,000 Notes for the purpose of funding the deficit in the General Fund for the 2008-09 fiscal year, and amounts to pay the costs of issuance of such notes and certain interest payable or accrued on such notes.
- (d) Per Public Act No. 07-1 of the June Special Session, the Comptroller was required to transfer \$16 million of fiscal year 2007-08 General Fund revenues and \$80 million from the fiscal year 2006-07 General Fund surplus for use in fiscal year 2008-09. Per Public Act No. 08-1 of the November 24, 2008 Special Session and Public Act No. 09-1, an additional \$71.2 million will be transferred from various funds to the General Fund.
- (e) Per Public Act No. 08-1 and 08-2 of the August Special Session, \$83.4 million of fiscal year 2008-09 surplus was transferred for use in fiscal year 2008-09 with \$79.0 million of that amount appropriated for energy relief programs.
- (f) Per Public Act No. 09-3 of the June 2009 Special Session, Public Act No. 09-8 of the September 2009 Special Session, Public Act No. 09-7 of the September 2009 Special Session and Public Act No. 09-5 of the September 2009 Special Session. See discussion under **State General Fund – Budget for Fiscal Years 2009-2010 and 2010-2011**.
- (g) Per the Office of Policy and Management's letter to the Comptroller dated January 20, 2010 for the fiscal year ending June 30, 2010, as of the period ending December 31, 2009. In the Comptroller's monthly report dated February 1, 2010, the

Comptroller estimated a General Fund deficit for the 2009-10 fiscal year of \$515.0 million as of the period ending December 31, 2009. In the monthly estimate provided by the Office of Policy and Management on February 22, 2010 for the General Fund for the 2009-10 fiscal year, as of the period ending January 31, 2010, General Fund revenues were estimated at \$17,029.5 million. General Fund expenditures and miscellaneous adjustments were estimated at \$17,533.4 million and the General Fund was estimated to have a deficit of \$503.9 million. The next report of the Office of Policy and Management is expected on March 22, 2010 and the next report of the Comptroller is expected on March 1, 2010. No assurances can be made that the estimates of the Office of Policy and Management and the Comptroller will match these prior estimates.

- (h) Includes ARRA funds of \$878.9 million for fiscal year 2009-10 and \$549.8 million for fiscal year 2010-11.
- (i) Pursuant to Public Act No. 09-3 of the June Special Session, as amended, includes transfers from the budget reserve fund of \$1,039.7 million for fiscal year 2009-10 and \$342.0 million for 2010-11 and includes proposed securitizations of \$1,290.7 million for fiscal year 2010-11.

NOTE: The information in **Appendix III-E** of this **Annual Information Statement** contains 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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