

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Dannel P. Malloy
Governor of the State of Connecticut

We have audited the accompanying financial statements of each major fund of the Special Transportation Fund (the "Fund") of the State of Connecticut (the "State"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Special Transportation Fund as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note A, the financial statements present only the Special Transportation Fund and do not purport to, and do not, present fairly the financial position of the State of Connecticut, as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.



Glastonbury, Connecticut
October 27, 2014

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Balance Sheet

Governmental Funds

June 30, 2014

(Amounts Expressed in Thousands)

	Special Revenue Fund	Debt Service Fund	Restricted Grants Fund	Total
ASSETS				
Cash and cash equivalents	\$ 155,137	\$ -	\$ 3,792	\$ 158,929
Restricted investments held by Trustee	-	659,543	-	659,543
Receivables:				
Taxes	43,730	-	-	43,730
Accounts, net of allowance for doubtful accounts of \$1,681 and \$183 for the Special Revenue Fund and Restricted Grants Fund, respectively	10,940	-	453	11,393
Interest	28	1,286	-	1,314
Restricted federal grants	-	-	90,940	90,940
Due from other funds of the State	1,286	-	-	1,286
Inventories	30,429	-	-	30,429
Total assets	<u>\$ 241,550</u>	<u>\$ 660,829</u>	<u>\$ 95,185</u>	<u>\$ 997,564</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 20,951	\$ -	\$ 70,514	\$ 91,465
Unearned revenue	55	-	-	55
Due to other funds of the State	-	1,286	471	1,757
Total liabilities	<u>21,006</u>	<u>1,286</u>	<u>70,985</u>	<u>93,277</u>
DEFERRED INFLOW OF RESOURCES				
Receivables to be collected in future periods	<u>3,091</u>	<u>-</u>	<u>430</u>	<u>3,521</u>
FUND BALANCES				
Nonexpendable:				
Inventories	30,429	-	-	30,429
Restricted for:				
Transportation programs	187,024	-	-	187,024
Debt service	-	659,543	-	659,543
Federal grant programs	-	-	23,770	23,770
Total fund balances	<u>217,453</u>	<u>659,543</u>	<u>23,770</u>	<u>900,766</u>
Total liabilities, deferred inflow of resources and fund balances	<u>\$ 241,550</u>	<u>\$ 660,829</u>	<u>\$ 95,185</u>	<u>\$ 997,564</u>

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

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2014

(Amounts Expressed in Thousands)

	Special Revenue Fund	Debt Service Fund	Restricted Grants Fund	Total
REVENUES				
Motor fuel taxes	\$ 881,419	\$ -	\$ -	\$ 881,419
Sales taxes	82,216	-	-	82,216
License, permit and fee revenues	325,842	-	-	325,842
Investment income	405	9,773	-	10,178
Intergovernmental grants	12,100	-	631,974	644,074
Fines and rents	17,709	-	-	17,709
Sales and other services	23,781	-	-	23,781
Miscellaneous	6,867	-	11,366	18,233
Total revenues	<u>1,350,339</u>	<u>9,773</u>	<u>643,340</u>	<u>2,003,452</u>
EXPENDITURES				
Current:				
General government	5,357	-	-	5,357
Regulation and protection	93,567	-	-	93,567
Transportation	710,666	-	680,573	1,391,239
Debt service:				
Principal retirement	-	290,615	-	290,615
Interest and fiscal charges	1,182	173,141	459	174,782
Total expenditures	<u>810,772</u>	<u>463,756</u>	<u>681,032</u>	<u>1,955,560</u>
Excess (deficiency) of revenues over expenditures	539,567	(453,983)	(37,692)	47,892
OTHER FINANCING SOURCES (USES)				
Transfers from other State funds	6,331	459,599	15,405	481,335
Transfers to other State funds	(546,732)	(6,186)	-	(552,918)
Total other financing sources (uses)	<u>(540,401)</u>	<u>453,413</u>	<u>15,405</u>	<u>(71,583)</u>
Net changes in fund balances	(834)	(570)	(22,287)	(23,691)
FUND BALANCES, beginning of year	218,541	660,113	46,057	924,711
CHANGE IN RESERVE FOR INVENTORIES	<u>(254)</u>	<u>-</u>	<u>-</u>	<u>(254)</u>
FUND BALANCES, end of year	<u>\$ 217,453</u>	<u>\$ 659,543</u>	<u>\$ 23,770</u>	<u>\$ 900,766</u>

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

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Non-GAAP Budgetary Basis - Special Revenue Fund
For the Year Ended June 30, 2014
(Amounts Expressed in Thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES				
Budgeted:				
Taxes, net of refunds	\$ 955,500	\$ 963,700	\$ 963,981	\$ 281
License, permit, and fee revenues	372,500	372,400	374,453	2,053
Other	3,800	5,500	6,771	1,271
Federal grants	13,100	12,100	12,100	-
Refunds of payments	(3,200)	(3,600)	(3,614)	(14)
Operating transfers in	(76,500)	(76,500)	(76,500)	-
Operating transfers out	(6,500)	(6,500)	(6,500)	-
Transfers out - Transportation Strategy Board	(15,000)	(15,000)	(15,000)	-
Total revenues	<u>1,243,700</u>	<u>1,252,100</u>	<u>1,255,691</u>	<u>3,591</u>
EXPENDITURES				
Budgeted:				
General government	7,365	7,365	6,332	(1,033)
Regulation and protection	72,756	70,756	57,457	(13,299)
Transportation	577,360	588,364	578,123	(10,241)
Non-functional	638,009	633,505	624,361	(9,144)
Total expenditures	<u>1,295,490</u>	<u>1,299,990</u>	<u>1,266,273</u>	<u>(33,717)</u>
Appropriations lapsed	<u>11,000</u>	<u>10,776</u>	<u>-</u>	<u>(10,776)</u>
Excess (deficiency) of revenues over expenditures	(40,790)	(37,114)	(10,582)	26,532
OTHER FINANCING SOURCES (USES)				
Prior year appropriations carried forward	41,308	41,308	41,308	-
Appropriations continued to fiscal year 2014-2015	-	-	(26,340)	(26,340)
Total other financing sources (uses)	<u>41,308</u>	<u>41,308</u>	<u>14,968</u>	<u>(26,340)</u>
Net change in fund balance	<u>\$ 518</u>	<u>\$ 4,194</u>	<u>4,386</u>	<u>\$ 192</u>
BUDGETARY FUND BALANCE, beginning of year			205,921	
CHANGE IN RESERVE FOR CONTINUING APPROPRIATIONS			<u>(14,968)</u>	
BUDGETARY FUND BALANCE, end of year			<u>\$ 195,339</u>	

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

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements

June 30, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Special Transportation Fund (the “Fund”) of the State of Connecticut have been prepared in conformity with accounting principles generally accepted in the United States of America as promulgated in pronouncements of the Governmental Accounting Standards Board (“GASB”). Following is a summary of significant accounting policies of the Fund.

Reporting Entity

The Special Transportation Fund of the State of Connecticut was established pursuant to Public Act 83-30 (the “Act”) of the June 1983 Special Session of the General Assembly of the State of Connecticut (the “State”), as amended to date, to account for the transportation related taxes, revenues and fees pledged for payment of special tax obligation bonds (the “Bonds”) issued by the State for transportation infrastructure purposes.

After providing for debt service requirements of the Bonds, the balance of the revenues and other financing sources of the Fund will be used for the payment of debt service on general obligation bonds of the State issued for transportation infrastructure purposes, for the payment of certain expenditures of the State Department of Motor Vehicles, and for the payment of expenditures of the State Department of Transportation, including both the annually budgeted operating expenditures and the State’s share of infrastructure improvement program costs not financed separately by other sources.

The financial position and changes in financial position of the Fund are subject to legislative actions enacted by the General Assembly of the State of Connecticut. C.G.S. Section 13b-61a and C.G.S. Section 13b-61c specify the amounts of the transfers from the General Fund to the Special Transportation Fund. P.A. 13-184 provided for a transfer of \$76.5 million to the general fund pursuant to Section 13b-68 of the general statutes in FY 2014. P.A. 14-47 section 54 eliminates the previously authorized transfer of \$2.1 million in FY 2015. In addition, the Transportation Strategy Board (“TSB”) established in 2001 was repealed by P.A. 11-6; the legislation retains the TSB projects enumerated by law and maintains the TSB project accounts within the Special Transportation Fund but limits the funding to \$15.0 million per year from 2012 to 2015, with no provision for funding thereafter.

The Special Revenue Fund is included in the basic financial statements of the State of Connecticut as a major governmental fund, while the Debt Service Fund and Restricted Grants Fund are combined with similar funds of the State. The financial statements of the Special Transportation Fund of the State of Connecticut are intended to present the financial position, and the changes in financial position, of only that portion of each major fund and the aggregate remaining fund information of the State that is attributable to the transactions of the Special Transportation Fund. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2014, and the changes in the State’s financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Fund has not presented a management’s discussion and analysis (“MD&A”) in accordance with GASB Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments* and GASB Statement No. 37, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus* because Management believes the focus of an MD&A is on a primary government. The State of Connecticut, the primary government, will provide an MD&A in its annual report that will include analysis of the Fund.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements

June 30, 2014

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Basis of Presentation

Fund Financial Statements

Fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The financial activities of the Special Transportation Fund are accounted for in individual funds, each of which is a fiscal and accounting entity with a self-balancing set of accounts. Funds are utilized for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The financial activities of the Special Transportation Fund are reported in the following major governmental funds in the accompanying fund financial statements:

- Special Revenue Fund - This fund is used to account for motor vehicle taxes, and other receipts collected that are restricted for the payment of debt service requirements of special tax obligation bonds and transportation related general obligation bonds issued by the State for transportation infrastructure purposes, for the payment of certain expenditures of the State Department of Motor Vehicles, and for the payment of budgeted appropriations made by the State Department of Transportation. The State Department of Transportation is responsible for all aspects of the planning, development, maintenance, and improvement of transportation in the State of Connecticut.
- Debt Service Fund - This fund is used to account for the accumulation of resources that are restricted for, and the payment of, principal and interest on special tax obligation bonds issued by the State for transportation infrastructure purposes.
- Restricted Grants Fund - This fund is used to account for transportation related restricted federal and non-federal grant revenues and expenditures.

Measurement Focus and Basis of Accounting

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are susceptible to accrual, that is, when they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fund considers revenues to be available if they are collected within 45 days of the end of the current period except for federal revenues that are considered collectible within one year. Significant revenue sources that are considered to be susceptible to accrual include motor fuel taxes and sales taxes. Revenue recognition policies are as follows:

- Motor Fuel Taxes and Sales Taxes - Motor fuel taxes and sales taxes are recognized as revenue in the period when the underlying exchange has occurred and when the resources are available. Resources received in advance are reported as unearned revenue.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements

June 30, 2014

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Measurement Focus and Basis of Accounting - *Continued*

- Intergovernmental Grants and Similar Non-Exchange Transactions - Intergovernmental grants and similar non-exchange transactions are recognized as revenue in the period when all applicable eligibility requirements imposed by funding sources have been met and when the resources are available. Resources received in advance are reported as unearned revenue.
- Investment Income - Investment income from restricted investments held by the trustee in the bond service account and the debt service reserve account, and from other investments is recognized when earned.
- License, Permit, and Fee and Other Revenues - License, permit and fee and all other revenues are recognized as revenue when received because they are considered to be measurable and available only when the cash is actually received.

Expenditures are recorded when the related fund liability is incurred, except for debt service expenditures and expenditures related to compensated absences and claims and judgments, which are recorded as expenditures when payment is due.

Cash and Cash Equivalents (amounts expressed in thousands)

Cash and cash equivalents include short-term, highly liquid investments with original maturities of three months or less when purchased, exclusive of restricted investments held by the trustee. As of June 30, 2014, cash equivalents total \$53,736, and consist of investments in the State Treasurer's Short-Term Investment Fund. The State Treasurer's Short-Term Investment Fund is an investment pool managed by the State Treasurer's Office. The balance in the pool is reported at net asset value, which is representative of the fair value of the Fund's pool shares.

Investments

In accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Fund presents all investments at fair value. The fair value of investments traded on public markets is determined using quoted market prices.

Inventories

Inventories are reported at cost using the first-in first-out ("FIFO") method. Inventories 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 are offset by a fund balance reserve to indicate that they are unavailable for appropriation.

STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND

Notes to Financial Statements
June 30, 2014

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Deferred Outflows/Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position/fund balance that applies, to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Fund has no items that qualify for this reporting category.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position/fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Fund only has one type item, which arises only under a modified accrual basis of accounting, that qualifies for this reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the balance sheet. The Fund reports unavailable revenue from various receivables and other revenues that are to be collected in future periods which are deferred and recognized as an inflow of resources in the period that the amounts become available.

Compensated Absences

Employees hired on or before June 30, 1978, 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 or 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 of Connecticut. Under the provisions of this program, any employee participating in the program shall be eligible for payment of accrued sick days and for the balance of unused vacation leave in accordance with the existing rules as stated above, with one modification. The modification provides that the balance of any compensated absences shall be paid in three equal annual installments beginning in the fiscal year ending June 30, 2013.

Fund Balances

The Fund may report the following fund balance categories:

Nonspendable - Amounts that cannot be spent because they are not in spendable form or they are legally or contractually required to be maintained intact.

Restricted - Constraints are placed on the use of resources that are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through enabling legislation.

Committed - Amounts can only be used for specific purposes pursuant to constraints imposed by formal action of the State of Connecticut General Assembly.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements

June 30, 2014

NOTE A - SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Fund Balances - *Continued*

Assigned - Amounts are constrained by the Fund's intent to be used for specific purposes, but are not restricted or committed.

Unassigned - Residual classification for amounts necessary in other governmental funds to eliminate otherwise negative fund balance amounts in the other four categories.

When both restricted and unrestricted resources are available for use, it is the Fund's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned and unassigned resources are available for use, it is the Fund's policy to use committed resources first, then assigned resources and then unassigned resources as they are needed.

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 and disclosures in the financial statements. Actual results could differ from those estimates.

NOTE B - BUDGETARY INFORMATION AND LEGAL COMPLIANCE

By statute, the Governor of the State of Connecticut 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 several funds of the State, including the Special Transportation Fund.

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 demonstrating compliance with the legally adopted budget is necessary because the legal level of control is more detailed than reflected in the accompanying statement of revenues, expenditures and changes in fund balances - budget and actual. Before an agency can utilize amounts appropriated for a particular purpose, such amounts must be allotted for the specific purpose by the Governor and encumbered by the State Comptroller upon request by the agency. Such amounts can then be expended by the State Treasurer only upon a warrant, draft or order of the State Comptroller drawn at the request of the responsible agency. The allotment process maintains expenditure control over amounts 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 modifications of appropriations of more than 5 percent of the total appropriated fund can be made only with the approval of the General Assembly.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements

June 30, 2014

NOTE B - BUDGETARY INFORMATION AND LEGAL COMPLIANCE - *Continued*

All funds of the State use encumbrance accounting. Under this method of accounting, purchase orders, contracts, and other commitments for expenditures of the fund are recorded in order to reserve that portion of the applicable appropriation. All encumbrances lapse at year-end and, generally, all appropriations lapse at year-end except for certain continuing appropriations (continuing appropriations are defined as carry forwards of spending authority from one fiscal budget into a subsequent fiscal 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 for 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.

The Special Revenue Fund is the only fund of the Special Transportation Fund for which a budget is legally adopted. The budget is prepared on a “modified cash” basis of accounting under which revenues are recognized when received, except for certain taxes and federal and other restricted grant revenues which are recognized when earned. Under the modified cash basis, expenditures are recognized when paid. A comparison of actual results of operations recorded on this basis and the final adopted budget is presented in the accompanying statement of revenues, expenditures and changes in fund balances - budget and actual – non- GAAP budgetary basis.

A reconciliation between budgetary amounts and GAAP amounts for the Special Revenue Fund is as follows (amounts expressed in thousands):

	Special Revenue Fund
	<u> </u>
Net change in fund balance - budgetary basis	\$ 4,386
Increase in receivables	3,353
Decrease in accounts payable	6,500
Increase in salaries and wages payable and other liabilities	(105)
Decrease in continuing appropriations	<u>(14,968)</u>
Net change in fund balance - GAAP basis	<u><u>\$ (834)</u></u>

NOTE C - RESTRICTION OF FUND REVENUES

Under the terms and provisions of special acts of the General Assembly of the State of Connecticut, the State Bond Commission is empowered to authorize the issuance of special tax obligation bonds in one or more series to fund a portion of the costs of the State’s infrastructure improvement projects. The bonds issued to date are described more fully in Note F. The bonds are payable solely from, and secured by, a first pledge on the revenues of the Fund pursuant to the Act and the Indenture of Trust dated September 15, 1984, as supplemented, and the Indenture of Trust dated December 1, 1990, as supplemented (the “Indentures”).

Included in intergovernmental revenues are certain restricted grants. These grants represent amounts received from federal and local governments and other sources specifically to fund their share of certain program costs incurred. These revenues totaled approximately \$632.0 million for the year ended June 30, 2014 and are not available for debt service.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements
June 30, 2014

NOTE D - CASH DEPOSITS – CUSTODIAL CREDIT RISK (amounts expressed in thousands)

Custodial credit risk is the risk that, in the event of a bank failure, the Fund will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The State maintains its deposits in qualified financial institutions located in the state to reduce its exposure to this risk. These institutions are required to maintain, segregated from their 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.

The carrying value of the Fund's cash deposits totaled \$105,194 as of June 30, 2014. Because the Fund's cash deposits are commingled with those of other funds of the State, the amount of deposits subject to custodial credit risk of the Fund's cash deposits in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures* is not readily determinable as of June 30, 2014.

Investments in the State Treasurer's Short-Term Investment Fund totaling \$53,736 are included in cash and cash equivalents in the accompanying balance sheet. For purposes of disclosure under GASB Statement No. 40, such amounts are considered investments and are included in the disclosure in Note E.

NOTE E - INVESTMENTS (amounts expressed in thousands)

As of June 30, 2014, the Fund's investments consist of the following:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>		
		<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>
Debt Securities				
Short-Term Investment Fund	\$ 492,169	\$ 492,169	\$ -	\$ -
Federal Fixed Rate Securities	221,110	-	-	221,110
	<u>\$ 713,279</u>	<u>\$ 492,169</u>	<u>\$ -</u>	<u>\$ 221,110</u>

Because the State Treasurer's Short-Term Investment Fund had a weighted average maturity of 31 days, it has been presented as an investment with a maturity of less than one year.

A reconciliation of the Fund's investments as presented in the accompanying balance sheet as of June 30, 2014 is as follows:

Bond service account	\$ 216,196
Debt service reserve account	443,347
Restricted investments held by Trustee	659,543
Cash and cash equivalents	53,736
	<u>\$ 713,279</u>

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements

June 30, 2014

NOTE E - INVESTMENTS (amounts expressed in thousands) - *Continued*

Restricted investments held by the Trustee in the bond service account and the debt service reserve account are invested by the Trustee pursuant to the terms of the Indenture.

Interest Rate Risk

The Fund's investment policy to limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates is delineated in Article VI of the Indenture of Trust dated September 15, 1984.

Credit Risk

The Fund's investment policies are delineated in Article VI of the Indenture of Trust dated September 15, 1984. No investments of the Fund may have a maturity date longer than 10 years. In addition, in accordance with Connecticut General Statutes, allowable investments include 1) obligations, securities and investments set forth in subsection (f) of Section 3-20 of the Connecticut General Statutes and 2) participation certificates in the State Treasurer's Short-Term Investment Fund created under Section 3-27a of the General Statutes.

The Fund's investments in debt securities were rated as follows at June 30, 2014:

<u>Debt Securities</u>	<u>Fair Value</u>	<u>Standard & Poors</u>	<u>Moody's</u>	<u>Fitch</u>
Short-Term Investment Fund	\$ 492,169	AAAm	Unrated	Unrated
Federal Fixed Rate Securities	221,110	AA+	AAA	Unrated
	<u>\$ 713,279</u>			

Concentrations of Credit Risk

The Fund places no limit on the amount of investment in any one issuer. None of the Fund's investments met the requirements for disclosure of any concentrations of credit risk as investments in the State Treasurer's Short-Term Investment Fund does not consist of securities that exist in physical or book entry form.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements
June 30, 2014

NOTE F - SPECIAL TAX OBLIGATION BONDS

A summary of special tax obligation bonds issued, pursuant to the State Bond Commission's authorization, and the outstanding principal balances as of June 30, 2014 is as follows:

Issue	Interest Rates	Dated Date	Through Fiscal Year	Original Issue	Balance at June 30, 2014
2004A Bonds	2.25% - 5.00%	November 15, 2004	2024	\$ 200,000,000	\$ 19,215,000
2004B Bonds*	3.00% - 5.00%	November 15, 2004	2020	89,725,000	58,150,000
2005A Bonds	4.00% - 5.00%	December 15, 2005	2026	250,000,000	178,780,000
2007A Bonds	3.50% - 5.00%	October 1, 2007	2028	250,000,000	196,745,000
2008 1 Bonds*	3.50% - 5.00%	October 1, 2008	2022	97,690,000	71,110,000
2008A Bonds	3.50% - 5.00%	December 10, 2008	2029	300,000,000	248,995,000
2009 1 Bonds*	3.50% - 5.00%	January 29, 2009	2022	415,035,000	328,145,000
2009A Bonds	2.50% - 5.00%	November 10, 2009	2030	195,970,000	127,950,000
2009B Bonds	4.86% - 5.74%	November 10, 2009	2030	304,030,000	304,030,000
2009C Bonds*	0.55% - 2.33%	November 10, 2009	2015	49,775,000	15,340,000
2010A Bonds	2.00% - 5.00%	November 10, 2010	2020	199,570,000	142,550,000
2010B Bonds	4.13% - 5.46%	November 10, 2010	2031	400,430,000	400,430,000
2010C Bonds*	2.00% - 5.00%	November 10, 2010	2022	137,675,000	105,715,000
2011A Bonds	3.38% - 5.00%	December 15, 2011	2032	221,230,000	214,055,000
2011B Bonds*	2.00% - 5.00%	December 15, 2011	2023	233,845,000	157,840,000
2012A Bonds	2.00% - 5.00%	December 12, 2012	2033	502,290,000	477,110,000
2012B Bonds*	5.00%	December 12, 2012	2025	125,100,000	125,100,000
2013A Bonds	2.00% - 5.00%	November 21, 2013	2033	600,000,000	600,000,000
					<u>\$ 3,771,260,000</u>

* Represents refunding bonds that were not issued against the State Bond Commission's authorization.

Proceeds from the sale of special tax obligation bonds were used to: fund the State's Infrastructure Improvement Fund, fund any required deposits to the debt service reserve fund (held as restricted investment by Trustee – see Note E) and to pay costs associated with the sale of the bonds. The Infrastructure Improvement Fund was established by the State to account for the net bond proceeds to be used for Transportation Infrastructure Improvement projects and is a separate capital project fund of the State and is not part of the Special Transportation Fund.

Revenues are credited to the Special Transportation Fund and funds are transferred to the Fund's debt service account to the extent required to meet debt service requirements as provided by the Indentures. In addition, the Fund is required to maintain the debt service reserve account at a level equal to the maximum annual principal and interest requirements on the Bonds as defined in the Indentures, for the current or any future fiscal year.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements

June 30, 2014

NOTE F - SPECIAL TAX OBLIGATION BONDS – *Continued*

The 2004 Series A Bonds maturing on or after July 1, 2016 will be subject to redemption, at the election of the State, on or after July 1, 2015 at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. The bonds may be redeemed by the payment of principal and accrued interest thereon at a redemption price equal to 100 percent of the principal amount outstanding on July 1, 2015 and thereafter.

The 2004 Series B Bonds are not subject to redemption prior to maturity.

The 2005 Series A Bonds maturing on or after July 1, 2017 will be subject to redemption, at the election of the State, on or after July 1, 2016 at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. The bonds may be redeemed by the payment of principal and accrued interest thereon at a redemption price equal to 100 percent of the principal amount outstanding on July 1, 2016 and thereafter.

The 2007 Series A Bonds maturing on or after August 1, 2018 will be subject to redemption, at the election of the State, on or after August 1, 2017 at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. The bonds may be redeemed by the payment of principal and accrued interest thereon at a redemption price equal to 100 percent of the principal amount outstanding on August 1, 2017 and thereafter.

The 2008 Series 1 Bonds maturing on or after February 1, 2021 will be subject to redemption, at the election of the State, on or after February 1, 2018 at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. The bonds may be redeemed by the payment of principal and accrued interest thereon at a redemption price equal to 100 percent of the principal amount outstanding on February 1, 2018 and thereafter.

The 2008 Series A Bonds maturing on or after November 1, 2019 will be subject to redemption, at the election of the State, on or after November 1, 2018 at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. The bonds may be redeemed by the payment of principal and accrued interest thereon at a redemption price equal to 100 percent of the principal amount outstanding on November 1, 2018 and thereafter.

The 2009 Series 1 Bonds maturing on or after February 1, 2020 will be subject to redemption, at the election of the State, on or after February 1, 2019 at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. The bonds may be redeemed by the payment of principal and accrued interest thereon at a redemption price equal to 100 percent of the principal amount outstanding on February 1, 2019 and thereafter.

The 2009 Series A Bonds maturing after December 1, 2019 will be subject to redemption, at the election of the State, on or after December 1, 2019 at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. The bonds may be redeemed by the payment of principal and accrued interest thereon at a redemption price equal to 100 percent of the principal amount outstanding on December 1, 2019 and thereafter.

The 2009 Series B Bonds are subject to both make-whole and extraordinary optional redemption, prior to their stated maturity dates at the election of the State, in whole or in part at any time at a redemption price equal to the greater of: 1) the original issue price set forth in the official statement (but not less than 100% of the principal amount); or 2) the sum of the present value of the remaining payments of principal and interest to maturity discounted to the payment date per the provisions set forth in the bond documents at the time of issuance.

The 2009 Series C Bonds are not subject to redemption prior to maturity.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements

June 30, 2014

NOTE F - SPECIAL TAX OBLIGATION BONDS – *Continued*

The 2010 Series A Bonds are not subject to redemption prior to maturity.

The 2010 Series B Bonds are subject to both make-whole and extraordinary optional redemptions, prior to their stated maturity dates at the election of the State, in whole or in part at any time at a redemption price equal to the greater of : 1) the original issue price set forth in the official statement (but not less than 100% of the principal amount); or 2) the sum of the present value of the remaining payments of principal and interest to maturity discounted to the payment date per the provisions set forth in the bond documents at the time of issuance.

The 2010 Series C Bonds maturing on or after November 1, 2021 will be subject to redemption, at the election of the State, on or after November 1, 2020 at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. The bonds may be redeemed by the payment of principal and accrued interest thereon at a redemption price equal to 100 percent of the principal amount outstanding on November 1, 2020 and thereafter.

The 2011 Series A Bonds maturing on or after December 1, 2022 will be subject to redemption, at the election of the State, on or after December 1, 2021 at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. The bonds may be redeemed by the payment of principal and accrued interest thereon at a redemption price equal to 100 percent of the principal amount outstanding on December 1, 2021 and thereafter.

The 2011 Series B Bonds maturing on or after December 1, 2022 will be subject to redemption, at the election of the State, on or after December 1, 2021 at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. The bonds may be redeemed by the payment of principal and accrued interest thereon at a redemption price equal to 100 percent of the principal amount outstanding on December 1, 2021 and thereafter.

The 2012 Series A Bonds maturing on or after January 1, 2024 will be subject to redemption, at the election of the State, on or after January 1, 2023 at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. The bonds may be redeemed by the payment of principal and accrued interest thereon at a redemption price equal to 100 percent of the principal amount outstanding on January 1, 2023 and thereafter.

The 2012 Series B Bonds maturing on or after January 1, 2024 will be subject to redemption, at the election of the State, on or after January 1, 2023 at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. The bonds may be redeemed by the payment of principal and accrued interest thereon at a redemption price equal to 100 percent of the principal amount outstanding on January 1, 2023 and thereafter.

The 2013 Series A Bonds maturing on or after October 1, 2024 will be subject to redemption, at the election of the State, on or after October 1, 2023 at any time, in whole or in part and by lot within a maturity, in such amounts as the State may determine. The bonds may be redeemed by the payment of principal and accrued interest thereon at a redemption price equal to 100 percent of the principal amount outstanding on October 1, 2023 and thereafter.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements
June 30, 2014

NOTE F - SPECIAL TAX OBLIGATION BONDS – *Continued*

The aggregate principal and interest maturities on the bonds (scheduled payments to bondholders) are as follows (amounts expressed in thousands):

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 269,845	\$ 178,987	\$ 448,832
2016	246,845	167,619	414,464
2017	230,010	156,538	386,548
2018	233,840	145,557	379,397
2019	227,420	134,383	361,803
2020 - 2024	1,097,050	510,855	1,607,905
2025 - 2029	963,495	252,448	1,215,943
2030 - 2033	502,755	49,760	552,515
	<u>\$ 3,771,260</u>	<u>\$ 1,596,147</u>	<u>\$ 5,367,407</u>

Bonds Authorized But Not Issued

As of June 30, 2014, the State has \$2,966.4 million of special tax obligation bonds that have been authorized by the State Bond Commission but not issued. These bonds would be payable from the revenues of the Fund if issued.

NOTE G - TRANSPORTATION RELATED GENERAL OBLIGATION BONDS

The table below includes amounts for debt service that the State will charge the Fund for various non-transportation related general obligation refunding bonds and cash defeasances. The proceeds of these bonds were used to refund or defease transportation related general obligation bonds. Aggregate principal and interest maturities related to the non-transportation related general obligation refunding bonds used to retire transportation related general obligation bonds are as follows (amounts expressed in thousands):

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ -	\$ 131	\$ 131
2016	530	69	599
2017	530	41	571
2018	525	14	539
	<u>\$ 1,585</u>	<u>\$ 255</u>	<u>\$ 1,840</u>

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements
June 30, 2014

NOTE H - CHANGES IN LONG TERM OBLIGATIONS (amounts expressed in thousands)

Although the Fund does pay certain long-term obligations, these obligations have not been reported in the accompanying fund financial statements in accordance with GASB Statement No. 34. A summary of changes in long-term obligations of the Fund for the year ended June 30, 2014 is as follows:

Description	Balance, July 1, 2013	Additions	Reductions	Balance, June 30, 2014
Special tax obligation bonds	\$ 3,461,875	\$ 600,000	\$ (290,615)	\$ 3,771,260
General obligation refunding bonds	1,740	-	(155)	1,585
Compensated absences	44,268	3,200	-	47,468
Claims and judgements (See Note K)	3,146	3,135	(3,146)	3,135
	<u>\$ 3,511,029</u>	<u>\$ 606,335</u>	<u>\$ (293,916)</u>	<u>\$ 3,823,448</u>

Included in the June 30, 2014 balance of the liability for compensated absences is \$292.5 and \$22.5 of compensated absences and related payroll taxes payable, respectively, earned by employees of the Fund that took advantage of the Early Retirement Incentive Program, as discussed in Note A. The full amount of this liability will be paid during the fiscal year ending June 30, 2015.

NOTE I - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following as of June 30, 2014 (amounts expressed in thousands):

	Special Revenue Fund	Restricted Grants Fund	Total
Accounts payable	\$ 12,135	\$ 56,311	\$ 68,446
Salaries and wages payable	8,816	1,686	10,502
Contracts payable - retainage	-	12,517	12,517
	<u>\$ 20,951</u>	<u>\$ 70,514</u>	<u>\$ 91,465</u>

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements
June 30, 2014

NOTE J - INTERFUND BALANCES

Interfund Receivables and Payables

A summary of interfund receivables and payables as of June 30, 2014 are as follows (amounts expressed in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Revenue Fund	Debt Service Fund	<u>\$ 1,286</u>
Other funds of the State	Restricted Grants Fund	<u>\$ 471</u>

The above balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

A summary of interfund transfers for the year ended June 30, 2014 is as follows (amounts expressed in thousands):

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Special Revenue Fund	Debt Service Fund	\$ 6,186
	Other funds of the State	145
		<u>\$ 6,331</u>
Debt Service Fund	Special Revenue Fund	\$ 448,732
	Other funds of the State	10,867
		<u>\$ 459,599</u>
Restricted Grants Fund	Special Revenue Fund	\$ 15,000
	Other funds of the State	405
		<u>\$ 15,405</u>
Other funds of the State	Special Revenue Fund	<u>\$ 83,000</u>

Transfers are used primarily to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) to move receipts restricted for debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements
June 30, 2014

NOTE K - COMMITMENTS AND CONTINGENCIES

Litigation

The State is a defendant in numerous lawsuits relating to the operations of the Fund. The State of Connecticut, Office of the Attorney General (the "Attorney General") has reviewed the status of pending lawsuits in which a financial judgment adverse to the State may be paid from the Fund, the estimated exposure of which approximates \$3.1 million, subject to a prior lien in favor of the Bonds.

The Fund is involved in certain legal proceedings and is subject to certain lawsuits and claims in the ordinary course of its business. Such pending litigation will not be finally determined so as to result individually or in the aggregate in a final judgment against the Fund which would materially affect its financial position.

Lease-Leaseback Commitment

On September 30, 2003, the State (acting through the Commissioner of the Department of Transportation) executed three U.S. Lease-to-Service Contract of Rolling Stock Agreements ("Agreements") 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 lease terms, the State has the option to purchase the statutory trusts' interest in the rolling stock for an aggregate fixed price.

In connection with the transaction, the Fund received net proceeds of \$29,357,051 representing the consideration paid for the tax benefits received by the equity investors. The net proceeds received were calculated as follows:

Prepayment of head lead lease rents	\$ 366,405,000
Less: payments to debt payment undertakers and custodians	334,590,492
Less: transaction closing costs	<u>2,457,457</u>
Net proceeds received	<u>\$ 29,357,051</u>

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements

June 30, 2014

NOTE K - COMMITMENTS AND CONTINGENCIES – *Continued*

Lease-Leaseback Commitment - Continued

On September 30, 2003, proceeds from the prepayment of the head lease rents were paid to debt payment undertakers and custodians in amounts sufficient, together with investment earnings thereon, to provide for all future obligations of the State under the sublease agreements and the end of lease term purchase options. With respect to payments made to custodians, the State pledged assets as collateral to the custodians for the benefit of the lessors, and granted a first security interest in such assets. The pledged assets will primarily be used to pay the end of lease term purchase options. Payments made by the State to the debt payment undertakers are irrevocable once made and will not be subject to avoidance or recapture by the State or any creditor of the State. Further, the State has no right, title, or interest in or to the amounts paid to the debt payment undertakers upon the payment thereof and, accordingly, the amounts so paid cease to be assets of the State, but are assets solely of the debt payment undertakers. In addition, per the terms of Debt Payment Undertaking Agreement Guarantees, the debt payment undertaker guarantors have unconditionally guaranteed the full and prompt payment of any and all obligations of the debt payment undertakers. The assets held by the debt payment undertakers and the custodians, as well as any related lease obligation liability, are not reflected as assets or liabilities in the financial statements of the State. Although it is remote that the State will be required to make any additional payments under the subleases, the State is and shall remain liable for all of its obligations under the subleases. The aggregate remaining commitment under the subleases totaled approximately \$49 million at June 30, 2014.

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 subleases 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.

Although the Fund has no liability related to these subleases, payments may be made by the Fund if so directed by the State. No payments were made by the Fund under these subleases for the year ended June 30, 2014.

Arbitrage Rebate Requirements

Section 148 of the Internal Revenue Code, as enacted by the Tax Reform Act of 1986, requires that 90% of the earnings from the investment of tax-exempt bond proceeds that exceed the yield on tax-exempt bonds be remitted to the federal government. In accordance with this regulation, the Fund is required to rebate a portion of its investment earnings on the proceeds of the Bonds to the federal government. There were no rebate payments made during the year ended June 30, 2014. There was no liability for arbitrage rebate as of June 30, 2014.

Contractual Commitments

The State entered into a contractual agreement with H.N.S. Management Company, Inc. (“HNS”) to manage and operate the bus transportation system (“System”) for the State. The State shall pay all expenditures 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. Upon termination of the agreement, the State shall assume all of the existing obligations of HNS, including all pension liabilities described above. Although the Fund has no liability related to these costs, payments may be made by the Fund if so directed by the State.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements

June 30, 2014

NOTE K – COMMITMENTS AND CONTINGENCIES – *Continued*

Contractual Commitments - Continued

In addition, the Fund has other contractual commitments for various transportation related operating and project costs. As of June 30, 2014, the aggregate contractual commitments totaled approximately \$3.38 billion. Funding of these expenditures is expected to be received from federal and other grants and other revenues to be received by the Fund.

Pensions

Certain employees of the Fund participate in the State Employees' Retirement System ("SERS") which is administered by the State Employees' Retirement Commission. The Fund has no liability for these pension costs other than the annual contribution, pursuant to Public Act 83-30 of the June 1983 Special Session of the General Assembly of the State of Connecticut as amended to date. In addition, the actuarial study was performed on the SERS as a whole and does not provide separate information for employees of the Fund. Therefore, certain pension disclosures cannot be provided. Information on the total SERS funding status and progress, required contributions and trend information can be found in the State of Connecticut's Comprehensive Annual Financial Report.

The Fund's contribution is determined by applying a State mandated percentage to eligible salaries and wages. The contribution made by the Fund totaled \$108.3 million for the year ended June 30, 2014.

NOTE L - INTERFUND ALLOCATIONS

The Fund is one of many funds within the State of Connecticut financial reporting entity. As a result, certain transactions of the Fund, including operating transfers and certain allocations of expenses among funds, are under the direction of management of the State.

Allocation of Bank Charges (amounts expressed in thousands)

The Fund invests in the State Treasurer's Short-Term Investment Fund, which is a money market investment pool administered by the State Treasurer. In addition, the Fund's cash balances are managed by the State of Connecticut, Office of the Treasurer. Bank charges allocated to the Fund totaled \$761 for the year ended June 30, 2014.

Risk Management (amounts expressed in thousands)

The State of Connecticut, through its State Insurance and Risk Management Board, is responsible for risk management of the Fund's activities through the use of commercial and self-insurance. Workers' compensation insurance and unemployment insurance allocated to the Fund totaled \$7,344 and \$267, respectively for the year ended June 30, 2014.

**STATE OF CONNECTICUT
SPECIAL TRANSPORTATION FUND**

Notes to Financial Statements

June 30, 2014

NOTE M – SUBSEQUENT EVENTS

On October 16, 2014 the State issued \$600,000,000 of special tax obligation bonds with interest rates ranging from 2.00% to 5.00% with a final maturity in fiscal year 2034 for transportation infrastructure purposes.

On October 16, 2014 the State issued \$131,545,000 of special tax obligation refunding bonds interest rates ranging from 3.00% to 5.00% with a final maturity in fiscal year 2025 to refund \$143,420,000 of special tax obligation 2005 series A bonds.