

STATE OF CONNECTICUT
GAAP BUDGET CONVERSION PLAN

Report to the
Joint Committee on Appropriations of the General Assembly
Public Act 93-402

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This report addresses the issues, considerations and plans of the Office of the State Comptroller and the Office of Policy and Management to implement Public Act No. 93-402. That Act authorizes the use of generally accepted accounting principles for

1. The preparation and maintenance of the annual financial statements of the State and
2. The preparation of the annual budget of the State.

It is effective with the fiscal year beginning July 1, 1995.

Acknowledgements

This report was prepared with the assistance of many state officials including an Executive Committee of central financial agency personnel and an Agency Advisory Committee with representatives from selected state agencies.

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EXECUTIVE SUMMARY

To improve Connecticut's budgetary practices, the General Assembly enacted Public Act 93-402, "An Act Concerning the Use of Generally Accepted Accounting Principles". The Act authorizes the use of generally accepted accounting principles (GAAP) for the preparation and maintenance of the annual financial statements of the State and the preparation of the annual budget of the State. The Act also requires the Office of the State Comptroller and the Office of Policy and Management to submit conversion plans for the implementation of GAAP.

In the spirit of cooperation, the Office of the State Comptroller and the Office of Policy and Management worked together to come to agreement on a conversion plan which provided for both consistency and clarity. This report addresses the issues and plans of the Office of the State Comptroller and the Office of Policy and Management and their bilateral recommendations for conversion to GAAP budgeting beginning with the 1995-96 fiscal year.

Budget Preparation and Execution

Beginning with the budget submissions for the biennium for the fiscal years 1996 and 1997, revenue and expenditure estimates for appropriated funds will be on a modified accrual basis in accordance with GAAP. The conversion to GAAP does not require a change in the level of control, accountability or information currently embodied in the Governor's Recommended Budget or in the appropriations act ultimately enacted by the Legislature, therefore, the forms and presentation of the budget will remain virtually unchanged, as well as the basics of budgetary execution (allotments, FAC activities, etc.).

With regard to the expenditure cap, it is recommended that: (1) the amortization of the "deferred charge" for the GAAP conversion not be treated as an expenditure and not impact calculations of the constitutional expenditure cap; (2) any incremental expenditures resulting from the budgetary transition to accrual accounting be considered "extraordinary circumstances" and as such be excluded from the expenditure cap calculations until the base year is also on an accrual basis.

Budgetary Impacts

In terms of the budgetary impact of GAAP conversion, three areas need to be highlighted.

1. Due to normal incremental increases from year to year in the budget, appropriations to fully fund GAAP expenditures in the first year of implementation (fiscal year 1995-96) will be approximately \$57 million higher than under the current basis.
2. While some of the additional required appropriations will be offset by additional revenues recognized under GAAP, approximately \$32 million will have to be funded from new revenue sources beginning in fiscal year 1995-96.
3. The amortization of the cumulative GAAP deficit over a fifteen year period will also require additional revenues to offset the "deferred charge," approximately \$33 million per year beginning in fiscal year 1996-97.

Accounting and Financial Reporting

Conversion of the State's general ledger, appropriations ledger, and detail revenue/expenditure accounting records for fiscal year 1995 will be required. This will involve the following steps:

- a. Close the State's budget basis books and prepare current budget basis financial statements as of June 30, 1995.
- b. Close the State's GAAP books and prepare GAAP financial statements as of June 30, 1995.
- c. Convert the general ledger to GAAP balances as of July 1, 1995.
- d. Record the deferred charge, or deferred transition amount, for appropriated funds to offset the net negative effect of GAAP conversion on unreserved fund balance. This transition amount is defined by Public Act 93-402 as "The accrued and unpaid expenses and liabilities and other adjustments for the purposes of generally accepted accounting principles...". This will be recorded in a separate fund balance account which can be amortized to the unreserved fund balances of those funds.
- e. For accounting purposes, a one-time credit to expenditures will be processed in fiscal year 1995-96 equal to accrued liabilities as of June 30, 1995. The amount of the credit will be part of the deferred charge authorized under the Act.

f. Starting with the June 30, 1996 fiscal year-end, all accounting records and financial statements for appropriated funds will be on a modified accrual basis.

In addition, it is recommended that the State's fund structure be consolidated wherever possible to mirror GAAP reporting requirements. This will simplify accounting and financial reporting as well as enhance oversight and financial management.

Finally, the current statutory schedule for preparation of annual financial statements will require modifications to allow for a comprehensive GAAP closing and audit.

Major Recommendations

1. OPM budget forms and instructions should include detailed input from the Comptroller to guide agencies in their development of budget requests on a GAAP basis. Agencies should use GAAP year-end closing information from fiscal year 1992-93 and fiscal year 1993-94 to help estimate the changes that modified accrual of expenditures will have on their budget formulation for the biennium for the fiscal years 1996 and 1997. (Page 25)
2. Change the presentation of the major fund financial position statements in Part 1, Budget-in-Brief, to a modified accrual basis. Review the funds included in the presentation to ensure only major funds are included. Include in Part 2, Budget in Detail, narrative information describing the impact on agency budgets of the change to budgeting based on GAAP. Add GAAP related terms and information to the list of budget definitions and terminology. (Page 26)
3. Language should be included in the appropriation act which would give OPM the authority to monitor agency expenditures and make allotment adjustments to ensure that state-wide lapse requirements are met. (Page 27)
4. The "deferred charge" for the net additional GAAP liabilities be reflected as a Reserve for GAAP Amortization in the equity section of the balance sheets of the appropriated funds. Amortization of this reserve will consist of gradual transfer of this deferred amount to unreserved fund balance (surplus); it will not be an expenditure and will not impact calculations of the constitutional expenditure cap. It is further recommended that any incremental expenditures resulting solely from the transition to accrual accounting be considered "extraordinary circumstances" and as such be excluded from the expenditure cap calculations until the base year is also on an accrual basis. (Page 28)
5. A consolidation of funds be undertaken to bring the legal fund structure as much in line as possible with the GAAP reporting requirements. The State Treasurer's Office, in conjunction with the Comptroller and the Office of Policy and Management, has prepared recommendations as part of an inter-agency task force review of interfund borrowing and cash management policies. (Page 29)

6. For accounting purposes (no impact on the appropriations process), a one time credit to expenditures is proposed in fiscal year 1995-96 equal to expenditures posted during the first two months of the fiscal year that are expenditures attributable to fiscal year 1994-95 under GAAP. The amount of the credit will be part of the deferred charge authorized under the Act. (Page 30)
7. Continuing appropriations continue to be identified when needed as in the past and the necessary amounts be reserved in fund balance. (Page 31)
8. Statutory changes, modeled after those used in other states that are currently budgeting on a modified accrual basis, be adopted that deal with the issue of overexpenditures in budgeted appropriations due to accrued liabilities. (Page 32)
9. The following accounting policy should be adopted:
 - a. Agencies will be allowed two months (July and August) to process vendor payments for liabilities of the prior fiscal year and have such payments recorded as expenditures against their prior year appropriations.
 - b. A reporting mechanism will be established, modeled after current GAAP closing procedures, to identify material payables which are still unsubmitted by August 31. These liabilities will be recorded by the Comptroller against the appropriate accounts and funds for the prior year.
 - c. Immaterial payables not submitted by State agencies to the Comptroller by the end of August will be charged to their new year appropriations. (Page 33)
10. It should be established policy that non-cash transactions not be included in appropriations or allotments or processed as transactions against such accounts. (Page 34)
11. Train agency personnel in the new GAAP information processing requirements and identify how such changes may affect federal grant processing requirements. (Page 38)
12. The annual amortization requirement should be shown after "Net Appropriations" in the Appropriation Act in its own category, e.g., "Other Requirements." This will allow the full revenue requirements for both a balanced budget plus the annual requirement for funding the GAAP transition amortization to be clearly identified without the misnomer of calling the amortization an "expenditure" requiring "appropriation". (Page 39)

13. PA 93-402 be amended to allow those appropriated funds with positive net final GAAP unreserved fund balances to absorb any negative impact fully in the year of transition. The GAAP impact for the Transportation Fund should be deferred and amortized the same as the General Fund. The GAAP transition impact for the Insurance, Consumer Counsel and Public Utility Control, and Criminal Injuries Compensation funds should be amortized by the General Fund. (Page 40)
14. CGS Section 3-115 and 2-90 be modified to allow the following financial reporting schedule:
 - o A single financial report - the GAAP Comprehensive Annual Financial Report, be issued, preferably by December 31.

This report would be supplemented by a published schedule of appropriations and expenditures at the level of detail contained in the Appropriations Act, as required by GAAP.
 - o A supplemental report should also be issued at that time containing additional details, schedules and materials to supplement the CAFR.
 - o That, during the period from July through the issuance of the GAAP report, the Comptroller's monthly report to the Governor include updated estimates for the prior year each month as well as the current projection for the fiscal year in progress. (Page 42)

I. INTRODUCTION

The increased demand for better accountability for governments is a trend with roots at least back to the New York City fiscal crisis of the mid-1970's. Users of financial information about state and local governments, such as taxpayers, public credit markets, legislatures, and the federal government, are concerned with the cost of the public services, the adequacy of revenues to meet those costs and the stewardship and efficiency of elected and appointed public officials in administering the financial transactions of the government.

New York City, at the time of its fiscal crisis, epitomized the worst of financial management practices. As Thomas Mitchell states in Disclosure and the Municipal Bond Industry,

"The city's slide into such precarious financial conditions was abetted by unusual budgeting practices. The city's apparent financial condition was improved... by practices such as: capitalizing expense items so that current operating expenses could be financed by debt or other capital funds; deferring expenses or suspending required payments; changing from accrual to cash accounting for certain items to defer expenditures or expedite recognition of revenues; changing billing dates; systematically overestimating state and federal program revenues; suspending payments to reserve funds; ...failing to fund pension requirements on an actuarial basis; and listing as receivable taxes levied on publicly owned, tax-exempt, and abandoned real property... In July, the city's controller acknowledged the existence of a "hidden deficit" of at least \$600 million, resulting from bookkeeping gimmicks of the kind described above, and possibly amounting to as much as \$2.1 billion."

Reforms instituted at that time included requirements for the City to budget and account on a basis consistent with generally accepted accounting principles (GAAP). Moreover, the City was required to balance its budget on such a basis. Since that time, the City has balanced each budget in accordance with GAAP and has finished each year with a surplus.

Fortunately, Connecticut does not suffer from New York City's abuses. It has a modern accounting system and issues financial statements in accordance with GAAP. Nevertheless, the inconsistency of accounting and budgeting practices and the desire to enhance the credibility of its financial management has given rise to a need to alter the way its budget process is managed.

Although New York City was an exceptional case, it is used as a benchmark for financial reporting trends. In the mid-1970's, only a relative handful of governments prepared financial statements in accordance with GAAP. Not a single state maintained its accounts on a GAAP basis.

By 1984, six states had begun reporting on a GAAP basis. This trend continued through 1989 when 18 states, including Connecticut, prepared GAAP financial statements. Today, approximately half the states have satisfied this goal with the remainder undertaking projects to achieve this end.

The reasons for this trend are threefold. First, bond credit rating agencies consider GAAP reporting a positive factor in their credit analysis. Second, there is the recognition that GAAP reporting improves accountability. Finally, there is peer pressure; that is, as more states report in accordance with GAAP, it becomes difficult for the remainder to do otherwise.

During the same period, Congress passed the Single Audit Act of 1984 which sought, among other things, to improve the financial management of state and local governments. It required organization-wide audits and financial statements prepared in accordance with GAAP.

Budgeting under GAAP principles would result in reports that reflect all of the following characteristics:

- o Understandability
- o Reliability
- o Relevance
- o Timeliness
- o Consistency
- o Comparability

These qualities in a fiscal report lead to accountability and are more fully discussed in the next chapter.

To improve Connecticut's budgetary practices the General Assembly enacted Public Act 93-402, "An Act Concerning the Use of Generally Accepted Accounting Principles," which requires the Office of the State Comptroller and the Office of Policy and Management to submit this report on implementing the use of GAAP budgeting for all appropriated funds beginning with fiscal year 1995-96 (see Exhibit A).

This report describes the implementation of Public Act 93-402. There is no intent or expectation to change the scope of the annual budget or the extent of legislative oversight over the budget process.

II. BACKGROUND

"Accountability is the cornerstone of all financial reporting in government. . . ." (GASB Cod. Sec. 100.156). It is a notion that imposes a burden to explain and justify one's actions.

Financial accountability of governments is manifest primarily in two documents, the budget and the Comprehensive Annual Financial Report (CAFR). The budget is an expression of financial policy, intent, and expectations. The annual financial report is a reporting of actual events relative to the expressed intent and expectation.

The nature and environment of government influences financial accountability to make it significantly different from the private sector. First is the sovereign nature of governments. Those sovereign powers are limited in a democracy through a system of checks and balances and through the separation of powers. The Executive proposes a budget or expression of financial policy and intent for approval through appropriations by the Legislature.

Second, for government services funded through taxation, there is often an indirect relationship between those who provide the resources and those who benefit from the services. Therefore, it is incumbent on government to explain and justify the need and use of tax resources.

Necessarily, there should be a direct link between intent and results. The need to explain the purpose for which resources are raised through taxes gives rise to the "basis" on which budgets are prepared. If x dollars are to be expended, then x dollars needs to be raised. The overriding temptation, however, is to minimize the reported need for resources. This is often facilitated by the use of a cash basis of recognition. Under this basis of budgeting, if bills are not intended to be paid in this fiscal period, there is apparently no need to raise tax resources in this period. However, there is the potential that burdens on future generations could be incurred in the form of long term liabilities or declines in the utility of capital assets, neither of which would necessarily be reported in the budgetary process. Nevertheless, accountability dictates that the basis used to prepare the budget is also the basis used to account for results against the budget.

The need to be accountable also gives rise to the use of "fund" accounting. Sums raised for a particular purpose can only be used for that purpose and the systems of control and reporting need to demonstrate such compliance. Legislation often refers to the creation of a "fund" to be used as prescribed by law. The budget and accounting systems need to demonstrate compliance with those laws. Traditionally, this need for fund accountability has been consistent for budgetary and accounting purposes.

Project or grant length budgetary controls are also a characteristic of government financial activity. The expressed intent of the legislature, for example, covers the term or life of a project and is not confined to a fiscal period. Nevertheless, the budgetary and accounting processes need to be synchronized.

Lastly, the budget as enacted defines the authority of the executive branch to incur obligations of the state. This control notion is usually extended to cover the use of tax resources but often also covers the use of other resources such as intergovernmental aid or activities supported through user charges. But regardless of the focus, the entity for accounting purposes should be same for budgetary purposes.

As noted above, the need for financial accountability requires that the budget and accounting be consistent. Governments also craft their financial accountability framework to meet their individual circumstances and needs. Thus, governments construct systems and processes to meet their individual budget and accounting needs, but the end product is not necessarily comparable to other governmental entities.

In 1979, the National Council on Governmental Accounting, the recognized standard-setting body for government accounting principles, introduced a significant departure from practice. Prior to that time, budget and accounting practices were virtually identical. Indeed, the accounting guidance at the time specified that if there was a conflict between legal (budgetary) requirements and accounting requirements, that legal (budgetary) requirements should take precedence.

The NCGA, however, in the first principle of government accounting stated:

"A governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions."
(GASB Cod. Sec. 1200)

For the first time, government accounting had two masters: 1) legal (budgetary) requirements and 2) generally accepted accounting principles (GAAP). This change was a direct response to the information demands of users external to the government, such as citizens and the public credit markets. Those users desired financial information prepared following principles common to all governments and established by bodies independent of those providing the financial information. GAAP is that body of knowledge and has the following basic characteristics:

- o **Understandability.** Information should be expressed as simply as possible.
- o **Reliability.** The information presented should be verifiable, free from bias and should faithfully represent what it purports to represent.
- o **Relevance.** There must be a close logical relationship between the information provided and the purpose for which it is needed, that is, the information should be capable of making a difference in a user's assessment of a problem, condition, or event.
- o **Timeliness.** The information should be provided soon enough after reported events to affect decisions.
- o **Consistency.** There is a presumption that once an accounting principle or reporting method is adopted it will be used for all similar transactions and events.
- o **Comparability.** Differences between financial reports, both for the same government and among governments, should be due to substantive differences in the underlying transactions or the government structure, rather than due to selection of different accounting procedures and practices.

Although many budgetary systems meet some or most of the above characteristics to some degree, they all lack comparability between governments.

The current recognized standard-setting body for GAAP is the Governmental Accounting Standards Board (GASB) which succeeded the NCGA in 1984. This group constantly considers the adequacy of GAAP accounting and financial reporting requirements and modifies that body of knowledge when needed. At present, GAAP has evolved to cause four types of differences between government budget and accounting practices. These differences are discussed in greater detail later in this section.

- o **Basis Differences.** This determines the timing of the recognition of transactions. GAAP requires a modified accrual basis of accounting for governmental activities and the accrual basis for proprietary activities.
- o **Timing Differences.** This refers to the term of the spending authority. Some projects or programs are granted authority covering more than one fiscal period. GAAP requires reporting on a fiscal year.

- o **Perspective Differences.** The structure used by GAAP reports financial resources and activities in specific fund types and account groups. These include governmental funds such as the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds; proprietary funds such as Enterprise Funds and Internal Service Funds; and finally, Trust and Agency Funds. It also includes structures to report on long term obligations and capital assets through the use of the Long Term Debt Account Group and General Fixed Assets Account Group. However, budgets may be adopted for many different structures that may not conform to GAAP.
- o **Entity Differences.** Budgets may include or exclude organizations, programs and activities that differ from the GAAP reporting entity.

All differences between budgetary practices and accounting practices fall into one of these types. The trend, however, is to reduce or eliminate these differences. The Government Finance Officers Association states,

"Since the issuance of the NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, in 1979, there has been a movement in some states toward closer alignment of those principles on which budgets are prepared...."

The reasons are generally the same that caused governments to account and report financial activity on a GAAP basis -- demands on the part of users of budget information to follow principles generally recognized and used by other governments, to budget and account on a common basis, to follow principles established by bodies independent of the government and to embody in budget information the same characteristics of GAAP information.

Basis Differences

Basis refers to when revenues, expenditures and transfers are recognized. It determines the timing of measurement. Under the "cash" basis of accounting, financial transactions are recognized in the period in which cash balances are affected, such as the receipt of revenue or the payment of an expenditure.

The cash basis is often used because of its simplicity. The timing of receipts and disbursements is objectively determinable. It is also easy to explain, which is one reason it is a popular basis for determination of budget amounts. Current demands for taxes can be explained by the need for cash to pay expenses.

However, simplicity is also the weakness of the cash basis of accounting because it is easily abused or manipulated. For example, a lower need for cash can be caused by the avoidance of paying bills. An individual is not wealthier because purchases were made with a credit card thereby avoiding an immediate demand for cash. The cash basis, therefore, has long been discredited for accounting purposes because it does not adequately measure the economic effects of transactions.

In the previous example, the individual changed the timing of the cash payment from the present to the future (when the credit card payment is due). The economics of the transaction are the same as if the purchase was settled with cash, only the timing of the cash payment was altered.

The accrual basis of reporting times the recognition of transaction to when the economic event occurred regardless of when cash is received or paid.

The GASB states in its Codification of Governmental Accounting and Financial Reporting Standards:

"The accrual basis is the superior method of accounting for the economic resources of any organization. It results in accounting measurements based on the substance of transactions and events, rather than merely when cash is received or disbursed, and thus enhances their relevance, neutrality, timeliness, completeness, and comparability. Accordingly, use of the accrual basis to the fullest extent practicable is recommended in the government environment....The cash basis of accounting is not appropriate." (GASB Cod. Sec. 1600)

In government, the accrual concept is applied fully for proprietary activities where the objective is to measure the net income or loss from operations. For governmental activities the accrual concept is modified to address differences in the environment and in the measurement objectives.

Under the modified accrual basis of accounting, revenues are recognized when they are both measurable and available to finance expenditures of the fiscal period. Expenditures are recognized in the period a transaction creates a demand on current financial resources. This means that some transactions may occur which create a long term liability in the current fiscal period but will not be liquidated with cash resources until some future period. That long term liability is nevertheless reported, but not as a charge to the operations of the current period.

Timing Differences

GAAP focuses on measuring transactions that arise within the operating cycle of the entity, which convention has dictated to be a one-year period. However, some activities are generally of a one-time nature or extend beyond a single year. These activities include capital projects and certain programs or grants.

For budget purposes, the convention has been to establish budget authority for the term of these projects, programs or grants without regard to which fiscal period the expenditure or financing occurs. Therefore, an accounting transaction recognized for any individual fiscal period for these projects, programs or grants may have little, if any, reference to the budget authority granted over multiple fiscal periods.

Perspective Differences

As was previously discussed, legislation often refers to the use of a "fund" to maintain accountability over the use of dedicated resources or for other reasons. "Funds" used by one government will often differ from other governments and may not be used consistently from period to period.

GAAP, however, uses only a discrete number of fund types in which all financial activity is accounted.

"Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations" (GASB Cod. Sec. 1100.102)

Therefore, because there are differences in funds as defined by law and used under GAAP, differences due to perspective arise between budgets and GAAP.

Entity Differences

Budgetary control and authority may exist at different levels. GASB, in its Codification, identifies three levels:

- a. Appropriated Budgets or
- b. Legally authorized nonappropriated budget review and approval process, which is outside the appropriation process, or
- c. Nonbudgeted financial activities, which are not subject to appropriated budget and appropriation process or to any legally authorized nonappropriated budget review and approval process, but still are relevant for sound financial management and oversight.

The GASB further defines these levels of budgetary control and authority as follows.

"Appropriated Budget: The expenditure authority created by the appropriation bills or ordinances that are signed into law and related estimated revenues. The appropriated budget would include all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes.

Nonappropriated Budget: A financial plan for an organization, program, activity or function approved in a manner authorized by constitution, charter, statute, or ordinance but not subject to appropriation and therefore outside the boundaries of the definition of 'appropriated budget.'

Budgetary Execution and Management: All other suballocations, contingency reserves, recisions, deferrals, transfers, conversions of language appropriations, encumbrance controls, and allotments established by the executive branch without formal legislative enactment. These transactions may be relevant for various accounting control and internal reporting purposes, but are not part of the appropriated budget." (GASB Cod. Sec. 1700.114)

GAAP requires, at a minimum, reporting of the revenues, expenditures and changes in fund balances for all governmental funds for which there is an "appropriated budget." GASB also states in their Codification, "More comprehensive budget presentations are generally to be preferred over the minimum standards."

Thus, a GAAP/Budget difference may arise when a fund used for accounting purposes reports a different composite of activity than included in the "appropriated budget" for that fund. This is a difference in the entity used for budgetary and accounting purpose.

III. THE CONNECTICUT BUDGET

The Budget, for purposes of this report, embraces all information presented in the Governor's Budget. CGS Section 4-69 states that the Budget document "means the instrument used by the governor to present a comprehensive financial program to the general assembly." That document presents information on appropriations for each appropriated fund and their estimated revenue. It also presents financial information on State activities beyond that subject to legislative appropriations, such as federally aided programs and includes information on entities that are not subject to appropriation controls but which nevertheless comprise the totality of the State's financial activities as it would be defined by GAAP.

It is important to understand the composition of the Governor's Budget in order to understand the issues addressed in a conversion to GAAP.

Scope

Appropriated Funds

The Governor's Budget includes estimated revenues and proposed expenditure authority for the following appropriated funds:

- General Fund
- Special Transportation Fund
- Mashantucket Pequot Fund
- Soldiers, Sailors and Marines Fund
- Regional Market Operations Fund
- Banking Fund
- Insurance Fund
- Consumer Counsel and Public Utility Control Fund
- Workers Compensation Fund
- Criminal Injuries Compensation Fund

It also includes sources and uses of nonstate amounts including federal aid. CGS Section 4-73 requires "All federal funds expended or anticipated for any purpose shall be accounted for in the budget."

The General Fund is defined by CGS Section 4-69 as "The fund that is unrestricted as to use and available for general purposes" and it therefore includes all state activities not accounted for elsewhere. This includes the predominant portion of State financial activity carried on by the various agencies. It excludes financial activity accounted for in special funds, trust funds, agency funds, capital project funds, internal service funds, and state corporations and authorities. For fiscal year 1994, the Legislature, in Public Act 93-80, appropriated \$7.7 billion for the General Fund.

The Special Transportation Fund is defined by CGS Section 13b-68. For fiscal year 1994, the Legislature appropriated \$746.4 million for this fund.

The Mashantucket Pequot Fund is defined by Public Act 93-388. It accounts for partial use of the State's share of receipts from slot machines operated by the Mashantucket Pequot tribe in order to finance grants-in-aid to the towns. For fiscal year 1994 the Legislature appropriated \$88.1 million for this fund.

The Soldiers, Sailors and Marines Fund is defined by CGS Section 27-138. For fiscal year 1994, the Legislature appropriated \$3.5 million for this fund.

The Regional Market and Operating Fund is defined by CGS Section 22-64. For fiscal year 1994, the Legislature appropriated approximately \$900,000 for this fund.

The Banking Fund is defined by CGS Section 36-12a. For fiscal year 1994, the Legislature appropriated \$12.6 million for this fund.

The Insurance Fund is defined by CGS Section 38a-52a. For fiscal year 1994, the Legislature appropriated \$7.6 million for this fund.

The Consumer Counsel and Public Utility Control Fund is defined by CGS Section 16-48a. For fiscal year 1994, the Legislature appropriated \$12.6 million for this fund.

The Workers Compensation Administration Fund is defined by CGS Section 31-344a. It accounts for the administration of the workers compensation system. For fiscal year 1994 the Legislature appropriated \$26.2 million for this fund.

The Criminal Injuries Compensation Fund is defined by CGS Section 54-215. For fiscal year 1994, the Legislature appropriated \$1.5 million for this fund.

Nonappropriated Funds

The Governor's Budget, pursuant to CGS Section 4-72 also presents information on "The financial position of all major state operating funds including revolving funds in a form consistent with accepted accounting practice." These funds include the Appropriated Funds just discussed, as well as those funds identified in Exhibit B of this report.

In addition, there are other nonappropriated funds for which accountability is maintained but which are not considered major.

Legal Level of Control

The legal level of legislative control is at the unit of appropriation level which is identified in the Appropriation Act. CGS Section 4-97 states "No appropriation or part thereof shall be used for any other purpose than that for which it was made unless transferred or revised as provided in CGS Section 4-87." "Appropriation" is defined by CGS Section 4-69 to mean "Authorization by the general assembly to make expenditures and incur liabilities for specific purposes." Thus accountability exists for the Department of Housing in nine appropriation accounts; for example, \$2,238,623 is appropriated for personal services for fiscal year 1993-94 in the General Fund as well as amounts for Other Expenses and seven other accounts.

However, for the University of Connecticut, accountability exists for only one appropriation account for total operating expenditures. Within that account the agency has discretionary authority.

Nonappropriated Funds are controlled by the Governor subject to legislative oversight but not legislative appropriation control.

Basis of Accounting

Currently, budgetary charges are recognized when paid. As was previously stated, appropriations are intended to cover expenditures and liabilities incurred. CGS Section 4-69 defines expenditures to be "amounts paid for all purposes, including expenses, provisions for retirement of debt and capital outlay." Expenses are further defined as "expenditures for operation, maintenance, interest and other current expenditures for which no permanent or subsequently convertible balance is received."

A capital outlay is an expenditure for the acquisition of or addition to fixed assets, which are "assets of a permanent character having continual value," such as land, buildings, machinery and furniture and other equipment."

A liability is defined by CGS Section 4-69 as "debts or other legal obligations arising out of transactions in the past which are to be liquidated or renewed or refunded upon some future date."

The appropriation act for the biennium for the fiscal years 1994 and 1995 also includes the amounts and sources of estimated revenues intended to finance the appropriations for the funds presented. These revenues are generally recognized when received in cash except for certain tax accruals. Revenues, in CGS Section 4-69, are defined as "additions to cash or other current assets which neither increase any liability or reserve nor represent the

recovery of an expenditure." Current assets are defined as "those assets owned by the state which are available to meet the cost of operations or to pay current liabilities of the state." Current liabilities are also defined: "liabilities which are payable immediately or in the near future out of current resources, as distinguished from long term liabilities to be met out of future resources."

Additional considerations for the basis on which the budget is prepared include encumbrances and continuing appropriations. CGS Section 4-69 defines an encumbrance as "obligations in the form of purchase orders or contracts which are to be met from an appropriation and for which a part of the appropriation is reserved." Continuing appropriations are authorized by CGS Section 4-89 which provides for the continuance of appropriations for capital outlays and in certain other limited circumstances. Otherwise appropriations lapse at fiscal year end.

Capital Projects

The Governor's Budget also includes information on the State's capital program. That information recommends additions or reductions to existing Legislative authorizations for specific capital projects or programs and new authorizations. Capital programs also provide State financing to cities, towns and not-for-profit agencies for capital assets. However, the Governor's Budget does not include information on unchanged continuing legislative authorizations.

Information on the intended financing of capital projects is also provided. That financing may be provided from general obligation bonds, self-liquidating bonds, revenue bonds or special tax obligation bonds.

The amounts recommended for capital authorizations are based on anticipated outlays over the life of the project or, in the case of programs, for the period of the expected outlay. These periods generally do not conform to fiscal periods.

IV. COMPARISON OF GOVERNOR'S BUDGET TO GAAP

As previously noted, there are four types of differences between the content of the budget and GAAP:

- o Entity Differences
- o Perspective Differences
- o Basis Differences
- o Timing Differences

Entity Differences

Under GAAP, the reporting entity is based on funds that are defined as independent "fiscal and accounting entities with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations." (GASB Cod. Sec. 1300)

There are four Governmental Fund types, two proprietary fund types and four fiduciary fund types as follows:

Governmental Funds

- o General Fund - the fund that accounts for all the financial resources of the entity except those required to be accounted for in another fund.
- o Special Revenue Funds - to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.
- o Capital Projects Funds - to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).
- o Debt Service Funds - to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Proprietary Funds

- o Enterprise Funds - to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
- o Internal Service Funds - to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or other governmental units, on a cost-reimbursement basis.

Fiduciary Funds

- o Trust and Agency Funds - to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) expendable trust funds, (b) non-expendable trust funds, (c) pension trust funds, and (d) agency funds.

In addition, the measurement focus and basis of accounting used by governmental funds requires the use of two groups of accounts which are:

- o General Fixed Asset Account Group - to account for all general fixed assets of the government not related to specific proprietary and fiduciary funds. The reporting of infrastructure general fixed assets is optional.
- o General Long Term Debt Accounting Group - to account for all long term liabilities of the government not related to proprietary or fiduciary funds.

Furthermore, the number of GAAP funds is limited by a principle which states:

"Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration." (GASB Cod. Sec. 1300)

Moreover, GAAP further defines the reporting entity to include "(a) the primary government, (b) all organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete." (GASB Cod. Sec. 2100)

Compared to GAAP, the Governor's Budget differs as to the entity in a number of respects. First, funds as legally defined do not correspond to funds for GAAP accounting purposes. For accountability reasons, legal funds have been created to demonstrate certain sources of funds were used for the purpose intended. However, these creations include anticipated transactions which do not conform to GAAP classification. For example, the Budget Reserve Fund created by CGS Section 4-30a is treated as a separate fund for budget purposes but as part of the General Fund for GAAP accounting purposes. A correlation of legal funds to GAAP classifications is presented in Exhibit C.

Second, there are over 200 legally defined funds in Connecticut but only 35 for GAAP purposes. The number of legal funds could be fewer if the GAAP minimum funds principle was followed.

Third, GAAP anticipates a broader concept of accountability than budgets. The definition of a fund includes consideration of a) financial position presenting assets, liabilities and equity, (b) operations presenting revenue, expenditure/expense and other financing sources and uses, (c) changes in financial position and (d) cash flows for proprietary activities. Part one of the Governor's Budget, however, presents only anticipated expenditures, estimated revenue, and aggregate changes in equity.

Fourth, the scope of the Governor's Budget is narrower than that required for GAAP financial reporting. There are certain state activities not addressed in the Governor's Budget. Continuing capital authorizations and spending is one example. Other financial activity which is not totally included within the Governor's Budget includes:

- Connecticut Development Authority
- Connecticut Innovations, Inc.
- Connecticut Housing Finance Authority
- Connecticut Resources Recovery Authority
- Foundations and Organizations of the State's System of Higher Education

Second Injury and Compensation Assurance Fund

State Employees Retirement System

Teachers' Retirement System

Judicial Retirement System

State's Attorney Retirement System

Public Defenders Retirement System

Connecticut Municipal Employees' Retirement System

Connecticut Probate Judges and Employees' Retirement System

Connecticut Employees Deferred Compensation Plan

Insurance company collateral

Non-state cash pool

Long term debt other than bonded debt

General Fixed Assets

Perspective Differences

GAAP requires, at a minimum, reporting of budget versus actual for all funds for which there is an appropriated budget. The appropriated funds, however, do not exactly correspond to GAAP funds. For example, the Appropriated Special Transportation Fund represents a subset of the aggregate financial activity of the GAAP Transportation Special Revenue Fund.

Basis Differences

The basis of accounting refers to the timing of recognition of revenues, expenditures and transfers. Governmental funds (General Fund, Special Revenue, Capital Projects and Debt Service) follow the modified accrual basis of accounting, which reports changes in current financial resources available to finance governmental operations of a period. Proprietary funds follow the accrual basis of accounting similar to commercial enterprises which reports changes in economic resources including depreciation on fixed assets.

Governmental Fund Revenues

The state's budgetary basis currently recognizes revenues on a modified cash basis. Under this method, revenues are generally recognized when received in cash. In addition, certain tax revenues received after June 30th, which apply to the year ended June 30th, are recorded as revenues at year end. These statutory accruals include, but are not limited to, the sales and use tax, the corporation business tax and the motor fuels tax. Tax refunds are recognized when payment is made to the taxpayer.

Under GAAP, revenues and other increases in governmental fund financial resources are recognized when they become "measurable and available." "Available" means when the revenues become available to finance operations of the fiscal period. For example, taxes that are assessed in one period, which are due and payable in that period but are collected shortly after that period end, are nonetheless available to pay obligations that arose in the period the taxes became due. On the other hand, if the taxes assessed in period one are not due until period two, they would not be considered to be available in period one.

In practice, conventions have developed on the application of the measurable and available criteria. For GAAP reporting purposes, the State Comptroller recognizes certain tax revenues in the period the taxpayer incurs the obligation when the payment is received within sixty days after fiscal year end.

Governmental Fund Expenditures

Expenditures in governmental funds are recognized under GAAP when the related liability is incurred and a demand on current financial resources arises. For example, compensated absences that arise in the period represent a liability to the State because cash will be paid in the future for services rendered. However, because these payments may not occur for many years a demand on current financial resources does not exist, and therefore, a charge to current operations is not recorded. The liability is instead reported in the long term debt group of accounts until, through the passage of time, it becomes a current payable.

Other examples of governmental fund expenditures that give rise to long term liabilities include:

- o Estimated claims and judgments that arise in the period but will not be liquidated within twelve months of the fiscal year end.
- o Actuarially required contributions to the public employee retirement systems that are not expected to be paid within one year of fiscal year end.
- o Worker's compensation claims that will not be paid currently.

Another example of a GAAP/Budget basis difference is the manner in which the State recognizes payroll expenditures. The Budget anticipates all payrolls that will be paid in a fiscal year. However, the cycle of payrolls does not exactly correspond to the calendar. Thus, every 11th fiscal year an additional payroll must be anticipated for budgetary purposes.

GAAP, however, recognizes payroll expenditures in the period the related service is rendered and thereby is not affected by the 11 fiscal year payroll cycle. Under GAAP a pro rata portion of that payroll would be accrued each year preceding the actual payment.

Timing Differences

GAAP recognizes transactions within a fiscal period. Budgetary authority, however, may extend beyond individual fiscal periods. This gives rise to timing differences. For example, most capital project appropriations anticipate the period of construction may extend over multiple fiscal periods. Necessarily, expenditures that arise in any fiscal period will not correspond to the appropriation because it anticipates cumulative expenditures for all fiscal periods during construction. The State's capital budget, therefore, gives rise to a timing difference with GAAP recognition of revenues and expenditures in the Capital Projects Fund.

Another timing difference arises from the use of continuing appropriations. A continuing appropriation grants spending authority to a state agency beyond the fiscal period in which the related resources to pay the expenditure are recognized.

V. GAAP IMPLEMENTATION PLAN AND ISSUES

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1. Legislative Summary - PA 93-402

"An Act Concerning the Use of Generally Accepted Accounting Principles"

Section 1

The act recognizes Generally Accepted Accounting Principles (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB), as the method to be followed for the State's budgeting, accounting, and annual financial reporting.

The conversion from the current "modified cash" basis to GAAP accounting is to be effective with fiscal year 1995-1996.

Section 2

The Comptroller and the Secretary of the Office of Policy and Management are to submit conversion plans to the Appropriations Committee of the Legislature by February 1, 1994.

Section 3

For the General, Transportation, and other appropriated funds the difference in unreserved fund balance (surplus) as of July 1, 1995, between the current budgetary and GAAP accounting due to recognition of additional liabilities, unpaid expenses, and other GAAP adjustments is to be recognized by establishing a "deferred charge" (the "Deferred Transition Amount" in this report) on the balance sheet of the appropriated funds.

Commencing with fiscal year 1996-97 the GAAP deficit deferral will be amortized over 15 years in equal annual installments.

See Exhibit A.

2. General Conversion Plan

2.1 Definition of "Budget" for PA 93-402

The Executive Budget submitted by the Governor to the General Assembly is considered the "Annual Budget" for purposes of Public Act 93-402. It is the official recommendation of the executive to the legislative body and thereby establishes the context of budgetary accountability because it forms the primary support for the appropriated budget. The Governor's Budget is comprehensive because it presents financial positions of the various funds, both appropriated and nonappropriated.

The Governor's Budget for the fiscal year beginning July 1, 1995 will be prepared in accordance with generally accepted accounting principles. This should include both appropriated and nonappropriated amounts in order to maintain budget representations on a consistent basis.

2.2 Budget Preparation and Execution

Starting with the budget submission for the biennium for fiscal years 1996 and 1997, revenue and expenditure estimates for appropriated funds will be on a modified accrual basis.

It is not the intent of the legislation to change the level of control, accountability, or information currently embodied in the Governor's budget submission or in the appropriations act ultimately enacted by the Legislature.

The form and presentation of the budget can remain unchanged as well as the basics of budgetary execution (allotments, FAC activities, etc.).

2.3 Accounting and Financial Reporting

Conversion of the State's general ledger, appropriations ledger, and detail revenue/expenditure accounting records for fiscal year 1995 will be required. This will involve the following steps:

- a. Close the State's budget basis books and prepare current budget basis financial statements as of June 30, 1995.
- b. Close the State's GAAP books and prepare GAAP financial statements as of June 30, 1995.
- c. Convert the general ledger to GAAP balances as of July 1, 1995.

- d. Record the deferred charge, or deferred transition amount, for appropriated funds to offset the net negative effect of GAAP conversion on unreserved fund balance. This transition amount is defined by Public Act 93-402 as "The accrued and unpaid expenses and liabilities and other adjustments for the purposes of generally accepted accounting principles...". This will be recorded in a separate fund balance account which can be amortized to the unreserved fund balances of those funds.
- e. Starting with the June 30, 1996 fiscal year-end, all accounting records and financial statements for appropriated funds will be on a modified accrual basis.

Subsequent sections of this report describe the process in more detail.

In addition, it is recommended that the State's fund structure be consolidated wherever possible to mirror GAAP reporting requirements. This will simplify accounting and financial reporting as well as enhance oversight and financial management. (See paragraph 4.0, Fund Structure, of this section.)

Finally, the current statutory schedule for preparation of annual financial statements will require modifications to allow for a comprehensive GAAP closure and audit, while at the same time recognizing the inherent efficiencies in a single year-end as compared to the current double "closing" and financial reporting. (See paragraph 8, Financial Statement Schedule and Audit.)

3. Budget Preparation and Submission

3.1 Timing of Implementation for Budgeting According to GAAP Principles

The biennial budget for the 1996 and 1997 fiscal years will be the first based on GAAP. Budget forms and the Automated Budget System (ABS) will be reviewed for necessary revisions due to the GAAP conversion and other required changes between March and June of 1994. Also during this period budget instructions and a sample budget will be developed, agency training accomplished and necessary copies of budget materials printed. The budget forms and instructions will be distributed to agencies the first week in July. Agency budget requests are due to OPM by September 1st.

The use of GAAP for budgeting will require agencies to develop budgets for the coming biennial period and submit them without having final expenditure data for fiscal year 1995. Agency accounts will be left open through August 31st to record payments of liabilities incurred during the preceding fiscal year.

Recommendation: OPM budget forms and instructions should include detailed input from the Comptroller to guide agencies in their development of budget requests on a GAAP basis. Agencies should use GAAP year-end closing information from fiscal year 1992-93 and fiscal year 1993-94 to help estimate the changes that modified accrual of expenditures will have on their budget formulation for the biennium for the fiscal years 1996 and 1997.

GAAP BUDGET CALENDAR

- 2/1/94 Comptroller and OPM submit GAAP conversion plan to the Appropriations Committee of the General Assembly.
- 3/1/94 Comptroller provides guidance on impact of
to GAAP on the 1995-97 biennium agency request
7/1/94 development.
- OPM develops budget forms and instructions.
- OPM modifies ABS and provides agency training.
- 7/8/94 Agencies develop biennial budget requests
to based on GAAP.
9/1/94
- 9/1/94 Agencies submit biennial budgets to OPM.
- 11/15/94 OPM submits Tentative Budget to Governor.
- 1st Session Day Governor's Budget submitted to
following 2/3/95 General Assembly.

3.2 Transition Budget Presentation

CGS Sections 4-72 through 4-74a define the content of the Governor's Budget that is presented to the General Assembly. The transitional budget to GAAP for the biennium for fiscal years 1996 and 1997 will follow that format. The budget is composed of four parts:

Part 1. Budget in Brief. Includes the Governor's program for meeting all the expenditure needs of the government for the biennium; financial position statements in summary form for the major state operating funds, a summary of outstanding general and special tax obligations of the state, and other statistical and financial schedules.

Part 2. Budget in Detail. Includes operating and capital budget information at the agency detail level. The presentation includes agency and program descriptive narratives, output measures and financial detail schedules.

Part 3. Appropriation Act. Includes the proposed appropriation act.

Part 4. Economy. Includes the Governor's recommendations concerning the economy and an analysis of the impact of his proposals on the State.

The GAAP conversion will not have a major impact on the content of the Governor's budget document. The purpose of the legislation is to change the basis upon which the budget is constructed. It was not intended to turn the Governor's Budget into a preliminary Comprehensive Annual Financial Report (CAFR). Other than to change the basis for budgeting, the content of the Governor's Budget should not change.

Recommendation: Change the presentation of the major fund financial position statements in Part 1, Budget-in-Brief, to a modified accrual basis. Review the funds included in the presentation to ensure only major funds are included. Include in Part 2, Budget in Detail, narrative information describing the impact on agency budgets of the change to budgeting based on GAAP. Add GAAP related terms and information to list of budget definitions and terminology.

3.3 Impact of GAAP Budgeting on the Unallocated Lapses in the Appropriation Act

Agencies currently develop biennial budget requests for operating expenditures, grants, and other spending requirements based on estimated disbursements for twelve month periods July 1st through the following June 30. Agencies are instructed, in general, that current services growth with the exception of personal services, formula driven grants, annualizations of partial year costs, etc. is limited to current year appropriations (Annual Allotment Plan) as adjusted by inflation.

Personal Services requirements are budgeted based on the agency's authorized level of staff as adjusted by collective bargaining agreements less "turn-over" (staffing savings estimated to take place during the year).

The 1993-95 Appropriation Act anticipated that for each year of the biennium a certain amount of the funds appropriated to agency accounts, \$70 million in the General Fund and \$6 million in the Special Transportation Fund, would not be expended and lapse at the end of the fiscal year. This amount is not allocated by agency. Excluding funds carried forward consistent with statute and legislation, unencumbered funds at the end of the fiscal year and funds for encumbrances which were not liquidated during the fiscal period make up the lapse.

As of June 30, 1995, vendor payables, payroll adjustments for salary earned but not paid and other adjustments will be included in the deferred transition amount that will be recognized over a fifteen year amortization period.

Budgeting on a modified accrual basis should not have a significant impact on the statewide lapse. However, because of the proposed changes in the processing of vendor invoices at year end, and the identification of other expenditures caused by accruals, the impact on the lapse cannot be determined. It can only be assumed that the amount lapsed will decrease if there are no changes.

Recommendation: Language should be included in the appropriation act which would give OPM the authority to monitor agency expenditures and make allotment adjustments to ensure that the state-wide lapse requirements are met.

3.4 Effect of GAAP Budgeting on the Constitutional "Expenditure CAP"

CGS Section 2-33a, "Statutory Spending Cap," limits the growth of state expenditures to the greater of growth in inflation over the previous twelve month period or the five year average growth in personal income.

The amortization of the GAAP transition amount will have no effect on the "cap" as it is excluded from the expenditure base. It is to be accounted for as a reclassification of fund balance because it represents previously recognized expenditures. It is the determination of both the Comptroller's Office and the Office of Policy and Management that the amortization amount is not an "expenditure" of the period in which it will be recorded but rather a gradual recognition of prior period expenditures. As such it will not require an appropriation and will not be subject to the expenditure cap. Please see paragraph 7.1 of this section for treatment of the deferred transition amount. The GAAP accounting for this amount highlights its nonexpenditure nature.

As discussed in paragraph 6.6 of this section, both expenditures and revenue will generally be higher under GAAP than under present budgetary practices, with reported expenditures increasing by the greater amount. Necessarily this will put greater demands on expenditures and therefore increase the effect of the "Spending Cap" in the first year if budgets on different bases are compared.

GAAP budgeting will require additional appropriations due to the normal incremental increases from year to year in the budget. On a gross basis, over the last three years additional incremental expenditures were approximately \$57 million per year under GAAP. These incremental expenditures will have to be budgeted for in fiscal year 1995-96. If it is assumed that these additional appropriations will not be exempt from the expenditure cap, an analysis of programs that will have to be cut or eliminated to fund the GAAP changes and still allow appropriations to remain under the cap will have to be undertaken.

Recommendation: The "deferred charge" for the net additional GAAP liabilities be reflected as a Reserve for GAAP Amortization in the equity section of the balance sheets of the appropriated funds. Amortization of this reserve will consist of gradual transfer of this deferred amount to unreserved fund balance (surplus); it will not be an expenditure and will not impact calculations of the constitutional expenditure cap. It is further recommended that any incremental expenditures resulting solely from the transition to accrual accounting be considered "extraordinary circumstances" and as such be excluded from the expenditure cap calculations until the base year is also on an accrual basis.

4. Fund Structure

GAAP defines a fund as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of major or specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Governmental accounting and financial reporting standards, as codified by the Governmental Accounting Standards Board (GASB), contains the following statement of principle on the number (quantity) of funds:

Statement of Principle Number of Funds

"Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration." (GASB Cod. Sec. 1300.104)

The reason separate funds are often established is to guarantee that monies earmarked for a specific purpose are accounted for separately to ensure their use for only the purpose intended. This objective, however, can generally be accomplished through the use of a separate, restricted account within the General Fund or another special fund (e.g. a "Long Island Sound Account" within a consolidated "Environmental Protection" fund). This greatly simplifies cash management, financial reporting, and general administration without compromising accountability.

Due to the excessive number of funds (200+) currently utilized for statutory accounting and financial reporting, the Comprehensive Annual Financial Report (GAAP Report) consolidates these legal funds into a smaller number of "GAAP Funds" for reporting purposes.

Recommendation: A consolidation of funds be undertaken to bring the legal fund structure as much in line as possible with the GAAP reporting requirements. The State Treasurer's Office, in conjunction with the Comptroller and the Office of Policy and Management, has prepared recommendations as part of an inter-agency task force review of interfund borrowing and cash management policies.

5. Appropriations and Expenditures

5.1 Conversion to Accrual Accounting for Expenditures-
Budgeted Appropriations and Funds

GAAP implementation requires that the state convert budgeted appropriations to an accrual basis for expenditures for the fiscal year 1995-96. As the prior year (fiscal year 1994-95) would have ended using the current modified cash basis, a mechanism is needed to absorb the additional year-end agency charges that will be accrued back to fiscal year 1995-96 without requiring additional amounts to be appropriated.

Recommendation: For accounting purposes (no impact on the appropriations process), a one time credit to expenditures is proposed in fiscal year 1995-96 equal to expenditures posted during the first two months of the fiscal year that are expenditures attributable to fiscal year 1994-95 under GAAP. The amount of the credit will be part of the deferred charge authorized under the Act.

Assuming the accruals from one year to the next are roughly equal, the credit will free up sufficient funding in appropriations to absorb the accrued liabilities at the end of fiscal year 1995-96. (These would have been paid out of fiscal year 1995-96 appropriations under the cash basis.)

The "credit" mechanism would be necessary in the first year only; in subsequent years expenditures would be charged to the appropriate fiscal year on an accrual basis.

Example

Assuming \$100 appropriation each year with \$100 of disbursements and \$10 of accrued liabilities each year-end.

	6/30/95 <u>FY 95-96</u>	6/30/96 <u>FY 96-97</u>	6/30/97 <u>FY 97-98</u>
Appropriation	\$ 100	\$ 100	\$ 100
Current Cash Basis Disbursements= Expenditures	\$ 10 (A) + 90 (B) = \$100	\$ 10 (A) + 90 (B) = \$100	\$ 10 (A) + 90 (B) = \$100
Change to GAAP Accrual	\$ 10 (A) + 90 (B) + 10 (C) + (10)(D) = \$100	\$ 90 (B) + 10 (C) = \$100	\$ 90 (B) + 10 (C) = \$100

- A = Expenditures paid in year after incurred.
- B = Expenditures paid in same year as incurred.
- C = Expenditures paid in year after incurred but accrued to prior year.
- D = One time credit to offset (A) in year of transition.

5.2 How Will Continuing Appropriations be Handled?

Currently, for budgetary financial reporting purposes, continuing appropriations are included with expenditures to determine the budgetary surplus or deficit from operations as they are considered uses of spending authority for the fiscal year.

Under GAAP, continuing appropriations are not considered expenditures and do not affect operations. In reconciling the budgetary basis to GAAP, this is recognized as a timing difference. It is argued that from a budgetary perspective, it makes sense to budget and raise the necessary revenue in the year that the program is begun. Others would argue that the budget should only reflect what was actually expended in a given year and that revenues should be raised as required. This would meet the criteria for budgeting on a GAAP basis. However, in a practical sense, continuing appropriations are almost always likely to occur. For example, a new program is expected to start up in May but because of implementation delays the program did not begin until August. It would make sense to continue the original appropriation for which resources had been provided.

Recommendation: Continuing appropriations continue to be identified when needed as in the past and the necessary amounts be reserved in fund balance.

5.3 Conversion to Accrual Accounting for Expenditures-Other Funds and Accounts

Because it is important to have as much consistency as possible in expenditure/revenue accounting and cut-offs across all funds, non-budgeted funds and accounts will also be converted to accrual accounting the fiscal year 1995-96.

However, the credit proposed for budgeted accounts cannot be used for non-budgeted funds and grant appropriations, these accounts will require a higher level of expenditures in the year of conversion to recognize both twelve months of cash basis expenditures plus the unpaid accruals. These additional expenditures will appear on appropriation and detail expenditure reports only, as financial statements for these funds are currently issued on a GAAP basis.

5.4 Overexpenditure of Appropriations under Accrual Accounting

CGS Section 4-86(c) prohibits the Comptroller from issuing "... any warrant, draft or order on the treasurer in payment of any obligation in excess of the available balance of the appropriation...until the general assembly has passed a deficiency bill...and allotments have been made by the governor...".

In practice, if an agency exhausts its appropriation at the end of a fiscal year vendor payments are withheld until new year funding becomes available on July 1st. This has the effect of under-reporting liabilities of the prior period and reducing the funds available for the new fiscal year.

Many expenditures, such as entitlements, are driven by law and are not discretionary. In the past, when those nondiscretionary obligations exceeded the budget, the payment of such obligations could be deferred so as not to exceed the budget on a cash basis during the current budget year. The modified accrual method, however, would require budgetary recognition of incurred entitlement obligations.

Under accrual accounting liabilities of the prior fiscal year cannot be charged to the subsequent year simply because that is when the cash transaction occurs. This can be especially troublesome in certain entitlement programs, such as Medicaid, where the administering agency has limited or no control over incurring obligations. Furthermore, with respect to payroll and vendor payments, it is not practical to hold or refuse payment for a significant period of time.

Recommendation: Statutory changes, modeled after those used in other states that are currently budgeting on a modified accrual basis, be adopted that deal with the issue of overexpenditures in budgeted appropriations due to accrued liabilities.

These changes should contain the following elements:

- o Authorization to restrict an agency's current year appropriation to offset prior year overexpenditures caused by accruals.
- o Agency reporting and justification requirements to the Legislature for overexpenditures.
- o Exemptions for entitlement programs (e.g. Medicaid) over which the administering agency has no control over incurring obligations. Because managers cannot control when obligations are incurred for the non-discretionary grants, the managers of agencies with large non-discretionary programs can end up with responsibility for budget overruns without the requisite authority to prevent such overruns.

5.5 Vendor Payable Cut-off for GAAP Accruals

Currently vendor payables are identified by the Central Accounting System through "receipt date" information captured from all invoices processed in July, August, and September. These accruals are recorded for GAAP reporting purposes only; they do not affect budgeted appropriations.

Recommendation: The following accounting policy should be adopted:

- a. Agencies will be allowed two months (July and August) to process vendor payments for liabilities of the prior fiscal year and have such payments recorded as expenditures against their prior year appropriations.
- b. A reporting mechanism will be established, modeled after current GAAP closing procedures, to identify material payables which are still unsubmitted by August 31. These liabilities will be recorded by the Comptroller against the appropriate accounts and funds for the prior year.
- c. Immaterial payables not submitted by State agencies to the Comptroller by the end of August will be charged to their new year appropriations.

5.6 Positive Impact on Vendor Claim Processing from Accrual Accounting.

The current cash basis expenditure recognition produces a surge of payment requests in June as agencies try and process their outstanding obligations for payment prior to June 30. This is exacerbated by the necessity of having a cut-off imposed by the Comptroller in mid-June for submission of payment requests. This process, brought about by the requirement that all bills be paid by June 30, results in processing disruptions and excessive overtime for both the Comptroller and the agencies. In addition, vendor payments that are not received by the mid-June cut-off are delayed by at least two weeks until processing resumes in July.

Under accrual accounting there will be no necessity for an artificial cut-off for accepting invoices in June as agencies will have up to eight weeks after June 30 to submit old-year bills. This will smooth the processing cycle resulting in improved scheduling, reduced overtime, and better service to the State's vendors.

5.7 Non-Cash Transactions

In certain situations activities that do not result directly in a cash transaction can affect expenditures; for example, use of inventory, changes in accrued employee leave balances, or capital leases.

These items are often difficult to gather data on or measure precisely, and are often nebulous as to which detail accounting records are involved. They are also difficult to incorporate into current budgetary control systems.

Recommendation: It should be established policy that non-cash transactions not be included in appropriations or allotments or processed as transactions against such accounts.

5.8 Other Significant Expenditure Issues

o Faculty Salaries - Higher Education

Faculty members at state higher education institutions have ten month appointments for the academic year running from September to June. They are paid, however, over twelve months with the July and August payrolls representing compensation for the past academic year. Under GAAP, these payments are for services rendered prior to June 30 and represent a liability of the fund from which they are paid and will be considered expenditures of the prior fiscal year for budgetary purposes.

o Medicaid

GAAP requires the accrual of the estimated Medicaid services (pharmacy, physician, hospital) provided through June 30 but for which the Department of Social Services has not yet rendered payment. In addition, nursing home providers are reimbursed for one-half of June care in July, creating a liability for these expenditures. In each case appropriate federal reimbursements (generally 50%) are also accrued as revenue of the prior year.

o Local Assistance

Cities and towns are reimbursed for the state share of local assistance payments. A liability is created for June payments which are reimbursed by the state in July.

6. Resources and Revenues

Under GAAP, governmental funds recognize revenues using the modified accrual basis of accounting. The modified accrual basis as applied to revenues is explained as follows by the GASB:

Revenue Recognition

"Revenues and other governmental fund financial resource increments (for example, bond issue proceeds) are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Application of the "susceptibility to accrual" criterion requires judgment, consideration of the materiality of the item in question, and due regard for the practicality of accrual, as well as consistency in application."
(GASB Cod. Sec. 1600.106)

6.1 Taxes

Current state policy is to accrue certain tax revenues received after June 30th, which apply to the year ending June 30th. Taxes presently accrued are:

<u>Tax Revenue Source</u>	<u>Filing Date</u>
Personal Income Tax (withholding only)	July 31st
Sales and Use Taxes	July 31st
Corporation Business Tax	August 15
Public Service Taxes	July 31st
Alcoholic Beverage Tax	July 31st
Cigarette Tax	July 31st
Gasoline Tax	July 25th
Motor Carrier Road Tax	July 31st
Special Motor Fuels	July 25th
Petroleum Gross Earnings Tax	July 31st

Under GAAP the following changes would be required:

Tax Revenue Source

Accrual Change

Personal Income Tax
(withholding only)

The identifiable portion
of withholding for wages
paid before July 1.

Sales and Use Taxes

No change

Corporation Business Tax

Elimination of accrual

Public Service Taxes

No change

Alcoholic Beverage Tax

No change

Cigarette Tax

No change

Gasoline Tax

No change

Motor Carrier Road Tax

No change

Special Motor Fuels

No change

Petroleum Gross Earnings Tax

No change

6.2 Refunds of Taxes

Refunds of taxes, which are a deduction from gross revenues, are currently recognized when paid by June 30th of the fiscal year.

Under GAAP, refunds of taxes are accrued for tax returns filed by June 30th, regardless of when paid.

6.3 Receivables

Tax receivables are taxes that are due but have not yet been received and are currently recorded as revenue on a cash basis with a June 30th closing date.

Accounts receivable are amounts that are due to the State from private persons, firms, or corporations for goods and services furnished by the state and are currently recorded as revenue on a cash basis with a June 30th closing date.

Under GAAP, receivables that are received in the first 60 days after June 30th, but which are attributable to activity from former periods, would be accrued.

6.4 Intergovernmental Revenues

Restricted federal grants are those whose use is limited by the Federal Government to a particular purpose or specific project. When received, restricted grant funds are appropriated and, after allotment by the Office of Policy and Management, may be expended by the receiving agency for the purpose of the grant or contract. Examples of restricted federal grants include the Low Income Energy Assistance Grant, the National School Lunch Program and the Social Services Block Grant.

Currently the state recognizes restricted federal grants as revenues when expenditures are made. This is in accordance with GAAP and no changes are required.

Unrestricted federal grants are grants to reimburse the state for specific expenditures that were made from budgeted appropriations or to encourage specific programs or projects, and become general revenue unless there is a specific statutory authority to the contrary. Examples of unrestricted federal programs include Medicaid, Aid to Families with Dependent Children, and Foster Care.

Unrestricted grants are currently recognized as revenue on a cash basis, i.e. when received from the federal government. Under GAAP, unrestricted grants, which are expenditure driven, should be recognized as revenues of the period in which the expenditure occurred.

6.5 How Will the GAAP Conversion Affect Federal Grant Revenues?

This question can be broken down into two parts.

1. Will the conversion make it more difficult to prepare those grant reports to the federal government, that are prepared on the cash basis? Will the conversion affect the cash flow from the federal government?

The conversion will not prevent agencies from reporting to the federal government on the cash basis when that basis is required by the federal government. If the agency maintains its expenditure records on a cash basis and adjusts to GAAP using accrual journal entries it will still be possible for the agency to report to the federal government on the cash basis and reconcile those reports to the state financial records. There are a number of practical methods for doing this.

If the agency converts to records kept on a full payables system (liabilities recognized when incurred), the reports could still be prepared from disbursements records, and then reconciled to the modified accrual budgetary records.

2. Will the deferral of the transition amount affect the cash flow from the federal government?

The transition adjustment should also not affect the reporting to the federal government or the cash flow from the federal government. The agency will, however, need to make sure that the disbursements related to those accruals recognized by the change in basis that are included in the transition adjustment (obligations incurred during the last period under the modified cash budgetary system) are segregated and included in the reports to the federal government when disbursed.

Recommendation: Train agency personnel in the new GAAP information processing requirements and identify how such changes may affect federal grant processing requirements.

6.6 Will GAAP Budgeting Increase the Demand on State Revenues?

Yes, GAAP budgeting will increase the demand on state revenues. The impact on revenues will be twofold. First is the fifteen year amortization of the accumulated liabilities recognized under GAAP budgeting. For the General Fund, based on the cumulative GAAP deficit for fiscal year 1992-93 of approximately \$500 million, the amount to be amortized would be \$33 million per year beginning with fiscal year 1996-97.

Secondly, GAAP budgeting will place additional demands on state revenues because of normal incremental increases from year to year in the budget. On a net basis, over the last three years, on average, additional incremental expenditures were approximately \$32 million. These incremental expenditures will have to be budgeted for in the 1995-96 fiscal year.

Assuming these expenditures are not capped and based on these relatively conservative numbers, in fiscal year 1995-96 the state will have to raise an additional \$32 million in revenues to cover the incremental budgetary amounts and an additional \$33 million in fiscal 1996-97 to cover the amortization. That represents \$65 million in additional revenues annually over the biennium for conversion to GAAP accounting.

7. Financial Reporting of GAAP Deferral and Amortization

7.1 Balance Sheet Presentation

Section 3 of PA 93-402 requires that the net (negative) effect of recognizing GAAP accruals and adjustments be "aggregated and set up as a deferred charge on the combined balance sheet...".

As shown in Exhibit D of this report, the deferred transition amount will appear on the balance sheet as a debit balance in the fund equity section of the balance sheet. This will allow the net expenditures previously incurred but not recognized, to be deferred and recognized over time without immediately impacting Unreserved Fund Balance (Surplus).

7.2 Operating Statements - Amortization of Deferred Charge

As discussed above, the transition amount should be established as a segregated portion of the appropriate fund balances. These amounts can then be amortized to unreserved undesignated fund balance over the term specified in the Act.

The amortization of the deferred charge is not in reality an "expenditure" of the period in which it will be recorded but rather a gradual recognition of prior period expenditures. In the GAAP financial statements, the amortization of the transition amount will take place within the equity section, without affecting the Statement of Revenues and Expenditures.

Recommendation: The annual amortization requirement should be shown after "Net Appropriations" in the Appropriation Act in its own category, e.g., "Other Requirements". This will allow the full revenue requirements for both a balanced budget plus the annual requirement for funding the GAAP transition amortization to be clearly identified without the misnomer of calling the amortization an "expenditure" requiring "appropriation".

7.3 Miscellaneous Budgetary Funds

The transition to modified accrual accounting will affect other budgeted funds in addition to the General Fund. As of June 30, 1993, the impact was as follows:

	<u>Legal Fund Balance</u>	<u>GAAP Impact</u>	<u>Final GAAP Fund Balance</u>
Transportation Fund	\$ 8,694,000	\$ (14,043,000)	\$ (5,349,000)
Banking Fund	5,243,890	(524,933)	4,718,957
Insurance Fund	1,040,853	(3,487,524)	(2,446,671)
Workers' Compensa- tion Fund	11,207,313	(637,713)	10,569,590
Mashantucket Pequot Fund	-0-	-0-	-0-
Soldiers', Sailors', and Marines' Fund	100,000	-0-	100,000
Regional Market Operation Fund	189,678	(34,732)	154,946
Consumer Counsel and Public Utility Control Fund	1,109,757	(3,099,554)	(1,989,797)
Criminal Injuries Compensation Fund	107,643	(233,977)	(126,334)

Recommendation: PA 93-402 be amended to allow those funds with positive net final GAAP unreserved fund balances to absorb any negative impact fully in the year of transition. The GAAP impact for the Transportation Fund should be deferred and amortized the same as the General Fund.

The Insurance Fund and Consumer Counsel and Public Utilities Control Fund have negative GAAP fund balances because in fiscal year 1991-92 they were converted from General Fund appropriations to separate budgeted funds. The industry assessments, however, are levied prospectively and were retained by the General Fund as fiscal year 1990-91 revenue. It is recommended that these fund deficits be transferred to the General Fund as part of its GAAP transition adjustment. It is also recommended that any negative fund balance in the Criminal Injuries Compensation Fund also be transferred to the General Fund due to immateriality.

8. Financial Statement Schedule and Audit

Currently, CGS Section 3-115 of the General Statutes requires the Comptroller to publish the following:

- a. Monthly Financial Statements based on estimates furnished by OPM. These statements show actual revenues and expenditures to date plus projections to the end of the fiscal year.
- b. On September 1st of each year a Report to the Governor consisting of the "final" financial statement for the prior fiscal year on a budgetary basis for the State's funds. This report is unaudited.
- c. The Annual Report of the Comptroller, an expanded version of the September 1st report, which is to be "made available to the public". Section 2-90 requires the certificate of the Auditors of Public Accounts to be included.

A Comprehensive Annual Financial Report (CAFR) under GAAP is also issued. There is no specific statutory requirement for this report. The Comptroller strives to complete the report within six months of the end of the fiscal year, a requirement of the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting Program. The Comptroller has received this certificate for the last four consecutive fiscal years. This report is also certified separately by the Auditors of Public Accounts, a requirement of GAAP.

The proposed financial reporting plan avoids two problems with the current situation.

1. Although the current September 1st report is issued as a "final" report it is still in the process of being audited. It is poor practice and perhaps misleading to release unaudited financial results as final figures.
2. The multitude of required reports is burdensome and delays the preparation of the GAAP report and the GAAP audit. The budgetary-basis statements, as well as their audit, must be completed first.

Recommendation: CGS Section 3-115 and 2-90 be modified to allow the following schedule:

1. A single financial report - the GAAP Comprehensive Annual Financial Report, be issued, preferably by December 31.

This report would be supplemented by a published schedule of appropriations and expenditures at the level of detail contained in the Appropriations Act, as required by GAAP.

2. A supplemental report should also be issued at that time containing additional details, schedules and materials to supplement the CAFR.
3. That, during the period from July through the issuance of the GAAP report, the Comptroller's monthly report to the Governor include updated estimates for the prior year each month as well as the current projection for the fiscal year in progress.

9. Statutory Changes

The following sections of the General Statutes have been reviewed for possible change:

<u>Section</u>	<u>Subject</u>	<u>Recommendation</u>
2-33a	Statutory Expenditure Cap	No changes
2-35	Requirements for appropriation bills and acts. Reports of revised revenue estimates required.	Amend to specify manner in which amortization of GAAP deficits are to be shown; not included in "expenditures."
2-36	Deficiency Bills	No changes
2-90	Duties (Auditors of Public Accounts)	No changes

Comptroller

3-112	Powers and Duties	No changes
3-114b	Sales and Use Tax Accrual	Repeal
3-114c	Cigarette Tax Accrual	Repeal
3-114d	Alcoholic Beverages Tax Accrual	Repeal
3-114e	Gasoline Tax Accrual	Repeal
3-114f	Utility Company Taxes Accrual	Repeal
3-114g	Corporation Business Taxes Accrual	Repeal

<u>Section</u>	<u>Subject</u>	<u>Recommendation</u>
3-114h	Income Tax Accrual	Repeal
3-115	Preparation of Accounting Statements; Monthly Cumulative Financial Statements; Annual Report to Governor.	Modify as recommended in Sub-Section 8 of Section V.

State Property and Funds

4-30a	Transfer of Surplus to Budget Reserve Fund and Retirement Fund, Reduction of Outstanding State Indebtedness.	Modify to clarify that the GAAP Transition Amortization Requirement is to be excluded from amounts available for statutory transfers.
4-31a	Gifts, Contributions, Trust Income Placed in General Fund. Subsection (b) - "No fund shall be created and set up on the books of the state except by act of the general assembly or upon approval of the governor."	Amend to (1) add Comptroller to approval process, and (2) incorporate GASB Statement of Principle - Number of funds as official State policy.

Budget and Appropriations

4-69	Definitions	Amend definitions to include GAAP terminology.
4-71 to 4-76	Governor's Budget	Amend to be consistent with GAAP terminology.
4-77	Submission of estimates of expenditures by budgeted agencies.	Amend to authorize use of GAAP with respect to preparation of budget.

<u>Section</u>	<u>Subject</u>	<u>Recommendation</u>
4-86	Monthly notification re refunds, warrants to be specific; not to exceed appropriations. Transfer of Appropriations.	Modify re warrants in excess of appropriations.
4-89	Appropriations, treatment of unexpended balances at close of fiscal year.	Modify re obligations, charges to succeeding fiscal year, one month carry-forwards.
4-89	Appropriations encumbered by purchase order, current expenditure; capital expenditure.	No changes
4-100	Penalty for exceeding appropriations; exceptions.	Add exceptions for Medicaid and other entitlement programs, possible changes for other appropriations.
PA 93-402	An Act Concerning the Use of Generally Accepted Accounting Principles.	Amend re "deferred charges" for certain budgeted funds as recommended in Sub-Section 7.3 of Section V.

10. Financial Systems Changes

The following computer systems may be impacted by the conversion to GAAP accounting and financial reporting:

Office of the Comptroller

Central Accounting System (CAS)
Central Payroll System

Office of Policy and Management

Automated Budget System (ABS)
Capital Budget System

Department of Administrative Services/Data Center

The State Agency Appropriation Accounting System (SAAAS) is offered to state agencies by the Business Office Systems Support (BOSS) group of the State Data Center. It is currently used by 121 state agencies for appropriation and expenditure accounting. It is planned to expand this user base and develop electronic interfaces with the Comptroller's Central Accounting System.

Agency Specific Accounting Systems

Department of Housing
Department of Mental Retardation
University of Connecticut
University of Connecticut Health Center
Connecticut State University
Community/Technical Colleges
Division of Special Revenue
Legislative Management

11. Implementation costs

This discussion is exclusively related to the costs other than the deferred charge and the incremental cost of expenditures which are addressed elsewhere. All agency fiscal officers, OPM budget staff, OFA budget staff, OSC staff, and the DAS BOSS staff will need to be educated as to how to account for revenue and expenditure transactions on a GAAP basis. In some respects agency staff are already familiar with those transactions subject to GAAP accounting at year end because they prepare the GAAP reporting package which is submitted to OSC. They will need to be given instructions on how to record those transactions in their accounting systems during July and August. They will also need to be given instructions regarding the budgetary treatment of those transactions for budgetary preparation purposes. It shouldn't be difficult to prepare such instructions to accommodate accrual type transactions. A joint team consisting of OPM and OSC staff should do this training. Costs should be minimal and could to be absorbed within existing agency budgets.

The systems cost issue is somewhat more complicated. It has been determined that both central (SAAAS and CAS) systems can process non-cash transactions and can process transactions in two fiscal periods running concurrently (July and August). The only other concern involves the other agency accounting systems. An analysis of the systems' capabilities will need to be performed to determine if they can comply with these new requirements. Only then can a cost estimate be developed. The alternative to agency systems processing these transactions will be continued submission of the GAAP Reporting Package on a manual basis.

Substitute Senate Bill No. 1090

PUBLIC ACT NO. 93-402

AN ACT CONCERNING THE USE OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. (NEW) Effective with the fiscal year commencing July 1, 1995, the comptroller is authorized to implement the use of generally accepted accounting principles, as prescribed by the Government Accounting Standards Board, with respect to the preparation and maintenance of the annual financial statements of the state, and the office of policy and management is authorized to implement the use of generally accepted accounting principles, as prescribed by the Government Accounting Standards Board, with respect to the preparation of the annual budget of the state.

Sec. 2. To implement such accounting principles, the comptroller and the secretary of the office of policy and management shall concurrently prepare conversion plans for the respective implementations pursuant to section 1 of this act. The conversion plans shall be submitted to the joint standing committee of the general assembly having cognizance of matters relating to appropriations and the budgets of state agencies not later than February 1, 1994.

Sec. 3. (NEW) The comptroller shall establish an opening combined balance sheet for all appropriated funds as of July 1, 1995, on the basis of generally accepted accounting principles. The accrued and unpaid expenses and liabilities and other adjustments for the purposes of generally accepted accounting principles, as of June 30, 1995, shall be aggregated and set up as a deferred charge on the combined balance sheet and such deferred charge shall be amortized in equal increments in each annual budget commencing with

Substitute Senate Bill No. 1090

the fiscal year ending June 30, 1997, and for the succeeding fourteen fiscal years.

Certified as correct by

Legislative Commissioner.

Clerk of the Senate.

Clerk of the House.

Approved JUN 28 , 1993.

Governor, State of Connecticut.

EXHIBIT B

Major Nonappropriated Funds

Unemployment Compensation Fund
Employment Security Division Fund
Auto Emission Inspection Enterprise Fund
State Employees Retirement Fund
Judges and Comptrollers, Commissioners Fund
D.A.S. Technical Services Revolving Fund
D.A.S. General Services Revolving Fund
Teachers Retirement Fund
Teachers Pension Excess Earnings Fund
Retired Teachers Health Insurance Pension Fund
Vocational Education Extension Fund
University of Connecticut
- Operating Fund
- Research Foundation
Community Technical Colleges Operating Fund
Connecticut State University System Operating Fund
University of Connecticut Health Center
- Operating Fund
- Research Fund
- Clinical Fund
- Uncas-on-Thames Revolving Fund
Emergency Spill Response Fund
Municipal Solid Waste Recycling Fund
Environmental Quality Fees Fund
Conservation Fees Fund
Underground Tank Petroleum Clean Up Fund
Solid Waste Fund
Boating Safety Fund
Correctional Industries Fund
Lottery Fund
Betting Taxes
Tourism Surcharge Fund
COLLECT System
Bradley International Airport Operating Fund
Local Bridge Revolving Fund

The following information is provided for your reference:

1. The total number of units produced during the period was 10,000 units.

2. The standard cost per unit is \$15.00.

3. The actual cost per unit is \$14.50.

4. The total cost of production is \$145,000.

5. The standard cost of production is \$150,000.

6. The cost variance is \$5,000 favorable.

7. The cost variance is composed of a material variance of \$2,000 favorable and a labor variance of \$3,000 favorable.

8. The material variance is due to a decrease in the quantity of materials used.

9. The labor variance is due to an increase in the efficiency of the labor force.

10. The cost variance is a result of favorable variances in both materials and labor.

EXHIBIT C

STATE OF CONNECTICUT
 FUND STRUCTURE - GAAP FUNDS
 AS OF 6-30-93

GAAP FUND #	GAAP CLASS	FUND #	FUND NAME	LEGAL CLASS
50	GENERAL		<u>GENERAL FUND</u>	GAAP
		0000	GENERAL	GENERAL
		1900	BUDGET RESERVE	SPECIAL REVENUE
100	SPECIAL REVENUE		<u>TRANSPORTATION FUND</u>	GAAP
		1120	PUBLIC BUS TRANSPORTATION-A	SPECIAL REVENUE
		1201	TRANSPORTATION	SPECIAL REVENUE
		1202	MERRITT AND WILBUR CROSS PARKWAYS	SPECIAL REVENUE
		4028	VAN POOL RENTAL	INTERNAL SERVICE
105	SPECIAL REVENUE		<u>WORKERS' COMPENSATION</u>	GAAP
		1108	WORKERS' COMPENSATION	SPECIAL REVENUE
110	SPECIAL REVENUE		<u>BANKING</u>	GAAP
		1103	BANKING	SPECIAL REVENUE
115	SPECIAL REVENUE		<u>CONSUMER COUNSEL & PUBLIC UTILITY</u>	GAAP
		1106	CONSUMER COUNSEL & PUBLIC UTILITY	SPECIAL REVENUE
116	SPECIAL REVENUE		<u>INSURANCE FUND</u>	GAAP
		1104	INSURANCE	SPECIAL REVENUE
117	SPECIAL REVENUE		<u>CRIMINAL INJURIES COMPENSATION</u>	GAAP
		1139	CRIMINAL INJURIES COMPENSATION FUND	SPECIAL REVENUE
120	SPECIAL REVENUE		<u>REGIONAL MARKET</u>	GAAP
		1129	REGIONAL MARKET	SPECIAL REVENUE
130	SPECIAL REVENUE		<u>SOLDIERS, SAILORS AND MARINES</u>	GAAP
		1115	SOLDIERS, SAILORS AND MARINES	SPECIAL REVENUE
140	SPECIAL REVENUE		<u>EMPLOYMENT SECURITY ADMINISTRATION</u>	GAAP
		1401	EMPLOYMENT SECURITY ADMINISTRATION	SPECIAL REVENUE
		1405	EMPLOYMENT SECURITY SPECIAL ADMINISTRATION	SPECIAL REVENUE
150	SPECIAL REVENUE		<u>LOTTERY & OTB</u>	GAAP
		1109	LOTTERY FUNDS	SPECIAL REVENUE
		1110	BETTING	SPECIAL REVENUE
160	SPECIAL REVENUE		<u>GRANT AND LOAN PROGRAMS</u>	GAAP
		161	CAP. IMP. & OTHER PURPOSES-GRANTS	GAAP
		421	CAP. IMP. & OTHER PURPOSES-LOANS	GAAP
		1149	JOB INCENTIVE FUND	SPECIAL REVENUE
		1150	ECONOMIC ASSISTANCE	SPECIAL REVENUE
		1158	LOCAL EMERGENCY RELIEF	SPECIAL REVENUE
		1302	STUDENT LOAN FOUNDATION	SPECIAL REVENUE
		1501	ECONOMIC DEVELOPMENT	SPECIAL REVENUE
		1502	ECONOMIC ASSISTANCE-BOND FUND	SPECIAL REVENUE
		1503	ECONOMIC ASSISTANCE-REVOLVING LOAN	SPECIAL REVENUE
		1504	ECONOMIC STABILIZATION FUND	SPECIAL REVENUE
		1824	VOCATIONAL EDUCATION EQUIPMENT	SPECIAL REVENUE
		1832	HIGH TECHNOLOGY DEVELOPMENT	SPECIAL REVENUE

STATE OF CONNECTICUT
 FUND STRUCTURE - GAAP FUNDS
 AS OF 6-30-93

GAAP FUND #	GAAP CLASS	FUND #	FUND NAME	LEGAL CLASS
		1834	TRANSPORTATION SOLAR ENERGY SYSTEM	SPECIAL REVENUE
		1842	VOCATIONAL EDUCATION EQUIPMENT	SPECIAL REVENUE
		1843	CHILD CARE FACILITIES	SPECIAL REVENUE
		1862	GRANTS TO LOCAL GOVERNMENTS	SPECIAL REVENUE
		1870	LOCAL CAPITAL IMPROVEMENT	SPECIAL REVENUE
		1873	GRANTS TO LOCAL GOVERNMENTS	SPECIAL REVENUE
		1876	FLOOD DAMAGE REPAIR & RECONSTRUCTION	SPECIAL REVENUE
		1921	ASSISTIVE TECHNOLOGY REVOLVING FUND	SPECIAL REVENUE
		3065	MUNICIPAL REDEVELOPMENT	CAPITAL PROJECTS
		3089	SCHOOL CONSTRUCTION	CAPITAL PROJECTS
		3753	EMERGENCY PUBLIC WORKS EMPLOYMENT	CAPITAL PROJECTS
		3783	AGRICULTURAL LAND PRESERVATION	CAPITAL PROJECTS
		3784	WATER TREATMENT FACILITIES	CAPITAL PROJECTS
		3795	COMMUNITY CONSERVATION & DEVELOPMENT	CAPITAL PROJECTS
		6001	TEACHER INCENTIVE LOANS	ENTERPRISE
		6024	CONNECTICUT INNOVATIONS INCORPORATED	ENTERPRISE
		6033	ACADEMIC SCHOLARSHIP LOANS	ENTERPRISE
		6036	BUSINESS ENVIRONMENTAL CLEAN UP	ENTERPRISE
		6037	SUBSTANCE ABUSE REVOLVING LOANS	ENTERPRISE
		6301	LOCAL BRIDGE REVOLVING FUND-BOND	ENTERPRISE
		6303	LOCAL BRIDGE REVOLVING FUND-REVENUE FINANCED	ENTERPRISE
		6851	COMMUNITY RESIDENTIAL FACILITIES	ENTERPRISE
165	SPECIAL REVENUE		<u>ENVIRONMENTAL PROGRAMS</u>	GAAP
		166	CAP. IMP. & OTHER PURPOSES	GAAP
		1136	EMERGENCY SPILL RESPONSE	SPECIAL REVENUE
		1142	BOATING SAFETY	SPECIAL REVENUE
		1153	SOLID WASTE FUND	SPECIAL REVENUE
		1154	RECREATION & NATURAL HERITAGE	SPECIAL REVENUE
		1155	MUNICIPAL SOLID WASTE RECYCLING	SPECIAL REVENUE
		1175	LOW-LEVEL RADIOACTIVE WASTE	SPECIAL REVENUE
		1176	UNDERGROUND STORAGE TANK CLEAN-UP	SPECIAL REVENUE
		1177	ENVIRONMENTAL QUALITY FUND	SPECIAL REVENUE
		1181	CONSERVATION FUND	SPECIAL REVENUE
		1182	MIGRATORY BIRD CONSERVATION FUND	SPECIAL REVENUE
		1183	LONG ISLAND SOUND FUND	SPECIAL REVENUE
		1825	FLOOD RELIEF PURPOSES	SPECIAL REVENUE
		1864	ESTUARINE EMBAYMENTS GRANTS	SPECIAL REVENUE
		1874	ECONOMIC DEVELOPMENT GRANTS	SPECIAL REVENUE
		3080	ELIMINATION OF WATER POLLUTION	CAPITAL PROJECTS
		6864	CLEAN WATER FUND-STATE	ENTERPRISE
		6865	CLEAN WATER FUND-FEDERAL	ENTERPRISE
		6866	CLEAN WATER FUND-LONG ISLAND	ENTERPRISE
170	SPECIAL REVENUE		<u>HOUSING PROGRAMS</u>	GAAP
		171	CAP. IMP. & OTHER PURPOSES	GAAP
		406	CAP. IMP. & OTHER PURPOSES	GAAP
		1116	RENTAL REHABILITATION	SPECIAL REVENUE
		1159	LIMITED EQUITY COOPERATIVE HOUSING	SPECIAL REVENUE
		1160	HOUSING INFRASTRUCTURE FUND	SPECIAL REVENUE
		1166	SENIOR CITIZEN EMERGENCY REPAIR	SPECIAL REVENUE
		1168	PRIVATE RENTAL INVESTMENT	SPECIAL REVENUE

STATE OF CONNECTICUT
 FUND STRUCTURE - GAAP FUNDS
 AS OF 6-30-93

FUND #	GAAP CLASS	FUND #	FUND NAME	LEGAL CLASS
		1170	CONNECTICUT HOUSING TRUST	SPECIAL REVENUE
		1309	ENERGY CONSERVATION LOANS	SPECIAL REVENUE
		1601	HOUSING REPAYMENT-TAXABLE	SPECIAL REVENUE
		1602	HOUSING REPAYMENT-TAX EXEMPT	SPECIAL REVENUE
		1801	HOUSING ASSISTANCE-TAXABLE	SPECIAL REVENUE
		1802	HOUSING ASSISTANCE-TAX EXEMPT	SPECIAL REVENUE
		1823	URBAN HOMESTEADING LOANS	SPECIAL REVENUE
		1836	HOUSING IMPROVEMENTS	SPECIAL REVENUE
		1841	HOUSING IMPROVEMENTS	SPECIAL REVENUE
		1851	HOUSING IMPROVEMENTS	SPECIAL REVENUE
		1853	HOUSING FOR HOMELESS PERSONS	SPECIAL REVENUE
		1861	HOUSING IMPROVEMENTS	SPECIAL REVENUE
		1863	MUNICIPAL HOUSING GRANTS	SPECIAL REVENUE
		1865	HOUSING SITE DEVELOPMENT	SPECIAL REVENUE
		1866	LOW INCOME RENTAL HOUSING	SPECIAL REVENUE
		1871	HOUSING IMPROVEMENTS	SPECIAL REVENUE
		1875	COMMUNITY RESIDENTIAL FACILITIES	SPECIAL REVENUE
		1878	COMMUNITY HOUSING LAND BANK	SPECIAL REVENUE
		1879	HOUSING FOR HOMELESS PERSONS WITH AIDS	SPECIAL REVENUE
		1881	SUBSURFACE SEWAGE DISPOSAL	SPECIAL REVENUE
		3004	FLOOD RELIEF HOUSING MORTGAGE	CAPITAL PROJECTS
		3011	HOUSING MORTGAGE	CAPITAL PROJECTS
		3051	RENTAL HOUSING FOR THE ELDERLY	CAPITAL PROJECTS
		3093	HOUSING MORTGAGE GUARANTY	CAPITAL PROJECTS
		3773	HOUSING PURCHASE & REHABILITATION	CAPITAL PROJECTS
		3775	CONGREGATE HOUSING FOR THE ELDERLY	CAPITAL PROJECTS
		3792	NEIGHBORHOOD REHABILITATION	CAPITAL PROJECTS
		3804	ELDERLY HOUSING DEVELOPMENT COSTS	CAPITAL PROJECTS
		3835	HOUSING DEVELOPMENT CORPORATIONS	CAPITAL PROJECTS
		6027	PUBLIC HOUSING	ENTERPRISE
		6032	HOUSING RECEIVERSHIP	ENTERPRISE
		6034	CT SECURITY DEPOSIT LOAN FUND	ENTERPRISE
		6035	HOUSING PREDEVELOPMENT COST	ENTERPRISE
180	SPECIAL REVENUE		<u>OTHER SPECIAL REVENUE FUNDS</u>	GAAP
		1105	PROBATE COURT ADMINISTRATION	SPECIAL REVENUE
		1111	SITING COUNCIL	SPECIAL REVENUE
		1123	MUNICIPAL EMPLOYEES RETIREMENT	SPECIAL REVENUE
		1143	VENDING FACILITIES FRINGE BENEFIT	SPECIAL REVENUE
		1146	EDUCATION EXCELLENCE TRUST	SPECIAL REVENUE
		1169	INTER-AGENCY/INTRA-AGENCY GRANTS	SPECIAL REVENUE
		1174	DRUG ASSETS FORFEITURE	SPECIAL REVENUE
		1178	CONSUMER PROTECTION ENFORCEMENT	SPECIAL REVENUE
		1184	TOURISM FUND	SPECIAL REVENUE
		1185	ANIMAL POPULATION CONTROL FUND	SPECIAL REVENUE
		1505	SMALL CONTRACTORS SURETY BOND GUARANTEE FUND	SPECIAL REVENUE
		1831	SMALL CONTRACTORS SURETY GUARANTY	SPECIAL REVENUE
		1872	CAPITAL EQUIPMENT PURCHASE	SPECIAL REVENUE
		1877	SHELLFISH FUND	SPECIAL REVENUE
		1911	UNCOMPENSATED CARE POOL-BOND AUTHORIZATION	SPECIAL REVENUE
		4002	COLLECT SYSTEM	INTERNAL SERVICE
		6031	AUTO EMISSIONS INSPECTIONS	ENTERPRISE

STATE OF CONNECTICUT
 FUND STRUCTURE - GAAP FUNDS
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GAAP FUND #	GAAP CLASS	FUND #	FUND NAME	LEGAL CLASS
250	DEBT SERVICE		<u>DEBT SERVICE</u>	GAAP
		2025	TRANSPORTATION SPECIAL TAX	DEBT SERVICE
		2030	ECONOMIC RECOVERY NOTE DEBT RETIREMENT	DEBT SERVICE
300	CAPITAL PROJECTS		<u>CAPITAL PROJECTS-STATE FACILITIES</u>	GAAP
		301	CAP. IMP. & OTHER PURPOSES	GAAP
		375	CAPITAL PROJECTS-MULTIPLE PURPOSES	GAAP
		3016	REGIONAL MARKETS	CAPITAL PROJECTS
		3060	GENERAL STATE IMPROVEMENTS	CAPITAL PROJECTS
		3066	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3072	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3074	STATE UNIVERSITY FACILITIES	CAPITAL PROJECTS
		3081	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3082	UNIVERSITY FACILITIES	CAPITAL PROJECTS
		3083	STATE UNIVERSITY FACILITIES	CAPITAL PROJECTS
		3086	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3088	STATE UNIVERSITY FACILITIES	CAPITAL PROJECTS
		3091	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3094	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3731	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3732	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3741	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3751	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3761	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3771	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3781	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3782	ACQUISITIONS OF HARTFORD SEMINARY	CAPITAL PROJECTS
		3789	STATE UNIVERSITY FACILITIES	CAPITAL PROJECTS
		3791	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3797	UNIVERSITY FACILITIES	CAPITAL PROJECTS
		3801	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3802	STATE UNIVERSITY FACILITIES	CAPITAL PROJECTS
		3811	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3813	HEALTH CENTER COSTS	CAPITAL PROJECTS
		3814	UNIVERSITY FACILITIES	CAPITAL PROJECTS
		3821	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3823	UNIVERSITY FACILITIES	CAPITAL PROJECTS
		3831	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3834	UNIVERSITY FACILITIES	CAPITAL PROJECTS
		3841	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3843	LEGISLATIVE OFFICE BUILDING	CAPITAL PROJECTS
		3844	UNIVERSITY FACILITIES	CAPITAL PROJECTS
		3851	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3852	UNIVERSITY FACILITIES	CAPITAL PROJECTS
		3861	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3862	UNIVERSITY FACILITIES	CAPITAL PROJECTS
		3864	FIRE TRAINING SCHOOL	CAPITAL PROJECTS
		3871	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3872	UNIVERSITY ATHLETIC FACILITIES	CAPITAL PROJECTS
		3873	CORRECTION DISTRIBUTION INMATE	CAPITAL PROJECTS

STATE OF CONNECTICUT
 FUND STRUCTURE - GAAP FUNDS
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GAAP FUND #	GAAP CLASS	FUND #	FUND NAME	LEGAL CLASS
		3874	STATE CAPITAL RESTORATION	CAPITAL PROJECTS
		3875	LEGISLATIVE OFFICE BUILDING PARKING FACILITY	CAPITAL PROJECTS
		3876	UNIVERSITY FACILITIES	CAPITAL PROJECTS
		3877	UNIVERSITY ATHLETIC FACILITIES	CAPITAL PROJECTS
		3891	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3901	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3911	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
		3912	PUBLIC WORKS SERVICE FUND	CAPITAL PROJECTS
		3921	CAPITAL IMPROVEMENTS	CAPITAL PROJECTS
325	CAPITAL PROJECTS		<u>CAPITAL PROJECTS-INFRASTRUCTURE</u>	GAAP
		3842	INFRASTRUCTURE IMPROVEMENT FUND	CAPITAL PROJECTS
350	CAPITAL PROJECTS		<u>CAPITAL PROJECTS-TRANSPORTATION</u>	GAAP
		351	CAP. IMP. & OTHER PURPOSES	GAAP
		1102	EXPRESSWAY IMPROVEMENTS	SPECIAL REVENUE
		2009	INTERSTATE HIGHWAY	DEBT SERVICE
		3056	INTRASTATE HIGHWAY PROJECTS	CAPITAL PROJECTS
		3057	INTERSTATE & DEFENSE HIGHWAYS	CAPITAL PROJECTS
		3061	SPECIFIC HIGHWAY PURPOSES	CAPITAL PROJECTS
		3071	SPECIFIC INTERIOR HIGHWAY PROJECTS	CAPITAL PROJECTS
		3078	PUBLIC TRANSPORTATION PURPOSES	CAPITAL PROJECTS
		3084	SPECIFIC HIGHWAY PURPOSES	CAPITAL PROJECTS
		3092	SPECIFIC HIGHWAY PURPOSES	CAPITAL PROJECTS
		3745	MASS TRANSPORTATION	CAPITAL PROJECTS
		3746	TRANSPORTATION FACILITIES	CAPITAL PROJECTS
		3785	TRANSPORTATION IMPROVEMENT	CAPITAL PROJECTS
		3786	REPLACE BRIDGES OVER RAILROADS	CAPITAL PROJECTS
		3803	RAMP CONSTRUCTION	CAPITAL PROJECTS
		3815	HIGHWAY RESURFACING	CAPITAL PROJECTS
		3822	HIGHWAY RESURFACING	CAPITAL PROJECTS
		3833	TRANSPORTATION IMPROVEMENTS	CAPITAL PROJECTS
		3836	TRANSPORTATION IMPROVEMENTS	CAPITAL PROJECTS
		3837	TRANSPORTATION PURPOSES	CAPITAL PROJECTS
		3838	HIGHWAY RESURFACING	CAPITAL PROJECTS
		3863	MIDDLETOWN CLUSTER RAILROAD SERVICE	CAPITAL PROJECTS
405	ENTERPRISE		<u>RENTAL HOUSING</u>	GAAP
		2020	RENTAL HOUSING	DEBT SERVICE
		2022	RENTAL HOUSING FUND B	DEBT SERVICE
		3012	RENTAL HOUSING	CAPITAL PROJECTS
410	ENTERPRISE		<u>BRADLEY INTERNATIONAL AIRPORT</u>	GAAP
		6300	BRADLEY INTERNATIONAL AIRPORT	ENTERPRISE
425	ENTERPRISE		<u>CONNECTICUT DEVELOPMENT AUTHORITY</u>	GAAP
		7202	INDUSTRIAL BUILDING MORTGAGE INSURANCE	EXPENDABLE TRUST
		7664	CONNECTICUT DEVELOPMENT AUTHORITY	COMPONENT UNIT
430	ENTERPRISE		<u>CONNECTICUT HOUSING FINANCE AUTHORITY</u>	GAAP
		7665	CONNECTICUT HOUSING FINANCE AUTHORITY	COMPONENT UNIT

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GAAP FUND #	GAAP CLASS	FUND #	FUND NAME	LEGAL CLASS
435	ENTERPRISE		<u>CONNECTICUT RESOURCES RECOVERY AUTHORITY</u>	GAAP
		7656	CONNECTICUT RESOURCES RECOVERY AUTHORITY	COMPONENT UNIT
440	ENTERPRISE		<u>OTHER</u>	GAAP
		6008	VOCATIONAL EDUCATION	ENTERPRISE
		6018	VOCATIONAL EDUCATION EXTENSION	ENTERPRISE
470	INTERNAL SERVICE		<u>CORRECTION INDUSTRIES</u>	GAAP
		4003	CORRECTION INDUSTRIES	INTERNAL SERVICE
480	INTERNAL SERVICE		<u>ADMINISTRATIVE SERVICES</u>	GAAP
		4007	DATA PROCESSING	INTERNAL SERVICE
		4015	PURCHASING	INTERNAL SERVICE
		4831	CAPITAL EQUIPMENT DATA PROCESSING	INTERNAL SERVICE
500	EXPENDABLE TRUST		<u>EMPLOYMENT SECURITY</u>	GAAP
		7205	EMPLOYMENT SECURITY-EMPLOYER'S CONTRIBUTION	EXPENDABLE TRUST
520	EXPENDABLE TRUST		<u>LOCAL PROPERTY TAX RELIEF</u>	GAAP
		7208	LOCAL PROPERTY TAX RELIEF TRUST	EXPENDABLE TRUST
530	EXPENDABLE TRUST		<u>SECOND INJURY & COMPENSATION ASSURANCE</u>	GAAP
		7503	SECOND INJURY & COMPENSATION ASSURANCE	TREASURERS' TRUST
540	EXPENDABLE TRUST		<u>OTHER EXPENDABLE TRUST FUNDS</u>	GAAP
		1107	WORKERS' REHABILITATION	SPECIAL REVENUE
		1118	DIVISION OF WORKERS' EDUCATION	SPECIAL REVENUE
		7020	ESCHEAT CLAIMS	AGENCY
		7021	PROPERTY DUE TO NONRESIDENTS	AGENCY
		7022	UNCLAIMED PAYROLL-VENDORS	AGENCY
		7023	UNCLAIMED REGISTERED INTEREST	AGENCY
		7201	CONNECTICUT HEALTH CLUB GUARANTY	EXPENDABLE TRUST
		7203	REAL ESTATE GUARANTY	EXPENDABLE TRUST
		7204	PRIVATE OCCUPATIONAL SCHOOL PROTECTION	EXPENDABLE TRUST
		7209	HOME IMPROVEMENT GUARANTY FUND	EXPENDABLE TRUST
		7210	BROKERED TRANSACTIONS GUARANTY	EXPENDABLE TRUST
		7211	ITINERANT VENDOR GUARANTY FUND	EXPENDABLE TRUST
		7501	WORKERS' REHABILITATION	TREASURERS' TRUST
		7502	WORKERS' EDUCATION	TREASURERS' TRUST
		7507	STATE LIBRARY-EDITH ALLING	TREASURERS' TRUST
		7509	PHILLIPS PETROLEUM FUND	TREASURERS' TRUST
		7510	HEUBLEIN TOWER FUND	TREASURERS' TRUST
		7511	CULPEPPER ESTATE FUND	TREASURERS' TRUST
610	NONEXPENDABLE		<u>SCHOOL</u>	GAAP
		7532	SCHOOL	TREASURERS' TRUST
630	NONEXPENDABLE		<u>SOLDIERS, SAILORS AND MARINES</u>	GAAP
		7305	SOLDIERS, SAILORS, AND MARINES	NONEXPENDABLE TRUST
		7531	SOLDIERS, SAILORS, AND MARINES	TREASURERS' TRUST

STATE OF CONNECTICUT
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GAAP FUND #	GAAP CLASS	FUND #	FUND NAME	LEGAL CLASS
640	NONEXPENDABLE		<u>OTHER NONEXPENDABLE TRUST FUNDS</u>	GAAP
		7302	RENTAL HOUSING ASSISTANCE TRUST FUND	NONEXPENDABLE
		7303	ENDOWED CHAIR INVESTMENT FUND	NONEXPENDABLE
		7304	CONNECTICUT ART ENDOWMENT FUND	NONEXPENDABLE
		7506	STATE LIBRARY - JOHN HAMILTON KING	TREASURERS' TRUST
		7508	STATE LIBRARY - O'CONNELL	TREASURERS' TRUST
		7533	ANDREW C. CLARK	TREASURERS' TRUST
		7535	IDA EATON COTTON	TREASURERS' TRUST
		7537	DANA HAWLY BEQUEST	TREASURERS' TRUST
		7538	JAMES L. GOODWIN CONSERVATION CENTER	TREASURERS' TRUST
		7539	HOPEHEAD STATE PARK	TREASURERS' TRUST
		7540	PAWCATUCK PEQUOT INDIANS TRIBE	TREASURERS' TRUST
		7541	PEQUOT INDIANS OF LEDYARD	TREASURERS' TRUST
		7542	GOLDEN HILL PAQUASSETT TRIBAL FUNDS	TREASURERS' TRUST
		7543	FLORA WERNER	TREASURERS' TRUST
		7544	MENTAL HEALTH - GEORGE ATWATER	TREASURERS' TRUST
		7545	STATE POLICE - R.G. SMITH	TREASURERS' TRUST
		7546	FITCH HOUSE	TREASURERS' TRUST
		7547	POSTHUMOUS FUND AT FITCH HOUSE	TREASURERS' TRUST
		7549	I.H. LEPOW	TREASURERS' TRUST
650	PENSION TRUST		<u>STATE EMPLOYEES' RETIREMENT SYSTEM</u>	GAAP
		7801	STATE EMPLOYEES' RETIREMENT SYSTEM	PENSION TRUST
660	PENSION TRUST		<u>STATE TEACHERS RETIREMENT SYSTEM</u>	GAAP
		7611	CONNECTICUT TEACHERS' RETIREMENT SYSTEM	COMPONENT UNIT
670	PENSION TRUST		<u>OTHER STATE RETIREMENT SYSTEMS</u>	GAAP
		7803	STATE ATTORNEY'S RETIREMENT SYSTEM	PENSION TRUST
		7804	GENERAL ASSEMBLY RETIREMENT SYSTEM	PENSION TRUST
		7806	PUBLIC DEFENDERS RETIREMENT SYSTEM	PENSION TRUST
680	PENSION TRUST		<u>JUDICIAL RETIREMENT SYSTEM</u>	GAAP
		7805	JUDGES & COMP. COMMISSIONERS' RETIREMENT SYSTEM	PENSION TRUST
700	PENSION TRUST		<u>CONNECTICUT MUNICIPAL RETIREMENT FUND</u>	GAAP
		7047	MUNICIPAL EMPLOYEES RETIREMENT-FUND A	AGENCY
		7048	MUNICIPAL EMPLOYEES RETIREMENT-FUND B	AGENCY
710	PENSION TRUST		<u>CONNECTICUT PROBATE JUDGES RETIREMENT SYSTEM</u>	GAAP
		7050	PROBATE JUDGES & EMPLOYEES RETIREMENT	AGENCY
720	AGENCY		<u>PAYROLL & FRINGE BENEFIT CLEARING</u>	GAAP
		7001	HEALTH PLAN FOR TERMINATED EMPLOYEES	AGENCY
		7024	PAYROLL DEDUCTIONS - INCOME TAX	AGENCY
		7025	PAYROLL DEDUCTIONS - SAVINGS BONDS	AGENCY
		7026	PAYROLL DEDUCTIONS - ALL OTHERS	AGENCY
		7029	PAYROLL DEDUCTIONS - LIFE INSURANCE	AGENCY
		7038	LEGISLATIVE HEALTH INSURANCE	AGENCY
		7046	ALTERNATE RETIREMENT	AGENCY

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GAAP FUND #	GAAP CLASS	FUND #	FUND NAME	LEGAL CLASS
730	AGENCY		<u>RECEIPTS PENDING DISTRIBUTION</u>	GAAP
		7002	FINES AWAITING DISTRIBUTION	AGENCY
		7003	REAL ESTATE BROKERS & SALESMEN FEE	AGENCY
		7005	DOG LICENSES	AGENCY
		7013	PENDING RECEIPTS	AGENCY
		7014	SHELL FISH TAXES AND RENTS	AGENCY
		7016	BETTING TAXES	AGENCY
		7032	FRINGE BENEFIT RECOVERY	AGENCY
735	AGENCY		<u>INVESTMENT POOL/NON-STATE PORTION</u>	GAAP
		7582	INVESTMENT POOL/NON-STATE PORTION	TREASURERS' TRUST
745	AGENCY		<u>INSURANCE COMPANIES' SECURITIES</u>	GAAP
		7589	INSURANCE COMPANIES' SECURITIES	TREASURERS' TRUST
760	AGENCY		<u>STATE INSTITUTION ACTIVITY</u>	GAAP
		7574	STATE INSTITUTION ACTIVITY FUND	COMPONENT UNIT
770	AGENCY		<u>DEFERRED COMPENSATION</u>	GAAP
780	AGENCY		<u>OTHER AGENCY FUNDS</u>	GAAP
		740	DEPOSITS	GAAP
		750	COSTS INCURRED FOR OTHERS	GAAP
		2010	GENERAL OBLIGATION	DEBT SERVICE
		2017	WATER POLLUTION	DEBT SERVICE
		7004	INITIAL SSI BENEFITS	AGENCY
		7006	MOTOR VEHICLE SECURITY DEPOSITS	AGENCY
		7009	SOCIAL SERVICES SUPPORT FUND	AGENCY
		7035	STUDENT BREAKAGE DEPOSIT	AGENCY
		7036	FOOD STAMP COLLECTION	AGENCY
		7043	SUPERIOR COURT CONDEMNATION AWARDS	AGENCY
		7044	DEPARTMENT OF PUBLIC WORKS SERVICE	AGENCY
		7045	COMPTROLLER'S AIR TRAVEL	AGENCY
		7049	POLICEMEN AND FIREMEN SURVIVORS BENEFIT	AGENCY
		7060	UNCOMPENSATED CARE POOL	AGENCY
		7514	RCA-MERIDEN	TREASURERS' TRUST
		7515	RCA-ANSONIA	TREASURERS' TRUST
		7516	RCA-WATERBURY	TREASURERS' TRUST
		7517	RCA-TOLLAND/ROCKVILLE	TREASURERS' TRUST
		7518	RCA-PUTNAM/WINDHAM	TREASURERS' TRUST
		7519	RCA-NEW LONDON	TREASURERS' TRUST
		7520	RCA-NEW HAVEN	TREASURERS' TRUST
		7521	RCA-MIDDLESEX	TREASURERS' TRUST
		7522	RCA-LITCHFIELD	TREASURERS' TRUST
		7523	RCA-HARTFORD	TREASURERS' TRUST
		7524	RCA-DANBURY	TREASURERS' TRUST
		7525	RCA-FAIRFIELD	TREASURERS' TRUST
		7571	INSURANCE DEPT ESCROW-ENTERPRISE	TREASURERS' TRUST
		7575	ITINERANT VENDOR'S SURETY DEPOSITS	TREASURERS' TRUST
		7576	DEPARTMENT OF HOUSING ESCROW INVEST	TREASURERS' TRUST
		7577	DEPARTMENT OF INSURANCE-MUTUAL LIABILITY	TREASURERS' TRUST

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GAAP FUND #	GAAP CLASS	FUND #	FUND NAME	LEGAL CLASS
		7578	DOH/NDR RESERVE FOR REPLACEMENT	TREASURERS' TRUST
		7579	CDA - ECONOMIC STABILIZATION	TREASURERS' TRUST
		7580	CDA - BUSINESS ENVIRONMENTAL CLEAN UP	TREASURERS' TRUST
		7583	INSURANCE DEPT ESCROW-AMERICAN MUTUAL OF BOSTON	TREASURERS' TRUST
		7584	INSURANCE DEPT ESCROW-ALLIED FIDELITY INS. CO.	TREASURERS' TRUST
		7585	CITY OF ROCKVILLE HOUSING AUTHORITY	TREASURERS' TRUST
		7586	WHITE FUND - LIBRARY	TREASURERS' TRUST
		7587	INSURANCE DEPT ESCROW-THRIFTY RENTAL CAR	TREASURERS' TRUST
		7588	PROPERTY DUE NONRESIDENTS OF THE UNITED STATES	TREASURERS' TRUST
		7590	NORWICH SUPERIOR COURT	TREASURERS' TRUST
		7591	INSURANCE DEPARTMENT ESCROW-AMERICAN POLICY	TREASURERS' TRUST
		7593	MARKETING AUTHORITY	TREASURERS' TRUST
800	GFA		<u>GENERAL FIXED ASSETS</u>	GAAP
850	GLTD		<u>GENERAL LONG-TERM DEBT</u>	GAAP
900			<u>UNIVERSITY OF CONNECTICUT</u>	
902	DISCRETE		<u>CURRENT UNRESTRICTED - UCONN</u>	GAAP
		1161	UCONN OPERATING FUND	SPECIAL REVENUE
903	DISCRETE		<u>CURRENT RESTRICTED - UCONN</u>	GAAP
		1171	UCONN RESEARCH FOUNDATION	SPECIAL REVENUE
		7637	UCONN SCHOLARSHIP	TREASURERS' TRUST
905	DISCRETE		<u>LOAN - UCONN</u>	GAAP
906	DISCRETE		<u>UNEXPENDED - UCONN</u>	GAAP
		901	CAP. IMP. & OTHER PURPOSES-UCONN	GAAP
907	DISCRETE		<u>RETIREMENT OF INDEBTEDNESS - UCONN</u>	GAAP
		2002	UNIVERSITY BOND LIQUIDATION	DEBT SERVICE
		2015	UNIVERSITY SECONDARY SCHOOL	DEBT SERVICE
908	DISCRETE		<u>INVESTMENT IN PLANT - UCONN</u>	GAAP
909	DISCRETE		<u>ENDOWMENT - UCONN</u>	GAAP
		7534	AGRICULTURAL COLLEGE	TREASURERS' TRUST
		7636	UCONN-POMEROY	TREASURERS' TRUST
910	DISCRETE		<u>AGENCY - UCONN</u>	GAAP
		7630	UCONN-LOUISE AOMILE BEACH MEMORIAL	TREASURERS' TRUST
		7631	UCONN-DUNHAM	TREASURERS' TRUST
		7632	UCONN-AARON ENTIN	TREASURERS' TRUST
		7633	UCONN-EXTENSION SERVICE PRIZE	TREASURERS' TRUST
		7634	UCONN-E. STEVENS HENRY	TREASURERS' TRUST
		7635	UCONN-WILLIAM DURAN HOLMAN	TREASURERS' TRUST
		7638	UCONN LAW SCHOOL STUDENT BAR ASSOCIATION	TREASURERS' TRUST
920			<u>UNIVERSITY OF CONNECTICUT HEALTH CENTER</u>	

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GAAP FUND #	GAAP CLASS	FUND #	FUND NAME	LEGAL CLASS
922	DISCRETE		<u>CURRENT UNRESTRICTED-UCONN HEALTH CENTER</u>	GAAP
		1162	HEALTH CENTER OPERATING FUND	SPECIAL REVENUE
		1172	HEALTH CENTER RESEARCH FOUNDATION	SPECIAL REVENUE
923	DISCRETE		<u>CURRENT RESTRICTED-UCONN HEALTH CENTER</u>	GAAP
		7207	HEALTH CENTER RESEARCH FOUNDATION	EXPENDABLE TRUST
924	DISCRETE		<u>CLINICAL PROGRAMS-UCONN HEALTH CENTER</u>	GAAP
		6005	HEALTH CENTER HOSPITAL	ENTERPRISE
		6007	UNCAS ON THAMES HOSPITAL	ENTERPRISE
925	DISCRETE		<u>LOAN-UCONN HEALTH CENTER</u>	GAAP
926	DISCRETE		<u>UNEXPENDED-UCONN HEALTH CENTER</u>	GAAP
		921	CAP.IMP. & OTHER PURPOSES	GAAP
927	DISCRETE		<u>RETIREMENT OF INDEBTEDNESS-HEALTH CENTER</u>	GAAP
928	DISCRETE		<u>INVESTMENT IN PLANT-HEALTH CENTER</u>	GAAP
929	DISCRETE		<u>ENDOWMENT - UCONN HEALTH CENTER</u>	GAAP
930	DISCRETE		<u>AGENCY-UCONN HEALTH CENTER</u>	GAAP
940/960/980			<u>OTHER COLLEGES & UNIVERSITY SYSTEMS</u>	
942	DISCRETE		<u>CURRENT UNRESTRICTED-OTHER COLLEGES&UNIVERSITIES</u>	GAAP
		1163	CT STATE UNIVERSITY OPERATING FUND	SPECIAL REVENUE
		1164	COMMUNITY COLLEGES OPERATING FUND	SPECIAL REVENUE
		1165	TECHNICAL COLLEGES OPERATING FUND	SPECIAL REVENUE
		6111	STATE UNIVERSITY OPERATING FUND	ENTERPRISE
		6140	COMMUNITY COLLEGE OPERATING FUND	ENTERPRISE
		6170	COMMUNITY COLLEGE OPERATING FUND	ENTERPRISE
		6200	TECHNICAL COLLEGE OPERATING FUND	ENTERPRISE
		6270	TECHNICAL COLLEGE OPERATING FUND	ENTERPRISE
		6900	STATE UNIVERSITY OPERATING FUND	ENTERPRISE
		7011	CENTRAL COLLECTIONS-COMMUNITY COLLEGES	AGENCY
		7012	CENTRAL COLLECTIONS-STATE UNIVERSITY	AGENCY
		7018	STATE UNIVERSITY	AGENCY
943	DISCRETE		<u>CURRENT RESTRICTED-OTHER COLLEGES & UNIVERSITIES</u>	GAAP
		1173	STATE UNIVERSITY RESEARCH FOUNDATION	SPECIAL REVENUE
		1179	REGIONAL COMMUNITY COLLEGES OPERATING FUND	SPECIAL REVENUE
		1180	REGIONAL TECHNICAL COLLEGES OPERATING FUND	SPECIAL REVENUE
945	DISCRETE		<u>LOAN-OTHER COLLEGES & UNIVERSITIES</u>	GAAP
946	DISCRETE		<u>UNEXPENDED-OTHER COLLEGES & UNIVERSITIES</u>	GAAP
		941	CAP. IMP. & OTHER PURPOSES-STATE UNIVERSITIES	GAAP
		961	CAP. IMP. & OTHER PURPOSES-COMMUNITY COLLEGES	GAAP
		981	CAP. IMP. & OTHER PURPOSES-TECHNICAL COLLEGES	GAAP

STATE OF CONNECTICUT
 FUND STRUCTURE - GAAP FUNDS
 AS OF 6-30-93

GAAP				
FUND #	GAAP CLASS	FUND #	FUND NAME	LEGAL CLASS
947	DISCRETE	2008	<u>RETIREMENT OF INDEBTEDNESS - OTHER</u> STATE UNIVERSITY DORMITORY	GAAP DEBT SERVICE
948	DISCRETE		<u>INVESTMENT IN PLANT-OTHER COLLEGES</u>	GAAP
949	DISCRETE		<u>ENDOWMENT-OTHER COLLEGES & UNIVERSITIES</u>	GAAP
950	DISCRETE		<u>AGENCY-OTHER COLLEGES & UNIVERSITIES</u>	GAAP
		7626	EASTERN CT ST UNIVERSITY-WELFARE FUND	TREASURERS' TRUST
		7627	HARTFORD TECHNICAL COLLEGE-FACULTY DEVELOPMENT	TREASURERS' TRUST
		7628	MENTAL HEALTH-MOHEGAN COMMUNITY COLLEGE	TREASURERS' TRUST
		7629	FRIENDS OF SOUTH CENTRAL COMMUNITY COLLEGE	TREASURERS' TRUST

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EXHIBIT D

Pro-Forma
PA 93-402 General Fund
Balance Sheet
June 30, 1993
(In 000's)

	<u>LEGAL</u>	<u>GAAP</u>	<u>PA 93-402 LEGAL</u>
Assets:			
Receivables:			
Taxes	\$ 497,596	\$ 378,685	\$ 378,685
Accounts, Net of Allowance		351,819	351,819
Interest		882	882
Non-Federal Grants Receivable	103	4,104	4,104
Due From Other Funds	8,914	16,911	16,911
Receivable from Other Governments	309,294	244,425	244,425
Advances to Other Funds	81,761	81,761	81,761
Inventories and Prepaid Items		44,921	44,921
	<u>897,668</u>	<u>1,123,508</u>	<u>1,123,508</u>
Total Assets and Other Debits	\$ 897,668	\$ 1,123,508	\$ 1,123,508
 Liabilities, Equity and Other Credits:			
Liabilities:			
Accounts Payable and Accrued Liabilities	\$ 205,898	\$ 552,954	\$ 552,954
Due to Other Funds	27,817	199,938	199,938
Payable to Other Governments	34,273	60,796	60,796
Deferred Revenue		413,062	413,062
	<u>267,988</u>	<u>1,226,750</u>	<u>1,226,750</u>
Total Liabilities	267,988	1,226,750	1,226,750
 Equity and Other Credits:			
Fund Balances:			
Reserve for GAAP Amortization Reserved	629,680	400,342	(503,584) 400,342
Unreserved, undesignated	-0-	(503,584)	-0-
	<u>629,680</u>	<u>(103,242)</u>	<u>(103,242)</u>
Total Equity and Other Credits	629,680	(103,242)	(103,242)
Total Liabilities, Equity and Other Credits	\$ 897,668	\$ 1,123,508	\$ 1,123,508

