

Plan for Conversion to GAAP-based Budgeting
Developed in Accordance With Governor Dannel P. Malloy's
Executive Order No. 1

Submitted to the General Assembly's Appropriations and
Finance, Revenue and Bonding Committees

by

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Executive Summary

Background

In order to improve the state's accountability for its use of public funds, Governor Malloy's first act upon taking office was to issue Executive Order No. 1. The Executive Order directed the Secretary of the Office of Policy and Management (OPM) to initiate a process intended to result in the implementation of Generally Accepted Accounting Principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

Historically, the state's budget has been developed and managed on a modified cash, or budgetary basis. At the end of the year, the Comptroller develops financial statements on the budgetary basis and a Comprehensive Annual Financial Report on a GAAP basis. The Governor's recommended biennium budget for fiscal years 2012 and 2013 includes additional amounts (\$72.8 million and \$47.5 million, respectively) to help ensure that the budget in each of these two years, when converted to a GAAP basis, will remain in balance.

This document also addresses the second main provision in Executive Order No. 1, which directs that the Secretary of OPM develop a written plan, to be submitted to the General Assembly's Appropriations and Finance, Revenue and Bonding Committees, for the conversion to GAAP-based budgeting for the state and its agencies. Given the implementation steps required for this conversion, which steps are outlined in this plan, the date targeted for GAAP-based budgeting for the General Fund, Special Transportation Fund and the eight other appropriated funds is for the fiscal year commencing July 1, 2013.

As indicated, Connecticut has developed and managed its budget on a modified cash basis, which generally involves reflecting revenues when they are actually received and expenditures on the date payment is made. With respect to revenues, there are some exceptions related to certain taxes which have accrual dates beyond the June 30th end to the fiscal year. The cash basis has the virtue of simplicity, in that the receipt date of revenues and disbursements of payments are objectively measurable; however, this simplicity can also lead to manipulation or to financial statements that are not fully reflective of the activity occurring in the period being accounted for. Under the modified accrual basis that is utilized under GAAP, revenues are recognized when they are measurable and available to finance the expenditures of the fiscal period. Expenditures under the modified accrual basis are recognized in the period in which a transaction creates a demand on current financial resources.

There have been statutory actions in the past to move the state to GAAP-based budgeting, including Public Act 93-402 enacted by the General Assembly in 1993; however, the requirements under this act were continuously deferred by subsequent legislative actions. The

result is that little progress has been made to date in regard to GAAP-based budgeting. One consequence of this inaction is an accumulated GAAP fund balance deficit in the General Fund currently projected at \$1.52 billion.

In accordance with another of the provisions of Executive Order No. 1, a workgroup comprised of representatives from OPM, the State Comptroller's Office, the State Treasurer's Office, the Office of Fiscal Analysis and the Auditors of Public Accounts was established to assist in developing and providing feedback on this document. This plan recommends that this group continue to meet and work together during the implementation phase. OPM appreciates the insights and assistance provided by these other agencies as this plan was developed.

Recommendations/Proposed Implementation Actions

The major recommendations and proposed implementation actions in this plan include:

- That the reporting and other statutory requirements with respect to the fiscal years 2012 and 2013 budgets continue on the budgetary basis, but that information be included by the Secretary of OPM in his monthly letters to the Comptroller, in the Fiscal Accountability Report, and in the development of consensus revenue estimates with OFA in regard to projected GAAP-based operating results.
- That starting with the full implementation of GAAP-based budgeting in fiscal year 2014, the Comptroller would issue one annual financial report each year (i.e., the CAFR), with the September 1st budgetary basis annual statement being eliminated. The Comptroller, in his monthly letters regarding the status of the current year budget, would provide updates as to estimated results for the prior year until the CAFR is issued.
- Starting in fiscal year 2014, the accumulated GAAP fund balance deficit, currently projected at \$1.52 billion would be amortized over 15 years, unless economic circumstances allow for a more rapid amortization. The amortization amount would be treated as a gradual recognition of prior expenditures and not included in expenditure cap calculations. For accounting purposes, a one-time credit to expenditures is proposed in fiscal year 2014 to cover accruals in the July and August period that would, under the new GAAP method of budgeting, belong to the prior year.
- Necessary amounts for continuing appropriations, when identified, would be reserved in fund balance and be recorded as expenditures in the year of actual expenditure.
- Changes are proposed for the definition of budget balance under GAAP that would require that any audited GAAP fund balance deficit (not including the accumulated GAAP fund balance deficit being amortized under this plan) be addressed in the fiscal year following the completion of the audit containing the fund balance deficit.

- Related to the definition of a balanced budget under GAAP would be statutory requirements that designate the uses of future surpluses for uses such as: retiring Economic Recovery Notes, Economic Recovery Revenue Bonds, and other debt; reducing underfunded pension and OPEB liabilities; reducing the reserved GAAP transition charge; building the Budget Reserve Fund; and establishing a pay-as-you-go infrastructure program.
- The implementation of GAAP-based budgeting will require a number of changes and implementation actions, including in the following areas: year-end closing procedures and timeframes; the development, presentation and management of the budget; accounting and budgeting control practices and procedures; Core-CT and agency-specific systems; state statutes; and training of state staff. The proposed changes and implementation actions, along with the associated timelines, are outlined in this plan.

Next Steps

Executive Order No. 1 indicates that the Secretary, or his designee, shall make himself available to an invitation to appear before the Appropriations and Finance, Revenue and Bonding Committees of the General Assembly to answer questions regarding this plan. In addition, the Secretary shall annually submit to the committees a status report on the adoption and implementation of the plan. OPM looks forward to working with these committees, the full General Assembly and others in strengthening the state's fiscal position through the implementation of GAAP-based budgeting.

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I. Introduction

Governor Malloy's Executive Order No. 1

In order to improve the state's accountability for its use of public funds, Governor Malloy's first act upon taking office was to issue Executive Order No 1. The Executive Order, which is included as Exhibit 1 to this document, directed the Secretary of the Office of Policy and Management (OPM) to initiate a process intended to result in the implementation of Generally Accepted Accounting Principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB), with respect to the preparation of the Governor's biennial budget documents and mid-term budget adjustments.

Historically, the Governor's budget has been developed using a modified cash basis, or budgetary basis, with the Comptroller preparing annual financial reports on both a modified cash basis of accounting and a Comprehensive Annual Financial Report (CAFR) on a GAAP basis. Each year the surpluses or deficits reported on these two methods of accounting are different, with the CAFR including adjustments made to budgetary-basis surpluses or deficits based on GAAP requirements. Executive Order No. 1 required that the Governor's budget for fiscal years 2012 and 2013 include additional amounts needed to help ensure that these budgets will remain balanced on a GAAP basis when the projected year-end GAAP adjustments are made. These amounts were \$72.8 million and \$47.5 million for fiscal years 2012 and 2013, respectively.

A second provision of Executive Order No. 1 requires the Secretary, within 60 days of the submittal of the Governor's budget, to submit a plan to the appropriations and finance, revenue and bonding committees of the General Assembly, which would lay out the process for bringing the state and its budget into compliance with GAAP. The Governor's order also requires the Secretary to provide the General Assembly with a status report next session on the implementation of the plan. The Secretary is coordinating these efforts with the Comptroller, Treasurer, the Auditors of Public Accounts, the Office of Fiscal Analysis and other agencies.

Brief Description of Budgetary-Basis vs. GAAP

As indicated, Connecticut has developed its budget on a modified cash basis, which generally involves reflecting revenues when they are actually received and expenditures on the date payment is made. The exceptions are a number of tax revenues which currently have accrual dates beyond the June 30th end of the fiscal year (e.g., July 31st for Sales and Use Taxes). The cash basis has the virtue of simplicity, in that the actual receipt date of revenues and disbursements is objectively measurable. However, simplicity is also a weakness since the cash

basis of accounting can be manipulated or is not fully reflective of activity occurring in the fiscal period being accounted for.

Under the modified accrual basis of accounting utilized under GAAP, revenues are recognized when they are measurable and available to finance the expenditures of the fiscal period. An example of this is the sales tax. Taxes on the sale of goods or services collected by a vendor in June but received by the State in July of the new fiscal year are reported as revenue in the prior fiscal year. Another example is the federal reimbursement for Medicaid services provided to a client in May, which reimbursement may not be received until mid-July. Unlike the budgetary or cash basis, this reimbursement would be accrued back to the fiscal year in which the reimbursable service was provided, with reasonable exceptions made for the long payment “tail”. On the expenditure side, these are recognized on a modified accrual or GAAP basis in the period in which a transaction creates a demand on current financial resources. For example, if an agency received a computer in mid-June, but paid for it in July the expenditure, under GAAP, would be assigned to the fiscal year in which the computer was received.

History of GAAP in Connecticut

The Office of the State Comptroller began reporting the state’s financial position on a GAAP basis in 1988 when it issued the state’s first audited CAFR. Public Act 93-402, enacted during the 1993 General Assembly session, initially called for the state to convert to GAAP for budgeting purposes beginning with July 1, 1995. The law also required that the cumulative GAAP deficit be amortized over a 15 year period and that a conversion plan be produced by the Comptroller’s Office and OPM, which plan was submitted on February 1, 1994.

From that time until 2008, the General Assembly passed legislation deferring the effective date of any conversion to GAAP. During the 2008 legislative session, the General Assembly passed Public Act 08-111 which made it explicit that it was within the authority of the Comptroller and the Secretary of OPM to initiate a process that would result in a conversion to GAAP for budgeting purposes. The law also eliminated the provision requiring the amortization of the cumulative GAAP deficit.

The theory behind Public Act 08-111 was that both offices could incrementally implement the various provisions of GAAP over time, instead of in a single year, and eventually the state would be converted to GAAP. Moreover, the amortization provision should not stand in the way of at least starting the state down the path toward conversion. The only action taken, however, was the shortening of the accrual period for the Corporation Tax from August 15 to July 30, beginning in fiscal year 2008. The intent of Governor Malloy’s Executive Order No. 1 is to move

the state forward with the implementation of GAAP budgeting as provided for in PA 08-111 with no more deferrals or delays.

It is worth noting that pursuant to Section 7-394a of the Connecticut General Statutes, all municipalities and regional and local school districts have long been required to report on a GAAP basis.

Why Modified Accrual verses Full Accrual

The Office of Policy and Management is proposing that the state's budgeted funds be prepared using the modified accrual basis of accounting. It is important to understand why there is a difference between the modified accrual and the full accrual basis and when it is appropriate to use each method.

Under GASB, Governmental funds (the state' budgeted funds) measurement focus is on current financial resources and use the modified accrual basis of accounting. This basis recognizes increases and decreases in financial resources only to the extent that they reflect near-term inflows and outflows of cash. Amounts are recognized as revenue when earned, only so long as they are collectible within the period or soon enough afterward to be used to pay liabilities of the current period. That is, revenues are only recognized if they are available to finance expenditures of the period. Depreciation is not recorded as an expense nor is any liability that will not be liquidated with current resources.

Funds that have a measurement focus on total economic resources such as proprietary funds (enterprise and internal service funds) employ the accrual basis of accounting. These funds function in a manner similar to businesses in the private sector and recognize increases and decreases in economic resources as soon as the underlying event or transaction occurs regardless of the timing of the related cash inflows and outflows.

It is important to note that the Office of the State Comptroller produces a Comprehensive Annual Financial Report which presents the operations of the state on both government-wide statements and fund-based statements. Government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Fund-based statements are presented using the basis of accounting required for each fund category. Governmental funds use a current financial resources measurement focus and a modified accrual basis of accounting while Proprietary and Fiduciary funds use an economic resources measurement focus and an accrual basis of accounting.

Scope of the Conversion Plan

The scope of this conversion plan involves the appropriated funds presented in the Governor's recommended budget, which include the following funds:

- 1) General Fund
- 2) Special Transportation Fund
- 3) Mashantucket Pequot and Mohegan Fund
- 4) Soldiers, Sailors and Marine Fund
- 5) Regional Operations Market Fund
- 6) Criminal Injuries Compensation Fund
- 7) Banking Fund
- 8) Insurance Fund
- 9) Consumer Counsel & Public Utility Control Fund
- 10) Workers' Compensation Fund

The Governor's budget also presents information on other major state operating funds including revolving funds in a form consistent with accepted accounting practice. The presentation of these funds in the budget is not addressed in as much detail in this transition plan; however, these revenues and expenditures will end up being transacted in the same manner as the appropriated funds as a result of the changes to be made to Core-CT and other systems under this plan. Information contained in the Governor's budget related to capital projects have also not been included in the scope of this transition plan, in part, since outlays on these projects are over the life of the project and generally do not conform to fiscal periods and some of the associated timing issues.

While it is necessary that the state's CAFR comply with all the various GAAP requirements, the intent of presenting a budget that is GAAP compliant is to ensure that the state's appropriated funds will be prepared, managed and remain balanced on a GAAP basis. The intent is not to mirror all of the reporting and presentation requirements that GAAP requires for the CAFR, but rather to avoid the state continuing to have two different set of books at the end of the year—one done on a budgetary basis and the other based on GAAP.

Multi-Agency Coordination

In accordance with provisions of the Governor's Executive Order No. 1, a multi-agency workgroup was formed. The workgroup was comprised of representatives from the Office of

Policy and Management (OPM), the Office of the State Comptroller (OSC), the Office of the Treasurer (OTT), the Office of Fiscal Analysis (OFA) and the Auditor of Public Accounts (APA). The purpose of the workgroup was to help in developing and providing feedback on the plan to be developed by the Secretary in accordance with Executive Order No. 1 and assisting with the implementation of GAAP.

The implementation of this plan will require this multi-agency workgroup to continue its work. Among the issues requiring inter-agency coordination are changes to the current GAAP closing procedures as well as to fiscal year end and startup procedures. Agency fiscal and budget staff, OPM budget staff, OFA budget staff, OSC staff, and Core-CT staff will need to be educated on how to account for revenues and expenditures on a GAAP basis. It is anticipated that the group will solicit additional support from line agencies (e.g., Department of Social Services (DSS), Department of Revenue Services (DRS)) on an as-needed basis. For example, DSS may get involved with the timing of Medicaid accruals and DRS may get involved with tax accrual issues. The assistance and cooperation of all state agencies and the Judicial and Legislative branches of government is critical to a successful implementation. An integral part of this process will be training on GAAP procedures for all state agencies.

During implementation, the multi-agency workgroup should continue to meet on a regular basis to coordinate the implementation process and to discuss and remedy issues. In the longer term, meetings could be held on a quarterly or annual basis. These meetings can cover any new statutory changes, changes in fiscal year end and start up procedures, and other items that have potential impacts on GAAP budgeting and reporting.

Selection of July 1, 2013 Implementation Date for Full Conversion to GAAP Budgeting

As has been indicated, the Governor's proposed budget for fiscal years 2012 and 2013 implements GAAP budgeting on an aggregate basis by budgeting adequate amounts in these two years (\$72.8 million and \$47.5 million, respectively) to help ensure that the budget will be balanced on a GAAP basis. The goal for having the budget be developed and managed on a transactional basis consistent with GAAP for each department is for the fiscal year commencing July 1, 2013.

As indicated, there are a number of statutory, system, training, and process issues that need to be implemented in order to budget by agency on a GAAP basis. Some of these changes will involve those needed in Core-CT, which will be best handled as part of the version upgrade proposed by the Governor to be funded through the capital budget. The version upgrade, and other changes planned, included those related to GAAP, will take several years to complete. Another issue involves agency consolidations, which will also involve changes in Core-CT and

other issues that would make a mid-term conversion to full GAAP budgeting difficult. After reviewing the tasks and issues involved, it was determined that the July 1, 2013 implementation date would provide for a well-planned and orderly conversion to transactional budgeting on a GAAP basis.

Section I - Introduction. *Recommendations and Proposed Implementation Actions*

- 1. The multi-agency workgroup comprised of the Office of Policy and Management, the Office of the State Comptroller, the Office of the Treasurer, the Office of Fiscal Analysis and the Auditor of Public Accounts, established in regard to this conversion plan, should continue to meet to coordinate the implementation process and to discuss and remedy issues.*
- 2. To provide for a well-planned and orderly conversion, the start date for transactional budgeting on a GAAP basis should be July 1, 2013.*

II. FY2012 – FY2013 Biennium Budget and GAAP

The Governor's recommended budget for the biennium ending June 30, 2013, was submitted to the General Assembly on February 16, 2011, on a budgetary or legal basis, as has been done in the past. In order to comply with the Executive Order No. 1, however, a series of schedules for the General Fund, the Special Transportation Fund and the other eight appropriated funds of the state were included in the proposed budget. These schedules present, for each fund, an estimate of the operating results on a GAAP basis and the resulting impact on the balance sheet. Results are displayed for the last two fiscal years, the current year (an estimate), and forecasts for each of the two years of the proposed biennial budget.

General Fund Budget: Fiscal Years 2012 and 2013

Shown on page 8 is Schedule 1, which was taken from the Governor's recommended budget. Schedule 1 converts the operating results for the General Fund on a budgetary basis to fund balances on a GAAP basis. The difference between the operating surplus on a budgetary basis (e.g., \$192.0 million in fiscal year 2012) and the GAAP operating surplus (e.g., \$119.2 million in fiscal year 2012) is the cost of GAAP for that year (e.g. \$72.8 million in fiscal year 2012), or the annual GAAP conversion cost. The presentation continues by looking at the unreserved fund balance on a budgetary or modified cash basis, and converting that amount to the unreserved fund balance on a GAAP basis by including the changes in assets and liabilities. Finally, the total fund balance is shown, broken down into its two components, reserved and unreserved balances.

Balanced operations have been maintained on a GAAP basis because the unreserved portion of the GAAP fund balance for the General Fund (i.e., \$1.52 billion) for each year in the biennial budget has not been allowed to deteriorate any further from the estimated unreserved portion of the fund balance for fiscal year 2011.

The budgets for those two years have been based on balanced operations on a GAAP basis, with certain additional funds becoming available each year, a net surplus, to reduce bonded indebtedness: an estimated cumulative \$161.9 million in FY 2012 and \$575.5 million in FY 2013. This serves the dual purpose of reducing indebtedness and freezing the accumulated GAAP deficit of \$1.52 billion. The steps recommended to eliminate the accumulated GAAP deficit are described later in this report.

Further, to ensure that the intended impact of GAAP budgeting occurs, the difference between the legal surplus and the GAAP surplus (the GAAP adjustments or the year's cost of the GAAP conversion) will need to be reserved in the General Fund. This will keep the accumulated GAAP deficit frozen at the fiscal year 2011 level and fund the cost of conversion each year.

Schedule 1

CONVERSION OF OPERATING RESULTS (BUDGETARY BASIS) TO FUND BALANCES (GAAP BASIS)

General Fund

Proposed Budget for Fiscal Years 2012 and 2013

(In Millions)

	Actual Audited <u>2009</u>	Actual Unaudited <u>2010</u>	Estimated <u>2011</u>	Proposed <u>2012</u>	Proposed <u>2013</u>
Summary of Operating Results - Budgetary (Modified Cash) Basis					
Total General Fund Revenues	\$ 15,700.8	\$ 17,688.5	\$ 18,062.2	\$ 18,460.1	\$ 19,170.7
Total Expenditures - Budgetary Basis	17,234.9	17,208.0	17,945.0	18,268.1	18,709.6
Total Adjustments to Appropriations	(586.5)	30.6	74.5	-	-
Net Appropriations/Expenditures (Adjusted)	<u>16,648.4</u>	<u>17,238.7</u>	<u>18,019.5</u>	<u>18,268.1</u>	<u>18,709.6</u>
Operating Surplus/(Deficit)	<u>\$ (947.6)</u>	<u>\$ 449.9</u>	<u>\$ 42.7</u> ⁽¹⁾	<u>\$ 192.0</u>	<u>\$ 461.1</u>

Summary of Operating Results - Budgetary (Modified Cash) Basis vs. GAAP Basis

Modified Cash Basis Operating Surplus (Deficit)	\$ (947.6)	\$ 449.9	\$ 42.7	\$ 192.0	\$ 461.1
Adjustments					
Increases (decreases) in revenue accruals:	385.4	(155.7)	158.7	(190.6)	(6.8)
(Increases) decreases in expenditure accruals:	(545.0)	(168.7)	0.2	117.8	(40.7)
Increase (decrease) in Continuing Appropriations	(415.3)	32.7	(113.3)	-	-
Reclassification of equity adjustments	-	-	-	-	-
Proceeds of Recovery Notes	-	947.6	-	-	-
Transfer of restricted resources	-	(1,278.5)	(103.3)	-	-
Transfer of prior year surplus	(179.4)	-	(449.9)	-	-
GAAP Based Operating Surplus/(Deficit)	<u>\$ (1,701.9)</u>	<u>\$ (172.8)</u>	<u>\$ (464.8)</u>	<u>\$ 119.2</u>	<u>\$ 413.6</u>

Unreserved Fund Balance - Budgetary (Modified Cash) Basis

Operating Surplus/(Deficit)	\$ (947.6)	\$ 449.9	\$ 42.7	\$ 119.2	\$ 413.6
Transfer to/(from) Budget Reserve Fund	-	-	-	-	-
Reduce Bonded Indebtedness	-	-	42.7	161.9	575.5
Reserves	-	449.9	-	-	-
Unreserved Fund Balance Surplus/(deficit)	<u>\$ (947.6)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Unreserved Fund Balance - Budgetary (Modified Cash) Basis vs. GAAP Basis

Unreserved Fund Balance (Deficit)					
Modified Cash Basis	\$ (947.6)	\$ -	\$ -	\$ -	\$ -
Additional Assets	614.0	497.3	655.8	465.3	458.5
Additional Liabilities	(1,969.8)	(2,176.2)	(2,176.0)	(2,058.2)	(2,098.9)
Unreserved Fund Balance (Deficit) GAAP Basis	<u>\$ (2,303.4)</u>	<u>\$ (1,678.9)</u>	<u>\$ (1,520.2)</u>	<u>\$ (1,520.2)</u>	<u>\$ (1,520.2)</u>
Additional GAAP Assets less Liabilities					
(Cumulative Cost of GAAP)				<u>\$ (72.7)</u>	<u>\$ (120.2)</u>

General Fund Fund Balances - GAAP Basis

Reserved	\$ 1,503.9	\$ 696.1	\$ 72.6	\$ 191.8	\$ 605.4
Unreserved	(2,303.4)	(1,678.9)	(1,520.2)	(1,520.2)	(1,520.2)
Total Fund Balance	<u>\$ (799.5)</u>	<u>\$ (982.8)</u>	<u>\$ (1,447.6)</u>	<u>\$ (1,328.4)</u>	<u>\$ (914.8)</u>

(1) Anticipated surplus of \$57.2 million less \$14.5 million transfer to OPEB trust fund per SEBAC agreement.

Schedule 2-Special Transportation Fund

CONVERSION OF OPERATING RESULTS (BUDGETARY BASIS) TO FUND BALANCES (GAAP BASIS)
Other Appropriated Funds
Proposed Budget for Fiscal Years 2012 and 2013
(In Thousands)

	Actual Audited <u>2009</u>	Actual Unaudited <u>2010</u>	Estimated <u>2011</u>	Proposed <u>2012</u>	Proposed <u>2013</u>
Special Transportation Fund					
Revenue	\$ 1,032,704	\$ 1,117,888	\$ 1,173,200	\$ 1,322,900	\$ 1,388,800
Expenditures	1,128,201	1,101,443	1,173,100	1,303,819	1,335,498
Total Adjustments to Appropriations	<u>10,798</u>	<u>(4,652)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating Surplus / (Deficit), Budgetary Basis	\$ (84,699)	\$ 11,793	\$ 100	\$ 19,081	\$ 53,302
Adjustments (Conversion to GAAP)	<u>8,020</u>	<u>122</u>	<u>(1,588)</u>	<u>5,656</u>	<u>(273)</u>
Operating Surplus / (Deficit), GAAP Basis	\$ (76,679)	\$ 11,915	\$ (1,488)	\$ 24,737	\$ 53,029
Fund Balance, Budgetary Basis					
Reserved	\$ 37,324	\$ 41,977	\$ 41,977	\$ 41,977	\$ 41,977
Unreserved	<u>93,571</u>	<u>105,364</u>	<u>105,464</u>	<u>124,545</u>	<u>177,847</u>
Total Fund Balance, Budgetary Basis	\$ 130,895	\$ 147,341	\$ 147,441	\$ 166,522	\$ 219,824
Adjustments (Conversion to GAAP)	\$ (18,488)	\$ (23,019)	\$ (24,607)	\$ (18,951)	\$ (19,224)
Fund Balance, GAAP Basis					
Reserved	\$ 64,180	\$ 70,166	\$ 70,166	\$ 70,166	\$ 70,166
Unreserved	<u>75,083</u>	<u>82,345</u>	<u>80,857</u>	<u>105,994</u>	<u>158,624</u>
Total Fund Balance, GAAP Basis	\$ 139,263	\$ 152,511	\$ 151,023	\$ 175,760	\$ 228,789

Special Transportation Fund; Other Appropriated Funds

Schedule 2 illustrates the conversion of operating results for the Special Transportation Fund on a budgetary basis to fund balances on a GAAP basis. As can be seen, the Special Transportation Fund has positive / fund balances on both a budgetary and GAAP basis.

The budgetary to GAAP basis conversion schedules for the other eight appropriated funds included in the proposed budget are in Exhibit 2 of this document. These funds have a positive fund balance on both the budgetary and GAAP basis, with the exception of the Consumer Counsel/Public Utility Fund, which has a projected total fund balance on a GAAP basis of approximately (\$500,000) at the end of fiscal years 2011, 2012 and 2013.

Monitoring and Management of the Fiscal Year 2012 and 2103 Budgets

An important part of any budget process is control. As the time period to which the budget applies progresses, actual results periodically must be compared to expectations so that no end-of-year surprises occur and so that corrective action can be taken when appropriate. A number of relevant control checks already exist within the state's current budget process on a legal basis to determine when corrective actions may be necessary:

1. Per Section 4-66 of the Connecticut General Statutes, the Secretary of OPM is required to submit to the Comptroller, on the twentieth of each month, a status report with

forecast revenues and expenditures for the current fiscal year compared to the enacted budget with additional appropriate information.

2. Per Section 3-115 of the Connecticut General Statutes, the Comptroller is required to release, on the first of each month, a status report with forecast revenues and expenditures for the current fiscal year compared to the enacted budget with additional appropriate information.
3. Per Section 2-36c of the Connecticut General Statutes, each October 15, each January 15, and each April 30, the Secretary of OPM and the Director of the Office of Fiscal Analysis are to jointly issue revised revenue forecasts arrived at by consensus. If consensus estimates are not arrived at, the Comptroller will issue revised estimates.
4. Per Section 2-36b of the Connecticut General Statutes, by November 15, of each year, the Secretary of OPM and the Director of the Office of Fiscal Analysis are required to submit, to certain committees of the General Assembly, forecasts of revenues and expenditures for the current fiscal year and a number of out-years, along with other certain information.

Each of these activities presents information on the status of the budget and offers an opportunity to take corrective action when necessary. They also need to be looked at, however, in terms of their relevance to monitoring and controlling a GAAP-based budget. At least, for now, it must be determined how the budgets for FY 2012 and FY 2013 will be monitored and controlled during this period of transition to a GAAP-based system. Some of the questions in this regard included the following:

- 1) Should measurement be on a budgetary and/or GAAP basis;
- 2) Are changes required to be made to the monitoring tools in statutes; and
- 3) Should deficit mitigation provisions in state statutes apply to the budgetary basis for fiscal years 2012 and 2013, or should they apply to any projected GAAP deficits as well.

After due consideration of these questions, it is recommended that all of the current budgetary management and monitoring provisions and activities should remain unchanged for the budgets for fiscal years 2012 and 2013. The exception to this would be that the Secretary of OPM should issue letters to the Comptroller on the twentieth of each month and the annual Fiscal Accountability Report each November on a legal basis along with a presentation of the most current estimate of the adjustment(s) necessary to convert legal-based operating results to GAAP-based operating results for the biennium. The adjustment(s) may be included in an additional schedule or as a line item in existing schedules, with comment or narrative as appropriate. The status report released by the Comptroller on the first of each month may contain reference to a GAAP adjustment at his discretion.

It is further recommended that the process for developing consensus revenues would remain as is with the results flowing to and appearing in the Letter to the Comptroller on the twentieth of

the month. Additional coordination may be required in the preparation of consensus revenues by OPM and OFA, however. Care must be taken to specify the basis used (GAAP or legal) due to the difference in accrual periods for certain revenue streams and especially the resulting impact on estimates when tax rate changes may be included. (All comparisons of expenditures between OPM and OFA must also specify whether they are on a budgetary or GAAP basis.)

In regard to any requirements regarding the mitigation of a projected deficit, it is recommended that the statutory provisions in this regard remain unchanged, meaning that these provisions would continue to be applicable to the budgetary or legal basis for the budget for fiscal years 2012 and 2013.

Section II - FY2012 – FY2013 Biennium Budget and GAAP. *Recommendations and Proposed Implementation Actions*

3. *For fiscal years 2012 and 2013, the Secretary of OPM's letters to the Comptroller on the twentieth of each month and the annual Fiscal Accountability Report each November will be based on the legal basis along with a presentation of the most current estimate of the adjustment(s) necessary to convert legal-based operating results to GAAP-based operating results for the biennium. The status report released by the Comptroller on the first of each month may contain reference to a GAAP adjustment at his discretion.*
4. *The process for developing consensus revenues would remain as is with the results flowing to and appearing in the OPM letter to the Comptroller on the twentieth of the month. Additional coordination may be required in the preparation of consensus revenues by OPM and OFA, however. All comparisons of expenditures between OPM and OFA must also specify whether they are on a budgetary or GAAP basis.*
5. *The statutory requirements regarding the mitigation of a projected deficit would remain unchanged, meaning that these provisions would continue to be applicable to the budgetary or legal basis for the budget for fiscal years 2012 and 2013.*

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III. Overview: FY2014 – FY2015 Biennium Budget & Annual Financial Reporting; Amortization of Accumulated GAAP Deficit

Fiscal Years 2014-2015 Biennium GAAP Budget

As noted previously, the State budget for the Fiscal Year 2014-2015 biennium for each agency will be developed and implemented on a GAAP basis using the modified accrual basis of accounting and will encompass all budgeted funds. Revenues, therefore, will be recognized when they are both measurable and available to finance expenditures of the fiscal period. Expenditures for each agency will be recognized in the period in which a transaction creates a demand on current financial resources not when cash is disbursed as is the current practice. The overall form and presentation of the budget document will remain largely unchanged with budgetary execution and level of control remaining the same as is current practice.

Annual Financial Reporting Changes

On September first of each year, the Comptroller currently issues an unaudited report to the Governor consisting of the “final” financial statement for the prior fiscal year on a budgetary basis for the state’s funds. On or before December 31st, the Comptroller issues the Annual Report of the Comptroller which is an expanded version of the September first report and includes a certificate by the Auditors of Public Accounts. Additionally, a Comprehensive Annual Financial Report (CAFR) is issued by the Comptroller on a GAAP basis and is audited by the Auditors of Public Accounts. There is no specific statutory requirement for this report and it is generally completed by the end of January.

There are two problems associated with the current reporting requirements. The September first report is issued as a “final” report even though it is still being audited which is poor practice and could be misleading to release unaudited numbers as final figures. Secondly, the number of reports is burdensome and delays the preparation of the GAAP report and its audit. The budgetary-basis statements, as well as their audit, must be completed first.

To remedy these issues, CGS 3-115 should be modified to allow the Comptroller to issue a single financial report, the GAAP Comprehensive Annual Financial Report. This report would be supplemented by a published schedule of appropriations and expenditures at the level of detail contained in the Appropriations Act for all budgeted funds and any additional supplemental reports containing additional financial information not required by the CAFR. At a minimum, the unaudited operating results for all of the budgeted funds will be issued by September 30th with audited results for budgeted funds available by December 31st. During the period from July through the issuance of these operating results, the Comptroller’s monthly report to the

Governor should include updated estimates for the prior year each month as well as the current projection for the fiscal year in progress.

Amortization of the Accumulated GAAP Deficit

Public Act 93-402, "An Act Concerning the Use of Generally Accepted Accounting Principles", instructed the Comptroller, after determining the accumulated GAAP deficit, to set up a deferred charge on the balance sheet and to amortize in equal increments that amount over fifteen years. Subsequent legislation has removed that amortization requirement from law; however, in order to eliminate the accumulated GAAP deficit, projected at \$1.52 billion at the end of Fiscal Year 2011, the state, under this plan, will begin to amortize the accumulated General Fund GAAP deficit, as then projected for the end of fiscal year 2013, in equal installments beginning with the fiscal year 2014 budget and continuing for the subsequent fourteen years. This accumulated deficit to be amortized will also include any projected June 30, 2013 GAAP fund balance deficits existing in any other budgeted funds as was recommended in 1994. Statutory language will need to be added to ensure that the elimination of the deficit be achieved. It is proposed that this statutory language would also allow, at the discretion of the Secretary of OPM and as circumstances permit, for contributions higher than the scheduled amortization amount in any given year, which additional amounts could either be used for reducing future amortization amounts or eliminating the balance of the unamortized amount over a shorter period.

The amortization of the deferred charge would not be treated as an "expenditure" of the period in which it will be recorded but rather a gradual recognition of prior period expenditures. This deferred charge will be reflected in the equity section of the balance sheet as a Reserve for GAAP Amortization and the amortization will consist of a gradual transfer of this deferred amount to Unreserved Fund Balance. (See Exhibit 3). This transfer would not be an expenditure and will not impact calculations of the constitutional expenditure cap. For the budget, the annual amortization requirement will be included in the Appropriation Act which will require enough revenues be raised for both a balanced budget plus the annual requirement for funding the GAAP amortization. A statutory change would be needed to exempt the amortization amount from the expenditure cap calculations.

One-Time Credits to Agency Expenditures

The implementation of GAAP will require that the state convert cash based budgeted appropriations to an accrual basis for expenditures for the fiscal year 2013-14. Since the prior year budget (FY 2012-13) would have ended using the current modified cash basis and the FY 2013-14 budget will be done on a modified accrual basis, a mechanism will be needed to absorb the additional year-end agency charges that will be accrued back to fiscal year 2013-14 budgeted appropriations without requiring additional amounts to be appropriated. This will ensure that the budget reports only twelve months of expenditures.

For accounting purposes (no impact on the appropriations process), a one-time credit to expenditures for each agency is proposed in fiscal year 2013-2014 equal to the expenditures that were accrued for fiscal year 2012-2013 under GAAP by OSC. Assuming that 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 2013-2014. The “credit” mechanism would be necessary only in the first year; in subsequent years expenditures would be charged to the appropriate fiscal year in which the liability was incurred (accrual basis accounting). (See Exhibit 4) For accounting purposes, this one-time credit to expenditures, as recommended in the 1994 plan, will be part of the amortization of the accumulated GAAP deficit proposed under this plan.

Continuing Appropriations

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; however, under GAAP, continuing appropriations are not considered expenditures and do not effect operations. They would only be considered expenditures under GAAP in the period in which an actual obligation is incurred.

In a practical sense, continuing appropriations are likely to continue to occur. For example, a new program expected to start in May does not, because of delays, start until August. In these types of cases, a decision may be made to continue the original appropriation for which resources had been provided. Under GAAP-based budgeting, necessary amounts for continuing appropriations, when identified, would be reserved in fund balance and be recorded as expenditures in the year of actual expenditure.

Section III - Overview: FY2014 – FY2015 Biennium Budget & Annual Financial Reporting; Amortization of Accumulated GAAP Deficit. *Recommendations and Proposed Implementation Actions*

6. *CGS 3-115 would be modified to allow the Comptroller to issue a single financial report, the GAAP Comprehensive Annual Financial Report. This report would be supplemented by a published schedule of appropriations and expenditures at the level of detail contained in the Appropriations Act for all budgeted funds and other reports as needed. The unaudited operating results for all of the budgeted funds would be issued by September 30th with audited results available by December 31st. During the period from July through the issuance of these operating results, the Comptroller's monthly report to the Governor should include updated estimates for the prior year each month as well as the projection for the fiscal year in progress.*
7. *The accumulated General Fund GAAP deficit projected through June 30, 2013, would be amortized in equal installments beginning with the fiscal 2014 budget and continuing for the subsequent fourteen years. This accumulated deficit to be amortized would also include any projected June 30, 2013 GAAP fund balance deficits existing in any other budgeted funds. It is also proposed that, at the discretion of the Secretary of OPM and as circumstances permit, contributions higher than the scheduled amortization amount be allowed in any given year, which additional amounts could either be used for reducing future amortization amounts or eliminating the balance of the unamortized amount over a shorter period.*
8. *The amortization of the deferred charge would not be treated as an "expenditure" of the period in which it will be recorded but rather a gradual recognition of prior period expenditures. This deferred charge would be reflected in the equity section of the balance sheet as a Reserve for GAAP Amortization and the amortization will consist of a gradual transfer of this deferred amount to Unreserved Fund Balance. For the budget, the annual amortization requirement will be included in the Appropriation Act which will require enough revenues be raised for both a balanced budget plus the annual requirement for funding the GAAP amortization. A statutory change would be needed to exempt the amortization amount from the expenditure cap calculation.*
9. *For accounting purposes, a one-time credit to expenditures for each agency's appropriation is proposed in fiscal year 2013-2014 equal to the expenditures that were accrued for fiscal year 2012-2013 under GAAP by OSC. This one-time credit to expenditures, as recommended in the 1994 plan, will be part of the amortization of the accumulated GAAP deficit proposed under this plan.*
10. *Necessary amounts for continuing appropriations, when identified, would be reserved in fund balance and would be recorded as expenditures in the year of the actual expenditure.*

IV. Proposed Actions to Fully Implement GAAP: FY2014-FY2015 Biennium Budget

Measurement/Timing Issues of Expenditures & Revenues

As previously indicated, the Office of the Comptroller currently issues an unaudited report on September 1st that shows the financial results on a modified cash basis for the year ending on June 30th and months later statements showing the results on a GAAP basis are issued. Moving from a modified cash to a modified accrual basis of accounting and making the previously recommended reporting deadline changes will require a change in both revenue and expenditure recognition and due dates for agency submittal of year-end reports.

For reporting on the GAAP basis, general conventions have been developed on measurable and available criteria and currently OSC recognizes certain revenues in the period the taxpayer incurs the obligation as long as the payment is received within 60 days after fiscal year end. In regard to expenditures, OSC identifies payments made in Core-CT, again over a 60 day period (July and August), which represent expenditures and the associated liabilities of the prior fiscal year. Revenue and expenditure amounts in this regard, along with any other receivables and liabilities related to the prior fiscal year, are identified through centralized Core-CT reports or in the GAAP closing packages submitted to OSC in early September.

As part of the implementation of GAAP budgeting and to ensure timely year-end reports, the Office of the Comptroller is reducing the sixty day time period to 45 days. Under this change, closing packages will need to be completed and returned by agencies before the end of August. Additionally, the September 1st unaudited report requirement, which would continue during the interim period, would need to be pushed back to September 30th.

As part of this change, therefore, agencies will be allowed 45 days to process vendor payments for liabilities of the prior fiscal year and have such payments recorded as expenditures against their prior year appropriations. A reporting mechanism will be established, modeled after current GAAP closing procedures, to identify material payables which are still unsubmitted by the end of this 45 day period. These liabilities will be recorded by the Comptroller against the appropriate accounts and funds for the prior period. Immaterial payables not submitted by State agencies to the Comptroller by the end of August will be charged to the new year appropriations. It should be established policy that non-cash transactions not be included in appropriations or allotments or processed as transactions against such accounts.

In the interim period before the July 1, 2013 implementation of full GAAP budgeting, the Comptroller's closing packages should reflect the greatest degree of detail possible at the Department, Fund, Special Identification Code (SID) and Account level to assist OPM and agencies in terms of determining the appropriate budget amounts under GAAP starting in fiscal year 2014.

Budget Development, Presentation and Management

As part of preparing the Governor's proposed biennium budget and mid-term adjustments, OPM solicits budget requests and related information from state agencies. With the change to GAAP budgeting, OPM's budget forms and instructions for agencies should include detailed input, developed in consultation with the Comptroller, to guide agencies in their development of budget requests on a GAAP basis. Agencies should use GAAP year-end closing information for fiscal years 2010-11 and 2011-12, along with any updated information from OPM and the Comptroller's Office, to help estimate the changes that a modified accrual of expenditures will have on their budget formulation for the FY2014-FY2015 Biennium Budget.

In regard to the presentation of the budget, the major fund financial position statements for the appropriated funds in Part 1, Budget-in-Brief, would reflect a change to a modified accrual basis. Included in Part 2, Budget in Detail, would be narrative information describing the impact on agency budgets of the change to budgeting based on GAAP. GAAP related terms and information should be added to the list of budget terminology.

As indicated previously, the monitoring and management of the budgets would remain largely the same; however, statutory changes will need to be enacted that deal with the issue of overexpenditures in budgeted appropriations due to accrued liabilities, particularly in regard to entitlement programs such as Medicaid and others. In addition, the state's accounting systems, as well as agency accounting practices, will require modification in order to ensure that commitment control is exercised over transactions prior to expenses being incurred on a GAAP basis.

Because an unintended deficit may still develop after FY 2013, it is important to reconcile the state's balanced budget requirement with GAAP concepts. Under GAAP, a shortfall of revenue relative to expenses would yield a negative unreserved balance in the balance sheet for the fund. It is proposed that the term balanced budget be statutorily defined as being a budget in which the sum of anticipated revenue plus the unreserved fund balance, as determined by the most recent annual audit completed prior to the start of the current fiscal year, is equal to or greater than anticipated expenditures for that fund. Thus, the requirement at Connecticut General Statute (CGS 4-85) that the Governor propose measures to bring the budget back into balance should a General Fund deficit of more than one percent be forecast, would remain, but any negative unreserved balance would need to be addressed in the fiscal year next succeeding the completion of the current year-end audit.

Current law requires any General Fund surplus be devoted to reducing fiscal year 2009 Economic Recovery Notes (ERNs) followed by reducing FY 2011 Economic Recovery Revenue Bonds (ERRBs), followed by growing the Budget Reserve Fund (BRF) up to a maximum of ten percent. It is recommended that the use of future surpluses be clarified, with the recommended options including retiring ERNs, ERRBs, and other debt, reducing underfunded pension and OPEB liabilities, reducing the

reserved GAAP transition charge, building the BRF, and establishing a pay-as-you-go infrastructure program. It is recommended that even while other liabilities remain, some portion of future surpluses be devoted to building the Budget Reserve Fund.

Statutory Changes

In regard to implementing GAAP budgeting, sections of the Connecticut General Statutes will have to be reviewed for changes as necessary. The potential statutory changes identified to date are included in Exhibit 5.

Computer System Changes

The implementation of GAAP will require changes to Core-CT, the State's Human Resources and Financial system. The exact nature and scope of these system changes will be determined over the next several months. Several alternatives are under consideration.

One of the options would be to continue to have GAAP adjustments be handled by the Comptroller's Office according to the current GAAP year-end closing process. This option includes accounts payable accruals based on the agency-entered receipt date, salary and wage accruals, revenue accruals, some manual journal entries, and splitting purchase orders between fiscal years. This option requires little change to agencies' current business processes and some system reconfiguration. Timing of the budget close/carry-forward process would be delayed by the amount of time necessary to post the accounts payable accruals. In order to accommodate for this timing issue, OSC may want to close/carry-forward the budgets, then set the system to keep track of the accruals, but not control for budget sufficiency. This opens up the possibility that expenditure of funds may exceed the prior fiscal year budget.

Another approach would be to have State agencies handle their transactions in Core-CT in a manner consistent with GAAP budgeting. This approach would allow agency users to enter the accounting date on the vouchers to reflect when the expenditure should be posted, to the prior fiscal year or the new fiscal year. This allows the system to capture the expenditures and encumbrances from a prior fiscal year that are entered into the system in the first 45 days of the new fiscal year. Under this approach, two budget periods would need to be kept open, the old fiscal year and the new fiscal year. This approach requires system changes and changes to agency business processes. Modifications to the purchase order roll forward process may also be needed. This approach enables budget control with no expenditures exceeding the prior fiscal year budgets.

In order to require agencies to truly operate and manage their budgets on a GAAP basis, the preferred approach to Core-CT is the second option which would have agency users enter the accounting date on the vouchers to reflect when the expenditure should be posted, to the prior fiscal year or new fiscal year. A similar approach would be taken with respect to accounts receivable. This direction could only be taken, however, if the appropriate level of controls could be put in place to ensure that all legal and other accounting and reporting requirements could be met under this more decentralized approach.

Once system changes are identified, they will be completed as part of the version upgrade proposed by the Governor in the FY2012-FY2013 biennial budget. The system changes will need to be developed and tested in a Core-CT testing environment. Upon successful completion of the testing process, the changes will be migrated to the Core-CT production environment.

In addition to Core-CT, agencies also use “agency specific” systems to account for various programs and activities. These systems may include, but are not limited to, formal applications, Excel spreadsheets and databases. For example, DSS has a Medicaid system to process and monitor claims. Also, DOL uses a separate system for the unemployment insurance program. Agencies, prior to July 1, 2013, would have to, with guidance from OPM and OSC, review their “agency specific” systems to determine if changes are needed as a result of the state’s conversion to GAAP. If these systems are used to prepare data for entry into Core-CT, agencies, prior to July 1, 2013, will have to indicate to OPM and OSC what changes may need to be modified to ensure compliance with GAAP requirements and then implement any approved modifications to their systems.

Training

Training will be needed for OPM and agency staff related to budgeting, accounting and transacting on a GAAP basis. The implementation of GAAP will require changes to business processes and functionality within Core-CT and other processes. A determination will need to be made as to whether these changes are significant enough to require formal training sessions. Minor changes may only require modifications to existing instructions and/or job aids. Major changes will require formal training. A formal review of change management/training requirements will need to be completed in the coming months. Based on the selected alternative, formal training courses may be required. A proposed training plan, which is subject to change as needs require, is included as Exhibit 6 to this plan. The training for agency personnel would need to include how changes may affect federal grant processing requirements.

Section IV - Proposed Actions to Fully Implement GAAP: FY2014-FY2015 Biennium Budget. Recommendations and Proposed Implementation Actions

- 11. The Office of the Comptroller is reducing the 60 day time period related to receivables and expenditures to be accrued to the prior year in accordance with GAAP to 45 days. Under this change, closing packages will need to be completed and returned by agencies before the end of August.*
- 12. Prior to the July 1, 2013 implementation of full GAAP budgeting, the Comptroller's closing packages will include, to the extent possible, information at the Department, Fund, SID and Account level to assist OPM and agencies in determining appropriate budget amounts under GAAP.*
- 13. OPM's budget forms and instructions for agencies for the biennium budget commencing July 1, 2013 should include GAAP year-end closing information for fiscal years 2010-11 and 2011-12, along with updated information, to guide agencies in their development of budget requests on a GAAP basis.*
- 14. The major fund financial position statements for the appropriated funds in Part 1, Budget-in-Brief, for the Fiscal Year 2014 and 2015 Biennium Budget would reflect a change to a modified accrual basis. Included in Part 2, Budget in Detail, would be narrative information describing the impact on agency budgets of the change to budgeting based on GAAP.*
- 15. Statutory changes will be needed to deal with overexpenditures in budgeted appropriations due to accrued liabilities, particularly in regard to entitlement programs such as Medicaid and others. In addition, the state's accounting systems, as well as agency accounting practices, will require modification in order to ensure that commitment control is exercised over transactions prior to expenses being incurred on a GAAP basis.*
- 16. Beginning with fiscal year 2014, it is proposed that the term balanced budget be statutorily defined as being a budget in which the sum of anticipated revenue plus the unreserved fund balance, as determined by the most recent annual audit completed prior to the start of the current fiscal year, is equal to or greater than anticipated expenditures for that fund. Thus, the requirement at CGS 4-85 that the Governor propose measures to bring the budget back into balance should a General Fund deficit of more than one percent be forecast, would remain, but any negative unreserved balance would need to be addressed in the next fiscal year succeeding the completion of the year-end audit.*
- 17. The use of future surpluses starting with fiscal year 2014 should be clarified, with the recommended options including retiring Economic Recovery Notes, Economic Recovery Revenue Bonds, and other debt, reducing underfunded pension and OPEB liabilities, reducing the reserved GAAP transition charge, building the Budget Reserve Fund, and establishing a pay-as-you-go infrastructure program.*
- 18. To implement GAAP budgeting, sections of the Connecticut General Statutes will have to be reviewed for changes as needed. The potential statutory changes identified to date are in Exhibit 5.*
- 19. Changes to Core-CT will be required as part of the upcoming version upgrade as part of the implementation of GAAP budgeting. While the preferred approach to Core-CT system and the related business process changes is to have agency users entering the accounting date on the vouchers to determine in which fiscal year the expenditure should be posted, it will need to be determined if the appropriate level of controls could be put in place to ensure that all legal and other accounting and reporting requirements could be met under this more decentralized approach.*

20. *In addition to Core-CT “agency specific” systems used to account for various programs and activities will have to be reviewed and changed as needed, in consultation with OPM and OSC.*
21. *Training will be needed for OPM and agency staff related to budgeting, accounting and transacting on a GAAP basis. A draft training plan is included as Exhibit 6.*

V. Conclusion

To provide for greater transparency, accountability and fiscal discipline, Governor Malloy issued Executive Order No. 1, which initiated the process of budgeting in accordance with GAAP requirements. As the first step in this regard, Governor Malloy’s proposed budget for fiscal years 2012 and 2013 implements GAAP budgeting on an aggregate basis by including additional amounts in each of the two years intended to ensure a balanced budget on both a budgetary and GAAP basis.

The next step involves moving to budgeting for each agency on a GAAP basis. This plan proposes the implementation of GAAP-based budgeting commencing with the fiscal year starting July 1, 2013. This plan involves recommendations and proposed implementation actions needed to meet the goals of aggregate GAAP budgeting during the next two fiscal years and GAAP-based budgeting by each agency thereafter.

The recommendations and proposed implementation actions contained in this plan include those in the areas of: inclusion of additional amounts in fiscal years 2012 and 2013 budgets for GAAP conversion; monitoring and management issues related to fiscal years 2012 and 2013 budgets; Annual Financial Reporting and year end closing changes needed under GAAP; accounting changes and budget management changes required by GAAP; budget development and presentation issues related to full GAAP budgeting commencing with the Biennium Budget for fiscal years 2014 and 2015; amortization of the accumulated GAAP deficit; definition of balanced budget under GAAP; use of future surpluses; potential statutory changes; changes to CORE-CT and other systems; and training.

This plan also outlines the need for a multi-agency work group comprised of representatives of OPM, the State Comptroller’s Office, the State Treasurer’s Office, the Office of Fiscal Analysis, the Auditors of Public Accounts and other state agencies as needed. The plan also outlines some timeframes for actions needed.

While this plan will need adjustments as it proceeds, we believe that it will enable the implementation of GAAP-based budgeting and the achievement of the associated enhancements in the state’s fiscal position and credibility among the public, rating agencies and others interested in the critical issue of the state’s long term fiscal health.

VI. Listing of Recommendations

Multi-Agency Workgroup and Implementation Date for Full GAAP Budgeting

- 1. The multi-agency workgroup comprised of the Office of Policy and Management, the Office of the State Comptroller, the Office of the Treasurer, the Office of Fiscal Analysis and the Auditor of Public Accounts, established in regard to this conversion plan, should continue to meet to coordinate the implementation process and to discuss and remedy issues.*
- 2. To provide for a well-planned and orderly conversion, the start date for transactional budgeting on a GAAP basis should be July 1, 2013.*

Monitoring and Management of Fiscal Years 2012 and 2013 Budgets

- 3. For fiscal years 2012 and 2013, the Secretary of OPM's letters to the Comptroller on the twentieth of each month and the annual Fiscal Accountability Report each November will be based on a legal basis along with a presentation of the most current estimate of the adjustment(s) necessary to convert legal-based operating results to GAAP-based operating results for the biennium. The status report released by the Comptroller on the first of each month may contain reference to a GAAP adjustment at his discretion.*
- 4. The process for developing consensus revenues would remain as is with the results flowing to and appearing in the OPM letter to the Comptroller on the twentieth of the month. Additional coordination may be required in the preparation of consensus revenues by OPM and OFA, however. All comparisons of expenditures between OPM and OFA must also specify whether they are on a budgetary or GAAP basis.*
- 5. The statutory requirements regarding the mitigation of a projected deficit would remain unchanged, meaning that these provisions would continue to be applicable to the budgetary or legal basis for the budget for fiscal years 2012 and 2013.*

Annual Financial Reporting; Amortization of Accumulated GAAP Deficit-Starting FY14

- 6. CGS 3-115 would be modified to allow the Comptroller to issue a single financial report, the GAAP Comprehensive Annual Financial Report. This report would be supplemented by a published schedule of appropriations and expenditures at the level of detail contained in the Appropriations Act for all budgeted funds and other reports as needed. The unaudited operating results for all of the budgeted funds would be issued by September 30th with audited results available by December 31st. During the period from July through the issuance of these operating results, the Comptroller's monthly report to the Governor should include updated estimates for the prior year each month as well as the projection for the fiscal year in progress.*
- 7. The accumulated General Fund GAAP deficit projected through June 30, 2013, would be amortized in equal installments beginning with the fiscal 2014 budget and continuing for the subsequent fourteen years. This accumulated deficit to be amortized would also include any projected June 30, 2013 GAAP fund balance deficits existing in any other budgeted funds. It is also proposed that, at the discretion of the Secretary of OPM and as circumstances permit, contributions higher than the scheduled amortization amount be*

allowed in any given year, which additional amounts could either be used for reducing future amortization amounts or eliminating the balance of the unamortized amount over a shorter period.

- 8. The amortization of the deferred charge would not be treated as an “expenditure” of the period in which it will be recorded but rather a gradual recognition of prior period expenditures. This deferred charge would be reflected in the equity section of the balance sheet as a Reserve for GAAP Amortization and the amortization will consist of a gradual transfer of this deferred amount to Unreserved Fund Balance. For the budget, the annual amortization requirement will be included in the Appropriation Act which will require enough revenues be raised for both a balanced budget plus the annual requirement for funding the GAAP amortization. A statutory change would be needed to exempt the amortization amount from the expenditure cap calculation.*
- 9. For accounting purposes, a one-time credit to expenditures for each agency’s appropriation is proposed in fiscal year 2013-2014 equal to the expenditures that were accrued for fiscal year 2012-2013 under GAAP by OSC. This one-time credit to expenditures, as recommended in the 1994 plan, will be part of the amortization of the accumulated GAAP deficit proposed under this plan.*
- 10. Necessary amounts for continuing appropriations, when identified, would be reserved in fund balance and would be recorded as expenditures in the year of the actual expenditure.*

Year End Closing Changes

- 11. The Office of the Comptroller is reducing the 60 day time period related to receivables and expenditures to be accrued to the prior year in accordance with GAAP to 45 days. Under this change, closing packages will need to be completed and returned by agencies before the end of August.*
- 12. Prior to the July 1, 2013 implementation of full GAAP budgeting, the Comptroller’s closing packages will include, to the extent possible, information at the Department, Fund, SID and Account level to assist OPM and agencies in determining appropriate budget amounts under GAAP.*

Budget Development, Presentation and Management: Biennium Budget-FY’s 2014 and 2015

- 13. OPM’s budget forms and instructions for agencies for the biennium budget commencing July 1, 2013 should include GAAP year-end closing information for fiscal years 2010-11 and 2011-12, along with updated information, to guide agencies in their development of budget requests on a GAAP basis.*
- 14. The major fund financial position statements for the appropriated funds in Part 1, Budget-in-Brief, for the Fiscal Year 2014 and 2015 Biennium Budget would reflect a change to a modified accrual basis. Included in Part 2, Budget in Detail, would be narrative information describing the impact on agency budgets of the change to budgeting based on GAAP.*
- 15. Statutory changes will be needed to deal with overexpenditures in budgeted appropriations due to accrued liabilities, particularly in regard to entitlement programs such as Medicaid and others. In addition, the state’s accounting systems, as well as agency accounting practices, will require modification in order to ensure that commitment control is exercised over transactions prior to expenses being incurred on a GAAP basis.*

Definition of Balanced Budget Under GAAP; Use of Future Surpluses

- 16. Beginning with fiscal year 2014, it is proposed that the term balanced budget be statutorily defined as being a budget in which the sum of anticipated revenue plus the unreserved fund balance, as determined by the most recent annual audit completed prior to the start of the current fiscal year, is equal to or greater than anticipated expenditures for that fund. Thus, the requirement at CGS 4-85 that the Governor propose measures to bring the budget back into balance should a General Fund deficit of more than one percent be forecast, would remain, but any negative unreserved balance would need to be addressed in the next fiscal year succeeding the completion of the year-end audit.*
- 17. The use of future surpluses starting with fiscal year 2014 should be clarified, with the recommended options including retiring Economic Recovery Notes, Economic Recovery Revenue Bonds, and other debt, reducing underfunded pension and OPEB liabilities, reducing the reserved GAAP transition charge, building the Budget Reserve Fund, and establishing a pay-as-you-go infrastructure program.*

Statutory Changes

- 18. To implement GAAP budgeting, sections of the Connecticut General Statutes will have to be reviewed for changes as needed. The potential statutory changes identified to date are in Exhibit 5.*

Changes to Core-CT and Other Systems; Training

- 19. Changes to Core-CT will be required as part of the upcoming version upgrade as part of the implementation of GAAP budgeting. While the preferred approach to Core-CT system and the related business process changes is to have agency users entering the accounting date on the vouchers to determine in which fiscal year the expenditure should be posted, it will need to be determined if the appropriate level of controls could be put in place to ensure that all legal and other accounting and reporting requirements could be met under this more decentralized approach.*
- 20. In addition to Core-CT “agency specific” systems used to account for various programs and activities will have to be reviewed and changed as needed, in consultation with OPM and OSC.*
- 21. Training will be needed for OPM and agency staff related to budgeting, accounting and transacting on a GAAP basis. A draft training plan is included as Exhibit 6.*

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VII. Timeframe for Recommendations/Actions

Below is an estimated timeline of major events and activities which will take place during the conversion to GAAP-based budgeting. It is not intended to show each minor detail, but rather high level activities. Each of these high level activities may be composed of a number of detailed tasks too numerous and too specific to include in this plan, thus providing direction, accountability and flexibility. Some events are required for conversion and others are presented in order to put the conversion into the context of the overall budget process. This timeline of major activities, including the various detailed tasks they are comprised of, will result in successful conversion to a GAAP-based budget for FY 2014 and FY2015.

Proposed Timeline of Major Events and Activities

<u>Plan Rec #</u>	<u>Resp.</u>	<u>Action</u>	<u>Begin</u>	<u>End</u>
1	GOV	Executive Order No. 1 issued; Establish Multi-Agency Work Group	1/5/11	3/1/11
3,4,5	OPM	Governor's GAAP-balanced FY2012 and FY2013 budget to General Assembly; Monitor and Manage budgets	2/16/11	2/16/11, ongoing thru FY13
11,12.	OSC	Review and revise agency GAAP closing packages	3/10/11	4/30/11
17, Various	OPM, OSC	Develop and submit proposed statutory changes	3/10/11	4/25/11
	OPM	Present GAAP conversion plan to General Assembly	4/15/11	4/15/11
20	OSC	Train agencies, OPM and OFA on revised GAAP closing packages and procedures	5/1/11	6/1/11; ongoing
18, 19	CORE, OSC, OPM	Identify, code and test Core-CT changes; changes to other systems	5/1/11	12/31/13
	OPM	Prepare and submit Governor's FY 2013 mid-term budget adjustments	6/15/11	2/5/12
7,8	OPM	Verify final FY2011 year-end accumulated GAAP deficit for amortization with Comptroller and Auditors; Project for FY2013	12/30/11	1/3/13

<u>Plan Rec #</u>	<u>Resp.</u>	<u>Action</u>	<u>Begin</u>	<u>End</u>
2, 13,14	OPM	Review and revise budget submittal forms as necessary; changes to Budget-in-Brief, Budget-in-Detail	2/1/12	6/1/12
	OPM	GAAP conversion plan status report to General Assembly	4/5/12	4/5/12
2, 7,8	OPM	Prepare and submit Governor's FY2014 and FY2015 GAAP budget; include amortization amount for accumulated GAAP Deficit	6/15/12	2/6/13
	OPM	GAAP conversion plan status report to General Assembly	4/6/13	4/6/13
2, 7, 8, 10, 15, 16	ALL	Begin operating with GAAP budget; Begin to amortize accumulated GAAP deficit; definition of balance budget, use of surplus	7/1/13	7/1/13
6	OSC	Move to single annual financial report	7/1/13	2/28/14
9	OSC	Post one-time accounts payable credit to FY2014 budget in Core-CT	9/5/13	9/5/13
20	CORE, OSC, OPM	Train all users on required changes in Core-CT; other GAAP requirements	2/1/14	4/30/14

For Responsibility:

CORE = CORE-CT

GOV = Governor

OPM = Office of Policy and Management

OSC = Office of State Comptroller

VIII. Exhibits

Exhibit 1. Executive Order No. 1

Exhibit 2. Budgetary Basis to GAAP Conversion-Other Appropriated Funds

Exhibit 3. Pro Forma Balance Sheet June 30, 2013

Exhibit 4. Conversion to GAAP Accrual

Exhibit 5. Potential Legislative Changes

Exhibit 6. Recommended Training Plan

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Exhibit 1

STATE OF CONNECTICUT

BY HIS EXCELLENCY

DANNEL P. MALLOY

EXECUTIVE ORDER NO. 1

WHEREAS, the Government Accounting Standards Board establishes generally accepted accounting principles (GAAP) for use in accounting and financial reporting by state and local governments;

WHEREAS, financial reports of the state are used by bond rating agencies, bond holders, legislators, the media, citizens of this state and others in evaluating government accountability and stewardship over public funds;

WHEREAS, all municipalities, regional and local school districts and audited agencies, as defined in Sec. 7-391 of the Connecticut General Statutes, in the state have been statutorily required since 1989 to have their financial statements audited by an independent auditor and, pursuant to Sec. 7-394a of the Connecticut General Statutes, the audit reports prepared by such independent auditors must be prepared in accordance with GAAP;

WHEREAS, the biennial budget document presented by the Governor to the General Assembly and the biennial budget passed by the General Assembly are prepared using a modified cash basis which includes state expenditures, receipts, and capital budget activities but does not comport with GAAP because, among other things, it does not provide analysis of the state's overall fiscal position;

WHEREAS, the Comptroller prepares both an annual fiscal report using a modified cash basis of accounting and a Comprehensive Annual Fiscal Report (CAFR) using GAAP;

WHEREAS, the annual fiscal reports prepared using the modified cash basis present the inflows and outflows of spendable resources, while annual fiscal reports that utilize GAAP present a more comprehensive picture of the state's economic condition including its financial position, fiscal capacity and service capacity; and

WHEREAS, the use of GAAP in state accounting and financial reporting improves the State's accountability to entities and individuals, including the citizens of the State of Connecticut, who evaluate the use of public funds by bringing greater clarity and consistency to the budgeting process and presenting a more complete assessment of the State's economic condition.

Exhibit 1-continued

NOW, THEREFORE, I, DANNEP P. MALLOY, Governor of the State of Connecticut, by virtue of the power and authority vested in me by the Constitution and by the Statutes of the State of Connecticut do hereby **ORDER AND DIRECT:**

1. To increase transparency and accountability regarding the fiscal health of the state, the Secretary of the Office of Policy and Management ("Secretary") shall initiate a process intended to result in the implementation of GAAP, as prescribed by the Governmental Accounting Standards Board, with respect to the preparation of the Governor's biennial budget documents and midterm budget adjustments.
2. To move the state toward a more financially responsible budgeting process, the Secretary shall prepare biennial budget documents for the fiscal years ending June 30, 2012 and June 30, 2013 that begin to implement GAAP by maintaining balanced operations and make any other provisions, as appropriate, for the implementation of such plan as is presented to the General Assembly pursuant to the requirements in paragraph 3. The Secretary will coordinate measures taken towards the implementation of GAAP with the offices of the Comptroller, Treasurer and the Auditor of Public Accounts.
3. To move the state toward greater budgetary transparency and a healthier economic condition, within sixty days of the Governor's transmittal to the general assembly of the biennial budget document for fiscal years ending June 30, 2012 and June 30, 2013, as required by Sec. 4-71 of the Connecticut General Statutes, the Secretary shall present to the joint standing committees of the General Assembly having cognizance of matters related to appropriations and finance, revenue and bonding a written plan to bring the state into compliance with GAAP and the Secretary or his designee shall make himself available to appear before said committees to answer questions related to such plan at the invitation of said committees.
4. Beginning sixty days after the Governor's transmittal to the General Assembly of the midterm budget adjustments for the biennium beginning July 1, 2011 and ending June 30, 2013, the Secretary shall annually submit to the joint standing committees of the General Assembly having cognizance of matters related to appropriations and revenue, finance and bonding a status report on the adoption and implementation of the plan presented to such committees pursuant to paragraph 3 and the Secretary or his designee shall make himself available to appear before said committees to answer questions related to such plan at the invitation of said committees.

This Order shall take effect immediately.

Dated at Hartford, Connecticut this 5th day of January 2011.

DANNEP P. MALLOY
Governor

Exhibit 2

Financial Summary

CONVERSION OF OPERATING RESULTS (BUDGETARY BASIS) TO FUND BALANCES (GAAP BASIS)

Other Appropriated Funds
Proposed Budget for Fiscal Years 2012 and 2013
(In Thousands)

	Actual Audited 2009	Actual Unaudited 2010	Estimated 2011	Proposed 2012	Proposed 2013
Special Transportation Fund					
Revenue	\$ 1,032,704	\$ 1,117,888	\$ 1,173,200	\$ 1,322,900	\$ 1,388,800
Expenditures	1,128,201	1,101,443	1,173,100	1,303,819	1,335,498
Total Adjustments to Appropriations	10,798	(4,652)	-	-	-
Operating Surplus / (Deficit), Budgetary Basis	\$ (84,699)	\$ 11,793	\$ 100	\$ 19,081	\$ 53,302
Adjustments (Conversion to GAAP)	8,020	122	(1,588)	5,656	(273)
Operating Surplus / (Deficit), GAAP Basis	\$ (76,679)	\$ 11,915	\$ (1,488)	\$ 24,737	\$ 53,029
Fund Balance, Budgetary Basis					
Reserved	\$ 37,324	\$ 41,977	\$ 41,977	\$ 41,977	\$ 41,977
Unreserved	93,571	105,364	105,464	124,545	177,847
Total Fund Balance, Budgetary Basis	\$ 130,895	\$ 147,341	\$ 147,441	\$ 166,522	\$ 219,824
Adjustments (Conversion to GAAP)	\$ (18,488)	\$ (23,019)	\$ (24,607)	\$ (18,951)	\$ (19,224)
Fund Balance, GAAP Basis					
Reserved	\$ 64,180	\$ 70,166	\$ 70,166	\$ 70,166	\$ 70,166
Unreserved	75,083	82,345	80,857	105,594	158,623
Total Fund Balance, GAAP Basis	\$ 139,263	\$ 152,511	\$ 151,023	\$ 175,760	\$ 228,789
Banking Fund					
Revenue	\$ (506)	\$ 17,834	\$ 28,900	\$ 25,900	\$ 21,900
Expenditures	32,011	18,214	24,020	25,855	21,800
Operating Surplus / (Deficit), Budgetary Basis	\$ (32,517)	\$ (380)	\$ 4,880	\$ 45	\$ 100
Adjustments (Conversion to GAAP)	(141)	91	(29)	(31)	(32)
Operating Surplus / (Deficit), GAAP Basis	\$ (32,658)	\$ (289)	\$ 4,851	\$ 14	\$ 68
Fund Balance, Budgetary Basis					
Reserved	\$ 1,500	\$ 115	\$ 115	\$ 115	\$ 115
Unreserved	19,794	20,799	25,679	25,724	25,824
Total Fund Balance, Budgetary Basis	\$ 21,294	\$ 20,914	\$ 25,794	\$ 25,839	\$ 25,939
Adjustments (Conversion to GAAP)	(943)	(852)	(881)	(912)	(944)
Fund Balance, GAAP Basis					
Reserved	\$ 1,500	\$ 115	\$ 115	\$ 115	\$ 115
Unreserved	18,851	19,947	24,798	24,812	24,880
Total Fund Balance, GAAP Basis	\$ 20,351	\$ 20,062	\$ 24,913	\$ 24,927	\$ 24,995
Insurance Fund					
Revenue	\$ 22,122	\$ 29,018	\$ 26,300	\$ 26,600	\$ 26,100
Expenditures	23,683	23,305	26,295	26,296	25,807
Operating Surplus / (Deficit), Budgetary Basis	\$ (1,561)	\$ 5,713	\$ 5	\$ 304	\$ 293
Adjustments (Conversion to GAAP)	(298)	(913)	(257)	(267)	(276)
Operating Surplus / (Deficit), GAAP Basis	\$ (1,859)	\$ 4,800	\$ (252)	\$ 37	\$ 17
Fund Balance, Budgetary Basis					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	5,789	11,500	11,505	11,809	12,102
Total Fund Balance, Budgetary Basis	\$ 5,789	\$ 11,500	\$ 11,505	\$ 11,809	\$ 12,102
Adjustments (Conversion to GAAP)	(6,453)	(7,366)	(7,623)	(7,890)	(8,166)
Fund Balance, GAAP Basis					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	(664)	4,134	3,882	3,919	3,936
Total Fund Balance, GAAP Basis	\$ (664)	\$ 4,134	\$ 3,882	\$ 3,919	\$ 3,936

Exhibit 2--continued

Financial Summary

CONVERSION OF OPERATING RESULTS (BUDGETARY BASIS) TO FUND BALANCES (GAAP BASIS)

Other Appropriated Funds

Proposed Budget for Fiscal Years 2012 and 2013

(In Thousands)

	Actual Audited 2009	Actual Unaudited 2010	Estimated 2011	Proposed 2012	Proposed 2013
Consumer Counsel/Public Utility Fund					
Revenue	\$ 19,345	\$ 21,114	\$ 24,500	\$ 26,300	\$ 25,900
Expenditures	20,928	20,551	24,499	26,014	25,592
Operating Surplus / (Deficit), Budgetary Basis	\$ (1,583)	\$ 563	\$ 1	\$ 286	\$ 308
Adjustments (Conversion to GAAP)	1,888	(3,862)	1,570	(190)	(241)
Operating Surplus / (Deficit), GAAP Basis	\$ 305	\$ (3,299)	\$ 1,571	\$ 96	\$ 67
Fund Balance, Budgetary Basis					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	7,204	7,767	7,768	8,054	8,362
Total Fund Balance, Budgetary Basis	\$ 7,204	\$ 7,767	\$ 7,768	\$ 8,054	\$ 8,362
Adjustments (Conversion to GAAP)	(6,093)	(9,955)	(8,385)	(8,575)	(8,816)
Fund Balance, GAAP Basis					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	1,111	(2,188)	(617)	(521)	(454)
Total Fund Balance, GAAP Basis	\$ 1,111	\$ (2,188)	\$ (617)	\$ (521)	\$ (454)
Workers' Compensation Fund					
Revenue	\$ 15,397	\$ 30,413	\$ 22,300	\$ 18,800	\$ 18,700
Expenditures	21,949	19,672	22,228	18,762	18,602
Operating Surplus / (Deficit), Budgetary Basis	\$ (6,552)	\$ 10,741	\$ 72	\$ 38	\$ 98
Adjustments (Conversion to GAAP)	209	(55)	(35)	(36)	(37)
Operating Surplus / (Deficit), GAAP Basis	\$ (6,343)	\$ 10,686	\$ 37	\$ 2	\$ 61
Fund Balance, Budgetary Basis					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	6,868	17,609	17,681	17,719	17,817
Total Fund Balance, Budgetary Basis	\$ 6,868	\$ 17,609	\$ 17,681	\$ 17,719	\$ 17,817
Adjustments (Conversion to GAAP)	(941)	(996)	(1,031)	(1,067)	(1,104)
Fund Balance, GAAP Basis					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	5,927	16,613	16,650	16,652	16,713
Total Fund Balance, GAAP Basis	\$ 5,927	\$ 16,613	\$ 16,650	\$ 16,652	\$ 16,713
Mashantucket Pequot and Mohegan Fund					
Revenue	\$ 92,899	\$ 61,800	\$ 61,800	\$ 61,800	\$ 61,800
Expenditures	92,999	61,780	61,800	61,780	61,780
Operating Surplus / (Deficit), Budgetary Basis	\$ (100)	\$ 20	\$ -	\$ 20	\$ 20
Adjustments (Conversion to GAAP)	-	-	-	-	-
Operating Surplus / (Deficit), GAAP Basis	\$ (100)	\$ 20	\$ -	\$ 20	\$ 20
Fund Balance, Budgetary Basis					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	50	70	70	90	110
Total Fund Balance, Budgetary Basis	\$ 50	\$ 70	\$ 70	\$ 90	\$ 110
Adjustments (Conversion to GAAP)	-	-	-	-	-
Fund Balance, GAAP Basis					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	50	70	70	90	110
Total Fund Balance, GAAP Basis	\$ 50	\$ 70	\$ 70	\$ 90	\$ 110

Exhibit 2--continued

Financial Summary

CONVERSION OF OPERATING RESULTS (BUDGETARY BASIS) TO FUND BALANCES (GAAP BASIS)

Other Appropriated Funds

Proposed Budget for Fiscal Years 2012 and 2013

(In Thousands)

	Actual Audited <u>2009</u>	Actual Unaudited <u>2010</u>	Estimated <u>2011</u>	Proposed <u>2012</u>	Proposed <u>2013</u>
<u>Soldiers, Sailors and Marines Fund</u>					
Revenue	\$ 3,111	\$ 2,762	\$ 3,000	\$ 3,100	\$ 3,100
Expenditures	<u>3,199</u>	<u>2,935</u>	<u>2,993</u>	<u>3,061</u>	<u>3,052</u>
Operating Surplus / (Deficit), Budgetary Basis	\$ (88)	\$ (173)	\$ 7	\$ 39	\$ 48
Adjustments (Conversion to GAAP)	<u>89</u>	<u>178</u>	<u>(12)</u>	<u>(39)</u>	<u>(48)</u>
Operating Surplus / (Deficit), GAAP Basis	\$ 1	\$ 5	\$ (5)	\$ -	\$ -
Fund Balance, Budgetary Basis					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	<u>(3,787)</u>	<u>(3,960)</u>	<u>(3,953)</u>	<u>(3,914)</u>	<u>(3,866)</u>
Total Fund Balance, Budgetary Basis	\$ (3,787)	\$ (3,960)	\$ (3,953)	\$ (3,914)	\$ (3,866)
Adjustments (Conversion to GAAP)	<u>3,787</u>	<u>3,965</u>	<u>3,953</u>	<u>3,914</u>	<u>3,866</u>
Fund Balance, GAAP Basis					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	<u>-</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance, GAAP Basis	\$ -	\$ 5	\$ -	\$ -	\$ -
<u>Regional Market Operation Fund</u>					
Revenue	\$ 968	\$ 950	\$ 1,000	\$ 1,000	\$ 1,000
Expenditures	<u>1,142</u>	<u>882</u>	<u>951</u>	<u>965</u>	<u>933</u>
Operating Surplus / (Deficit), Budgetary Basis	\$ (174)	\$ 67	\$ 49	\$ 35	\$ 67
Adjustments (Conversion to GAAP)	<u>(2)</u>	<u>(7)</u>	<u>(1)</u>	<u>(2)</u>	<u>(1)</u>
Operating Surplus / (Deficit), GAAP Basis	\$ (176)	\$ 60	\$ 48	\$ 33	\$ 66
Fund Balance, Budgetary Basis					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	<u>915</u>	<u>982</u>	<u>1,031</u>	<u>1,066</u>	<u>1,133</u>
Total Fund Balance, Budgetary Basis	\$ 915	\$ 982	\$ 1,031	\$ 1,066	\$ 1,133
Adjustments (Conversion to GAAP)	<u>(32)</u>	<u>(39)</u>	<u>(40)</u>	<u>(42)</u>	<u>(43)</u>
Fund Balance, GAAP Basis					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	<u>883</u>	<u>943</u>	<u>991</u>	<u>1,024</u>	<u>1,090</u>
Total Fund Balance, GAAP Basis	\$ 883	\$ 943	\$ 991	\$ 1,024	\$ 1,090
<u>Criminal Injuries Compensation Fund</u>					
Revenue	\$ 2,208	\$ 896	\$ 3,200	\$ 3,600	\$ 3,700
Expenditures	<u>2,621</u>	<u>3,110</u>	<u>3,409</u>	<u>3,494</u>	<u>3,602</u>
Operating Surplus / (Deficit), Budgetary Basis	\$ (413)	\$ (2,220)	\$ (209)	\$ 106	\$ 98
Adjustments (Conversion to GAAP)	<u>368</u>	<u>(183)</u>	<u>(14)</u>	<u>(14)</u>	<u>(15)</u>
Operating Surplus / (Deficit), GAAP Basis	\$ (45)	\$ (2,403)	\$ (223)	\$ 92	\$ 83
Fund Balance, Budgetary Basis					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	<u>5,698</u>	<u>3,478</u>	<u>3,269</u>	<u>3,375</u>	<u>3,473</u>
Total Fund Balance, Budgetary Basis	\$ 5,698	\$ 3,478	\$ 3,269	\$ 3,375	\$ 3,473
Adjustments (Conversion to GAAP)	<u>(204)</u>	<u>(387)</u>	<u>(401)</u>	<u>(415)</u>	<u>(430)</u>
Fund Balance, GAAP Basis					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	<u>5,494</u>	<u>3,091</u>	<u>2,868</u>	<u>2,960</u>	<u>3,043</u>
Total Fund Balance, GAAP Basis	\$ 5,494	\$ 3,091	\$ 2,868	\$ 2,960	\$ 3,043

EXHIBIT 3
Pro Forma Balance Sheet
June 30, 2013
(in thousands)

	<u>LEGAL</u>		<u>GAAP</u>		<u>LEGAL(now GAAP)</u>
Assets:					
Receivables:					
Taxes, Net of Allowances	\$ 1,303.7	\$	858.9	\$	858.9
Accounts, Net of Allowances	31.2		241.1		241.1
From Other Governments	-		669.6		669.6
Due From Other Funds & Component Units	-		38.8		38.8
Inventories	-		13.9		13.9
Total Assets	<u>\$ 1,334.9</u>	\$	<u>1,822.3</u>	\$	<u>1,822.3</u>
Liabilities and Fund Balance:					
Liabilities:					
Accounts Payable & Accrued Liabilities	\$ -	\$	184.9	\$	184.9
Due to Other Funds & Other Governments	636.5		869.7		869.7
Medicaid Liability	-		691.8		691.8
Other Liabilities	-		989.0		989.0
Total Liabilities	<u>\$ 636.5</u>	\$	<u>2,735.4</u>	\$	<u>2,735.4</u>
Fund Balance:					
Reserve for GAAP Amortization	\$ -	\$	-	\$	(1,520.2)
Reserved	698.4		607.1		607.1
Unreserved	-		(1,520.2)		-
Total Fund Balance	<u>\$ 698.4</u>	\$	<u>(913.1)</u>	\$	<u>(913.1)</u>
Total Liabilities and Fund Balance	<u>\$ 1,334.9</u>	\$	<u>1,822.3</u>	\$	<u>1,822.3</u>

**EXHIBIT 4-Conversion
to GAAP Accrual**

	<u>FY 2013-2014</u>		<u>FY2014-2015</u>		<u>FY2015-2016</u>	
Appropriations	<u>6/30/13</u>	\$1,000	<u>6/30/14</u>	\$1,000	<u>6/30/15</u>	\$1,000
Current Cash Basis	(A)	\$100	(A)	\$100	(A)	\$100
Disbursements=	(B)	\$900	(B)	\$900	(B)	\$900
Expenditures		<u>\$1,000</u>		<u>\$1,000</u>		<u>\$1,000</u>
Conversion to	(A)	\$100				
GAAP Accrual	(B)	\$900	(B)	\$900	(B)	\$900
	(C)	\$100	(C)	\$100	(C)	\$100
	(D)	<u>(\$100)</u>		<u>\$1,000</u>		<u>\$1,000</u>
		\$1,000				

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

Exhibit 5—Potential Legislative Changes

<u>Title 2: General Assembly and Legislative Agencies</u>				
<u>Item</u>	<u>CGS Sec.</u>	<u>Description</u>	<u>Recommendation</u>	<u>Rationale</u>
1.	2-33a	Statutory expenditure cap	Exempt any amortization of the accumulated GAAP deficit from cap	Funding of cumulative GAAP deficit is not an expenditure cap
2.	2-35	Requirements for appropriations bills and revenue estimates	Explicitly redefine a balanced budget under GAAP	To comply with GAAP
3.	2-36c	Consensus Revenues	Amend Sec. 2-36c to refer to revenue estimates being developed on a GAAP basis	To make consensus revenue estimates consistent with GAAP-based budget
4.	2-90	Auditors of Public Accounts	No changes	

<u>Title 3, Chapter 34: Comptroller</u>				
<u>Item</u>	<u>CGS Sec.</u>	<u>Description</u>	<u>Recommendation</u>	<u>Rationale</u>
5.	3-114b	Accrual of sales and use tax	Repeal effective FY 2014	Not needed under GAAP
6.	3-114c	Accrual of cigarette tax	Repeal effective FY 2014	Not needed under GAAP
7.	3-114d	Accrual of alcoholic beverage tax	Repeal effective FY 2014	Not needed under GAAP
8.	3-114e	Accrual of gasoline tax	Repeal effective FY 2014	Not needed under GAAP
9.	3-114f	Accrual of utility company tax	Repeal effective FY 2014	Not needed under GAAP
10.	3-114g	Accrual of corporation business tax	Repeal effective FY 2014	Not needed under GAAP
11.	3-114h	Accrual of personal income tax	Repeal effective FY 2014	Not needed under GAAP
12.	3-114i	Accrual of hospital tax	Repeal effective FY 2014	Not needed under GAAP
13.	3-114j	Accrual of Indian gaming payments	Repeal effective FY 2014	Not needed under GAAP
14.	3-114l	Accrual of payments from Energy Conservation and Load Management Funds	Repeal effective FY 2014	Not needed under GAAP
15.	3-114m	Accrual of real estate conveyance tax	Repeal effective FY 2014	Not needed under GAAP
16.	3-114n	Accrual of cable and satellite tv gross earnings tax	Repeal effective FY 2014	Not needed under GAAP
17.	3-114o	Accrual of deposit initiator special account balances revenue (bottle deposits)	Repeal effective FY 2014	Not needed under GAAP
18.	3-115	Preparation of accounting statements	Revise due dates for reporting requirements and eliminate budgetary basis annual report	GAAP statements require longer timeframes to be prepared and audited and budgetary basis reports are not needed
19.	3-115b	Authority for OSC and OPM to implement GAAP	New – Provide authority to establish reserve for GAAP conversion cost for FY 2012 and FY 2013, contingent on method of presentation	To provide funding of cost to freeze accumulated GAAP deficit at FY 2011 level
20.	3-115b	Authority for OSC and OPM to implement GAAP	New – Provide for amortization of accumulated GAAP deficit in FY 2014	To eliminate accumulated GAAP deficit
21.	3-121a	GAAP salary reserve account	Repeal	Not needed under GAAP

Exhibit 5—Potential Legislative Changes--continued

<u>Title 4, Chapter 47: Management of State Agencies, State Property and Funds</u>				
<u>Item</u>	<u>CGS Sec.</u>	<u>Description</u>	<u>Recommendation</u>	<u>Rationale</u>
22.	4-30a	Surplus, Budget Reserve Fund, State Employee Retirement fund, Indebtedness	Clarify and ensure that GAAP-related budget balances are not considered "unappropriated surpluses" available for statutory transfers	To preserve the intent of GAAP principles
23.	4-31a	Gifts, contributions, trust income placed into General Fund	Subsection b: add Comptroller to approval process & incorporate GASB Statement of Principle- Number of Funds as State Policy	To provide for continued compliance with GAAP over time

<u>Title 4, Cap 50: Management of State Agencies, Office of Policy and Management, Budget and Appropriations</u>				
<u>Item</u>	<u>CGS Sec.</u>	<u>Description</u>	<u>Recommendation</u>	<u>Rationale</u>
24.	4-69	Definitions related to budget	Amend to include and be consistent with GAAP terminology	To provide for a common understanding of certain GAAP-related terms and eliminate any terms no longer needed
25.	4-71 to 4-76	Governor's Budget	Amend to be consistent with GAAP terminology	Not currently consistent with GAAP terminology
26.	4-77	Submission of estimates of expenditures by budgeted agencies	Amend to authorize use of GAAP in preparation of budget and amend budget submittal timeline	To comply with Executive Order No. 1
27.	4-86	Monthly notification of refunds	Modify reference to warrants in excess of appropriations	To allow exceptions for entitlement programs and to provide authority to restrict agencies' current year appropriations to offset prior year year's over- expenditures caused by accruals
28.	4-89	Appropriations, treatment of unexpended balances at end of fiscal year	Modify regarding obligations and charges to succeeding fiscal year, eliminate one month carry-forward	To provide necessary flexibility under GAAP
29.	4-89	Appropriations encumbered by purchase order, current expenditure, capital expenditure	No change	
30.	4-99	Commitment of appropriations prior to beginning of fiscal period	Revise/eliminate reference to liquidation of commitments	To comply with GAAP
31.	4-100	Penalty for exceeding appropriations, exceptions	Clarify exceptions for Medicaid, other entitlements and possible changes for other appropriations	To allow for implementation in compliance with GAAP

Exhibit 6

Recommended Training Plan

<u>Item</u>	<u>Audience</u>	<u>Topic/Issue</u>	<u>Follows</u>	<u>Precedes</u>
1.	CNT	Overview, conversion plan	April 15, 2011	May 1, 2011
2.	ALL	Revised agency legal closing instructions	As necessary	As necessary
3.	ALL	Revised agency GAAP closing packages	As necessary	As necessary
4.	CNT	Legislation changes	Enactment	
5.	OPM, OFA	Agency A/P reports	March 15, 2011	May 31, 2011
6.	OPM, OFA	Changes in revenue accruals	TBD	
7.	OPM, OFA	Expenditure accruals	TBD	
8.	OPM, OFA	Comptroller year-end closing procedures and other GAAP entries		FY 2014 budget preparation
9.	AGN	Changes to budget forms	TBD	FY14 budget submittal
10.	AGN	Purchase Order receipt – Core-CT	February 1, 2014	April 30, 2014
11.	CNT	Updated accounts receivable (Refresher on coding) – Core-CT	February 1, 2014	April 30, 2014
12.	CNT	Asset management – Core-CT	February 1, 2014	April 30, 2014
13.	CNT	Receipt accrual process – Core-CT	February 1, 2014	April 30, 2014
14.	AGN	Receipt date usage on vouchers (Refresher) – Core-CT	February 1, 2014	April 30, 2014
15.	AGN	Updated fiscal year-end and start-up (new procedures) – Core-CT	February 1, 2014	April 30, 2014
16.	AGN	Accounting date usage (new procedures) – Core-CT	February 1, 2014	April 30, 2014
17.	ALL	General accounting and reconciliation – Core-CT	February 1, 2014	April 30, 2014
18.	AGN	Updated requisition and purchase order processing – Core-CT	February 1, 2014	April 30, 2014
19.	CNT	Financial reporting – Core-CT	February 1, 2014	April 30, 2014

Exhibit 6-continued

For Audience:

ALL = Central and Operating Agencies

AGN = Operating Agencies

CNT = Central Agencies = AUD, OPM, OFA, OSC, OTT, DAS and CORE-CT

AUD = Auditors of Public Accounts

OPM = Office of Policy and Management Budget Analysts

OFA = Office of Fiscal Analysis Analysts

OSC = Office of State Comptroller Staff

OTT = Office of the Treasurer Staff

DAS = Department of Administrative Services Staff

Core-CT = Core-CT Staff