

STATE OF CONNECTICUT

**AUDITORS' REPORT
STATE COMPTROLLER - STATE FINANCIAL OPERATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

**AUDITORS OF PUBLIC ACCOUNTS
KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE**

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August 13, 2003

**AUDITORS' REPORT
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We have examined the records of the Comptroller of the State of Connecticut as they pertain to the central accounting of State financial operations, on a budgetary basis of accounting, for the fiscal year ended June 30, 2002. This report on that examination consists of the Comments which follow. The audit certification on the Comptroller's civil list financial statements, the audited civil list financial statements themselves, and the related auditors' report on compliance and internal control over civil list financial reporting are included in a separate report entitled *Annual Report of the State Comptroller – Budgetary Basis*, for the fiscal year ended June 30, 2002. Throughout this report we will refer to various financial statements and schedules contained in this annual report, which is hereinafter referred to as the "Comptroller's Annual Report".

COMMENTS

FOREWORD:

The financial position as of June 30, 2002, and the 2001-2002 cash transactions of all State civil list funds, accounted for centrally in the records of both the State Comptroller and State Treasurer, are shown in Exhibit A and Schedule A-1, respectively, of the Comptroller's 2002 Annual Report. The financial position of the General Fund at June 30, 2002, together with a summary of operations for the year then ended, are shown in Exhibit B and Schedule B-1, respectively, of the Comptroller's 2002 Annual Report. Corresponding statements for the Special Transportation Fund are shown in Schedules C-2 and C-3, respectively, of the Comptroller's 2002 Annual Report. A summary of State bonds and notes outstanding as of June 30, 2002, the changes thereto, and the authorizations for future borrowings are shown in Schedules E-3, E-4, and E-5 of the Comptroller's 2002 Annual Report.

The Comptroller prepares the financial statements of the State's civil list funds on a modified cash basis of accounting, consistent with the prior year, except for the accrual of certain expenditures, which accrual is more fully described below. The accounting basis used by the State of Connecticut was adopted by the Comptroller under the authority granted by Article Fourth, Section 24, of the Constitution of the State of Connecticut and with recognition of legislative authorizations. The modified cash basis of accounting permits an accrual of revenues at fiscal year end which includes the collections in July of Indian gaming payments and certain taxes levied as of June 30, and requires that expenditures be recorded in the year in which disbursements are made provided recognition is given to continuing appropriations. Those taxes for which July collections are accrued include sales and use taxes, personal income taxes, corporation taxes, gross earnings taxes on utility and petroleum companies, and taxes on alcoholic beverages, cigarettes, gasoline and special motor fuel.

Under the modified cash basis of accounting used by the Comptroller, restricted revenues of the General and Special Transportation Funds are recognized when earned through the expenditure of grant funds, rather than when received or awarded. This accounting method was adopted to facilitate the Comptroller's conversion to reporting under generally accepted accounting principles (GAAP), as discussed later in this section.

Receivables which are reported by the Comptroller include Federal and other grants receivable recorded in connection with Federally supported programs or capital projects for which Federal or other outside participation is available, loans and notes receivable from local governments, nonprofit corporations, businesses or individuals and the accounts receivable of the University Health Center. Such receivables have been reported by the Comptroller as assets of the funds financing the projects or programs involved and are fully reserved on the balance sheet, except within the General Fund and Special Transportation Fund where the Federal and other grants receivable are the source of financing for restricted appropriations established for the purposes of the grants involved. In addition, loans made from the General Fund to the Connecticut Student Loan Foundation, pursuant to Section 10a-213 of the General Statutes, are accrued at fiscal year end, as is interest income of the Special Transportation Fund, which is accrued pursuant to the terms of a Special Tax Obligations Bond Indenture dated September 15, 1984.

Under the modified cash basis of accounting used by the Comptroller, expenditures are charged against appropriations of the year in which they are paid. It should be noted, however, that during the 2001-2002 fiscal year, pursuant to the provisions of Section 18 of Public Act 02-01 (May Special Session), the Comptroller was authorized to record as expenditures for said fiscal year, any expenditures made from July 1, 2002 to July 31, 2002, inclusive, which were charged to accounts receiving deficiency appropriations or deficiency transfers under this same Public Act. In accordance with this authorization, \$85,031,678 in expenditures processed during July 2002, were accrued by the Comptroller as accounts payable as of June 30, 2002.

This report covers the financial operations of the 2001-2002 fiscal year under a biennial budget adopted by the 2001 General Assembly. The financial accounting for the budget plans of the General Fund and Special Transportation Fund, as it applies to the 2001-2002 audit period, are included in this report.

In maintaining State accounting records and in preparing financial statements, the Comptroller, consistent with prior years, was guided by the aforementioned requirements and authorizations of State fiscal statutes as regards the method of accounting and fund classification. For this reason, therefore, the financial statements contained in the Comptroller's Annual Report are not, nor are they intended to be, in accordance with generally accepted accounting principles (GAAP). In order for the Comptroller to follow such principles, among other things, expenditures would have to be recorded on an accrual rather than cash basis, all non-civil list funds and component units of the State would have to be included in the financial statements, all agencies' assets and contingent and long term liabilities would have to be recognized, and appropriate footnote disclosures would have to be made in the financial statements.

In order to comply with GAAP, the Comptroller has instituted a separate reporting function which enables her Office to issue a separate Comprehensive Annual Financial Report (CAFR)

showing the State of Connecticut's financial position and results of operations in accordance with generally accepted accounting principles. It should be noted that this report has customarily earned a "Certificate of Achievement for Excellence in Financial Reporting" from the Government Finance Officers Association. Such a report, however, is in addition to the *Annual Report of the State Comptroller - Budgetary Basis*, which presents the State's financial operations as budgeted by the General Assembly. Because differing accounting bases are followed in preparing the two reports, substantial variances can occur in the presentation of the State's financial position, as well as, its operations.

As a result, the State's Comprehensive Annual Financial Report will probably gain widespread use and acceptance only if the legislative budget plan is prepared and enacted in accordance with GAAP and necessary changes made to State fiscal statutes. In that way, the CAFR will present, in a unified format, both the budgetary and actual financial operations of the State of Connecticut.

To accomplish this end the General Assembly, during the 1993 Regular Session, passed Public Act 93-402. This Act, effective with the fiscal year commencing July 1, 1995, authorized the State Comptroller and the Office of Policy and Management to implement the use of GAAP with respect to the preparation of the biennial budget and financial statements of the State of Connecticut. These two agencies worked to implement the provisions of a conversion plan that was developed in accordance with Public Act 93-402. This plan was submitted to the Appropriations Committee of the General Assembly on February 1, 1994. Implementation plans were adjusted accordingly, however, when the General Assembly, through the passage of Public Act 95-178, Public Act 97-305, and Public Act 99-1 (June Special Session), postponed the State's conversion to GAAP budgeting from the fiscal year commencing July 1, 1995, to the fiscal year commencing July 1, 2003. It should be noted that the above provisions were codified in Section 3-115b of the General Statutes.

OFFICERS:

During the 2001-2002 fiscal year the officers of the Office of the Comptroller were as follows:

State Comptroller:
Nancy S. Wyman

Deputy Comptroller:
Mark E. Ojakian

GENERAL FUND:

The financial position of the General Fund at June 30, 2002, together with a summary of operations recorded for the year then ended, are shown in Exhibit B and Schedule B-1, respectively, of the Comptroller's 2002 Annual Report.

General Fund operations were conducted under a biennial budget plan, which estimated revenues and provided for expenditures of the 2001-2002 and 2002-2003 fiscal years. Special Act 01-01 (June Special Session), the Budget Act, enacted by the 2001 General Assembly, included appropriations for the 2001-2002 and 2002-2003 fiscal years and revenue estimates of its Committee on Finance, Revenue and Bonding.

Under budget procedures customarily in effect, the estimates of revenues and the budgeted appropriations, taken in conjunction with whatever surplus or deficit was carried over from the preceding fiscal period, after consideration of any statutorily required transfers, give rise to an anticipated surplus or deficit projected through the end of the fiscal year. The budget plan for the 2001-2002 fiscal year as reported by the Comptroller may be expressed as follows:

Estimated Revenues, 2001-2002, as	\$	\$
Revised by the Committee on Finance, Revenue and Bonding		11,894,100,000
Budgeted Appropriations, 2001-2002, As revised	11,997,800,596	
Estimated lapsing appropriations	<u>(103,850,000)</u>	
Net Appropriations		<u>11,893,950,596</u>
Anticipated Surplus (Deficit), June 30, 2002		<u>\$149,404</u>

The actual results of the operations of the 2001-2002 fiscal year are presented in Schedule B-1 of the Comptroller's 2002 Annual Report. An analysis of General Fund operations follows:

Actual Budgeted Revenues, 2001-2002	\$	\$10,845,425,281
Appropriations, 2001-2002	11,824,434,482	
Add/(Deduct)		
Appropriations lapsed	<u>(161,727,654)</u>	
Net Appropriations		<u>11,662,706,828</u>
Balance		(817,281,547)
Miscellaneous adjustments		196,180
Unappropriated Surplus, June 30, 2001 after Statutory Transfers		<u>0</u>
Unappropriated Surplus, June 30, 2002, before Statutory Transfers, per Schedule B-1		<u>(\$817,085,367)</u>

The variances between the actual results of operations and the original budget plan may be explained as follows:

1. *Actual revenues were some \$1,048,000,000 less than originally estimated. Those revenue categories which showed the greatest deficiencies were personal income taxes, \$576,000,000, sales and use taxes, \$196,000,000, corporation taxes, \$120,000,000, inheritance and estate taxes, \$57,000,000, investment income, \$39,000,000, and oil company taxes, \$37,000,000.*
2. *Appropriations showed a total decrease of more than \$173,000,000 from the budget plan reported by the Comptroller. This decrease included appropriation rescissions of \$164,016,000 and \$28,140,000, which were provided for in Special Act 01-01 (November Special Session), as amended by Public Act 02-4, and Public Act 02-01 (May Special Session), respectively. This decrease in appropriations was offset in part by additions by administrative order in the amounts of \$13,599,000 and \$10,117,000, for adjudicated claims and refunds of escheated property, respectively.*
3. *Lapsed appropriations were some \$58,147,000 higher than estimated, primarily as a result of some \$33,000,000 in allotment rescissions implemented by the Governor during the months of September and December 2001.*
4. *Other operating factors consisted primarily of net operating transfers to and from other State funds, as well as adjustments for prior year check cancellations and restricted account lapses.*

A statement of changes in the unappropriated surplus account of the General Fund for the fiscal year ended June 30, 2002, is presented in Schedule B-1 of the Comptroller's 2002 Annual Report. It should be noted that Section 4-30a of the General Statutes, as revised by Public Act 02-118, provides that the unappropriated surplus that remains in the General Fund at the end of the fiscal year, after any amounts required by law to be transferred for other purposes have been deducted, shall be deposited to the Budget Reserve Fund, provided that the amount so transferred shall not cause the balance in such fund to exceed seven and one-half percent of the net General Fund appropriations for the fiscal year in progress.

However, because the General Fund posted an operating deficit of \$817,085,367 for the fiscal year ended June 30, 2002, the entire balance of \$594,697,530 in the Budget Reserve Fund was transferred instead to the General Fund to partially cover this deficit as required by Section 4-30a, subsection (b). The remaining deficit balance of \$222,387,837 in the General Fund at June 30, 2002, was subsequently financed with General Obligation Economic Recovery Notes that were issued by the State Treasurer during the 2002-2003 fiscal year, pursuant to the provisions of Section 111 of Special Act 02-01 (May Special Session).

As previously explained in this report, the State Comptroller follows a practice of recording within the General Fund the accrual of certain revenues, without a corresponding accrual of expenditures. This accounting practice resulted in the accrual of more than \$762,000,000 in revenues, which would, under a cash basis system of accounting, be recorded in the 2002-2003 fiscal year. If there had been a similar accrual of expenditures as required by generally accepted accounting principles (GAAP), there would have been added to General Fund expenditures a total estimated to be as high as \$1,213,600,000 during the first year only of any conversion to

GAAP budgeting by the State. It should be noted that these expenditure accruals would be offset in part by additional revenue accruals of some \$406,400,000 under GAAP.

General Fund revenues for the 2001-2002 fiscal year, inclusive of revenues restricted for special purposes, amounted to \$11,943,683,564 as shown in Schedule B-1 of the Comptroller's 2002 Annual Report. Included in this total were budgeted revenues in the amount of \$10,845,425,281. This latter amount represented a decrease of some \$1,140,045,044 over the budgeted revenue total reported by the Comptroller for the preceding 2000-2001 fiscal year.

The budgeted revenue categories, which showed the greatest change during the fiscal year under audit, were as follows:

	Nearest Thousand Dollars
Taxes:	\$
Personal income	(478,321,000)
Sales and use	(127,313,000)
Corporations	(169,523,000)
Refunds of taxes – increase	(116,008,000)
Real estate conveyance	8,436,000
Oil companies	(40,188,000)
Inheritance and estate	(99,709,000)
Public service corporations	(13,950,000)
Insurance companies	26,263,000
Cigarettes and tobacco	41,428,000
All others (net)	(7,253,000)
Total Increase (Decrease) in Taxes	<u>(976,138,000)</u>
Other Revenues and Sources:	
Licenses, permits and fees	13,186,000
Transfers – Special Revenue	19,409,000
Investment income	(44,040,000)
Indian gaming payments	36,536,000
Federal grants	(94,775,000)
Statutory transfers to other funds	(62,286,000)
Transfers from Tobacco Settlement Fund	(18,800,000)
All others (net)	(13,137,000)
Total Increase (Decrease) in Other Revenues and Sources	<u>(163,907,000)</u>
Total Increases (Decreases)	<u>(\$1,140,045,000)</u>

General Fund revenue collections were lower than anticipated due to the recessionary economy and falling stock market, and the effect on business confidence following the September 11th terrorist attacks. The economy remained sluggish throughout the entire 2001-2002 fiscal year affecting both sales and income tax collections. Lingering concerns about terrorist attacks and corporate accounting scandals were also factors in keeping business and investor confidence low, which had a direct impact on revenue collections.

With regard to legislative actions, certain changes to the State's revenue structure were enacted by the General Assembly, which impacted the 2001-2002 fiscal year receipt collections. In this regard, the most notable legislative change was the suspension of the 5.75 percent sales tax on hospital patient care services from July 1, 2001 to June 30, 2003, as provided for in Section 1 of Public Act 01-6 (June Special Session).

In addition to the aforementioned budgeted revenues, non-budgeted revenues totalling \$1,098,258,283 were credited to the General Fund. These revenues represented Federal and other grant revenues restricted for special purposes. A summary of such restricted revenues follows:

Federal grants	\$833,415,074
Other than Federal grants	<u>264,843,209</u>
Total Restricted Revenue	<u><u>\$1,098,258,283</u></u>

As mentioned previously in this report, such restricted revenue is recognized by the Comptroller when earned through the expenditure of grant funds, rather than when received or awarded.

General Fund expenditures for the 2001-2002 fiscal year, inclusive of expenditures from accounts restricted for special purposes, amounted to \$13,285,284,141 as shown in Schedule B-1 of the Comptroller's 2002 Annual Report. Included in this total were budgeted expenditures in the amount of \$12,187,025,858.

This latter amount represented an increase of some \$304,326,000 over the total budgeted expenditures reported by the Comptroller for the preceding 2000-2001 fiscal year. A summary of the areas of significant changes in expenditures from budgeted accounts of the General Fund follows:

	Nearest Thousand Dollars
Personal Services	\$156,422,000
Other Current Expenses:	
Policy and Management - primarily Andriaen's Landing project	14,775,000
Mental Retardation - primarily residential and day services	34,813,000
Mental Health - primarily general assistance managed care	11,645,000
Workers' Compensation Claims - primarily one-time premium for transfer of certain claims liabilities to third-party insurer	26,687,000
Employer's Social Security Tax	14,994,000
State Retirement System - actuarial funding	26,720,000
State Employees' Health Service Costs	68,946,000
All Other - primarily contractual services and commodities	3,800,000
Fixed Charges:	
Debt Service - State Treasurer	18,298,000

State Aid Grants:	
Policy and Management - primarily elimination of one-time local capital improvements program	(13,396,000)
Social Services - Medicaid, independent living assistance, pharmaceutical assistance to the elderly, child care assistance and other public assistance programs	45,698,000
Education - primarily elimination of surplus designations for debt avoidance on school construction projects	(145,604,000)
Comptroller – payments to towns for loss of taxes on property	5,070,000
Teachers’ Retirement System - actuarial funding	(9,109,000)
Children and Families - primarily board and care of children	37,591,000
Other State Aid Grants	(450,000)
Capital Outlay	7,426,000
Total Net Increase	<u><u>\$304,326,000</u></u>

The level of funding provided by the General Assembly for State aid grants and State program operating costs increased across the board for most State agencies, particularly with regard to public assistance programs, primarily Title XIX - Medicaid. In addition, debt service costs increased as a result of new bond issues, fringe benefit costs increased as a result of increases in health insurance premiums for active and retired State employees, and personal services costs increased as a result of cost-of-living increase provisions contained in various collective bargaining agreements. The above increases were offset in part by the elimination of costs associated with a one-time local capital improvements program, as well as those costs associated with a debt avoidance program for school construction projects, which were both in effect during the prior fiscal year.

SPECIAL TRANSPORTATION FUND:

The Special Transportation Fund operates in accordance with the provisions of Title 13b, Chapter 243, Part I, of the General Statutes. Section 13b-61 provides that the following revenues be credited to the Special Transportation Fund:

- Motor fuel taxes
- Motor vehicle taxes
- Motor vehicle receipts for licenses, registrations, and title fees
- Motor vehicle related fines and penalties
- Highway, bridge and ferry revenues
- Federal aid (transportation related)
- Fees for relocation of gasoline stations
- Fees for motor fuel quality registration of distributors
- Fees for motor fuel dispensers and weighing or measuring devices
- Fees for the issuance of identity cards
- Fees for safety marker plates
- Late fees for the emission inspection of motor vehicles
- Sale of information by the Department of Motor Vehicles
- Fees imposed to double fines resulting from moving violations occurring in a designated school zone.

Section 13b-69 of the General Statutes provides that the resources accumulated by the Special Transportation Fund are to be used for:

- The payment of debt service on Transportation Infrastructure bonds which are issued in accordance with the provisions of Chapter 243, Part II, of the General Statutes, as special tax obligation bonds.
- The payment of debt service on other transportation related bonds issued by the State.
- The funding of appropriations for the Department of Transportation and the Department of Motor Vehicles.

The financial position of the Special Transportation Fund at June 30, 2002, excluding those resources held by the Trustee under the Indenture of Trust for the Transportation Infrastructure special tax obligation bonds, is presented in Schedule C-2 of the Comptroller's 2002 Annual Report. A statement of the changes in unappropriated surplus of the Fund for the fiscal year then ended is shown in Schedule C-3 of the Comptroller's 2002 Annual Report. It should be noted that cash and investments totalling \$590,374,005 which are being held by the Trustee, are reported on Exhibit A of the Comptroller's 2002 Annual Report under Debt Service Funds.

Special Transportation Fund operations, like the General Fund, were conducted under a biennial budget plan which estimated revenues and provided for expenditures of the 2001-2002 and 2002-2003 fiscal years. Special Act 01-01 (June Special Session), the Budget Act for the Special Transportation Fund, enacted by the 2001 General Assembly, included appropriations for the 2001-2002 and 2002-2003 fiscal years and revenue estimates of its Committee on Finance, Revenue and Bonding.

Under budget procedures customarily in effect, the estimates of revenues and the budgeted appropriations, taken in conjunction with whatever surplus or deficit was carried over from the preceding fiscal period give rise to an anticipated surplus or deficit projected through the end of the fiscal year. The budget plan for the 2001-2002 fiscal year as reported by the Comptroller may be expressed as follows:

Estimated Revenues, 2001-2002, as revised by the Committee on Finance, Revenue and Bonding	\$	\$
Budgeted Appropriations, 2001-2002, as revised	855,747,251	862,400,000
Estimated lapsing appropriations	<u>(15,000,000)</u>	
Net Appropriations		<u>840,747,251</u>
Anticipated Operating Surplus, 2001-2002		21,652,749
Add - Anticipated Surplus at June 30, 2001		<u>131,787,000</u>
Anticipated Surplus, June 30, 2002		<u>\$153,439,749</u>

The actual results of the operations of the 2001-2002 fiscal year are presented in Schedule C-3 of the Comptroller's 2002 Annual Report. An analysis of the Special Transportation Fund

surplus follows:

Actual Budgeted Revenues, 2001-2002	\$	\$896,893,807
Appropriations, 2001-2002	863,925,087	
Add/(Deduct)		
Appropriations lapsed	<u>(17,412,965)</u>	
Net Appropriations		<u>846,512,122</u>
Balance		50,381,685
Miscellaneous adjustments		3,579,586
Unappropriated surplus, June 30, 2001		<u>135,720,587</u>
Unappropriated Surplus, June 30, 2002, per Schedule C-3		<u>\$189,681,858</u>

The variances between the actual results of operations and the original budget plan may be explained as follows:

- 1. Actual revenues were some \$34,493,000 greater than anticipated. Those revenue categories, which showed the greatest surpluses, included motor fuels taxes, \$16,387,000, licenses, permits and fees, \$7,709,000, sales taxes collected by the Department of Motor Vehicles, \$5,224,000, interest income, \$3,480,000, and motor vehicle receipts, \$3,390,000.*
- 2. Appropriations showed a total increase of more than \$8,177,000 over the budget plan reported by the Comptroller. This increase included deficiency appropriations of \$4,600,000, which were provided for in Public Act 02-01 (May Special Session). The balance of the increase in appropriations consisted primarily of appropriation transfers received from the General Fund.*
- 3. Lapsed appropriations were some \$2,413,000 higher than estimated, due primarily to the effects of a mild winter during the audited period, which resulted in lower than anticipated snow and ice removal costs.*
- 4. Other operating factors consisted primarily of transfers from the General Fund of unused funds, which were made in accordance with the provisions of Section 47, subsections (b) and (p), of Special Act 01-1 (June Special Session).*

Special Transportation Fund revenues for the 2001-2002 fiscal year, inclusive of revenues restricted for special purposes, amounted to \$1,000,118,611, as shown in Schedule C-3 of the Comptroller's 2002 Annual Report. Included in this total were budgeted revenues in the amount of \$896,893,807. This latter amount represented an increase of some \$25,064,000 over the budgeted revenue total reported by the Comptroller for the preceding 2000-2001 fiscal year.

The budgeted revenue categories, which showed the greatest change during the fiscal year under audit, were as follows:

	Nearest Thousand Dollars
Taxes:	\$

Motor fuels tax	12,764,000
Sales tax collected by Department of Motor Vehicles	5,117,000
Refunds of taxes – increase	(220,000)
Other Revenues:	
Motor vehicle receipts	4,351,000
Licenses, permits and fees	15,485,000
Interest income	(3,408,000)
Transfers to Emission Enterprise Fund – increase	(6,500,000)
Refunds of payments – increase	(2,525,000)
Total Net Increase (Decrease)	<u><u>\$25,064,000</u></u>

The above increase was primarily attributable to an increase in motor fuel tax collections, which was likely due to an increase in automobile travel over travel by aircraft, as a result of the September 11th terrorist attack. License, permit, and fee collections also increased during the audited period as a result of an increase in the clean air assessment fee, as well as, the imposition of a new fee on new automobile registrations, both of which were provided for in Public Act 01-6 (June Special Session). These increases were offset, in part, by a provision contained in Section 44 of Public Act 01-9 (June Special Session), which required that \$6,500,000, of the fees collected by the Special Transportation Fund, pursuant to sections 14-49b and 14-164c of the General Statutes, be transferred each year to the Emissions Enterprise Fund.

In addition to the aforementioned budgeted revenues, non-budgeted revenues totalling \$103,224,804 were credited to the Special Transportation Fund. These revenues represented Federal and other grant revenues restricted for special purposes primarily for highway planning and construction. A summary of such restricted revenues follows:

Federal grants	\$98,518,052
Other than Federal grants	4,706,752
Total Restricted Revenue	<u><u>\$103,224,804</u></u>

As mentioned previously in this report, such restricted revenue is recognized by the Comptroller when earned through the expenditure of the grant funds, rather than when received or awarded.

Special Transportation Fund expenditures for the 2001-2002 fiscal year, inclusive of expenditures from accounts restricted for special purposes, amounted to \$975,880,255 as shown in Schedule C-3 of the Comptroller's 2002 Annual Report. Included in this total were budgeted expenditures in the amount of \$872,655,451. This latter amount represented an increase of some \$28,590,000 from the total budgeted expenditures reported by the Comptroller for the preceding 2000-2001 fiscal year. A summary of the areas of significant changes in expenditures from budgeted accounts of the Special Transportation Fund follows:

State Comptroller:	Nearest Thousand Dollars
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State employee retirement contributions – employer share	5,354,000
Department of Motor Vehicles:	
Personal Services	1,269,000
Department of Transportation:	
Personal services	16,847,000
Other expenses	(6,201,000)
Transit Equipment	12,761,000
Bus operations	3,706,000
Highway and bridge renewal	(9,580,000)
All other (net)	4,434,000
Total Net Increase (Decrease)	<u><u>\$28,590,000</u></u>

The above increase in expenditures was primarily attributable to increases in personal service costs and related fringe benefit costs, which resulted from cost-of-living increase provisions contained in various collective bargaining agreements. In addition, increases in transit equipment spending, for new railroad passenger cars and locomotives, resulted from new funding that was provided for in Section 38 of Special Act 00-13.

SPECIAL REVENUE FUNDS:

This category of funds was established to group those funds accounting for the expenditure of revenues that have been restricted to specific programs. Included in this category is the Special Transportation Fund. However, because of the size and importance of this Fund, it has been incorporated into this report under a separate heading preceding this section.

The financial position of the combined Special Revenue Funds at June 30, 2002, together with the cash transactions for the fiscal year ended on that date, are shown in Exhibit C and Schedule C-1, respectively, of the Comptroller's 2002 Annual Report. At June 30, 2002, there were 59 authorized funds within this category, with the Special Transportation Fund being by far the largest. Of these 59 funds, the following nine funds operate under legislatively enacted budget plans:

- Banking Fund (1102)
- Insurance Fund (1104)
- Consumer Counsel and Public Utility Control Fund (1106)
- Workers' Compensation Administration Fund (1108)
- Mashantucket Pequot and Mohegan Fund (1114)
- Soldiers', Sailors' and Marines' Fund (1115)
- Regional Market Operation Fund (1129)
- Criminal Injuries Compensation Fund (1139)
- Special Transportation Fund (1201)

Additional comments concerning the operations of each individual Special Revenue Fund will be contained in audit reports covering the various State agencies administering or using such funds.

DEBT SERVICE FUNDS:

This category of funds was established to account for the accumulation of resources for, and payment of, principal and interest on certain State issued bonds and notes. While as a rule the bulk of general obligation bonds of the State are liquidated from General Fund and Special Transportation Fund appropriations, most so-called self-liquidating general obligation bond issues are retired by payment from these funds.

The financial position of the combined Debt Service Funds at June 30, 2002, together with the cash transactions for the fiscal year ended on that date, are shown in Exhibit D and Schedule D-1, respectively, of the Comptroller's 2002 Annual Report. At June 30, 2002, there were five authorized funds within the Debt Service Funds category. The largest debt service fund, entitled "Transportation Special Tax Obligations" (2025), is used to account for cash and investments held by a trustee for debt service payments on bonds issued to finance the State's infrastructure program.

CAPITAL PROJECTS FUNDS:

This category of funds was established to group those funds which account for financial resources used to acquire or construct major capital facilities, including highways and bridges. The major source of financing for these funds is the proceeds of various State bond issues. Other sources include Federal aid and other restricted contributions available to meet a portion of the capital outlay costs.

The financial position of the combined Capital Projects Funds at June 30, 2002, and the cash transactions of the 2001-2002 fiscal year, are set forth in Exhibit E and Schedule E-1, respectively, of the Comptroller's 2002 Annual Report. At June 30, 2002, there were 73 authorized funds within the Capital Projects Funds category.

The total unreserved fund balances of Capital Projects Funds decreased by \$274,892,334 during the 2001-2002 fiscal year to a deficit balance of \$2,309,714,082, at June 30, 2002. It should be pointed out that the issuance of bonds already authorized, as shown in Schedule E-5, as well as the collection of those receivables fully reserved in Exhibit A and Exhibit E, will eliminate this deficit balance.

Under the provisions of Sections 3-39a and 13a-166 of the General Statutes, the State Comptroller is authorized to record certain receivables and such amounts are deemed to be appropriated for the purposes designated in the written agreements establishing the receivables (Section 3-39a) or for the financing of the Federal share of highway projects approved by the Federal Highway Administration (Section 13a-166). During the 2001-2002 fiscal year, receivables recorded totalled \$478,038,720. These receivables, for the most part, were in connection with Department of Transportation projects for mass transportation and highway and bridge construction and repair.

During the 2001-2002 fiscal year there was one new fund established within the Capital

Projects Funds category as follows:

- Capital Improvements and Other Purposes Fund (3011) Special Act 01-2 (June Special Session)

INTERNAL SERVICE FUNDS:

This category of funds was established to group those funds accounting for the costs and billings for goods and services provided by State agencies to other agencies or governmental units. These costs are recovered by transfer charges to user agencies so that authorized working capital of the funds is kept intact.

The financial position of the combined Internal Service Funds at June 30, 2002, together with the cash transactions for the fiscal year then ended are shown in Exhibit F and Schedule F-1, respectively, of the Comptroller's 2002 Annual Report. At June 30, 2002, there were four authorized funds within the Internal Service Funds category.

Exhibit A of the Comptroller's 2002 Annual Report recognizes, as reserved within fund balances and related reserves, the allotment and appropriation balances in force at June 30, 2002, and which have been carried forward to the 2002-2003 fiscal year on the records of the State Comptroller. This has resulted in additional deficit unreserved fund balances being reported in Exhibit A and Exhibit F of the Comptroller's 2002 Annual Report because the assets and resources to meet these allotment balances are already reserved or, more likely, are not recorded by the Comptroller. Those assets and resources not recorded include inventories and receivables reported only by the agencies administering the funds involved.

Additional comments concerning the operations of each individual Internal Service Fund will be contained in audit reports covering the various State agencies administering such funds.

ENTERPRISE FUNDS:

This category of funds was established to group those proprietary funds that provide for the financing of goods and services to the public and recover costs by user charges.

The financial position and fiscal year cash transactions of the combined Enterprise Funds, as accounted for in the records of the State Comptroller, are shown in Exhibit G and Schedule G-1, respectively, of the Comptroller's 2002 Annual Report. At June 30, 2002, there were 18 authorized funds within the Enterprise Funds category. Additional comments concerning the operations of each individual Enterprise Fund will be contained in audit reports covering the various State agencies administering such funds.

FIDUCIARY FUNDS:

The financial position of the combined Fiduciary Funds at June 30, 2002, and the cash transactions for the year then ended are shown in Exhibit H and Schedule H-1, respectively of

the Comptroller's 2002 Annual Report. The funds included under this caption may be classified into three types:

- Receipts held pending distribution to State funds, municipalities, private companies or individuals.
- Deposits held by the State for security, guarantees, awards or distributions.
- Retirement funds for State and municipal employees held in trust by the State Treasurer.

At June 30, 2002, there were 34 authorized funds within the Fiduciary Funds category. During the 2001-2002 fiscal year there was one new fund added to the Fiduciary Funds category as follows:

- Anthem Demutualization Fund (7051)

Additional comments concerning the operations of each individual Fiduciary Fund will be contained in audit reports covering the various State agencies administering or using such funds.

STATE BOND AND NOTE INDEBTEDNESS:

The State's bond and note indebtedness at June 30, 2002, payable from future revenue of State funds is shown in Exhibit A of the Comptroller's 2002 Annual Report. A summary of bonds and notes outstanding and maturity schedules, detailing the funding requirements of specific bond and note issues, are presented in Schedule E-3 and Schedule E-4, respectively, of the Comptroller's 2002 Annual Report.

The State's bond and note indebtedness aggregated \$12,503,135,000 at June 30, 2002, an increase of \$765,144,000 over the total of \$11,737,991,000 at June 30, 2001. This was the net result of the issuance during the 2000-2001 fiscal year of new bonds of the State in the amount of \$2,914,231,000, while scheduled principal payments and refunded and defeased bonds during the period amounted to \$2,149,087,000. Scheduled interest costs through maturity on the aforementioned bond and note indebtedness, as shown in Schedule E-4 of the Comptroller's 2002 Annual Report, totalled \$5,910,130,000. Accordingly, as of June 30, 2002, the State was committed to future debt service on bonds and notes outstanding in the aggregate of \$18,413,265,000. This total represented an increase of \$906,656,000 over the similar figure at June 30, 2001.

Included in the totals of bond and note indebtedness are revenue and refunding bonds outstanding in the amount of \$317,735,000 for improvements to Bradley International Airport. The proceeds of such bonds are being held and disbursed by a Trustee and all revenue of the airport's operations is being deposited with the Trustee. Principal and interest payments on such bonds are being met from funds held by the Trustee. Similarly included in the totals of bond and note indebtedness are the revenue bonds outstanding of \$3,144,908,000 for the State's

Transportation Infrastructure Program. While the proceeds of such bonds are held and accounted for in the usual manner, debt service reserve amounts and principal and interest payments on such bonds are being handled by a Trustee.

Partially offsetting the aforementioned indebtedness were unreserved fund balances of \$722,581,013, within the debt service fund group, which were available for debt service at June 30, 2002.

In addition to the foregoing bond indebtedness at June 30, 2002, there was in force as of that date unused borrowing authorizations totalling \$2,077,769,000 and prospective authorizations, subject to Bond Commission approval, totalling \$1,410,662,000. These authorization balances, which are detailed in Schedule E-5 of the Comptroller's 2002 Annual Report, may be summarized as follows:

<u>Purpose or Agency</u>	<u>In Force</u>	<u>Subject to Approval of State Bond Commission</u>
	\$	\$
Municipal and Economic Development	496,235,000	316,580,000
Capital Improvements and Other Purposes	597,460,000	553,499,000
Industrial Building Mortgage Insurance	19,450,000	1,000,000
Highway and Bridge Construction Repair	3,903,000	
Transportation Infrastructure Improvement	376,663,000	
Transportation Facilities and Improvements	164,000	
Elimination of Water Pollution	292,797,000	241,710,000
Grants to Municipalities and Others	183,733,000	139,431,000
Local Capital Improvements		75,000,000
Preservation of Agricultural Lands	4,306,000	2,945,000
University and State University Facilities	295,000	850,000
Housing Programs	17,805,000	30,761,000
State Equipment Purchases	27,357,000	
School Construction	48,876,000	43,300,000
All Other Purposes	8,725,000	5,586,000
Total Authorizations	<u>\$2,077,769,000</u>	<u>\$1,410,662,000</u>

It should be noted that, in accordance with the debt limitation provisions contained in Section 3-21 of the General Statutes, no bonds, notes, or other evidences of indebtedness for borrowed money payable from General Fund tax receipts of the State shall be authorized by the General Assembly except as shall not cause the aggregate amount of (1) the total amount of such indebtedness authorized by the General Assembly but not yet issued and (2) the total amount of such indebtedness which has been issued but remains outstanding, to exceed 1.6 times the total estimated General Fund tax receipts of the State for the fiscal year in which any such authorization will become effective, as estimated by the joint standing committee of the General Assembly having cognizance of finance, revenue and bonding. Such tax receipts for the fiscal year ended June 30, 2003, were estimated as of November 1, 2002, to total \$8,147,500,000. It should be noted, however, that because the tax receipt collections estimated by the Finance,

Revenue and Bonding Committee did not reflect the most recent economic trend information pointing to a continuing decline in State revenue collections, a more conservative tax receipts estimate, developed by the Office and Policy and Management, was used instead. Computing the debt limit using the statutory formula and the more conservative tax receipts estimate developed by the Office of Policy and Management, yields a debt limitation totaling \$13,036,000,000. As of November 1, 2002, the State Treasurer determined that authorizations for bonds, notes, and other obligations subject to such limit, net of debt retirement fund resources related to certain self-liquidating bond issues, totalled \$11,724,239,059. Accordingly, as of this date, the State's debt incurring margin totalled \$1,311,760,941.

In addition to the indebtedness previously mentioned, there were other obligations that, although not in the form of State bonds or notes, constituted long-term indebtedness or the guarantee of existing indebtedness. Such obligations included:

- 1. Obligations of the State to towns for participation in the construction and alteration of school buildings, under Section 10-287 of the General Statutes (installment payments) in the amount of some \$876,200,000, and Sections 10-287g and 10-287h (interest subsidy) in the amount of some \$285,900,000. It should be noted that Sections 10-287g and 10-287h were repealed by Public Act 97-11 (June Special Session) for construction projects approved subsequent to July 1, 1997. With regard to projects approved after July 1, 1997, this same Public Act established a new financing method, which provides for the State to pay for its share of school construction costs on a "progress payment" basis. As of June 30, 2002, the State Board of Education estimates that grant payments under this latter program will total some \$2,800,000,000.*
- 2. The obligation of Section 5-156a of the General Statutes to fund the State Employees' Retirement System on an actuarial reserve basis over a remaining period of 29 years. The last actuarial survey of the system was performed as of June 30, 2002, and showed an unfunded accrued liability of \$4,912,431,497.*
- 3. The obligation of Section 51-49d of the General Statutes to fund the Judges' and Compensation Commissioners' Retirement System on an actuarial reserve basis over a remaining period of 29 years. The last actuarial survey of the system was performed as of June 30, 2002, and showed an unfunded accrued liability of \$70,953,014.*
- 4. The obligation of Section 10-183z of the General Statutes to fund the Teachers' Retirement System on an actuarial reserve basis over a remaining period of 27 years. The last actuarial survey of the system was performed as of June 30, 2002, and showed an unfunded accrued liability of \$3,292,536,729.*
- 5. Loans under the "Umbrella" and "Insurance" programs, insured by the State (\$25,000,000 maximum limit) through the Connecticut Development Authority, which totalled \$22,055,424 at June 30, 2002, and bonds and notes of the Authority for the "Umbrella" Loan Program in the aggregate of \$11,250,000 at June 30, 2002. These,*

however, are contingent indebtedness of the State; actual indebtedness would result only in the event of a loan default or the inability of the Authority to make the payment of bonds and notes. In addition to the above, other loan guarantees totalling \$14,933,761 have been extended by the Authority as of June 30, 2002, under a program provided for in Section 32-261 of the General Statutes. In accordance with Section 32-262 of the General Statutes, the State has committed to issuing general obligation bonds totalling \$39,000,000 for the purpose of underwriting any losses incurred by this loan guarantee program.

6. Notes of the Southeastern Connecticut Water Authority guaranteed by the State in the amount of some \$700,000 at November 1, 2002.
7. The State of Connecticut is contingently liable to the Connecticut Housing Finance Authority, the Connecticut Resources Recovery Authority and the Connecticut Higher Education Supplemental Loan Authority for amounts needed annually to maintain debt service reserves for one year's principal and interest on certain Authority bonds in the event Authority funds are insufficient to do so. As of November 1, 2002, the principal amount of outstanding bonds, secured by special capital reserve funds, for the Housing Finance Authority, the Resources Recovery Authority, and the Higher Education Supplemental Loan Authority totalled \$3,237,400,000, \$277,800,000, and \$124,300,000, respectively.
8. Under a contractual agreement with a management company to operate local transit service in and adjacent to the cities of Hartford, New Haven, and Stamford, the State of Connecticut, upon termination of such agreement, is obligated to assume all existing liabilities of the management company, including but not limited to all liabilities for past, present and future pension plan obligations. Such liabilities and obligations totalled \$4,094,07, as of January 1, 2002.
9. Pursuant to Section 10a-186a of the General Statutes, the State of Connecticut is contingently liable to the Connecticut Health and Educational Facilities Authority (CHEFA) for amounts needed annually to maintain debt service reserves for one year's principal and interest on those Authority bonds used to finance projects at participating nursing homes or to finance dormitories or facilities for the provision of student housing at public and private institutions of higher education, in the event Authority funds are insufficient to do so. As of November 1, 2002, the principal amount of outstanding bonds secured by special capital reserve funds totalled some \$268,100,000.
10. Pursuant to Section 10a-109g, subsection (i), of the General Statutes, the State of Connecticut is contingently liable to the University of Connecticut for amounts needed annually to maintain debt service reserves for one year's principal and interest on certain University bonds in the event University funds are insufficient to do so. As of November 1, 2002, the principal amount of outstanding bonds, secured by special capital reserve funds for the University totalled \$31,200,000.
11. In accordance with the provisions of Special Act 01-1, as subsequently amended by Special Act 01-2 of the June Special Session, the State of Connecticut is authorized to

guarantee debt issued by the City of Waterbury in an amount not to exceed \$100,000,000. As of November 1, 2002, the amount of the City's obligations guaranteed by the State totalled \$97,500,000.

CONDITION OF RECORDS

Findings:

There are no audit findings presented as a result of our current audit examination.

RECOMMENDATIONS

Status of Prior Audit Recommendations:

State Comptroller – State Financial Operations Audit Report

- There were no recommendations presented in our prior audit report.

State of Connecticut – Single Audit Report

- There were two audit findings resulting from our prior Single Audit review of the statewide cost allocation plan prepared by the Office of the State Comptroller, which involved some formula calculation errors. Our current Single Audit review indicated that corrective action had been taken by the Comptroller’s Office.

Current Audit Recommendations:

- There are no recommendations presented as a result of our current audit examination.

CONCLUSION

In conclusion, we wish to express our appreciation of the courtesies shown to our representatives during the course of our audit. The assistance and cooperation extended to them by the personnel of the State Comptroller's Office in making their records readily available and in explaining transactions as required greatly facilitated the conduct of this examination.

Stephen R. Eckels
Administrative Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts