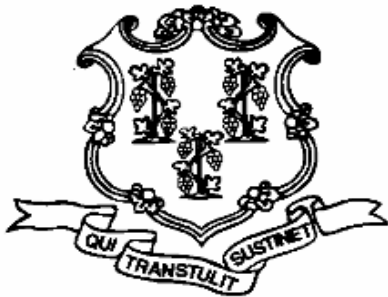


**STATE OF
CONNECTICUT**

**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

**Fiscal Year Ended
June 30, 2006**



2006

**Nancy Wyman
State Comptroller**

STATE OF CONNECTICUT

**COMPREHENSIVE
ANNUAL
FINANCIAL REPORT**

For Fiscal Year Ended
June 30, 2006

*Prepared by the Office of the
State Comptroller*

**NANCY WYMAN
STATE COMPTROLLER**

This publication is available on the Office of the State Comptroller's home page:
<http://www.osc.state.ct.us/2006cafr/>

This publication will be made available, upon request, in large print, braille or audiocassette pursuant to the requestor's requirements.

Office of the State Comptroller

The State Comptroller is one of the six State officers elected to hold office for a term of four years. The office of the State Comptroller was established in 1786 by an act of the General Assembly. The Constitutional Amendment of 1836 provided that the Comptroller be elected by the people in a manner similar to that of other State officers. Since 1838 this method has been in effect.

The Comptroller prescribes the mode of keeping and rendering all public accounts. She is required to adjust and settle all public accounts and demands, excepting grants and orders of the General Assembly. The Comptroller also renders a monthly accounting of the State's financial condition.

In addition, the Comptroller approves and records all obligations against the State. She maintains all official accounting records and is responsible for the employee payrolls for all State agencies, departments, and institutions. Her office administers all Retirement Systems other than Teachers' retirement. Additionally, the Comptroller administers numerous miscellaneous appropriations of the State.

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Introductory Section

May, 2006

To the Citizens of the State of Connecticut

It is our privilege to present this Comprehensive Annual Financial Report (CAFR) of the State of Connecticut for the fiscal year ended June 30, 2006. This report was prepared in its entirety by the Office of the State Comptroller. The Comptroller is responsible for state accounting practices and is committed to sound financial management and governmental accountability.

We believe that the financial statements are fairly presented in all material aspects. They are designed to set forth the financial position of the state, its operating results and the changes in net assets or fund balances of the major funds and non-major funds in the aggregate. All required disclosures have been included to assist the public, state policy makers, and the financial community in understanding the state's financial affairs.

The CAFR is designed to be in conformance with generally accepted accounting principles (GAAP) for governmental units as promulgated by the Governmental Accounting Standards Board as well as the reporting requirements prescribed by the Government Finance Officers Association. The Management's Discussion and Analysis (MDA) contains information that prior to 2002 was found within the letter of transmittal. In addition to the basic financial statements, the CAFR includes: combining financial statements that present information by fund category, certain narrative information that describes the individual fund categories, supporting schedules, and statistical tables.

The Fiscal Year 2006 CAFR was released two months late due to a related nine month delay in generating the 2005 CAFR. The late filing of the Fiscal Year 2005 CAFR, as fully detailed in last year's report, delayed the start of work on the Fiscal Year 2006 closing adjustments and financial statements.

PROFILE OF THE STATE OF CONNECTICUT

Connecticut became the fifth state of the United States on January 9, 1788. Its borders encompass 5,009 square miles. Within its compact borders, Connecticut has forested hills, urban skylines, shoreline beaches, and historic village greens. There are classic Ivy League schools, modern expressways, corporate offices, and small farms. Connecticut is a thriving center of business as well as a vacation location. It is both a New England State, and suburban to New York City. The population of Connecticut was 3,504,809 according to the July 1, 2006 U.S. Census estimates. Five large cities, Bridgeport, New Haven, Hartford (the State Capitol since 1875), Stamford and Waterbury, have populations in excess of 100,000 residents.

State Government in Connecticut has three branches: executive, legislative and judicial. Voters elect six state officers: Governor, Lieutenant Governor, Treasurer, Comptroller, Secretary of State and Attorney General. All have four-year terms. Connecticut also elects two U.S. Senators and five U.S. Representatives. Connecticut's General Assembly or legislature has a Senate and a House of Representatives.

The regular sessions of the General Assembly are held every year. These sessions run from January through June in odd-number years and from February through May in even-number years. The General Assembly reconvenes in special session to deal with emergencies or bills or appropriations vetoed by the Governor. Members of both houses represent districts based on population. There are currently 36 State Senators and 151 State Representatives. Members of the General Assembly are elected to two-year terms. The Judicial Department is composed of the Superior, Appellate and Supreme courts. Except for judges of the probate court, who are elected by the voters of the town or district that they serve, all judges are nominated by the Governor and appointed by the General Assembly.

Connecticut has no system of county government. Below the state level, governing units consist of 169 municipalities. The General Statutes of Connecticut provide procedures for the creation of many types of local special purpose authorities, districts and similar bodies. Under Connecticut law, all municipal governmental bodies have only the powers specifically granted to them by the state and the ancillary powers that are necessarily implied by the powers explicitly granted.

ECONOMIC CONDITION AND OUTLOOK

After almost eight years of solid economic growth, Connecticut began to experience payroll job losses in Fiscal Year 2001. In Fiscal Years 2001, 2002 and 2003 the state's payroll job losses totaled 13,800, 12,600 and 27,200 respectively. After three successive years of job losses, in Fiscal Year 2004, the state again experienced gains in payroll employment. In Fiscal Years 2004, 2005, and 2006 Connecticut added 7,000, 14,700, and 16,100 payroll jobs respectively.

Connecticut's payroll employment totaled 1,679,600 at the end on Fiscal Year 2006. The Fiscal Year 2006 job gain represented a 1.0 percent rise in employment as compared to a 1.8 percent job increase nationally during the same period.

Over the past ten years, Connecticut has experienced a shift in the industrial make-up of its workers with manufacturing jobs being replaced by service sector jobs. This is a trend that began several decades ago. In the last ten years, manufacturing employment in Connecticut has declined by almost 30 percent while during the same period employment in professional and business services grew by 8.3 percent, financial services saw growth of 6 percent and the leisure and hospitality industry grew by over 14 percent. Despite these shifts, manufacturing continues to play an important role in Connecticut's economic life contributing one in every ten payroll jobs.

Connecticut's unemployment rate was 4.2 percent at the end of Fiscal Year 2006 compared to a national rate of 4.6 percent. During Fiscal Years 2006 Connecticut's labor force grew just over 1 percent. National labor force growth during the same period approached 2 percent.

Between 1997 and 2004 real Gross Domestic Product in Connecticut grew at a 2 percent rate ranking Connecticut 39th in the nation in growth. Between 2004 and 2005 Connecticut's real Gross Domestic Product grew 3.2 percent ranking it 24th in the nation.

Connecticut continues to be a national leader in income measurements. Connecticut's 2006 per capita income of \$49,852 ranked it first in the nation. Between 2005 and 2006 Connecticut's per capita income grew by 5.2 percent ranking it 22nd nationally in income growth. Connecticut is also a national leader in Median Family Income with a median for all families of \$75,541. Just over 9 percent of Connecticut's residents lived at incomes below the poverty level.

MAJOR POLICY INITIATIVES

Contracting Standards Board

The Contracting Standards Board was created by executive order in response to concerns relating to the potential for abuses of existing state contracting and procurement laws, regulations and practices. The Board, after review of the existing contracting and procurement legal and regulatory environment was required to draft and maintain a uniform procurement code and to develop related training programs for state employees. A new office with ten staff members was established to support the activities and operations of this board. This new office was intended to add accountability and transparency to the state's vendor selection process.

Increase Funding to Nursing Homes and other Private Social Service Providers

The Fiscal Year 2006 budget contained over \$100 million to provide for an average annualized increase of 4 percent to nursing homes and other private providers of specific state social services. These private providers contract for the provision of services with the Department of Mental Retardation, The Department of Children and Families, The Department of Mental Health and Addiction Services, The Department of Corrections and the Judicial Department as well as with some councils and boards. The additional funding was contingent upon federal approval of a nursing home provider tax program. The provider tax would assess a user fee on revenue generated by nursing facilities based upon patient days. The funds raised from the tax would generate federal reimbursements by increasing the Medicaid rates paid to the nursing homes. All of the tax generated is effectively returned in the aggregate to the nursing homes through an increase in their Medicaid rate paid by the state and partially reimbursed by the federal government.

Restoring Subsidized Health Insurance for Certain Eligible Adults

Parents of children with family incomes between 100% and 150% of the federal poverty level retained eligibility to participate in the state's HUSKY health insurance program at a minimal cost. The parent's monthly premium would be \$25 with a \$1 co-payment on outpatient medical services. The state cost of this program was estimated at \$39 million in Fiscal Year 2006 and was anticipated to grow to over \$50 million in Fiscal Year 2007. This same initiative restored Medicaid presumptive eligibility for children and implemented an expedited eligibility for pregnant women.

BUDGETARY AND OTHER CONTROL SYSTEMS

In November 1992, electors approved an amendment to the State Constitution providing that the amount of general budget expenditures authorized for any fiscal year shall not exceed the estimated amount of revenue for such fiscal year.

This amendment also provided a framework for placing a cap on budgeted appropriations. Annual budgeted appropriations are capped at a percentage increase that is based on either the five-year average annual growth in the state's personal income or inflation, whichever is higher. Debt service payments, certain statutory grants to distressed municipalities, and appropriations required by federal mandate or court order are excluded from the limits of the cap.

The spending cap can be lifted if the Governor declares the existence of extraordinary circumstances and the General Assembly by a three-fifths vote approves appropriations in excess of the cap. This has occurred in several fiscal years to allow direct appropriations of surplus to be substituted for debt financing, and other permit other spending initiatives from surplus funds.

Budget control is maintained at the individual appropriation account level by agency as established in authorized appropriation bills. The allotment process exercises control over obligations or commitments. The Governor, through his budget office, allots funds for both budgeted and non-budgeted accounts and funds. The Governor is permitted to modify appropriations through the allotment process under certain circumstances and within percentage limitations specified by the General Assembly.

Elected officials, agency commissioners, directors of public benefit corporations and agency managers are responsible for establishing internal control structures. Good internal control systems ensure that: resource use is consistent with laws, regulations and policies; resources are safeguarded against waste, loss and misuse; and reliable data are obtained, maintained and fairly disclosed in reports. The Office of the State Comptroller has worked to improve the overall internal control environment in state government. This work has included improvements to the central state accounting system that advance internal control efforts.

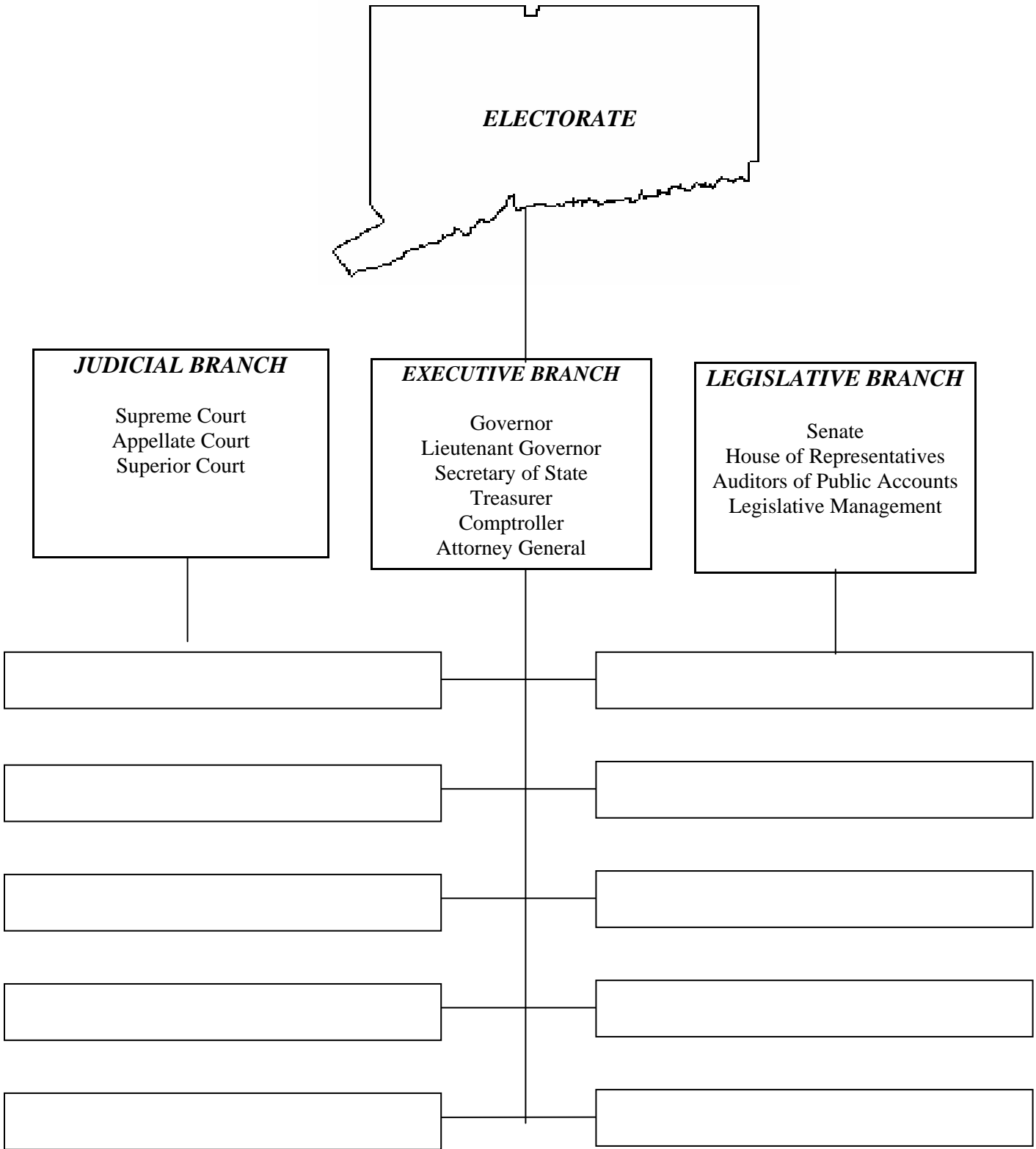
ACKNOWLEDGEMENTS

I wish to express my personal thanks to the many individuals in various agencies and reporting units whose cooperation and assistance have made this report possible. I would also like to thank my staff for their work in producing this report.

Sincerely,

Nancy Wyman
State Comptroller

Organization Chart



*Selected State Officials
(as of June 30, 2007)*

EXECUTIVE

M. Jodi Rell
Governor

Kevin B. Sullivan
Lieutenant Governor

Susan Bysiewicz
Secretary of State

Denise L. Nappier
Treasurer

Nancy Wyman
Comptroller

Richard Blumenthal
Attorney General

JUDICIAL

Chase T. Rogers
Chief Justice

LEGISLATIVE

Donald E. Williams Jr.
President Pro Tempore of the State Senate
(36 Senators)

James A. Amann
Speaker of the House of Representatives
(151 Representatives)

*Financial
Section*

INDEPENDENT AUDITORS' REPORT

Governor M. Jodi Rell
Members of the General Assembly

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Connecticut as of and for the year ended June 30, 2006, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Connecticut's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit:

Government-wide Financial Statements

- the financial statements of the Special Transportation Fund account within the Transportation Fund, the Transportation Special Tax Obligations account within the Debt Service Fund, and the Clean Energy Fund account within the Environmental Programs Fund, which in the aggregate, represent six percent of the assets and six percent of the revenues of the Governmental Activities;
- the financial statements of the John Dempsey Hospital, University of Connecticut Foundation, Connecticut State University, and Connecticut Community Colleges accounts within the Higher Education Fund, Bradley International Airport, Bradley International Airport Parking Facility, Connecticut Lottery Corporation, Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 58 percent of the assets and 55 percent of the revenues of the Business Type Activities;
- the financial statements of the discretely presented component units;

Fund Financial Statements

- the financial statements of the Special Transportation Fund account, which represents 95 percent of the assets and 97 percent of the revenues of the Transportation Fund;

- the financial statements of the Transportation Special Tax Obligations account, which represents 100 percent of the assets and 100 percent of the revenues of the Debt Service Fund;
- the financial statements of the Clean Energy Fund account, which represents 33 percent of the assets and 30 percent of the revenues of the Environmental Programs Fund;
- the financial statements of the John Dempsey Hospital, University of Connecticut Foundation, Connecticut State University, and Connecticut Community-Technical Colleges accounts within the Higher Education Fund; Bradley International Airport, Bradley International Airport Parking Facility, Connecticut Lottery Corporation, Clean Water Fund and Drinking Water Fund, which in the aggregate, represent 58 percent of the assets and 55 percent of the revenues of the Enterprise Funds;

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned funds and accounts, is based on the reports of the other auditors. All of the aforementioned audits were conducted in accordance with auditing standards generally accepted in the United States of America. In addition, the audits of the Drinking Water Fund, Clean Water Fund, Bradley International Airport, Connecticut Lottery Corporation, Connecticut Resources Recovery Authority, Connecticut Health and Educational Facilities Authority, Connecticut Higher Education Supplemental Loan Authority, Connecticut Housing Finance Authority, and Connecticut Innovations Incorporated were conducted in accordance with standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except that the audits of certain entities of the State, as described above, were not conducted in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for the State of Connecticut as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The State of Connecticut adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 44, *Economic Condition Reporting: the Statistical Section*, and Statement No. 46, *Net Assets Restricted by Enabling Legislation* during the fiscal year ended June 30, 2006. Statement No. 44 updates the disclosure requirements relating to financial trends, revenue capacity, debt capacity, demographic and economic information, and operating information. As noted below we do not audit or offer an opinion on this information. Statement No. 46 requires the disclosure of the amount of net assets restricted by enabling legislation in the notes to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2007, on our consideration of the State of Connecticut’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management’s discussion and analysis information on pages 15 through 25 and budgetary comparison information on pages 38 and 39, are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Connecticut’s basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

April 25, 2007
State Capitol
Hartford, Connecticut

MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)

The following discussion and analysis is supplementary information required by the Governmental Accounting Standards Board (GASB), and is intended to provide an easily readable explanation of the information provided in the attached basic financial statements. It is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial position, the financial statements and footnotes should be viewed in their entirety.

FINANCIAL HIGHLIGHTS

Government-wide:

As of June 30, 2006, the State had a total net asset deficit of \$0.8 billion, an improvement in net assets of \$588 million occurring this fiscal year. This improvement resulted from increases of \$296 million and \$292 million in the net assets of governmental activities and business-type activities, respectively.

During the year, revenues of governmental activities exceeded expenses by \$1,008 million. However, this excess was reduced by transfers of \$712 million, resulting in an increase of net asset of \$296 million.

For business-type activities, expenses exceeded revenues by \$420 million. However, this deficiency was offset by transfers of \$712 million, resulting in an increase in net assets of \$292 million.

Fund Level:

The governmental funds had a total fund balance of \$3.1 billion at year end. Of this amount, \$3.2 billion was reserved for various purposes, resulting in a total unreserved fund balance deficit of \$0.1 billion. The portion of the total unreserved fund balance deficit that pertains to the General Fund was a \$1.0 billion deficit. The General Fund had an actual budget surplus of \$487 million this year.

The Enterprise Funds had total net assets of \$4.3 billion, substantially all of which was invested in capital assets or restricted for various purposes.

Debt Issued and Outstanding:

Total long-term debt was \$18.4 billion for governmental activities, of which \$13.6 billion was bonded debt.

Total long-term debt was \$2.2 billion for business-type activities, of which \$1.6 billion was bonded debt.

OVERVIEW OF THE FINANCIAL STATEMENT PRESENTATION

There are three major parts to the basic financial statements: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE STATEMENTS (Reporting the State as a Whole)

Governments have traditionally focused their reporting on groupings of funds rather than on the government taken as a whole. The GASB 34 financial reporting model, upon which this report is based, retains this traditional focus on funds and adds an additional focus on the overall government's financial position and operations.

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the State as a whole and its activities. These statements help to demonstrate how the

State's financial position as a whole changed due to the year's operating activities. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting.

The Statement of Net Assets presents all of the State's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the State's financial position is improving or not.

The Statement of Activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in future fiscal year cash flows (e.g., earned but unused vacation time).

Both statements report three activities:

- *Governmental Activities* - Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The legislature, the judiciary, and the general operations of the executive departments fall within the governmental activities.
- *Business-type Activities* – These activities are primarily funded by charges to external parties for the cost of goods and services provided. These activities are generally reported in Enterprise Funds in the fund level statements. The operations of Bradley International Airport, the Connecticut Lottery Corporation and Employment Security, are examples of business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the State is financially accountable. More information on discretely presented component units can be found in Note 1 of the Notes to Financial Statement section.

Financial reporting for governmental activities traditionally has focused on changes in current spendable resources rather than on changes in total resources. This traditional focus has been retained for purposes of fund reporting. However, as governmental activities are included with other activities in the government-wide financial statement format, the focus for these activities shifts to changes in total resources. In other words, all activities reported in government-wide financial statements are reported in a manner similar to private-sector accounting. To increase the readers understanding, a summary reconciliation of the difference between the governmental fund financial statements and the government-wide financial statements is provided as part of the basic financial statements.

FUND LEVEL STATEMENTS

Fund financial statements focus on individual parts of the State's operations in more detail than the government-wide statements. Funds are accounting devices that governments use to keep track of specific sources of funding and spending for particular purposes. The State is required to report four categories of fund statements – governmental, proprietary, and fiduciary funds, to the extent that State's activities meet the criteria for using these funds, and "combining statements" for its component units. Under the GASB 34 financial reporting model, as presented here, governments focus on major individual funds rather than on fund types (with aggregated information presented for the total of all non-major funds).

