

**Connecticut Society of
Certified Public Accountants
(CSCPA)**

Testimony Concerning

 **Proposed Bill No. 5044,
"An Act Concerning Generally Accepted Accounting Principles,"**

and

**Proposed Bill 5107,
"An Act Mandating the Use of
Generally Accepted Accounting Principles."**

**Respectfully Submitted to the
Committee on Appropriations**

by

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March 5, 2010

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The Connecticut Society of Certified Public Accountants (CSCPA) strongly supports Proposed House Bills No. 5044, "An Act Concerning Generally Accepted Accounting Principles" and No. 5107, "An Act Mandating the Use of Generally Accepted Accounting Principles."

Both bills concern the State's switching to a different system of accounting. That system – called "GAAP," short for "Generally Accepted Accounting Principles" – is used by every city and town in Connecticut, and is the standard used by businesses.

As certified public accountants, we are keenly aware that legislation authorizing the switch to GAAP was signed back on June 28, 1993 (almost 17 years ago) for implementation beginning July 1, 1995 (almost 15 years ago); to date, we still have not switched to GAAP. The General Assembly revisited the concept again in 2007 with Raised Bill No. 7338 to no conclusion.

Perhaps if the general public understood the potential significant benefits to the state were GAAP to be employed, they just might voice a collective opinion to their legislators to wholeheartedly support Proposed Bill 5044 (or 5107) and make the switch to GAAP.

Results can be quantified and fairly evaluated only when the key performance indicators are compared to uniform standards of measurement. Without such standards, those key performance indicators might be misjudged.

The financial statements of our state should depict how well the business of government is being managed. They should tell a complete story of available economic resources, and how they were used. The financial story should be objectively determined – and presented -- to meet the needs of financial statements users.

GAAP is not perfect in this regard, but it serves useful purposes, such as its accurate portrayal of an entity's true fiscal condition at any "snapshot" point in time. For example, deferral or acceleration of payments gives an organization control of the appearance of its fiscal health...simply stated, you can control your bottom line simply by the timing of when you pay your bills, especially at year-end. Such deferral or acceleration of timing of cash payments cannot occur under GAAP.

There are many current and potential users of financial statements, including management, trade creditors, lenders, regulators, government officials, credit rating agencies, investors, employees, unions, taxpayers and others. Each user has different needs.

Users of financial statements want information that reasonably presents how an entity is doing and how it stands financially. They want that information prepared in a manner that enables them to make meaningful comparisons to other comparable entities for decision-making purposes. Meaningful comparisons can only result if financial statements are prepared using standards that are uniformly accepted as the best available accounting principles.

Generally Accepted Accounting Principles are the foundation of financial reporting. GAAP-basis financial statements provide users with the benefits of uniform standards of measurement.

Financial statements prepared on a basis other than GAAP are not suitable for general distribution because they are more likely to be misunderstood by general purpose users. The focus must be on how well the *entity* was managed – and not on how well the *numbers* were managed.

For example, expenses for services should be recognized when the vendor provides them, regardless of when the invoice is paid. The invoice for utilities used in June should be expensed in June, and not in July when the invoice is paid. "Surplus" should be reduced in June rather than July for this expense. Expenditures for buildings and equipment which will be used in future periods and benefit those periods should be carried forward as assets and not treated as an ordinary expense such as the utility bill.

Once businesses – and governmental entities -- recognize the importance of timely, meaningful financial information, they adopt GAAP to produce a financial picture of where they stand and how they got there. These entities also budget on a GAAP basis so that actual financial position and operating results can be compared to budget.

Connecticut has been fond of saying that it's "the state that thinks like a business..." To enhance that image, Connecticut should act like a business and employ Generally Accepted Accounting Principles in its financial reporting. Yes, an investment is required to convert to GAAP. But the return on this investment will be a yardstick to measure – accurately -- how well the challenges of fiscal responsibility are being met.

The Connecticut Society of Certified Public Accountants would be pleased to advise the General Assembly on the conversion to and implementation of Generally Accepted Accounting Principles.

Once again, the Connecticut Society of Certified Public Accountants(CSCPA) strongly supports Proposed House Bills No. 5044, "An Act Concerning Generally Accepted Accounting Principles" and No. 5107, "An Act Mandating the Use of Generally Accepted Accounting Principles."

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