BUDGET LETTER

		NUMBER:	26-17
SUBJECT:	PAST YEAR BUDGET ADJUSTMENTS AND FUND BALANCE RECONCILIATION FOR THE 2027-28 BUDGET CYCLE	**DATE ISSUED:**	August 10, 2026
REFERENCES:	GOVERNMENT CODE SECTIONS 12460, 13031, 13344,13400-13407; AND STATE ADMINISTRATIVE MANUAL; BLS 25-24, 26-01, 26-05, AND 26-16	**SUPERSEDES:**	25-07

TO: Agency Secretaries
Department Directors
Department Budget and Accounting Officers
Department of Finance Budget and Accounting Staff

FROM: DEPARTMENT OF FINANCE

BUDGET OFFICERS ARE REQUESTED TO FORWARD A COPY OF THIS BUDGET LETTER TO DEPARTMENTAL INTERNAL AUDITORS.

This Budget Letter (BL) provides instructions for the 2027-28 budget cycle past year adjustments and related information on past year fund balance reconciliation. Budget data for past year expenditures, as well as revenues, transfers, and loans (RTLs), must reconcile to the year-end financial reports submitted to the State Controller's Office.

Deadlines	Deliverables
September 2, 2026 (Wednesday)	Complete Past Year Package for General Fund
On a flow basis but no later than September 28, 2026 (Monday)	Complete Past Year Package from non-shared fund administrators
On a flow basis but no later than October 5, 2026 (Monday)	Complete Past Year Package from shared fund administrators

NOTE: Similar to last year's process, Finance will only be requiring scanned copies of the certification forms with electronic signatures.

This BL covers these key areas:

A. Past Year Adjustments in Hyperion.
B. Consistency between Governor's Budget and Year-End Financial Reports.
C. Basis of Accounting.
D. Fund Administrators' and Fund Users' Authority and Responsibilities.
E. Certification (both fund administrator and fund users of all funds).
F. Fund Balance Reconciliation Instructions (both fund administrator and fund users of all funds).

GLOSSARY RELEVANT TO THIS BUDGET LETTER

BBA = Baseline Budget Adjustments. These are baseline expenditure adjustments.
BR = Budget Requests. These are issues in Hyperion identifying changes to dollar amounts and/or positions.
BU = Business Unit. This four-digit number is equivalent to an organization code/entity.
Category = An account code in the Chart of Accounts.
CSL = Current Service Level. (This is a consolidated starting point in Hyperion for each BU for all fiscal years. This data is preserved in the "GB Public Initials" version in Hyperion).
ENY = Enactment Year (formerly Year of Appropriation).
FTEs = Full Time Equivalents or Positions. These terms are used interchangeably.
RTL = Revenues, Transfers, and Loans.
Request Amount = "Authorized" Funding.
String = Item-ENY-Program-Category. Combination of codes to enter expenditure amounts in Hyperion.
UCM = Uniform Codes Manual.

FUTURE SYSTEM ENHANCEMENT

In July 2026, the Accounting Book of Record (ABOR) transitioned from the State Controller's Office legacy systems to FI$Cal. FI$Cal becoming the ABOR provides additional opportunity for efficiency. A system enhancement is currently in development that will streamline this reconciliation process. Past-year actual data from PeopleSoft for FI$Cal departments will be loaded into Hyperion to help complete the past-year fund balance reconciliation drill described in this BL. While Finance attempted to have this enhancement ready for this cycle, due to the complexities of the ABOR transition and the differences between how data is stored and transacted between PeopleSoft and Hyperion, this enhancement is instead anticipated to be ready for next year's past-year fund balance reconciliation exercise. This enhancement will coincide with the first year-end close cycle for ABOR (2026-27), allowing adequate time to stabilize the system and automate this complex process. As part of the development and rollout of this enhancement, Finance plans on providing training as part of Finance's year-end training in the Spring of 2027. The expectation is that the new enhancement and automated process transmitting PeopleSoft accounting data to Hyperion will be implemented in time for the development of the 2028-29 Governor's Budget next Fall.

A. PAST YEAR ADJUSTMENTS IN HYPERION

To facilitate the review of these requirements, the accounting and budget deliverables for the past year must be submitted as a complete package to your Finance Budget Analyst. This requires that all Hyperion adjustments have been entered prior to submission of the past year packages. Please submit deliverables, by fund, on a flow basis, rather than waiting until you have updated and reconciled all funds. Please work with your Finance Budget Analyst to determine the best workflow of funds for your department.

A complete past year package, to be sent to your Finance Budget Analyst, consists of:

1) A Certification of Past and Prior Year Information (Form DF-117) for each fund, with

an electronic signature from the Department Director (may only designate one level down).

2) A fully annotated Detailed Fund Balance report (DF-303) for funds that will have a Fund Condition Statement in the 2027-28 Governor's Budget. A Past Year Expenditure – Reconciliation Summary Report (DF-304) must be submitted for all bond and special funds that will not have a Fund Condition Statement in the 2027-28 Governor's Budget and have expenditure activity. See examples in the Fund Balance Reconciliation Guide.
3) Appropriately annotated accounting reports—Year-end Reports 4, 6, 15, and/or others as needed. Past year packages that are not appropriately annotated may be returned to departments without review by your Finance Budget Analyst.
4) A Fund Condition Statement, if applicable, with an adjusted beginning and ending balance that matches the DF-303 rounded to thousands. (Beginning balances and prior year adjustments will likely be different between accounting and budgeting documents primarily due to timing. The beginning balance in the fund condition statement must match the beginning balance in the enactment galley from the previous year. The fund condition statement is a budget document intended to align adjusted beginning balances between accounting and budgeting documents.)
5) A list of BRs in the GB Exchange version reflecting past year adjustments.
6) An electronic copy of the updated Past Year Expenditure Update by Item report.
7) An electronic copy of an Invalid (in Red) and Valid Items with Dollars report, if the department used an upload template to update data in Hyperion.

Prior to submitting the past year packages, departments must perform a comprehensive review of the reconciled information. The department's Director or equivalent must provide an electronic signature for certification (DF-117) of the fund reconciliation for past year activity confirming the information provided to Finance is accurate and reconciles (i.e., be able to explain any differences) between budget and accounting records, and is consistent with information provided to the State Controller's Office. **Departments must assess their current status to determine what steps are needed to meet the deadlines noted above. If you anticipate being late, please contact your Finance Budget Analyst to mitigate extensive delays and obtain further instruction.**

Until the State Controller's Office control functions are fully transitioned into PeopleSoft for accounting, departments need to reconcile the legacy system coding structure used to prepare year-end financial reports and the account/category codes used in Hyperion. To minimize workload on the departments, the following tools are available:

1. A translation from legacy to Hyperion account category codes. Please refer to the "Legacy to Hyperion Code Translation for Past Year Update" from Finance's FI$Cal Resources website.

2. A past year BBA upload template designed specifically for past year expenditure update purposes. Upload templates are distributed through the Budget Operations mailing list twice a year (after Governor's Budget in late January/early February and after Budget Enactment in late July/early August). Departmental staff may also contact their Finance Budget Analyst if they have questions about the latest upload templates. Please **do not** use an old version, as it may not reflect current

programs or chart of account information in Hyperion. Please refer to the "Uploading Budget Templates in Hyperion Job Aid" for information on how to upload data into Hyperion.

3. Past Year Expenditure Update by Item report in Hyperion.
4. Past Year Incremental RTL Adjustments report in Hyperion.
5. Active Item List from Finance's FI$Cal Resources website. Use the 2025-26 tab for these past year adjustments.
6. Fund Balance Reconciliation Guide.

EXPENDITURES

Rules for Past Year Rolled Over Data in Hyperion—Similar to last year, individual approved expenditure BRs have been consolidated and used to create the new CSL amount for 2025-26 (the past year in the new 2027-28 budget cycle). For additional information on data rolled over from the 2026-27 budget cycle please refer to the Budget Rollover in Hyperion for the 2027-28 Budget Cycle BL.

1. **Past Year Expenditure Update by Item report (Initial Expenditure Report)**—This Business Intelligence (BI) report provides the concatenated three-part items (XXXX-001-0001) instead of separate fields for BU, Reference, and Fund, making it easier for users to transfer data from the Excel report exported from Hyperion to the past year BBA upload template. The report also provides users with more report parameters to select and customize reports. See Attachments for more details.

   Hyperion is now available for data entry for the 2027-28 budget cycle. Departments should run the Past Year Expenditure Update by Item report from the GB Public Initials version. This report shows the amounts of each expenditure string (Item-ENY-Program-Category) and the associated FTEs.

   The report has three sections:

   a. **GB Public Initials.** This section reflects the rolled over values for 2025-26 when the 2026-27 Budget was enacted.

   b. **Past Year Actuals.** Departments are to populate this section (see "2. Update of Past Year Actuals" below) to show the reconciled past year budgetary expenditures and FTEs.

   c. **Changes to Initial.** This section is used to calculate the difference between (a) and (b) (see Attachments). Add an Excel formula to subtract section "b." from section "a." (i.e., Past Year Actuals *minus* GB Public Initials *equals* Changes to Initial).

      Each of the three sections has five columns for each expenditure string:

      a. Request Amount (the Authorized Amount for 2025-26, including Budget Revisions and Executive Orders and other adjustments reflected in Hyperion when the 2026-27 Budget was enacted are displayed under the "GB Public Initials" section)
      b. Estimated Savings

c. Estimated Carryovers
d. Budgetary Expenditures (request amount adjusted for savings and carryovers equals budgetary expenditures)
e. FTEs (filled full time equivalent positions)

2. **Update of Past Year Actuals**—Departments are responsible for tracking their authorized expenditure levels but are not required to perform an initial validation of expenditure authority in Hyperion before updating budgetary expenditures. When determining the final budgetary expenditures from accounting documents, departments must confirm if the change in budgetary expenditures is a result of adjustments to savings and/or carryovers (since the rollover) and reflect the correct/updated amounts in each respective column. **If the encumbrance period for the expenditure authority has expired, the difference should be reflected as savings (not as revised authority levels or carryovers).** Both carryovers and savings are generally entered as negative amounts. For information about carryovers and reappropriations, see How to Record Carryovers, Reappropriations, and Reversions.

   The "Changes to Initial" section of the report will be used to calculate the difference between reconciled past year actuals and the rolled over initial amounts.

3. **Reflecting Expenditure Changes in Hyperion**—After departments have determined the incremental adjustments to the rolled over initial past year spending and positions, they will need to reflect those adjustments in **a new BR.**

   Post the calculated differences in Hyperion by either entering information directly or using an upload template in the GB Dept Working version. Once complete, departments should run available revenue and expenditure reports to confirm that Hyperion entries reconcile to what is being reported on the DF 303/304's submitted. **Any differences must be explained.** Include the completed "Past Year Expenditure Update by Item" report used to update Hyperion with the submission of BRs to your Finance Budget Analyst.

   Note: Total actual filled positions and salaries and wages dollars must match the 2025-26 (past year) column of the 2027-28 Salaries and Wages. Departments should always use the most current upload template to make sure **the latest chart of account codes and programs** are used**.** Please inform your Finance Budget Analyst once a BR is available for review in the GB Exchange version and include an Invalid (in Red) & Valid Items with Dollars report with your submission of updated past year report(s).

   To improve coordination and reduce system kick outs, departments and Finance Budget Analysts should use BR sequencers that match the last three digits of the BR identifier in Hyperion (See "Budget Request Naming Convention in Hyperion" for additional information). For example, BR identifier: BR 0010 with BR Name: 0250-010-BBA-2027-GB. For consistency, all departments must use the following **BR Title: Past Year Expenditure Adjustments.**

4. **Reconciliation to Year End Financial Reports**—After budget adjustments are made**,** the final past year (2025-26) budgetary expenditure amounts in Hyperion must reconcile to dollar amounts departments reported to the State Controller's Office on their year-end financial reports. Please observe the following:

a. If using source documents other than year-end financial reports, the documents must be approved by your Finance Budget Analyst **prior** to submittal of past year information and must reconcile to the appropriate DF-303 or DF-304. The documents must be prepared based on sound methodologies and must contain complete and accurate information. If there are revisions to year-end reports, please work with your Finance Budget Analyst to provide appropriate updated documents.

b. Provide a written explanation of any discrepancies between the budget documents and the year-end financial reports to your Finance Budget Analyst. This written explanation should be included on the appropriate DF-303 or DF-304. Unapproved discrepancies may require a revision of the past year expenditures or year-end financial reports. Finance will utilize departments' final (or best available) budgetary expenditures to inform budget decisions and to display in the Governor's Budget.

5. **Required Backup Information**—Submit your full Final Budget Report (Year-end Report 6, Report 15, or equivalent report) documentation to your Finance Budget Analyst to support past year actual expenditures. For non-governmental cost funds, departments may need to reconcile expenditures with other appropriate documentation if the expenditures do not reconcile to Report 6. Run the report that shows the total budgetary expenditures of the fund. Neatly annotate this report to demonstrate that the total budgetary expenditure amount of the fund matches the total budgetary expenditure shown as past year actuals in the Past Year Expenditure Update by Item report and on the DF-303 or DF-304. Coordinate other documentation with your Finance Budget Analyst.

6. **Treatment of Federal Funds and Reimbursements**—Similar to other funds, departments with federal funds and reimbursements must determine if the change in budgetary expenditures is a result of a change in spending authority, savings, and/or carryovers (since the rollover). If the encumbrance period for the expenditure authority has expired, departments should reflect the difference as savings.

   Federal and reimbursement authority under the "Request Amount" column can still be adjusted similar to other fund sources to reflect an increase in expenditure authority (such as in the case of Section 28.00) and should be reflected as a positive amount.

REVENUES, REVENUE TRANSFERS, AND LOANS (RTLs)

1. **Past Year Incremental RTL Adjustments Report (Initial RTL Report)**—Each department should run this FR report in Hyperion from the GB Public Initials version, which contains the 2025-26 amounts when the 2026-27 budget was enacted (see Attachments).

   The report has three sections:
   a. Revenues
   b. Revenue Transfers
   c. Loans

2. **Updating the Past Year RTLs**—Populate the past year actuals in the file. Add an Excel formula under the "Difference" columns to calculate the changes (i.e., Past Year Actuals *minus* GB Public Initials *equals* Differences).

3. **Reflecting Revenue Changes in Hyperion**—Reflect all revenue adjustments in **a new BR.** For consistency, all departments must use the following **BR Title: Past Year Revenue Adjustments**. Once complete, departments should run available revenue reports to confirm that Hyperion entries tie to what is being reported on the DF-303 or DF-304 submitted. Send an electronic copy of the updated past year report(s) to your Finance Budget Analyst and inform them once the BR is available for review in the GB Exchange version.

   As always, departments must use the most current version of the RTL upload template for uploading data.

4. **Updating Revenue Transfers and Loans**—The process for departments to update past year revenue transfers and loans for the 2027-28 budget cycle is the same as previous years, which differs from updates to expenditures and revenues. For adjustments to revenue transfers and loans, **do not create a new BR but use the existing BRs** that have been individually retained and brought forward as part of the budget rollover process for the 2027-28 budget cycle. Please note, the point-in-time reference of the existing BR Name may need to be updated, or BR's consolidated to reflect the correct point-in-time (e.g., "GB" for Governor's Budget).

   Update the existing BR in the GB Dept Working version in Hyperion by replacing existing values with the final updated value for those BRs **rather than making an incremental adjustment** in a new BR as is the process used for revenue and expenditure adjustments.

5. **Use of Items**—Each expenditure and RTL adjustment requires a three-part item consisting of the BU, a reference number, and the fund number. For example, if BU 0250 has a proposed expenditure and/or revenue adjustment to the General Fund, the expenditure item would be "0250-XXX-0001" and the revenue item would be "0250-787-0001." **Please note that for RTLs, there are specific reference numbers to use depending on the type of RTL:**

   - **R**evenues: 787
   - **T**ransfers: 788
   - **L**oans: 789

6. **Reconciliation to Year-End Financial Reports**—After adjustments are made in Hyperion, values must reconcile between all past year RTL data and the year-end financials reported to the State Controller's Office.

   Revenue data, excluding transfers and loans, must be reconciled with the Statement of Revenue (Year-end Report 4). Transfers and loans must be reconciled with the Final Budget Report (Year-end Report 6) or the Reconciliation of Agency Accounts with Transactions per State Controller Report (Year-end Report 15).

Finance's approval is required for any difference between final revenue data reflected in Hyperion and revenue data departments have reported to the State Controller's Office; departments must submit a written explanation for any difference(s) to their Finance Budget Analyst on the DF-303 or DF-304, and Finance will display departments' final (or best available) budgetary amounts in the Governor's Budget.

7. **Relationship to Past Year Fund Balance Reconciliation**—Past year RTL data must tie to any related Detailed Fund Balance Reports (Section D of the DF-303) prepared by departments and annotated per the Fund Balance Reconciliation Guide.

8. **Required Backup Information**—Submit a complete set of Year-end Reports 4, 6, and/or 15 to your Finance Budget Analyst. Neatly annotate the amount shown as Past Year Actuals on the Past Year Incremental RTL Adjustments report.

ROUNDING FOR DOLLARS AND POSITIONS IN HYPERION

Rounding to "000" for Dollars—All data entered into Hyperion must end with "000." Departments must also round all actual expenditure and RTL amounts to the nearest thousand (e.g., $2,000 instead of the actual $1,992) to eliminate rounding issues in Hyperion reports and budget publications.

Rounding to Tenth Decimal for Positions—For budget purposes, do not reflect FTEs beyond the tenth decimal position. This level of precision is unnecessary and creates additional workload and reconciliation problems. All FTEs should be rounded to the nearest tenth position (e.g., 1.75 FTEs should be rounded to 1.8 FTEs) to avoid rounding issues in Hyperion reports and budget publications.

B. CONSISTENCY BETWEEN GOVERNOR'S BUDGET AND YEAR-END FINANCIAL REPORTS

Government Code section 12460 requires information in the State Controller's Budgetary/Legal Basis Annual Report to account for funds on the same basis as that of the applicable Governor's Budget and Budget Act. Government Code section 13344 requires state departments to prepare and maintain financial and accounting data for inclusion in the Governor's Budget, Budget Act and related documents, and the Budgetary/Legal Basis Annual Report described in section 12460, according to the methods and basis provided in regulations, budget letters, and other directives of Finance. The State Controller's Annual Report reflects the culmination of correct and reconciled information submitted by departments.

As specified in State Administrative Manual (SAM) section 6400, it is important that fund balances, revenues, expenditures, and other data included in the past year's presentation of the Governor's Budget reconcile with data published in the State Controller's Budgetary/Legal Basis Annual Report. Therefore, departments must ensure that budget information reconciles with year- end financial reports. In very limited circumstances there may be differences between the amounts in the Governor's Budget and the year-end financial reports (e.g., pending budget decisions or legislation).

In these instances, departments must separately note the discrepancies for any fund on the Certification of Past and Prior Year Information (Form DF-117), signed by the Department Director.

C. BASIS OF ACCOUNTING

Unless otherwise specified in law, the General Fund and special funds are accounted for and maintained on a modified accrual basis. Under the modified accrual basis of accounting, revenues are recognized if the underlying transaction has occurred as of the last day of the fiscal year and the amount is measurable and available to finance expenditures of the current period (i.e., the actual collection will occur either during the current period or after the end of the current period to be used to pay current year-end liabilities). Expenditures are accrued when the obligations are created, except for amounts payable from future fiscal year appropriations. Additional information is included in SAM section 7440 et seq.

D. FUND ADMINISTRATORS' AND FUND USERS' AUTHORITY AND RESPONSIBILITIES

SAM section 6401 outlines the authority and responsibilities of a fund administrator and fund user for both shared and non-shared funds.

The designated fund administering department is responsible for the fund balance reconciliation; however, departments that levy assessments for statewide projects/programs are not considered fund users whose costs are displayed as expenditures. Instead, these costs are part of prior year adjustments.

Shared fund administrators should contact fund users prior to year-end to set expectations of due dates and discuss any potential delays in a fund user's submission of the required documents.

Fund users must reconcile their activities in the fund and provide necessary and timely information to the designated fund administrator to reconcile the entire fund. It is the fund user's responsibility to communicate to the fund administrator any potential problems that may prevent the submission of timely reports.

E. CERTIFICATION

In accordance with Government Code section 13031, fund administrators and fund users must electronically sign Form DF-117, Certification of Past and Prior Year Information, confirming the reconciliation between accounting and budget documents and the accounting information is consistent with information provided to the State Controller's Office. The certification must be electronically signed by the department's Director or equivalent or may be delegated down one level (e.g., Chief Deputy Director). Reconciliation information provided to Finance is subject to audit by Finance, Office of State Audits and Evaluations. If audited, the cost will be funded by the department's spending authority from the audited fund.

Departmental budget and accounting staff must coordinate in this reconciliation effort. The department Director or the Chief Deputy Director should not sign this certificate until the internal coordination and reconciliation has been completed, and that amounts reported on the DF-303/DF-304's and entries in Hyperion are aligned.

The certification is required for **ALL** funds with a fund balance or any past/prior year revenues or expenditures. Fund users are responsible for submitting a complete package to both the fund administrator and their Finance Budget Analyst.

F. FUND BALANCE RECONCILIATION INSTRUCTIONS

Comprehensive instructions for reconciling fund balances for the 2025-26 fiscal year are available on Finance's website at: Fund Balance Reconciliation Instructions and should be utilized prior to submission. Departments must submit a Fund Reconciliation Packet (DF-303) to Finance for funds that will have a Fund Condition Statement in the 2027-28 Governor's Budget. Form DF-304, Past Year Expenditure – Reconciliation Summary Report, must be submitted for all bond and special funds that will not have a Fund Condition Statement in the 2027-28 Governor's Budget and have expenditure activity. Departments must adhere to the deadlines provided in this BL and work with their respective Finance Budget Analyst to ensure funds are reconciled on a timely basis.

Package of Deliverables—Hyperion provides the flexibility to complete the past year reconciliation one fund at a time; therefore, to streamline workflow, allow more flexibility in the timing of deliverables, and facilitate review, departments must complete and turn in deliverables by FUND.

Packages are **due to Finance on a flow basis by FUND no later than Monday, September 28, for non-shared funds, and by Monday, October 5 for shared funds**. A fund is not considered complete until all entities using a shared fund have submitted their certification and final documents to the shared fund administrator. Finance will return incomplete packages to the DF-117 signatory for further reconciliation. Departments administering a fund should coordinate with all departments using a shared fund in advance of the deadline to ensure the timeline for submission to Finance is met.

If you have any questions, please contact your Finance Budget Analyst who will coordinate questions amongst other areas within Finance, if needed.

/s/ Thomas Todd

Thomas Todd
Program Budget Manager

Attachments