

III. BASIS OF ACCOUNTING

The State maintains and reports financial data on two different bases:

- The Budgetary/Cash Basis, in order to demonstrate compliance with the legal budget which is prepared and passed by the State Legislature.
- The Generally Accepted Accounting Principles (GAAP) Basis, in order to present the financial community with statements which are consistent with the common basis of governmental reporting.

Delaware Financial Officers have identified the GAAP statements as presented in the Comprehensive Annual Financial Report (CAFR) to be the official record of the financial activities of the State. Both of these bases are further described in this Chapter.

A. BUDGETARY/CASH BASIS OF ACCOUNTING

In order to demonstrate compliance with the State's legally binding budget or the annual Appropriation Act, financial records are kept on a basis consistent with the format of that act.

1. Fund Accounting

Under the Budgetary/Cash Basis of Accounting, the financial activities of the State are organized on the basis of two individual funds, each of which is treated as a separate accounting entity and segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

The financial activities of the State have been classified into the following two funds for budgetary accounting purposes: the General Fund and the Special Fund.

a. General Fund

The General Fund includes all monies derived from taxes, fees, permits, licenses, fines, forfeitures or from any other sources or of other receipts of any kind from any source unless otherwise specifically excepted or provided by law. **(29 Del. C. §6102)**

b. Special Fund

The Special Fund consists of those funds and accounts created to account for monies segregated from the General Fund for specific reasons. The Special Fund includes, but is not limited to, the following funds and accounts:

- (1) Accounts established by agencies for the collection of receipts for **(29 Del.C. §6102 (b))**;
 - Board
 - Tuition
 - Hospital Treatments
 - Sale of Farm Products;
- (2) Revenue Refund Accounts **(29 Del. C. §6533)**;
- (3) Federal Aid Funds - which consist of accounts established to record the receipt and expenditure of grants received from the federal government **(29 Del. C. §2711 & 6102 (a))**;
- (4) Capital Improvement Projects Fund - which consists of all monies received from the

- sale of bonds and notes issued for the capital improvement program (**29 Del. C. §7414**);
- (5) First State Improvement Fund (**29 Del. C. §5080**);
 - (6) Advanced Planning and Real Property Acquisition Fund (**29 Del. C. §6343**);
 - (7) Accounts established for minor capital improvements by local school districts (**29 Del.C. §7528**);
 - (8) Accounts established for the rental, repair and lease purchase of portable classrooms by the State Board of Education (**29 Del. C. §6102 (d)**);
 - (9) Accounts established for the Business Enterprise Program, operated by the Division for the Visually Impaired within the Department of Health and Social Services (**29 Del. C. §6102 (l)**);
 - (10) Accounts established for the improvement of statewide, department and divisional indirect cost recoveries from programs financed in whole or in part with Federal funds (**29 Del. C. §6102 (k)**);
 - (11) Accounts established for the Division of Emergency Planning Radiological Program (**29 Del. C. §6102(i)**);
 - (12) Division of Corporations Corporate Revolving Fund (**29 Del. C. §2311**);
 - (13) Emergency Housing Assistance Fund (**29 Del. C. §7953**);
 - (14) State Lottery Fund (**29 Del. C. §4815**);
 - (15) Delaware Higher Education Loan Program Fund (**29 Del. C. §6102 (e)**);
 - (16) University of Delaware Funds (**29 Del. C. §6102 (b)**);
 - (17) Delaware State University Funds (**29 Del. C. §6102 (b)**);
 - (18) Delaware Technical and Community College Funds (**29 Del. C. §6102 (b)**);
 - (19) Delaware Child Support Enforcement and Paternity Program Funds (**29 Del. C. §6102 (g)**);
 - (20) Delaware State Housing Authority Funds (**29 Del. C. §6102 (h)**);
 - (21) Housing Development Fund (**31 Del. C. §4030**);
 - (22) Local School District Funds (**29 Del. C. §6102 (j)**); and
 - (23) Delaware Housing Insurance Fund (**31 Del. C. §4050**).
- c. For budgetary purposes, the State Special Fund is also divided into Appropriated Special Funds (ASF) and Non-Appropriated Special Funds (NSF).

2. Basis of Accounting

The accounts of the General Fund and the Special Fund are reported for budgetary purposes using the cash basis of accounting. Under the cash basis of accounting, revenues are recognized when cash is received by the state; expenditures or expenses are recognized when cash is disbursed.

The General Fund and Appropriated Special Funds use appropriations as a means of budgetary control. Appropriations are limits on the amount that can be spent for the purpose designated by

the Legislature, regardless of the level of funds that may be available. Spending from Non-Appropriated Special Funds is limited to the cash balance available, except for federal fund accounts which may spend up to the limit of the grant award without full cash balances.

The State also uses encumbrances as a means of budgetary control. Encumbrances are reservations of available appropriations or cash; an encumbrance is recognized when a purchase order transaction is recorded in the State's accounting system. (29 Del. C. §6512 (a))

B. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES BASIS OF ACCOUNTING

Generally Accepted Accounting Principles (GAAP) for government organizations are promulgated by the Governmental Accounting Standards Board (GASB). This board sets forth the statements that are to be followed by governments in reporting their financial activities on a common basis across the United States. In order to comply with GASB in its financial reporting, the State produces the Comprehensive Annual Financial Report (CAFR) on the basis of GAAP.

1. Fund Accounting

The financial activities of the State for GAAP accounting purposes are also organized on the basis of individual funds and account groups, each of which is treated as a separate accounting entity segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

The financial activities of the State, in accordance with GAAP, have been classified into the following fund categories and account groups:

a. Governmental Fund Types

(1) General

Transactions related to resources obtained and used for those services traditionally provided by a state government, which are not required to be accounted for in other funds, are accounted for in the General Fund.

These services include, among others, social assistance, education (other than institutions of higher education), and health and social services.

(2) Special Revenue

Transactions related to resources obtained from specific revenue sources (other than for expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes are accounted for in special revenue funds. Special revenue funds account for, among others, federal grant programs, locally raised school district funds, taxes levied with statutorily defined distributions, and other resources restricted as to purpose.

(3) Capital Projects

Transactions related to resources obtained and used for the acquisition or construction of major capital facilities, including those provided to other public organizations, which are charged to current expenditures (other than those financed by proprietary, fiduciary, and college funds types) are accounted for in capital projects funds. Such resources are derived principally from proceeds of general obligation bond issues, federal grants, and operating transfers from the enterprise and general funds.

(4) Debt Service

Transactions related to resources obtained and accumulated to pay interest and principal on governmental fund type general long-term obligations (other than capital leases and unfunded retirement costs) are accounted for in debt service funds

b. Proprietary Fund Types

(1) Enterprise

Enterprise funds account for operations where the intent of the State is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic measurement of the results of operations is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

(2) Internal Service

Internal service funds account for the operations of State agencies which render services and provide goods to other State agencies and governmental units that are defined as part of the State's financial reporting entity, on a cost- reimbursement basis.

c. Fiduciary Fund Types

(1) Trust

Four types of trust funds are used by the State.

(a) Expendable

Expendable trust funds account for assets held by the State in a trustee capacity where the principal and income may be expended in the course of the funds' designated operations.

(b) Non-expendable

Non-expendable trust funds account for assets held by the State in a trustee capacity where only income derived from the principal may be expended in the course of the funds' designated operations. The principal must be preserved intact.

(c) Pension

Pension trust funds account for transactions, assets, liabilities and net assets available for plan benefits of the various State public employee retirement systems.

(d) Other Post Employment Benefits

Other Post Employment Benefits funds account for the liability for post-employment benefits, specifically, health and prescription drug benefits for retirees.

(2) Agency

Agency funds are custodial in nature (assets = liabilities) and do not involve measurement of the results of operations. They account for the receipt of various taxes, deposits, deductions, and property collected by the State, acting in the capacity of an agent, and for the distribution to other governmental units or designated beneficiaries.

d. University and College Fund Type

The financial position and operations of State colleges, including their foundations and associations, are accounted for in accordance with GAAP for governmental units in a discrete presentation format.

2. Basis of Accounting

a. Governmental Fund Types, Expendable Trust Funds and Agency Funds

The accounts of the general and special revenue, debt service, capital projects, expendable trust and agency funds are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and assets are recognized when measurable and available to finance operations during the year. Expenditures and liabilities are recognized upon receipt of goods and services. Modifications to the accrual basis of accounting include:

- (1) Self assessed taxes, principally income, excise and franchise taxes, are recognized as receivables and revenues in the period to which they apply subject to their availability. Measurable and collectable amounts that do not meet the availability criteria are reported as deferred revenues.
- (2) Fines, penalties, licenses and other miscellaneous revenues are recognized when received since they normally are only measurable at that time.
- (3) Interest on long-term obligations is recognized in the debt service funds when it becomes payable.

b. Proprietary Fund Types and Non-Expendable and Pension Trust Funds

The accounts of the enterprise, internal service, non-expendable trust and pension trust funds are reported using the accrual basis of accounting

c. College Fund Type

The accounts of the college funds are reported using the accrual basis of accounting.