

## Table of Contents: Chapter 3 – Delaware's Accounting Framework

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3.1	Appropriations.....	2
3.2	State Budgetary Funds .....	3
3.3	State Financial Reporting .....	6
3.3.1	What is the State Financial Reporting Entity? .....	6
3.3.2	Measurement Focus of Accounting for CAFR Reporting .....	7
3.4	Basis of Accounting.....	7
3.4.1	The Budgetary/Cash Basis of Accounting.....	8
3.4.2	The GAAP Basis of Accounting .....	8

## Chapter 3 – Delaware's Accounting Framework

Delaware's accounting framework is structured based on Generally Accepted Accounting Principles (GAAP) using appropriations and funds to track and manage anticipated revenues and expenditures. GAAP standards are used to establish measurement and classification criteria for meaningful financial reporting. Each year, Delaware prepares the Comprehensive Annual Financial Report (CAFR) as its official record of financial activities for the State, based on national GAAP standards and guidelines.

Delaware uses the budgetary/cash basis of accounting to manage its day-to-day operations. Following is a brief explanation of appropriations and funds, as used to segregate and manage the State's operating and capital monies.

### 3.1 Appropriations

- An **Appropriation** is a budgetary tool used in governmental accounting to control spending. The term may also refer to an allocation or set aside of monies for specific purposes, or a specific account used to segregate funds (e.g. a spending line).

A budgetary Appropriation is an authorization granted by the State's General Assembly to make expenditures and incur obligations for specific purposes. A legislative appropriation is usually limited in the amount and time during which it may be expended.

- The **Annual Appropriation Bill** is the means by which appropriations are given legal effect. Upon approval by the Legislature, the Appropriation Bill is enacted into law as the annual operating budget for the State. Any further or special appropriation authorized after final action is taken on the Budget Appropriation Bill is referred to as a **Supplementary Appropriation**.

After the annual budget is enacted into law, budgetary accounts are established by OMB in the State's finance and accounting system, to record the specific spending authorizations granted by the Legislature. The accounts are credited with the original and any supplementary appropriations and are charged throughout the year with any expenditures and encumbrances. The smallest agency unit for which a formal appropriation is authorized by the Legislature is called a **Budget Unit**.

- The State tracks expenditures by appropriation using a number of different appropriation types. Each appropriation type is identified in the State's finance and accounting system by a unique code. The State's appropriations represent spending authority granted by the Legislature. State agencies are not permitted to spend beyond their annual appropriated amounts.

<b>Appropriation Type</b>	<b>Code</b>
Regular Appropriations	01
Supplemental Appropriations	02
Continuing Appropriations	03
Carry-Over Encumbrances	04
Special Fund – NSF	20
Special Fund – ASF	30
Federal Grants	40
Capital/Bond	50

**NOTE:** Appropriations do not necessarily represent actual cash available for expenditure. Agencies are not permitted to encumber against anticipated revenues; encumbrances may only be made against available cash. For General Fund (GF), appropriations are available for immediate encumbrances. For Appropriated Special Fund (ASF) appropriations, available cash is the lesser of the appropriation or received revenues. For more information, agencies should refer to **Section 3.2**.

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 finance and accounting system. (29 Del. C. §6512 (a))

## 3.2 State Budgetary Funds

Fund accounting is a method of segregating resources into categories (funds) to identify both the source and the use of monies. For budgetary purposes, the financial activities of the State are segregated into two individual funds based upon the various operating, financial, and budgeting controls needed to successfully account for and safeguard the State's receipts and expenditures. The State's budgetary funds are known as the **General Fund** and the **Special Fund**.

**NOTE:** These State budgetary funds are not to be confused with the generic fund types used for governmental accounting and GAAP reporting.

**General Fund (GF)** – General Fund monies are used to finance and account for the ordinary operations of governmental agencies. The GF is appropriated by the Legislature for any legally authorized purpose, and it is used to account for all revenues and disbursements not provided for in other funds. All GF monies are considered State monies and may be encumbered and expended upon establishment of the appropriation in the State's finance and accounting system.

The GF includes all monies derived from taxes, fees, permits, licenses, fines, forfeitures, or from any other sources or receipts, unless specifically exempted or provided by law. For

more information about the composition of the GF, agencies should refer to **29 Del. C. §6102(a)**.

**Special Fund (SF)** – Special Funds refer to all monies other than General Funds. SF is any fund that must be devoted to some special use in accordance with specific regulations and restrictions. Special Funds are usually created through statutory provisions to provide certain activities with specific and continuing revenues and are used for the general operation of these restricted and specified government services.

The State of Delaware uses four Special Fund category types: **Appropriated Special Funds, Non-appropriated Special Funds, Federal Funds, and Bond Funds:**

1. **Appropriated Special Funds (ASF)** – A special fund type that the Legislature has chosen to place under the same type of budgetary and financial controls as the State's General Fund. Annual budget requests must be submitted to the OMB, and must be approved by the Legislature.

ASF is considered State monies. Annual expenditures against ASF monies may not exceed the appropriation limit authorized by the Legislature. ASF encumbrances may only be made against actual cash receipts and may not be made against unfunded ASF appropriation balances.

2. **Non-appropriated Special Funds (NSF)** – A special fund type that has no legislative spending limits. Generally, any monies on hand may be expended, yet encumbrances may only be made against actual cash receipts. Donations, gifts, local school funds, and various trust funds are examples of NSF monies. NSF is not considered State monies.
3. **Federal Funds** – Spending authority for federal grant funds is based on grant awards. Agencies receiving federal funds may encumber and expend up to the full amount of allotted federal funds, regardless of whether or not the funds have been received.

Any spending rules or restrictions for federal grant funds depend on the guidelines of the awarded grant. Federal funds are not considered State monies and are subject to individual grant program rules and restrictions.

State-appropriated matching funds are State monies and are subject to State spending rules and restrictions. Cash must be available before encumbering any State-appropriated matching funds.

Recipients of subgrants or pass-through grants must wait for the receipt of funds prior to encumbering or expending any federal funds.

4. **Bond Funds** – Bond Funds are authorized annually by the Legislature in the Bond Bill, also known as the Bond and Capital Improvement Act. Once authorized and appropriated, Bond Fund monies are immediately available for encumbrances and

expenditures.

The SF includes, but is not limited to, the following funds and accounts:

1. Accounts established by agencies for the collection of receipts for items, such as:
  - (a) State Park fees;
  - (b) Professional Regulation fees; and
  - (c) Lottery receipts.

**(29 Del. C. §6102 (b));**
2. Revenue Refund Accounts **(29 Del. C. §6533(e));**
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).

### 3.3 State Financial Reporting

In addition to the budgetary considerations of governmental accounting, the State is also required to report its financial activities on a yearly basis. This reporting is achieved through the yearly submission of the CAFR. The information in the CAFR is segregated according to GAAP Funds and covers the complete array of the State's financial activities.

#### 3.3.1. What is the State Financial Reporting Entity?

The financial reporting entity of the State consists of:

1. **The primary government.** The primary government consists of all funds, departments, and agencies that make up the legal entity of the State.
2. **Agencies for which the primary government is financially accountable.** Financial accountability exists if a primary government appoints a voting majority of the agency's governing body **and** either:
  - a. Is able to impose its will on that agency; or
  - b. Has the potential for the agency to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental agencies with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the primary government.

An agency is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, to levy taxes or set rates or changes without substantive approval by another government, or to issue bonded debt without substantive approval by another government.

3. **Other agencies** (including component units, joint ventures, jointly governed agencies, and other stand-alone governments) for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

### 3.3.2. Measurement Focus of Accounting for CAFR Reporting

**Measurement focus** is concerned with *what* financial transactions and events will be recognized in the accounting records and reported in the financial statements. Measurement focus is concerned with the inflow and outflow of resources - what is being measured. While a number of measurement focuses exist, the following two are fundamental to current governmental accounting principles:

1. **Flow of economic resources** considers all of the assets available to the governmental unit for the purpose of providing goods and services. Under this focus, all assets and liabilities, both current and long-term, are recorded within the fund and depreciation is recorded as a charge to operations.
2. **Flow of current financial resources** measures the extent to which financial resources obtained during a period are sufficient to cover claims incurred during that period. The emphasis of this focus is on cash and assets that will become cash during or shortly after the current period. Long-term capital assets and long-term obligations are not recorded within a fund under this measurement focus.

## 3.4 Basis of Accounting

**Basis of accounting** refers to when transactions and events will be recognized in the accounting records and presented in the financial statements. The State maintains and reports financial data on two different bases:

1. The 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.
2. The GAAP Basis, in order to present the financial community with statements which are consistent with the common basis of governmental reporting.



The GAAP statements as presented in the CAFR to be the official record of the financial activities of the State. Both of these bases are further described in this Chapter.

### **3.4.1. The Budgetary/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 accounts of the GF and the SF are reported for budgetary purposes using the cash basis of accounting.

### **3.4.2. The GAAP Basis of Accounting**

GAAP for government agencies are established and communicated 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. To comply with GASB in its financial reporting, the State produces the CAFR on the basis of GAAP.

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.

For additional details regarding the GAAP fund types, agencies should refer to **Table 3.1** at the end of this chapter.

For GAAP and CAFR purposes, governmental accounting transactions and events are recognized on either the accrual basis or the modified accrual basis.

1. **Accrual basis** of accounting records revenues in the period in which they are earned and become measurable; expenses are recorded in the period incurred, if measurable.
2. **Modified accrual basis** of accounting recognizes revenues in the period in which they become available and measurable. Revenues are considered available when they will be collected either during the current period or soon enough after the end of the period to pay current year liabilities. Revenues are considered measurable when they are reasonably estimable. Expenditures are generally recognized when the fund liability is incurred, if measurable.

The following bases of accounting are used for the various GAAP fund types:

#### **a. Governmental Fund Types and Agency Funds**



The accounts of the general and special revenue, debt service, capital projects 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, Pension Trust Funds and Component Units**

The accounts of the enterprise, pension trust, and OPEB trust fund, and component units are reported using the accrual basis of accounting.

**Table 3.1**

GAAP Fund Type	Definition	Examples	Series	Basis of Accounting	Individual Funds
General Fund	Fund used to finance the ordinary operations of governmental agencies. The Fund is used to account for all revenues and disbursements (not provided for in other funds) that are obtained and used for services traditionally provided by a state government, such as social assistance, education, and health and social services.	<ul style="list-style-type: none"> <li>○ Legislature</li> <li>○ Judiciary</li> <li>○ Executive Departments</li> <li>○ Other Elective Offices</li> <li>○ Fire Prevention Commission</li> <li>○ Delaware National Guard</li> <li>○ Higher Education</li> <li>○ School Districts</li> <li>○ Advisory Council for Exceptional Citizens</li> </ul>	100	Modified Accrual	100 – General Fund (except TTF) 101 – Transportation Trust Fund Operations 103 – Indian River Marina Operations
Special Revenue Funds	Funds are to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specific purposes.	<ul style="list-style-type: none"> <li>○ Federal funds for specific grant projects (except federal highway construction and Delaware State University funds)</li> <li>○ Local school district tax revenues</li> </ul>	200	Modified Accrual	225 – Federal Funds 270 – Local School Funds
Capital Projects Funds	Funds account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary, special assessment, and trust funds). Resources are principally derived from proceeds of general obligation bond issues and Federal highway Administration grants.	<ul style="list-style-type: none"> <li>○ Political subdivisions</li> <li>○ Public agencies</li> </ul>	300	Modified Accrual	300 – Capital Projects except TTF 301 – Transportation Trust Fund Capital 302 – Federal DelDOT Capital
Debt Service	Funds account for the	<ul style="list-style-type: none"> <li>○ State's portion of general</li> </ul>	400	Modified	425 – State

GAAP Fund Type	Definition	Examples	Series	Basis of Accounting	Individual Funds
Funds	accumulation and payment of general long-term debt principal and interest (excluding capital leases and unfunded retirement costs).	<ul style="list-style-type: none"> <li>○ obligation and capital improvement bonded indebtedness</li> <li>○ Local school districts' portions of long-term debt for local school district capital projects</li> </ul>		Accrual	426 – Debt Service for TTF 450 – Local
Proprietary Funds	Funds account for operations whose records are maintained on a proprietary basis to allow the State to measure net income and changes to financial position. <b>Enterprise Funds</b> are used to let the State match the revenues and expenses of an activity so user fees and other revenue sources can be equitably and accurately set. Used for capital management, public policy, management control, accountability, and other purposes.		600 – Enterprise Funds 700 – Internal Service Funds	Accrual Accrual	650 – Delaware State Housing Authority 660 – Delaware State Lottery 665 – Riverfront 670 – Unemployment Trust 675 – Diamond State Port Corporation 680 – DTCC Educational Foundation
Fiduciary Funds	Funds account for assets held by a governmental unit in a trustee or agent capacity. <b>Expendable Trusts</b> are funds in which principal and income may be expended in the course of operations. <b>Non-Expendable Trusts</b> are funds in which only income derived from principal may be expended in the course of	<ul style="list-style-type: none"> <li>○ Permanent Funds</li> <li>○ Pension Trust Funds</li> <li>○ External Investment Trust Funds</li> <li>○ Agency Funds</li> <li>○ Parks Endowment Account</li> <li>○ Land &amp; Water Endowment Account</li> <li>○ Mather Library Account</li> <li>○ Tallman Scholarship Fund</li> </ul>	800-839 – Expendable Trust Funds 840-849 – Non-Expendable Trust Funds 850-899 – Agency Funds	Modified Accrual Accrual Modified Accrual	840 – Land and Water Conservation Trust Fund 844 – Other Post Employee Benefits Trust Funds 845 – Pension Trust Funds 855 – Child Support Collections 880 – Custodial – Pass-Through 890 – Other Expendable Trust

GAAP Fund Type	Definition	Examples	Series	Basis of Accounting	Individual Funds
	<p>operations. <b>Agency Funds</b> are used to account for monies and properties collected by the State for distribution to other governmental units or designated beneficiaries. The monies arise from various taxes, deposits, payroll withholdings and other sources. Agency Funds are purely custodial, and do not involve the measurement of the results of operations.</p>				
Component Units	Funds account for the financial position and operations of State colleges and universities in accordance with GAAP guidelines established by the National Association of College and University Business Officers (NACUBO).			Accrual	910 – Delaware State University 675 – Diamond State Port Corporation 680 – DTCC Educational Foundation 665 – Riverfront 650 – Delaware State Housing Authority ALL CHARTER SCHOOLS