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Chapter 3 – Delaware's Accounting Framework

Delaware's (State) accounting framework is structured upon 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, the State prepares the Comprehensive Annual Financial Report (CAFR) as its official record of financial activities, based on national GAAP standards and guidelines.

The State 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 and track revenue collections. 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 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 financial management and accounting system, to record the specific spending authorizations granted by the Legislature. The accounts are credited with the original and any supplementary appropriations 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 and revenues by appropriation using a number of different appropriation types. Each appropriation type is identified in the State's financial management and accounting system by a unique code.

Appropriation Type	Code
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. For more information, Organizations should refer to **Section 3.2**.

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 funds used for governmental accounting and GAAP reporting.

General Fund (GF) – Monies used to finance and account for the ordinary operations of the State. 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 financial management 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, Organizations should refer to **29 Del. C. §6102 (a)**.

Special Fund (SF) – All monies other than GF. SFs are funds that must be devoted to some special use in accordance with specific regulations and restrictions. SFs 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 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 that the Legislature has chosen to place under the same type of budgetary and financial controls as the State's GF. Annual budget requests must be submitted to OMB, and must be approved by the Legislature.

Annual expenditures against ASF monies may not exceed the appropriation limit authorized by the Legislature. ASF monies may be encumbered or expended against the available spending authority, which is the lesser of the authorized appropriation limit or revenue collected.

2. **Non-appropriated Special Funds (NSF)** – A special fund that has no legislative spending limits and is not considered appropriated monies. NSF monies may be encumbered or expended against revenue collected. Donations, gifts, local school funds, and various trust funds are examples of NSF monies.

3. **Federal Funds** – Spending authority for federal grant funds is based on grant awards. Organizations 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. Spending authority must be available before encumbering any State-appropriated matching funds.

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

4. **Bond Funds** – 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 Organizations for the collection of receipts for:
 - Board;
 - Tuition;
 - Hospital Treatments; and
 - Sale of Farm Products
2. Professional Regulation fees (**29 Del. C. §8735 (c)**);

3. Revenue Refund Accounts (**29 Del. C. §6533 (e)**);
4. Federal Aid Funds - All federal financial assistance program money received by the State, whether directly or indirectly, in the form of cash, check, or via an electronic funds transfer method (**29 Del. C. §2711 (a)**);
5. Capital Improvement Projects Fund - All monies received from the sale of bonds and notes issued for the capital improvement program (**29 Del. C. §7414**);
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's vending receipts, 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 Delaware Emergency Management Agency (**29 Del. C. §6102 (i)**);
12. Division of Corporations Corporate Revolving Fund (**29 Del. C. §2311 (b)**);
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 Account (**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 Funds and covers all of the State's financial activities.

3.3.1. What is the State Financial Reporting Entity?

In accordance with the Governmental Accounting Standards Board (GASB) Statements No. 14 ,61 and 80, the financial reporting entity of the State consists of:

1. **The primary government.** The primary government consists of all funds, departments, and Organizations that make up the legal entity of the State.
2. **Organizations for which the primary government is financially accountable.** Financial accountability exists if a primary government appoints a voting majority of the Organization's governing body **and** either:
 - a. Is able to impose its will on that Organization; or
 - b. Has the potential for the Organization 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 Organizations 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 Organization 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 Organizations** (including component units, joint ventures, jointly governed Organizations, 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 Bill. Financial records are kept on a basis consistent with the format of the Bill.
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, are 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 Organizations are established and communicated by 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 funds, Organizations should refer to **Exhibit A** 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 funds:

1. Governmental Funds and Organization Funds

The accounts of the general and special revenue, debt service, capital projects and Organization 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:

- a. 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.
- b. Fines, penalties, licenses and other miscellaneous revenues are recognized when received since they normally are only measurable at that time.

- c. Interest on long-term obligations is recognized in the debt service funds when it becomes payable

2. Proprietary Funds, Pension Trust Funds and Component Units

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

Exhibit A

Fund	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"> ○ Legislature ○ Judiciary ○ Executive Departments ○ Other Elective Offices ○ Fire Prevention Commission ○ Delaware National Guard ○ Higher Education ○ School Districts ○ Advisory Council for Exceptional Citizens 	100	Modified Accrual	100 – General Fund (except Transportation Trust Fund (TTF)) 101 – TTF 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"> ○ Federal funds for specific grant projects (except federal highway construction and Delaware State University funds) ○ Local school district tax revenues 	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"> ○ Political subdivisions ○ Public agencies 	300	Modified Accrual	300 – Capital Projects except TTF 301 – Transportation Trust Fund Capital 302 – Delaware Department of Transportation (DelDOT) Federal Capital

Fund	Definition	Examples	Series	Basis of Accounting	Individual Funds
Debt Service Funds	Funds account for the accumulation and payment of general long-term debt principal and interest (excluding capital leases and unfunded retirement costs).	<ul style="list-style-type: none"> ○ State's portion of general obligation and capital improvement bonded indebtedness ○ Local school districts' portions of long-term debt for local school 	400	Modified Accrual	425 – State 426 – Debt Service for TTF 450 – Local
Proprietary Funds	<p>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.</p> <p>Enterprise Funds 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.</p>		600 – Enterprise Funds 700 – Internal Service Funds	<p>Accrual</p> <p>Accrual</p>	650 – Delaware State Housing Authority 660 – Delaware State Lottery 665 – Riverfront 670 – Unemployment Trust 675 – Diamond State Port Corporation 680 – Delaware Technical Community College (DTCC) Educational Foundation

Fund	Definition	Examples	Series	Basis of Accounting	Individual Funds
Fiduciary Funds	<p>Funds account for assets held by a governmental unit in a trustee or agent capacity.</p> <p>Expendable Trusts are funds in which principal and income may be expended in the course of operations.</p> <p>Non-Expendable Trusts are funds in which only income derived from principal may be expended in the course of operations.</p> <p>Custodial Funds 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.</p>	<ul style="list-style-type: none"> ○ Permanent Funds ○ Pension Trust Funds ○ External Investment Trust Funds ○ Custodial Funds ○ Parks Endowment Account ○ Land & Water Endowment Account ○ Mather Library Account ○ Tallman Scholarship Fund 	<p>800-839 – Expendable Trust Funds</p> <p>840-849 – Non-Expendable Trust Funds</p> <p>850-899 – Custodial Funds</p>	<p>Modified Accrual</p> <p>Accrual</p> <p>Modified Accrual</p>	<p>840 – Land and Water Conservation Trust Fund</p> <p>844 – Other Postemployment Benefits Trust Fund</p> <p>845 – Pension Trust Funds</p> <p>855 – Child Support Collections</p> <p>880 – Custodial – Pass-Through</p> <p>890 – Other Expendable Trust</p>
Component Units	<p>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).</p>			Accrual	<p>910 – Delaware State University</p> <p>675 – Diamond State Port Corporation</p> <p>680 – DTCC Educational Foundation</p> <p>665 – Riverfront</p> <p>650 – Delaware State Housing Authority</p> <p>ALL CHARTER SCHOOLS</p>