

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

### BUDGETARY REPORTING

#### BUDGETARY BASIS VS. GAAP

While GAAP requires the use of the fund structure described in Note 1C, the State's budget system uses only a General Fund and a Special Fund, each of which uses the basis of accounting described below. Additionally, the activities of certain component units of the State, which are not substantially supported by tax revenues, are not included in the budget data. Reconciliation of the accrual adjustments necessary to convert budgetary basis information to GAAP basis is presented in Required Supplementary Information.

The State Constitution requires the Governor to prepare and submit to the General Assembly a State budget for the ensuing year. The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories -- the General Fund or the Special Fund. References to these two funds in this document include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The General Assembly enacts the budget through the passage of specific line-item appropriations by department, the legal level of budgetary control, the sum of which must not exceed 98 percent of the estimated revenues and available unencumbered cash balance from the prior year pursuant to the State Constitution. The Governor has the power to approve or veto each appropriation passed by the General Assembly.

The budgetary General Fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary Special Funds. Certain Special Funds are subject to appropriation, referred to herein as budgetary or appropriated Special Funds. Unexpended appropriations at year-end are available for subsequent expenditure to the extent that they have been encumbered at that date or legislatively extended for another year. Budget data represents original appropriations modified by interdepartmental transfers, supplemental, continuing, and carried-over encumbered appropriations. Subsequent modifications to the budget require the approval of the Controller General and the Budget Director. Detailed information regarding individual department budgets and the compliance with the legal level of budgetary control is presented on the following pages.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders) outstanding at year-end do not constitute expenditures or liabilities and are reported as reservations of fund balances because the commitments will be honored during the subsequent year.

The Budget schedules in Required Supplemental Information a) reflect the adjustments made to increase the Special Fund's excess of revenues over expenditures for certain revenue sources not previously recognized; b) eliminates the net activity of certain operations that are accounted for within both the Special Fund and also in the separate accounts of certain component units or agency funds that are not principally accounted for within the Special Fund; and c) presents the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

### **Statutory/Budgetary Presentation**

The Budgetary Comparison Schedule – Budget to Actual (Non-GAAP Budgetary Basis) presented on the following pages provides a comparison of the original and final legally adopted budget with actual data on a budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriations bill as of June 30, 2003, and does not include encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year. Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the “final budget” column, therefore updated revenue estimates available for appropriations as of the last DEFAC meeting in June 2003, as well as the amounts shown in the original budget, are reported. The final legal budget also reflects encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year.

The following table represents the Budgetary Statement of Revenues, Expenditures and Changes in Fund Balance – General and Special Funds. Also included is a schedule showing the Budgetary Fund balance designations. Of the \$464.0 million Budgetary General Fund Balance, \$136.5 million is reserved for the Budget Reserve Account and \$173.3 million is designated as continuing and encumbered appropriations. The \$154.2 million of undesignated fund balance, for the most part is not available for new spending as these funds have been committed based on State statutes.

**Budgetary Comparison Schedule - General Fund**  
**Budget to Actual (Non-GAAP Budgetary Basis)**  
**For the Fiscal Year Ended June 30, 2003**  
(Expressed in Millions)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Personal Income Taxes	\$ 739.3	\$ 706.9	\$ 710.3	\$ 3.4
Business Taxes	990.6	1,086.9	1,104.3	17.4
Other Taxes	100.5	141.2	162.6	21.4
License, Permits, Fines and Fees	154.9	160.6	116.5	(44.1)
Interest Earnings	23.4	20.0	20.8	0.8
Lottery Sales	223.7	213.0	213.0	0.0
Other Non-Tax Revenue	90.6	111.2	108.9	(2.3)
<b>Total Revenues</b>	<u>2,323.0</u>	<u>2,439.8</u>	<u>2,436.4</u>	<u>(3.4)</u>
<b>Expenditures</b>				
General Government	237.7	327.6	241.0	(86.6)
Health and Children's Services	725.8	770.1	732.3	(37.8)
Judicial and Public Safety	385.5	399.4	388.7	(10.7)
Natural Resources and Environmental Control	37.5	53.5	41.0	(12.5)
Labor	6.0	6.1	6.0	(0.1)
Education	999.7	1,109.9	1,045.2	(64.7)
<b>Total Expenditures</b>	<u>2,392.2</u>	<u>2,666.6</u>	<u>2,454.2</u>	<u>(212.4)</u>
Excess (Deficiency) of Revenues Over Expenditures	(69.2)	(226.8)	(17.8)	(215.8)
<b>Budgetary Fund Balance, Beginning of Year</b>	<u>481.8</u>	<u>481.8</u>	<u>481.8</u>	<u>0.0</u>
<b>Budgetary Fund Balance, End of Year</b>	<u>\$ 412.6</u>	<u>\$ 255.0</u>	<u>\$ 464.0</u>	<u>\$ (215.8)</u>
<b>Budgetary Fund Balance</b>				
Designated:				
Budget Reserve Account			\$ 136.5	
Continuing and encumbered appropriations			173.3	
Undesignated			154.2	
<b>Total</b>			<u>\$ 464.0</u>	

(See Budgetary Basis Vs. GAAP in Notes to Required Supplementary Information)

**Budgetary Comparison Schedule - Special Fund**  
**Budget to Actual (Non-GAAP Budgetary Basis)**  
**For the Fiscal Year Ended June 30, 2003**  
(Expressed in Millions)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Personal Income Taxes	\$ 0.0	\$ 0.0	\$ 0.7	\$ 0.7
Business Taxes	24.6	24.6	11.4	(13.2)
Other Taxes	1.9	1.9	14.3	12.4
License, Permits, Fines and Fees	46.2	46.2	75.2	29.0
Rentals and Sales	15.9	15.9	12.4	(3.5)
Interest Earnings	3.8	3.8	8.1	4.3
Grants	10.4	10.4	18.0	7.6
Other Non-Tax Revenue	328.3	328.3	331.1	2.8
<b>Total Revenues</b>	<u>431.1</u>	<u>431.1</u>	<u>471.2</u>	<u>40.1</u>
<b>Expenditures</b>				
General Government	225.0	278.5	177.2	(101.3)
Health and Children's Services	76.3	89.9	64.4	(25.5)
Judicial and Public Safety	29.2	35.3	22.9	(12.4)
Natural Resources and Environmental Control	41.2	50.0	27.2	(22.8)
Transportation	232.3	139.6	156.5	16.9
Labor	15.0	15.5	13.8	(1.7)
Education	3.5	5.0	2.5	(2.5)
<b>Total Expenditures</b>	<u>622.5</u>	<u>613.8</u>	<u>464.5</u>	<u>(149.3)</u>
Excess (Deficiency) of Revenues Over Expenditures	(191.4)	(182.7)	6.7	189.4
<b>Budgetary Fund Balance, Beginning of Year</b>	<u>303.1</u>	<u>303.1</u>	<u>303.1</u>	<u>0.0</u>
<b>Budgetary Fund Balance, End of Year</b>	<u>\$ 111.7</u>	<u>\$ 120.4</u>	<u>\$ 309.8</u>	<u>\$ 189.4</u>
<b>Budgetary Fund Balance</b>				
Designated:				
Delaware Health Fund			\$ 73.4	
Department of Administrative Services			17.6	
Department of Finance			38.5	
Department of Natural Resources and Environmental Control			159.4	
Miscellaneous designated funds			20.9	
<b>Total</b>			<u>\$ 309.8</u>	

(See Budgetary Basis Vs. GAAP in Notes to Required Supplementary Information)

## Statutory/Budgetary Reconciliations

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation is required of resulting basis, perspective and entity differences in the revenues in excess of (less than) expenditures and other financing sources (uses) between budgetary and GAAP presentations.

The following two schedules represent the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

### BUDGET VS GAAP REVENUE RECONCILIATION (Expressed in Millions)

Total Budget Basis Revenue for fiscal year 2003	\$ 2,907.6
Non Appropriated Revenue by Category:	
Personal, Business and Other Taxes	51.0
License, Fees, Permits and Fines	28.1
Federal Government	20.7
Interest and Other Investment Income	10.8
Other Revenue	93.1
Funds for Thoroughbred and Harness Racing Purses	58.5
Department of Transportation Revenue Reclass for Enterprise Fund Reporting	(156.0)
Reclassification of Appropriated Funds to the General Fund	(53.9)
Reversal of Prior Year's Revenue Accruals and Adjustments	(6.0)
Accrued Revenue for License, Fees, Permits and Fines	110.2
Accrued Revenue for Personal, Business and Other Taxes	56.4
Deferred Revenue - Personal Taxes, Business Taxes and Loans revenue recognized for GAAP reporting	(158.0)
Revenue received from Lottery sales not included in GAAP	(273.8)
Adjustment for Revenue Received for Medicaid	(28.1)
Federal Funds Received for Food Stamps	46.1
Adjustment for the Receipt of Interest Income	11.3
Transfers in from Local Schools due to budget changes	(21.8)
Other transfers and adjustments for accruals	3.0
	<u>(208.4)</u>
Total General Fund Revenues for the fiscal year ended June 30, 2003	2,699.2
Federal Funds Revenue	\$ 714.2
Local School Fund Revenue	334.3
	<u>1,048.5</u>
Total GAAP Basis Governmental Funds Revenue for fiscal year 2003	<u><u>\$ 3,747.7</u></u>

**BUDGET VS GAAP EXPENDITURE RECONCILIATION**  
**(Expressed in Millions)**

Total Budget Basis Expenditures for fiscal year 2003		\$ 2,918.7
Non Appropriated Expenditures by Department:		
General Government	\$ 680.6	
Health and Children's Services	10.6	
Judicial and Public Safety	12.8	
Natural Resources and Environmental Control	33.6	
Labor	7.2	
Education	47.3	
Funds for Thoroughbred and Harness Racing Purses	60.0	
Delaware State University General Fund Expenditures	(62.3)	
Delaware Department of Transportation Expenditures	(154.2)	
Reclassification for Enterprise Fund Reporting		
Accruals and Adjustments for GAAP Reporting	<u>(616.8)</u>	<u>18.8</u>
 Total General Fund Expenditures for the fiscal year ended June 30, 2003		 2,937.5
 Federal Revenue Funds Expenditures	 \$ 732.4	
Local School District Funds Expenditures	323.2	
Capital Projects Funds Expenditures	<u>193.9</u>	<u>1,249.5</u>
 Total GAAP Basis Governmental Funds Expenditures for the fiscal year ended June 30, 2003		 <u><u>\$ 4,187.0</u></u>