

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. The statement referred to above is not presented at the legal level of budgetary control as such a presentation would be extremely cumbersome. 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.

While accounting principles generally accepted in the United States of America (GAAP) requires the use of the fund structure described in Note 1, the State's budget system uses only a General Fund and a Special Fund as described above. 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.

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, 2002, 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 2002, 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.

Budgetary Comparison Schedule - General Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Personal Income Taxes	\$ 738.9	\$ 715.8	\$ 713.7	\$ (2.1)
Business Taxes	1,039.4	1,084.3	1,101.4	17.1
Other Taxes	97.7	115.6	138.3	22.7
License, Permits, Fines and Fees	152.3	146.6	128.1	(18.5)
Interest Earnings	30.6	30.5	30.5	0.0
Lottery Sales	214.2	229.9	230.0	0.1
Other Non-Tax Revenue	86.3	103.0	83.7	(19.3)
Total Revenues	<u>2,359.4</u>	<u>2,425.7</u>	<u>2,425.7</u>	<u>0.0</u>
Expenditures				
General Government	222.2	335.8	251.8	(84.0)
Health and Children's Services	689.2	741.4	709.3	(32.1)
Judicial and Public Safety	370.7	387.9	376.9	(11.0)
Natural Resources and Environmental Control	37.7	59.4	43.6	(15.8)
Labor	6.1	6.2	6.0	(0.2)
Education	975.9	1,161.7	1,066.2	(95.5)
Total Expenditures	<u>2,301.8</u>	<u>2,692.4</u>	<u>2,453.8</u>	<u>(238.6)</u>
Excess (Deficiency) of Revenues Over Expenditures	57.6	(266.7)	(28.1)	(238.6)
Budgetary Fund Balance, Beginning of Year	<u>509.9</u>	<u>509.9</u>	<u>509.9</u>	<u>0.0</u>
Budgetary Fund Balance, End of Year	<u>\$ 567.5</u>	<u>\$ 243.2</u>	<u>\$ 481.8</u>	<u>\$ (238.6)</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, 2002
(Expressed in Thousands)**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Personal Income Taxes	\$ 0.0	\$ 0.0	\$ 1.8	\$ 1.8
Business Taxes	23.8	23.8	9.9	(13.9)
Other Taxes	1.7	1.7	12.9	11.2
License, Permits, Fines and Fees	50.0	50.0	74.3	24.3
Rentals and Sales	16.2	16.2	20.2	4.0
Interest Earnings	3.3	3.3	9.8	6.5
Grants	17.6	17.6	15.8	(1.8)
Other Non-Tax Revenue	467.9	467.9	326.6	(141.3)
Total Revenues	<u>580.5</u>	<u>580.5</u>	<u>471.3</u>	<u>(109.2)</u>
Expenditures				
General Government	221.6	284.0	181.8	(102.2)
Health and Children's Services	68.7	80.8	61.1	(19.7)
Judicial and Public Safety	26.9	32.6	19.9	(12.7)
Natural Resources and Environmental Control	36.8	42.2	25.0	(17.2)
Transportation	222.8	131.2	149.6	18.4
Labor	14.3	14.8	13.3	(1.5)
Education	3.0	6.3	3.3	(3.0)
Total Expenditures	<u>594.1</u>	<u>592.0</u>	<u>454.0</u>	<u>(138.0)</u>
Excess (Deficiency) of Revenues Over Expenditures	(13.6)	(11.5)	17.3	28.8
Budgetary Fund Balance, Beginning of Year	<u>285.8</u>	<u>285.8</u>	<u>285.8</u>	<u>0.0</u>
Budgetary Fund Balance, End of Year	<u>\$ 272.2</u>	<u>\$ 274.3</u>	<u>\$ 303.1</u>	<u>\$ 28.8</u>

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

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 \$481.8 million Budgetary General Fund Balance, \$128.9 million is reserved for the Budget Reserve Account and \$216.1 million is designated as continuing and encumbered appropriations. The \$136.8 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.

Other Non-tax Revenue reported as Budgeted and non-budgeted Special Funds is used to report transfer of funds and cash adjustments and do not necessarily represent true revenue to the State. Other Non-tax Revenue is used to record employee payroll withholdings deductions (health and life insurance premiums, pension contributions and various tax withholdings). Other Non-tax Revenue is also used to record revenue to fiduciary accounts such as child support collections.

**BUDGETARY STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GENERAL AND SPECIAL FUNDS
For the Fiscal Year Ended June 30, 2002
(Expressed in Thousands)**

	Budgeted Amounts		Non-Budgeted Special Funds	Total
	General Fund	Special Fund		
REVENUES				
Personal Income Taxes	\$ 713.7	\$ 1.8	\$ 128.6	\$ 844.1
Business Taxes	1,101.4	9.9	126.4	1,237.7
Other Taxes	138.3	12.9	260.9	412.1
License, Permits, Fines and Fees	128.1	74.3	67.9	270.3
Interest Earnings	30.5	9.8	26.1	66.4
Lottery Sales	230.0			230.0
Rental and Sales		20.2	33.7	53.9
Grants		15.8	883.0	898.8
Other Non-Tax Revenue	83.7	326.6	1,068.6	1,478.9
Total Revenues	<u>2,425.7</u>	<u>471.3</u>	<u>2,595.2</u>	<u>5,492.2</u>
Expenditures				
General Government	251.8	181.8	1,194.8	1,628.4
Health and Children's Services	709.3	61.1	534.0	1,304.4
Judicial and Public Safety	376.9	19.9	32.7	429.5
Natural Resources and Environmental Control	43.6	25.0	63.9	132.5
Transportation		149.6	328.9	478.5
Labor	6.0	13.3	39.8	59.1
Education	1,066.2	3.3	581.9	1,651.4
Total Expenditures	<u>2,453.8</u>	<u>454.0</u>	<u>2,776.0</u>	<u>5,683.8</u>
Excess (Deficiency) of Revenues Over Expenditures	(28.1)	17.3	(180.8)	(191.6)
Other Sources: Bond Proceeds, Net			136.3	136.3
Excess (Deficiency) of Revenues and Other Sources over Expenditures	(28.1)	17.3	(44.5)	(55.3)
Budgetary Fund Balance, Beginning of Year	<u>509.9</u>	<u>285.8</u>	<u>545.6</u>	<u>1,341.3</u>
Budgetary Fund Balance, End of Year	<u>\$ 481.8</u>	<u>\$ 303.1</u>	<u>\$ 501.1</u>	<u>\$ 1,286.0</u>
Budgetary Fund Balance				
Designated:				
Community redevelopment			\$ 9.7	\$ 9.7
Budget CSCRP and cost accounts			23.6	23.6
Delaware Health Fund		\$ 61.5		61.5
Health Care (employees/retirees)			39.5	39.5
Budget Reserve Account	\$ 128.9			128.9
Strategic Fund			33.5	33.5
Parks/ Land and Water endowment			58.4	58.4
Department of Administrative Services		10.3		10.3
Department of Finance		38.1		38.1
Department of Natural Resources and Environmental Control		31.0	87.4	118.4
Unemployment Insurance			11.3	11.3
Harness Racing Commission			22.3	22.3
Higher/Public Education			17.1	17.1
Local School Funds			150.0	150.0
Miscellaneous designated funds		162.2	48.3	210.5
Continuing and encumbered appropriations	216.1			216.1
Undesignated	136.8			136.8
Total	<u>\$ 481.8</u>	<u>\$ 303.1</u>	<u>\$ 501.1</u>	<u>\$ 1,286.0</u>

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

Statutory/Budgetary Reconciliation

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 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 for the year ended June 30, 2002 is presented on page 111.

The State's budget system uses only a General Fund and a Special Fund, each of which uses the cash basis of accounting.

The following data reflects the adjustments made to increase the Special Fund's excess of revenues over expenditures for certain revenue sources not previously recognized. The data also 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.

SPECIAL FUNDS RECONCILIATION - BUDGETARY BASIS

(Expressed in Thousands)

Excess of revenues over expenditures (budgeted Special Funds)	\$ 17.3	
Excess of revenues over expenditures (non-budgeted Special Funds)	<u>(44.5)</u>	
Excess of revenues over expenditures (all Special Funds)	(27.2)	
Add: Bond sale proceeds not included above	<u>159.1</u>	
Subtotal		\$ 131.9
Less net excess (deficiency) of other activity included in Special Funds:		
Transportation	(1.3)	
Delaware State Housing Authority	9.1	
Riverfront Development Corporation	0.1	
Delaware State University	9.0	
Charter Schools	(5.5)	
Agency Funds	<u>(6.9)</u>	
Net Adjustment		<u>4.5</u>
Special Fund net excess of revenue and other sources of financial resources over expenditures and other uses of financial resources (budgetary basis)		<u>\$ 136.4</u>

The following represents the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

**RECONCILIATION OF DIFFERENCE BETWEEN BUDGETARY BASIS AND GAAP BASIS
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OF FINANCIAL RESOURCES
RESOURCES OVER EXPENDITURES AND OTHER USES OF FINANCIAL RESOURCES**
(Expressed in Thousands)

Financial Statement Fund Types	<u>General</u>	<u>Federal Revenue Funds</u>	<u>Local School District Funds</u>	<u>Capital Projects Fund</u>
Excess (deficiency) of revenue and other sources over expenditures and other uses (Budgetary Basis):				
General Fund	\$ (28.1)			
Special Fund (Net)	<u>136.4</u>			
Net Excess - Budgetary Basis	108.3			
To reclassify excess (deficiency) of revenues and other sources of financial resources over expenditures and other uses of financial resources into GAAP fund types (Budgetary Basis)	9.0	\$ (9.4)	\$ (12.2)	\$ (159.6)
To adjust revenues for accruals	(367.1)	(12.0)	8.3	
To adjust expenditures for accruals	(108.2)	25.9	23.6	(8.8)
Transfers In (Out)	<u>275.5</u>	<u>(1.6)</u>	<u>(26.0)</u>	<u>135.8</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses (GAAP Basis)	<u>\$ (82.5)</u>	<u>\$ 2.9</u>	<u>\$ (6.3)</u>	<u>\$ (32.6)</u>