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COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2007



State of Delaware
Office of the Governor

Ruth Ann Minner
Governor

December 21, 2007

To the People of Delaware
and the Honorable Members of the
144th General Assembly:

I am pleased to present Delaware's Comprehensive Annual Financial Report for fiscal year 2007. In addition to providing sound information for investors, policymakers and legislators, this all-inclusive financial report is designed to encourage taxpayers to understand their state government's financial activities. Included in this report are the State's Basic Financial Statements, prepared in conformity with generally accepted accounting principles, or GAAP, and audited by the independent firm of KPMG LLP.

As the report will demonstrate, Delaware's economic and fiscal conditions remain sound. Delaware continues to operate using the same conservative financial strategies and controls that have secured our success in the past. As Delaware's governor for the last seven years, I am extremely proud that Delaware remains one of only seven states that hold the nation's highest bond ratings: Aaa from Moody's Investment Service; AAA from Fitch Ratings and AAA from Standard & Poor's. These ratings place Delaware among the most creditworthy states in the nation.

No doubt, Delaware's success will continue. We are well positioned to face future challenges, and I am confident Delaware will meet each challenge with its long tradition of prudent and effective fiscal management.

Sincerely,

A handwritten signature in black ink that reads "Ruth Ann Minner".

Ruth Ann Minner
Governor

State of Delaware

Comprehensive Annual Financial Report

For the Year Ended June 30, 2007

Ruth Ann Minner

Governor

Richard S. Cordrey

Secretary of Finance

Trisha L. Neely

Director, Division of Accounting

Prepared by the Department of Finance, Division of Accounting

State of Delaware
Comprehensive Annual Financial Report
For the year ended June 30, 2007
Table of Contents

INTRODUCTORY SECTION

| | |
|---|------|
| Letter of Transmittal | i |
| Certificate of Achievement for Excellence in Financial Reporting..... | vii |
| Selected State Officials | viii |
| Organizational Chart..... | ix |

FINANCIAL SECTION

| | |
|--|---|
| Independent Auditors' Report..... | 2 |
| Management's Discussion and Analysis | 4 |

Basic Financial Statements

Government –Wide Financial Statements

| | |
|-------------------------------|----|
| Statement of Net Assets | 20 |
| Statement of Activities..... | 21 |

Governmental Fund Financial Statements

| | |
|--|----|
| Combined Balance Sheet | 22 |
| Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets | 23 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficits) – Governmental Funds..... | 24 |
| Reconciliation of the Net Changes in Fund Balances - Total Governmental Funds To Change in Net Assets of Governmental Activities | 25 |

Proprietary Fund Financial Statements

| | |
|---|----|
| Statement of Net Assets | 26 |
| Statement of Revenues, Expenses, and Changes in Fund Net Assets | 27 |
| Statement of Cash Flows | 28 |

Fiduciary Fund Financial Statements

| | |
|---|----|
| Statement of Fiduciary Net Assets..... | 29 |
| Statement of Changes in Fiduciary Net Assets..... | 30 |

Component Unit Financial Statements

| | |
|---|----|
| Combining Statement of Net Assets | 31 |
| Combining Statement of Activities..... | 32 |

Notes to the Financial Statements

| | |
|--|-----|
| Note 1 - Summary of Significant Accounting Policies | 34 |
| Note 2 - Cash, Investments and Restricted Assets | 45 |
| Note 3 - Receivables | 64 |
| Note 4 - Interfund Receivables, Payables and Transfers | 68 |
| Note 5 - General Obligation Bonds..... | 70 |
| Note 6 - Revenue Bonds | 72 |
| Note 7 - Loans and Notes Payable | 83 |
| Note 8 - Lease Commitments..... | 87 |
| Note 9 - Other Long-Term Obligations | 88 |
| Note 10 - Changes In Long-Term Obligations..... | 89 |
| Note 11 - No Commitment Debt (Not Included In Financial Statements)..... | 91 |
| Note 12 - Capital Assets..... | 92 |
| Note 13 - Risk Management | 96 |
| Note 14 - Pensions | 97 |
| Note 15 - Affiliated Organizations..... | 110 |
| Note 16 - Commitments | 111 |
| Note 17 - Contingencies..... | 112 |
| Note 18 - Subsequent Events | 112 |
| Note 19 - Change In Fiscal Year..... | 113 |

Required Supplementary Information

| | |
|--|-----|
| Notes to Required Supplementary Information | 116 |
| Budgetary Comparison Schedule – General Fund..... | 118 |
| Budgetary Comparison Schedule – Special Fund..... | 119 |
| Statutory/Budgetary Reconciliations | 120 |
| Information About Infrastructure Assets Reported Using the Modified Approach..... | 122 |
| Delaware Public Employees’ Retirement System Schedule of Funding Status and Progress..... | 124 |
| Schedule of Annual Pension Cost, Actuarial Methods and Assumptions | 125 |
| DelDOT Fund – Delaware Transit Corporation Schedule of Funding Status Progress..... | 126 |
| Schedule of Annual Pension Cost, Actuarial Methods and Assumptions | 126 |

Supplementary Information – Combining Statements

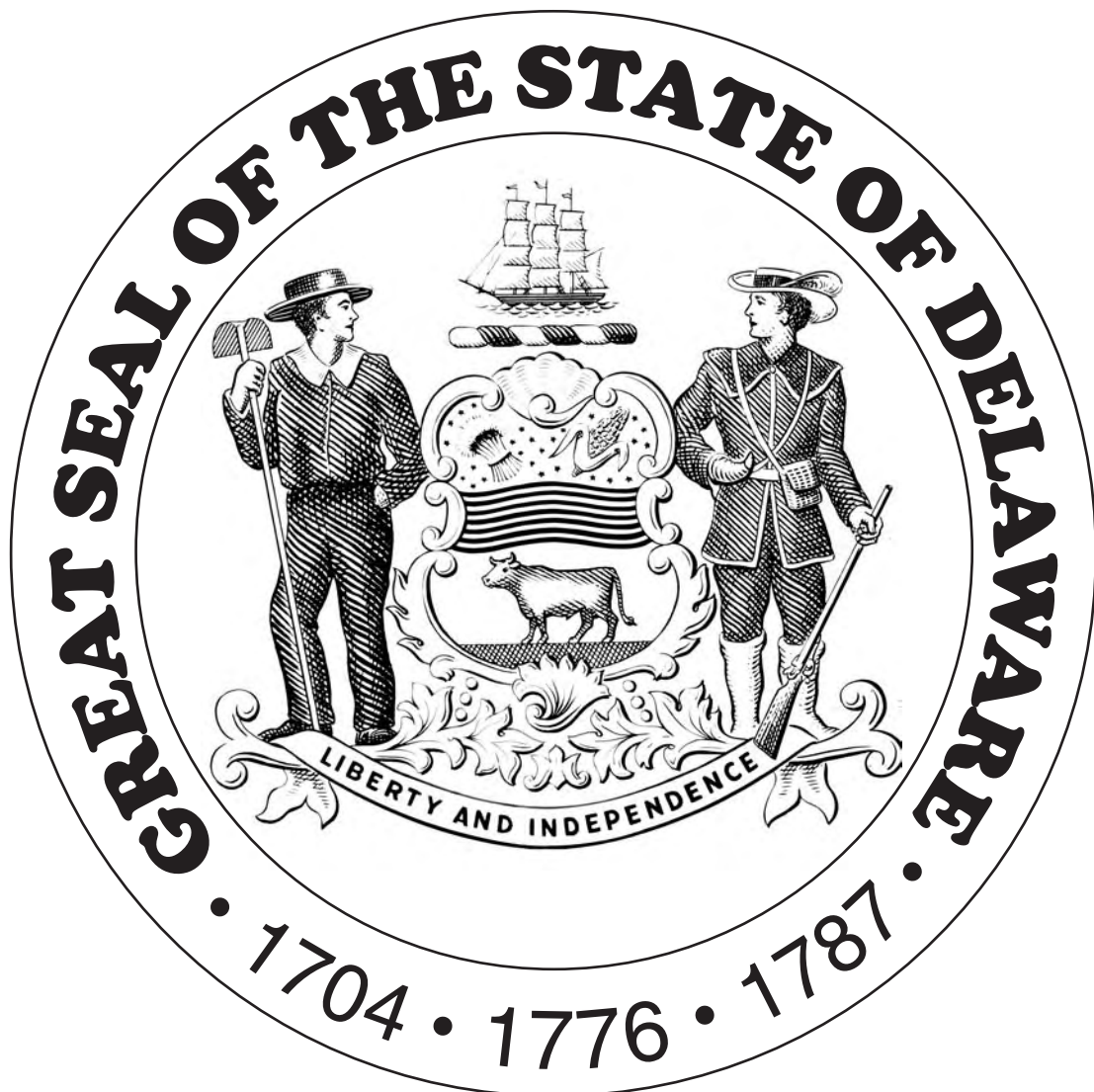
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|--|-----|
| Delaware Public Employees Retirement System: Combining Statement of Fiduciary Net Assets..... | 128 |
| Combining Statement of Changes in Fiduciary Net Assets..... | 130 |
| Combining Statement of Changes in Assets and Liabilities – All Agency Funds | 132 |

STATISTICAL SECTION

| | |
|---|-----|
| Statistical Section..... | 134 |
| Net Assets by Component, Last Five Fiscal Years..... | 135 |
| Changes in Net Assets, Last Five Fiscal Years..... | 136 |
| Changes in Fund Balances, Governmental Funds, Last Ten Fiscal Years | 138 |
| Fund Balance, Governmental Funds, Last Ten Fiscal Years..... | 140 |
| Personal Income by Industry, Last Five Fiscal Years..... | 141 |
| Personal Income Tax Rates, Last Ten Fiscal Years..... | 142 |
| Personal Income Tax Filers and Liability by Income Levels | 143 |
| Franchise Taxes, Last Ten Fiscal Years | 144 |
| Ratios of Outstanding Debt by Type, Last Ten Fiscal Years | 145 |
| Debt Limits, Last Ten Fiscal Years | 146 |
| General Obligation Debt Support, Last Five Fiscal Years | 147 |
| Pledged Revenue Coverage, Last Ten Fiscal Years | 148 |
| Demographics and Economic Statistics, Last Ten Calendar Years..... | 149 |
| Largest Private Employers, Current Fiscal Year and Nine Years Ago..... | 150 |
| Largest Public Employers, Current Fiscal Year and Nine Years Ago..... | 151 |
| State Employees by Function, Last Seven Fiscal Years | 152 |
| Operating Indicators by Function, Last Four Fiscal Years | 153 |
| Capital Assets Statistics by Function, Last Four Fiscal Years..... | 154 |
| Capital Asset Balances by Function, Last Ten Fiscal Years | 155 |

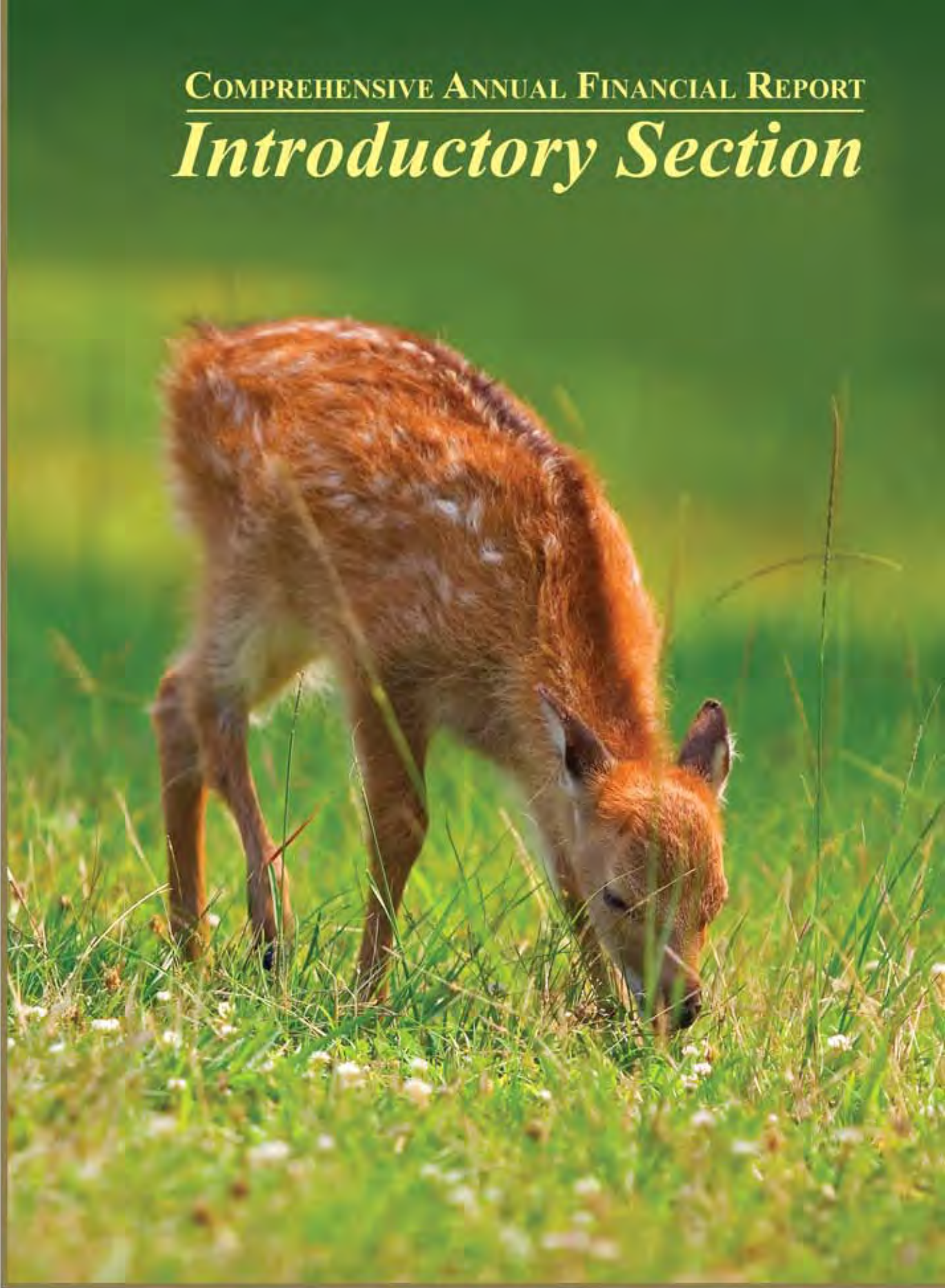
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Bombay Hook National Wildlife Refuge at Sunset – Located in Kent County, Delaware, and established in 1935, Bombay Hook National Wildlife Refuge is one of the most important sanctuaries of the Atlantic Flyway, and a vital link in the international chain of wildlife refuges from Canada to the Gulf of Mexico. The more than 16,000 acres of brackish salt marsh, fresh-water pools, brush and timbered swamp, croplands, and grassy and timbered upland serve as home for 256 identified species of birds, 33 species of mammals, and 37 species of reptiles and amphibians. It is primarily a refuge and breeding ground for migrating birds and other wildlife. The value and importance of Bombay Hook for the protection and conservation of waterfowl has increased greatly over the years, primarily due to the loss of extensive surrounding marshland to urban and industrial development.



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COMPREHENSIVE ANNUAL FINANCIAL REPORT
Introductory Section



Sika Deer – Sika deer are a small elk-like creature introduced into Maryland in 1916 and are now dispersing to Delaware. Until recently, the only deer species found in Delaware was the white-tailed deer. The Sika deer are 2 ½ feet high at the shoulder, weigh 50-100 pounds and originate from Asia. Their coat is dark brown to black and some have faint white parallel spots on their back. They also have a white rump. Sika deer inhabit marshes, swamps, and associated woodlands and agricultural fields.



**STATE OF DELAWARE
DEPARTMENT OF FINANCE
OFFICE OF THE SECRETARY**

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**HASLET ARMORY
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DOVER, DELAWARE 19901
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FAX: (302) 739 - 1139**

December 21, 2007

The Honorable Ruth Ann Minner, Governor,
Members of the Legislature,
Investors and Citizens of Delaware:

It is my pleasure to present the 2007 Comprehensive Annual Financial Report (CAFR) for the State of Delaware. The report for the fiscal year ended June 30, 2007 has been prepared in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as prescribed by the Governmental Accounting Standards Board (GASB). The State continues to follow the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting.

The Department of Finance is responsible for accuracy of the data, as well as the completeness and fairness of the report's presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is presented in a manner that fairly reports the State's financial position, results of operations, and changes in net assets/fund balances. All disclosures necessary to enable the Governor, members of the General Assembly, the public and the financial community to fully understand the State's financial activities are included.

The CAFR is presented in three major sections. The introductory section includes a list of key State officials and the Certificate of Achievement for Excellence in Financial Reporting for fiscal year 2006. The basic financial statements and Management's Discussion and Analysis (MD&A) are included in the financial section, and the statistical section includes selected financial, economic and demographic information.

GASB Statement No. 34 requires that management provide a narrative introduction, overview and analysis to accompany the Basic Financial Statements in the form of the MD&A. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditors' report.

PROFILE OF THE GOVERNMENT

Delaware is located on the eastern seaboard of the United States and is bordered by the Atlantic Ocean, the Delaware Bay and the states of New Jersey, Pennsylvania and Maryland. The State is 96 miles long and has a land area of 1,955 square miles. Over 853,000 people reside here. As the first state to ratify the United States Constitution on December 7, 1787, Delaware is known as “The First State.” The structure of Delaware’s government, which is similar to other states, consists of three branches that operate through a system of checks and balances. The executive branch is comprised of the Governor, Lt. Governor, State Treasurer, State Auditor, Attorney General and Insurance Commissioner. The legislative branch is bicameral and consists of a 21-member Senate and a 41-member House of Representatives. The judicial branch includes the Supreme Court, Superior Court, Court of Chancery, and other courts.

The State of Delaware reporting entity reflected in the CAFR, which is described more fully in Note 1 to the basic financial statements, conforms to the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Further, Statement No. 14 provides that the financial statements should emphasize the primary government and permit financial statement users to distinguish between the primary government and its component units. Consequently, the transmittal letter, MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the discretely presented component units is provided, their separately issued financial statements should be read to obtain a complete overview of their financial position.

The State budgets and controls its financial activities on the cash basis of accounting during its fiscal year. In compliance with State law, the State records its financial transactions in either of two major categories – the budgetary General Fund or budgetary Special Funds. References to these funds include the terms “budgetary” or “budgetary basis” to differentiate them from the GAAP funds of the same name which encompass different funding categories. GAAP fund definitions for accounting purposes differ from those of the budgetary basis General and Special Funds and are fully explained in Note 1 to the basic financial statements.

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. All disbursements from the budgetary General Fund must be authorized by appropriations of the General Assembly.

Budgetary Special Funds are designated for specific purposes. The appropriate budgetary Special Fund is credited with tax or other revenue allocated to such fund and is charged with the related disbursements. Examples of specific uses of budgetary Special Funds include the Transportation Trust Fund, which collects some of its revenue through motor fuel taxes and tolls. Federal payments, unemployment compensation and local school funds are examples of non-appropriated Special Funds. Some Special Funds, such as the Delaware State Housing Authority and the State Pension Office, contain both appropriated funds for operations and non-appropriated funds for specific programs, such as public housing and pension benefits.

Federal funds, which are credited to budgetary Special Funds, are not appropriated, but are subject to the review and approval of the State Office of Management and Budget and the Delaware State Clearinghouse Committee for Federal Aid Coordination. The Committee is comprised of 10 members, including the Secretary of Finance, Director of the Office of Management and Budget, Director of the Delaware Economic Development Office, the Controller General, and six legislators.

Budgetary Control and Financial Management Systems

Disbursements are controlled by an encumbrance accounting system designed to provide information on the actual extent of the State's obligations and guard against over-committing available funds. Appropriations are reduced immediately when purchase orders are issued for goods and services. The total amount of budgetary General Fund cash disbursements, plus unliquidated encumbrances, cannot exceed the amount appropriated by the General Assembly for any specific budgetary line items by department. Internal controls prevent State organizations from spending beyond budgetary limits (see Notes to Required Supplementary Information for more details).

Although the majority of the State's financial transactions are processed through the State's primary accounting system, certain Special Funds have financial activity external to that system, such as the Transportation Trust Fund, the Delaware State Housing Authority and Delaware State University. This activity is governed in strict adherence to legislative regulations and guidelines established by their boards. In addition, these entities are audited annually and produce published financial reports.

Budget Process

Each fall, State organizations submit requests for operating and capital funds for the next fiscal year to the Office of Management and Budget and public hearings are held to review the requests. The Governor's proposed operating and capital budgets for the General Fund and Special Funds, including the Transportation Trust Fund, are then drafted and presented by the Governor to the General Assembly in January. The General Assembly's Joint Finance and Bond Bill Committees hold hearings and mark up the Governor's proposed operating and capital budgets. As amended, the budgets are expected to be enacted on July 1.

Appropriation Limit

The State Constitution limits annual appropriations by majority vote of both houses of the General Assembly to 98% of estimated budgetary General Fund revenue plus the unencumbered budgetary General Fund balance from the previous fiscal year. An exception to this limit may be made in the event of a declared emergency, with the approval of a three-fifths vote of the members of each house of the General Assembly. No appropriation may be made which exceeds 100% of estimated budgetary General Fund revenue plus the unencumbered General Fund balance from the previous fiscal year.

Tax Limitations

The State Constitution was amended in May 1980 to limit tax and license fee increases or the imposition of any new taxes or fees to a three-fifths vote of each house of the General Assembly, rather than by a simple majority vote. An exception exists for tax increases to meet debt service on outstanding obligations of the State for which insufficient revenue is available when such debt service is due.

Revenue and Expenditure Forecasting

The Delaware Economic and Financial Advisory Council (DEFAC), an entity created by executive order in 1977, is required to submit revenue forecasts for the budgetary General Fund and Transportation Trust Fund to the Governor and the General Assembly. The committee is comprised of 29 members, appointed by the Governor, from the executive and legislative branches of State government and the private sector.

DEFAC prepares revenue estimates six times each fiscal year in September, December, March, April, May and June for the current fiscal year and the succeeding two fiscal years. A revenue forecast for the current fiscal year and the succeeding four fiscal years is generated once each year, generally in September. Budgetary General Fund and Transportation Trust Fund expenditure forecasts are generated for the current fiscal year in December, March, April, May and June.

The revenue and expenditure forecasts are used in the State budget process to ensure State compliance with constitutional limits on spending and statutory debt limitations. In addition, DEFAC advises the Governor and General Assembly on economic conditions in the State and advises the Governor and the Secretary of Finance on tax policy. DEFAC meetings are open to the public and provide a general forum for members of the public and private sectors to exchange views on matters of economic and fiscal concern for the State.

Strong Financial Management

Delaware's tradition of sound financial management continues to be recognized by a premier credit rating from all three principal rating agencies: Aaa from Moody's Investor's Service, AAA from Fitch Ratings and AAA from Standard & Poor's. The ratings reflect Delaware's many strengths represented by practices that have become institutionalized within the State:

- expenditure budgeting of 98% of available general fund revenue
- general fund revenue forecasts that are frequent, objective and often conservative
- three-part debt affordability test that limits debt issuance to 5% of general fund revenue
- consistent satisfaction of Delaware's budget reserve requirement - Delaware's rainy day fund has never fallen below its mandated 5% of general fund revenue
- full funding of its pension plan

These ratings were reaffirmed in May 2007.

ECONOMIC CONDITIONS AND OUTLOOK

In recent years, Delaware's economic performance has largely exceeded national trends. Since fiscal 2002, Delaware's rate of growth in employment has outpaced the national growth rate. Moreover, throughout the business cycle, Delaware consistently posted lower unemployment rates than the United States. Delaware's population, the increase in which also outpaced the nation, reflects the State's healthy employment trends. In the near-term, Delaware's employment growth is expected to slow somewhat, reflecting restructuring in the State's financial and manufacturing sectors. Long-term prospects, however, remain positive as the State's highly educated workforce and low cost of business are expected to provide an environment in which Delaware's economy will again consistently exceed national growth rates.

Over the past twenty years, Delaware's employment has shifted from a manufacturing base to a service orientation with gains experienced in several of the service industries, including Professional and Business Services, Education and Health Services. The shift reflects deliberate policies designed to create a business climate attractive to banking and related business and financial services. These efforts were never more apparent than in 2006. When faced with the challenge of losing its largest private employer due to the acquisition of MBNA by Bank of America, Delaware modernized its bank franchise tax. This quick action by the State's leadership minimized job and revenue loss and is widely regarded as playing a significant part in Bank of America's decision to remain chartered in Delaware.

Delaware will continue to focus on the challenges of transportation funding and management of its retiree health care obligations. Delaware will comply with GASB Statement No. 45, *Accounting and Reporting for Other Post-Employment Benefits (OPEB)* and begin reporting its \$3.2 billion retiree health care obligation in fiscal 2008 as required. Partial funding of the obligation began in fiscal 2006, but Delaware will continue to look for alternate solutions to management of retiree health care costs for the long-term.

With an economy under expansion, Delaware's growth has resulted in development that has outpaced its transportation infrastructure. The State will approach this fiscal challenge as any other. Investment in Delaware's transportation system will continue to be evaluated within a stringent institutional framework and, ultimately, based on need and affordability.

Despite these challenges, Delaware's foundation for the future remains solid. The State's success in diversifying its economy, its timely response to challenges, its strong income and employment rates and its business friendly legal system well position Delaware to face today's challenges as well as those of tomorrow.

INDEPENDENT AUDIT

The accounting firm of KPMG LLP has audited the accompanying Basic Financial Statements for the State of Delaware as of, and for the year ended, June 30, 2007. The Auditor's report on the financial statements is included in the financial section of this report.

The State Auditor of Accounts performs periodic financial and compliance audits of the various State departments, agencies and institutions of higher education and has primary responsibility for conducting audits under the federal Single Audit Act of 1984 which was amended by Single Audit Act of 1996. Results of these audits may be found in separately issued audit reports and may be obtained by contacting the Office of Auditor of Accounts, the Townsend Building, Suite #1, 401 Federal Street, Dover, DE 19901.

CERTIFICATE OF ACHIEVEMENT

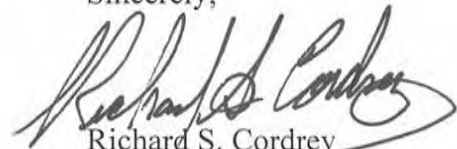
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Delaware for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This is the 12th consecutive year the State has received this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe our current report continues to meet the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this Comprehensive Annual Financial Report was made possible by the support of all State organizations and component units that supplied data. I wish to express my special appreciation to my staff, especially the Division of Accounting as well as all the other individuals and organizations that assisted in the preparation of this report. This report is also available on the Internet at: http://www.state.de.us/finance/publications/Financial_Reports.shtml.

Sincerely,



Richard S. Cordrey
Secretary of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Delaware

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Handwritten signature of Charles S. Cox in black ink.

President

Handwritten signature of Jeffrey R. Emer in black ink.

Executive Director

State of Delaware
Selected State Officials
As of June 30, 2007

KEY ELECTED OFFICIALS:

| | |
|------------------------|---------------------|
| Governor | Ruth Ann Minner |
| Lt. Governor | John C. Carney, Jr. |
| Attorney General | Joseph R. Biden III |
| State Treasurer | Jack A. Markell |
| State Auditor | R. Thomas Wagner |
| Insurance Commissioner | Matthew Denn |

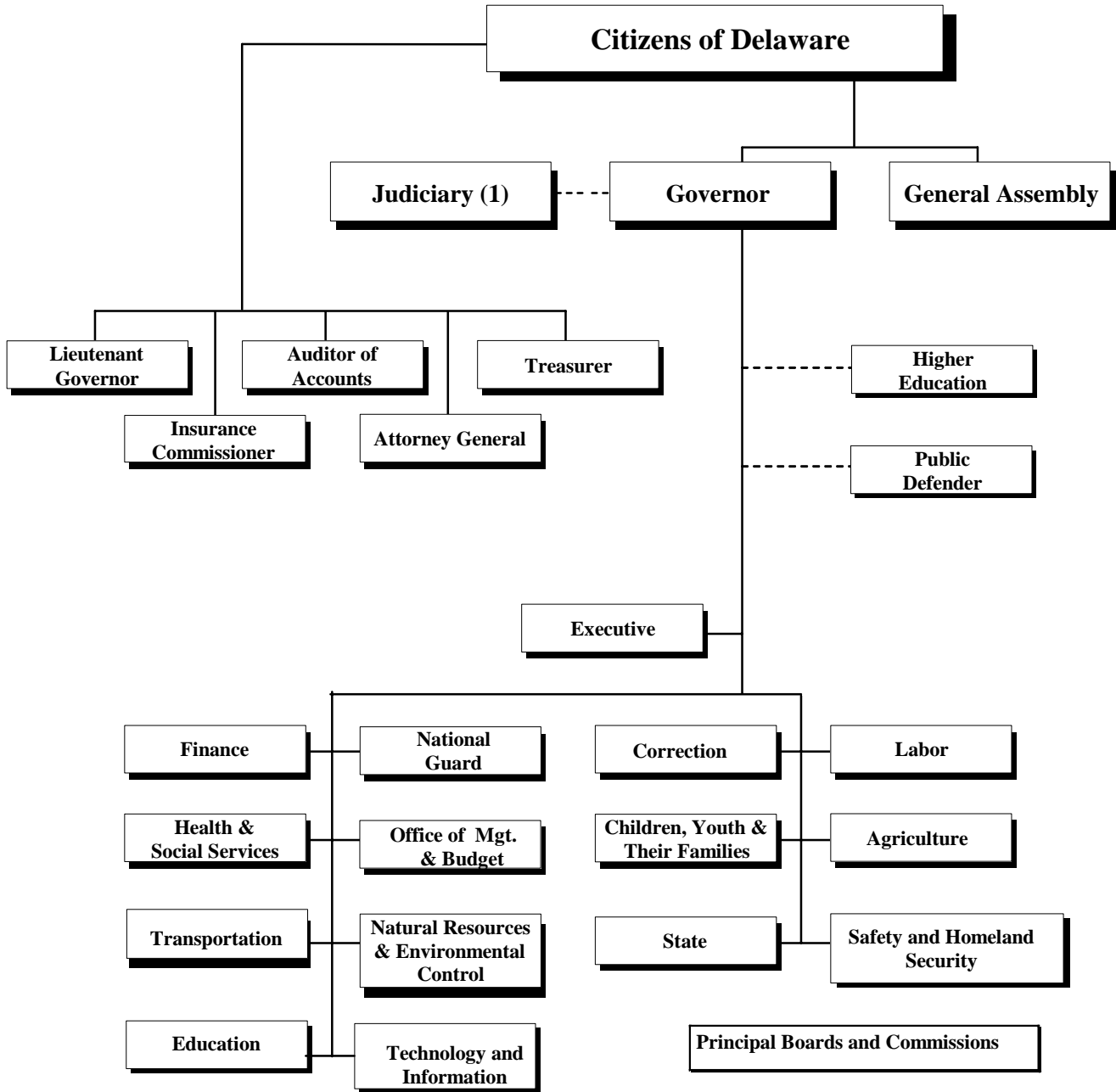
KEY LEGISLATIVE OFFICIALS:

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| President Pro Tem of the Senate | Thurman G. Adams, Jr. |
| Senate Majority Leader | Anthony J. DeLucca |
| Senate Minority Leader | Charles L. Copeland |
| Speaker of the House of Representatives | Terry R. Spence |
| House of Representatives Majority Leader | Richard C. Cathcart |
| House of Representatives Minority Leader | Robert F. Gilligan |

CABINET POSITIONS AND OTHER APPOINTED OFFICIALS:

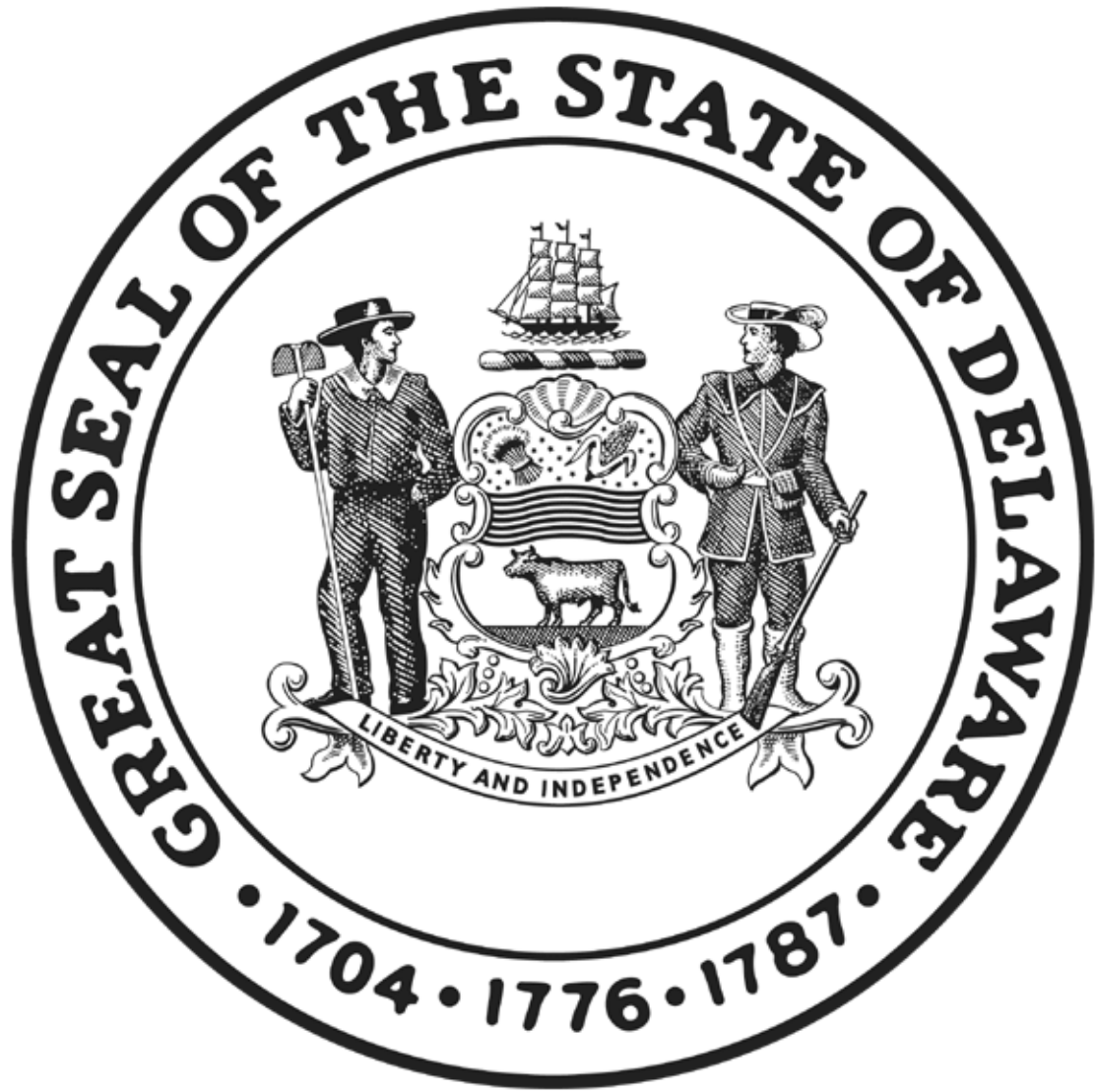
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|---|-----------------------------------|
| Agriculture | Michael T. Scuse |
| Correction | Carl C. Danberg |
| Delaware Economic and Development Office | Judy McKinney-Cherry |
| Delaware State Housing Authority | Sandra R. Johnson |
| Education | Valerie A. Woodruff |
| Finance | Richard S. Cordrey |
| Health and Social Services | Vincent P. Meconi |
| Labor | Thomas B. Sharp |
| National Guard | (Major General) Francis D. Vavala |
| Natural Resources and Environmental Control | John A. Hughes |
| Office of Management and Budget | Jennifer W. Davis |
| Safety and Homeland Security | David B. Mitchell |
| Services for Children, Youth and Their Families | Carol Ann DeSantis |
| State | Harriet N. Smith Windsor |
| Technology and Information | Thomas M. Jarrett |
| Transportation | Carolann Wicks |

State of Delaware Organizational Chart



(1) Judiciary - All Judges are appointed by the Governor with the consent of the Senate.

- Board of Education
- Elections
- Exceptional Citizens
- Fire Prevention
- Parole



Financial Section



Great Egret – The egret is one of the many waterfowls found at the Bombay Hook National Wildlife Refuge.

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Honorable Governor and
Honorable Members of the State Legislature
State of Delaware:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware (State) as of and for the year ended June 30, 2007, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



The management's discussion and analysis on pages 4 through 19, the budgetary comparison schedules for the general fund and special fund on pages 116 through 121, the information about infrastructure assets reported using the modified approach on pages 122 and 123, and the schedules of required supplementary pension data on pages 124 through 126 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The supplementary financial information, introductory and statistical sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary combining statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, in conjunction with other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

December 21, 2007

Management's Discussion and Analysis

The following is a discussion and analysis of the State of Delaware's financial activities for the fiscal year ended June 30, 2007. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found on pages i-vi of this report.

These financial statements have been prepared using the financial accounting model adopted by the Governmental Accounting Standards Board (GASB).

Financial Highlights

- The assets of the State exceeded its liabilities at the close of the most recent fiscal year by \$5.8 billion (net assets). Component units reported net assets of \$719.5 million, an increase of \$70.0 million from the previous year.
- As a result of its operations, the primary government's total net assets increased by \$276.2 million (5.0%) in fiscal year 2007. Net assets of governmental activities increased by \$243.3 million (9.7%) from the previous year, while net assets of the business-type activities increased \$32.9 million (1.1%) from the previous year.
- The State's governmental funds reported combined ending fund balances of \$1,566.5 million, an increase of \$191.8 million (14.0%) in comparison with the prior year. This increase resulted primarily from \$108 million of bond proceeds unspent at June 30, 2007.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$956.1 million, which was 24.0% of total general fund expenditures. Some of the unreserved fund balance is not available for new spending as such funds have been committed based on State statutes that can only be amended by legislation.
- The State's total general obligation debt increased \$265.7 million (25.4%) during fiscal year 2007 to \$1,310.9 million. Of the State's outstanding debt, \$482.1 million (36.8%) has been issued on behalf of local school districts, which are supported by the property tax revenues of those districts.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information, in addition to the basic financial statements.

Government-wide financial statements The government-wide financial statements are designed to provide readers with a broad overview of the State of Delaware's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the State of Delaware's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State of Delaware is improving or deteriorating.

The statement of activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event that created the change occurs, regardless of the timing of related cash flows. As a result, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the State that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State include general government, health and children's services, judicial and public safety, natural resources and environmental control, labor and education. The business-type activities of the State include transportation, lottery and unemployment services.

The government-wide financial statements include not only the State (known as the primary government), but also legally separate entities for which the State of Delaware is financially accountable. These entities include the Delaware State Housing Authority, the Diamond State Port Corporation, the Riverfront Development Corporation, the Delaware State University, the Delaware Technical and Community College Educational Foundation and 17 charter schools. Financial information for these component units is reported separately from the financial information presented for the primary government. The government-wide financial statements can be found on pages 20-21 of this report.

Fund financial statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State of Delaware can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental fund financial statements focus on near-term inflows and outflows of available resources, as well as on balances of available resources on hand at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds

statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The State maintains four individual governmental funds: the general fund, the capital projects fund, the federal fund and the local school district fund. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance for these funds.

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 funds in this report include the terms “budgetary” or “budgetary basis” to differentiate them from the GAAP funds of the same name which encompass different funding categories. The State of Delaware adopts an annual appropriated budget for its budgetary general fund. A budgetary comparison statement has been provided for the budgetary general fund to demonstrate compliance with the budget. The statement can be found on page 118 of this report.

The basic governmental funds financial statements can be found on pages 22-25 of this report.

Proprietary funds The State maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The State uses enterprise funds to account for operations of the Delaware State Lottery (Lottery), Unemployment Insurance Trust Fund and the Delaware Department of Transportation (DelDOT).

Proprietary funds provide the same type of information as the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the Lottery, Unemployment Insurance Trust Fund and the DelDOT, all of which are considered to be major funds of the State.

The basic proprietary fund financial statements can be found on pages 26-28 of this report.

Fiduciary funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State’s own programs. The pension trust funds are the primary fiduciary funds for the State. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 29-30 of this report. Combining fiduciary fund statements can be found on pages 128-132.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34 -113 of this report.

Other information In addition to the basic financial statements and accompanying notes, this report presents certain Required Supplementary Information (RSI) concerning the status of the State’s legally adopted budget, the maintenance of the State’s infrastructure and additional schedules related to funding status and progress, annual pension costs and actuarial methods and

assumptions for the State's pension trusts. The RSI can be found on pages 116 - 126 of this report.

Statewide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the State of Delaware, assets exceeded liabilities for the primary government by \$5.8 billion at the close of the most recent fiscal year.

The largest portion of the State's net assets (69.2%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment) less any related outstanding debt used to acquire those assets. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net assets, comprising 9.0% of total net assets, represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion, unrestricted net assets (21.8%), may be used at the State's discretion; however, some of these funds have been appropriated based on State statutes.

Condensed Financial Information - Primary Government

As of June 30

(Expressed in Thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Current and other non-current assets | \$ 2,463,944 | \$ 2,207,560 | \$ 646,290 | \$ 588,064 | \$ 3,110,234 | \$ 2,795,624 |
| Capital assets | 2,639,400 | 2,338,705 | 3,631,094 | 3,595,099 | 6,270,494 | 5,933,804 |
| Total assets | <u>5,103,344</u> | <u>4,546,265</u> | <u>4,277,384</u> | <u>4,183,163</u> | <u>9,380,728</u> | <u>8,729,428</u> |
| Long-term liabilities outstanding | 1,556,234 | 1,285,739 | 994,903 | 952,540 | 2,551,137 | 2,238,279 |
| Other liabilities | 795,276 | 751,988 | 197,191 | 178,198 | 992,467 | 930,186 |
| Total liabilities | <u>2,351,510</u> | <u>2,037,727</u> | <u>1,192,094</u> | <u>1,130,738</u> | <u>3,543,604</u> | <u>3,168,465</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 1,385,413 | 1,244,073 | 2,653,221 | 2,616,971 | 4,038,634 | 3,861,044 |
| Restricted | 182,750 | 175,365 | 342,263 | 358,547 | 525,013 | 533,912 |
| Unrestricted | <u>1,183,671</u> | <u>1,089,100</u> | <u>89,806</u> | <u>76,907</u> | <u>1,273,477</u> | <u>1,166,007</u> |
| Total net assets | <u>\$ 2,751,834</u> | <u>\$ 2,508,538</u> | <u>\$ 3,085,290</u> | <u>\$ 3,052,425</u> | <u>\$ 5,837,124</u> | <u>\$ 5,560,963</u> |

The capital assets of the Governmental Activities increased \$300.7 million (12.9%) since June 30, 2006. Primary increases are a result of significant renovations to, and expansions of, existing school buildings across all counties to accommodate the rise in student population.

Construction costs continue to increase consistent with national trends for higher costs for construction supplies, such as steel and lumber.

Increases in current and other noncurrent assets were attributable to: an increase of \$150.3 million in the governmental activities cash and investment pool from funds unspent from the \$383.1 million of bonds sold during the fiscal year; an increase in loan and notes receivable of \$38.2 million due to issuance of new loans under the drinking water and water pollution control programs, and; an increase of \$37.0 million in accounts receivable consistent with the business tax revenue increase as discussed in the governmental activities section.

The general obligation debt increase of \$262.3 million caused increases in both long-term liabilities outstanding and other liabilities. The current portion of compensated absences has increased by \$9.3 million. This is due primarily to the aging of the State government's employee workforce.

In addition to the increases noted above, securities lending activities, which began during 2006 as an opportunity to earn additional investment income, increased both assets and liabilities \$22.2 million from fiscal 2006 to fiscal 2007. Collateral is required for borrowed securities equal to 102% of the borrowed securities. The State invests collateral to earn interest. Investments held for securities lending transactions and the corresponding collateral held for securities lending transactions were \$152.8 million at June 30, 2007.

The increase of Business-type current and other non-current assets is due to higher investment balances at year end with Delaware's Department of Transportation. Attributing factors to increased liabilities are greater accounts payable and increased bonds payable debt due to fiscal year 2007 revenues bond issuance.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects the changes in net assets during the fiscal year.

Changes in Net Assets - Primary Government
For Year End June 30
(Expressed in Thousands)

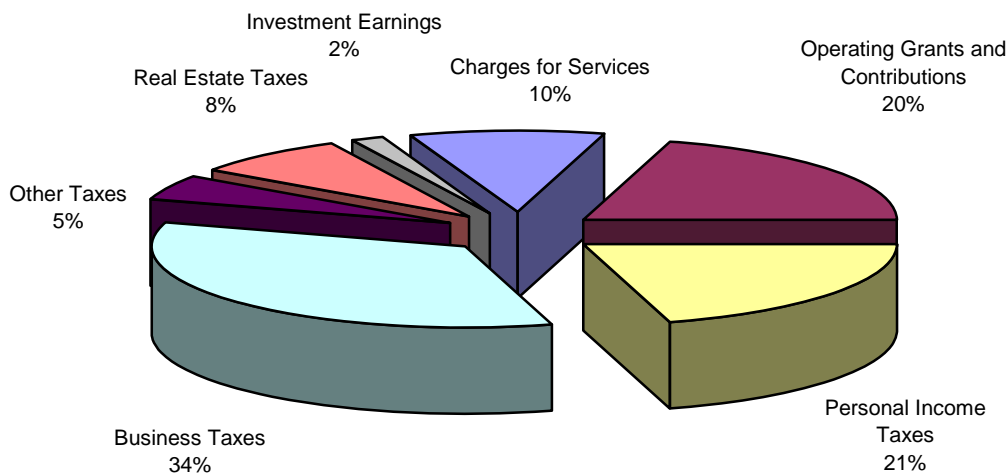
| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|--|-------------------------|---------------------|--------------------------|---------------------|--------------------------|---------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 491,097 | \$ 410,169 | \$ 1,206,768 | \$ 1,193,871 | \$ 1,697,865 | \$ 1,604,040 |
| Operating grants and contributions | 1,001,981 | 959,567 | | | 1,001,981 | 959,567 |
| Capital grants and contributions | 1,740 | 3,334 | 103,331 | 107,463 | 105,071 | 110,797 |
| General revenues: | | | | | | |
| Taxes: | | | | | | |
| Personal income taxes | 1,016,911 | 1,014,499 | | | 1,016,911 | 1,014,499 |
| Business taxes | 1,672,112 | 1,535,139 | | | 1,672,112 | 1,535,139 |
| Real estate taxes | 388,135 | 349,728 | | | 388,135 | 349,728 |
| Other taxes | 254,960 | 287,651 | | | 254,960 | 287,651 |
| Investment earnings | 82,701 | 49,577 | 23,486 | 16,634 | 106,187 | 66,211 |
| Gain (loss) on sale of assets | (72) | 721 | (2,680) | (4,211) | (2,752) | (3,490) |
| Miscellaneous | 24,287 | 33,595 | (1,000) | | 23,287 | 33,595 |
| Total revenues | <u>4,933,852</u> | <u>4,643,980</u> | <u>1,329,905</u> | <u>1,313,757</u> | <u>6,263,757</u> | <u>5,957,737</u> |
| Expenses: | | | | | | |
| General Government | 513,326 | 480,490 | | | 513,326 | 480,490 |
| Health and Children's Services | 1,699,475 | 1,619,176 | | | 1,699,475 | 1,619,176 |
| Judicial and Public Safety | 574,809 | 539,365 | | | 574,809 | 539,365 |
| Natural Resources and Environmental Control | 173,331 | 114,287 | | | 173,331 | 114,287 |
| Labor | 74,194 | 61,013 | | | 74,194 | 61,013 |
| Education | 1,774,528 | 1,719,901 | | | 1,774,528 | 1,719,901 |
| Payment to Component Unit - Education | 89,945 | 81,575 | | | 89,945 | 81,575 |
| Interest Expense | 50,560 | 46,051 | | | 50,560 | 46,051 |
| Lottery | | | 424,111 | 408,997 | 424,111 | 408,997 |
| Transportation | | | 504,466 | 485,169 | 504,466 | 485,169 |
| Unemployment | | | 108,851 | 92,025 | 108,851 | 92,025 |
| Total expenses | <u>4,950,168</u> | <u>4,661,858</u> | <u>1,037,428</u> | <u>986,191</u> | <u>5,987,596</u> | <u>5,648,049</u> |
| Increase (decrease) in net assets before transfers | (16,316) | (17,878) | 292,477 | 327,566 | 276,161 | 309,688 |
| Transfers | 259,612 | 222,554 | (259,612) | (222,554) | | |
| Increase in net assets | 243,296 | 204,676 | 32,865 | 105,012 | 276,161 | 309,688 |
| Net assets - beginning of year | 2,508,538 | 2,303,862 | 3,052,425 | 2,947,413 | 5,560,963 | 5,251,275 |
| Net assets - end of year | <u>\$ 2,751,834</u> | <u>\$ 2,508,538</u> | <u>\$ 3,085,290</u> | <u>\$ 3,052,425</u> | <u>\$ 5,837,124</u> | <u>\$ 5,560,963</u> |

Governmental activities Governmental activities increased the State’s net assets by \$243.3 million while business-type activities increased the State’s net assets by \$32.9 million. A comparison of the cost of services by function for the State’s governmental activities is shown in the following chart, along with the revenues used to cover the net expenses of the governmental activities. Key elements of the increase in net assets are as follows:

Total general revenues increased overall \$168.1 million (5.1%) with significant increases in tax revenues and interest income. In addition, strong growth in the state’s insurance, public utility and bank franchise taxes as well as in abandoned property collections, helped offset decreasing personal income tax growth.

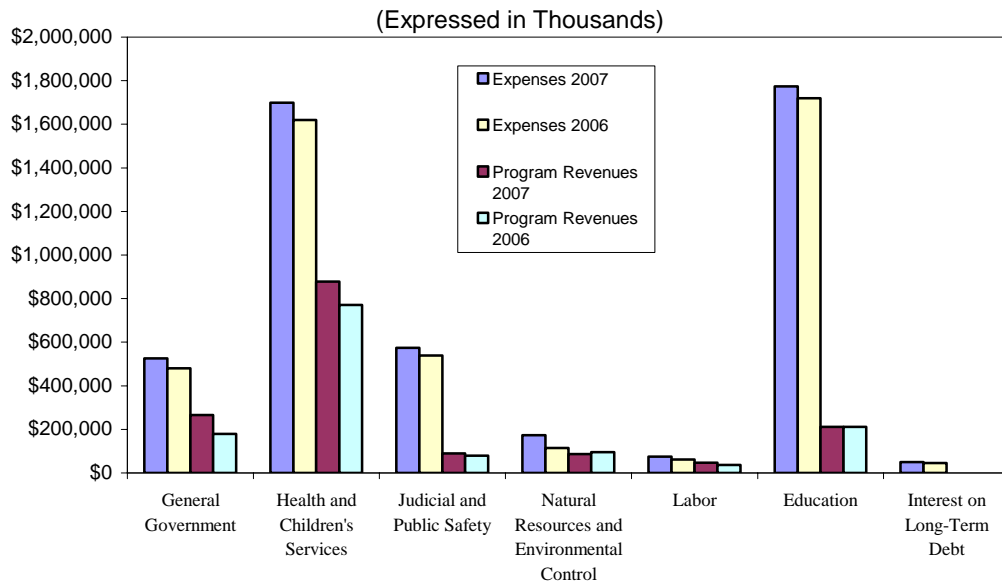
Program revenues increased by \$121.8 million (8.9%) from the prior year. Charges for services were higher by \$80.9 million. This is due to increases in license fees and park fees as Indian River Marina was opened for the first full year. Operating grants were up by \$42.4 million with \$24.0 million relating to increases in federal payments for Medicaid at Health and Children’s Services.

Revenues by Source – Governmental Activities



Expenses for governmental activities increased during fiscal year 2007 by \$288.3 million (6.2%). The largest increase occurred in Health and Children’s Services; spending increased by \$80.3 million over the prior fiscal year, an increase attributable to escalating Medicaid costs, an increase of approximately 1,000 eligible people, a new managed care contract, increased stop loss payments, and new nursing home reimbursement levels. Educational expenses increased by \$54.6 million due to the continued increase in student population causing an increase in education personnel costs of \$42.8 million. Judicial and Public Safety expenses increased by \$35.4 million due to additional caseloads within the court system and increased spending on homeland security. Natural Resources and Environment Control expenditures increased by \$59.0 million due to additional spending on maintenance and renovations on existing park facilities that are below the State’s capitalization threshold. In addition, spending increased on environmental programs such as beach erosion at Rehoboth and Dewey Beaches.

Expenses and Program Revenues- Governmental Activities



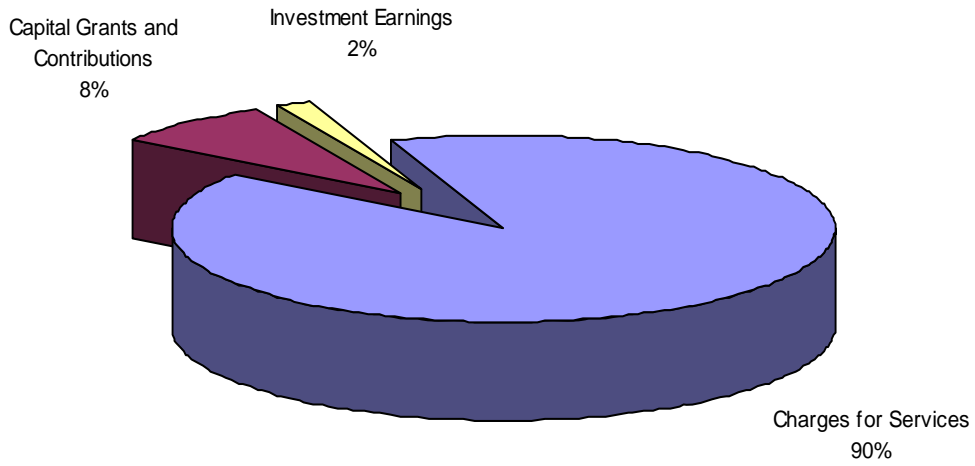
Business-type activities Business-type activities increased the State's net assets by \$32.9 million. This increase is comprised of a \$61.4 million increase in net assets by the Delaware Department of Transportation and a \$28.6 million decrease at the Unemployment Insurance Trust Fund.

The decrease in net assets of the Delaware Unemployment Insurance Trust Fund is attributable to a 16.5% decrease in unemployment insurance taxes revenue. This decrease was due to the job losses experienced in the finance and construction industries. Benefit expenses increased 18.3%. However, even though benefits exceeded revenue by \$36.6 million, fund equity remains adequate to pay average benefits for the next two years without additional revenue.

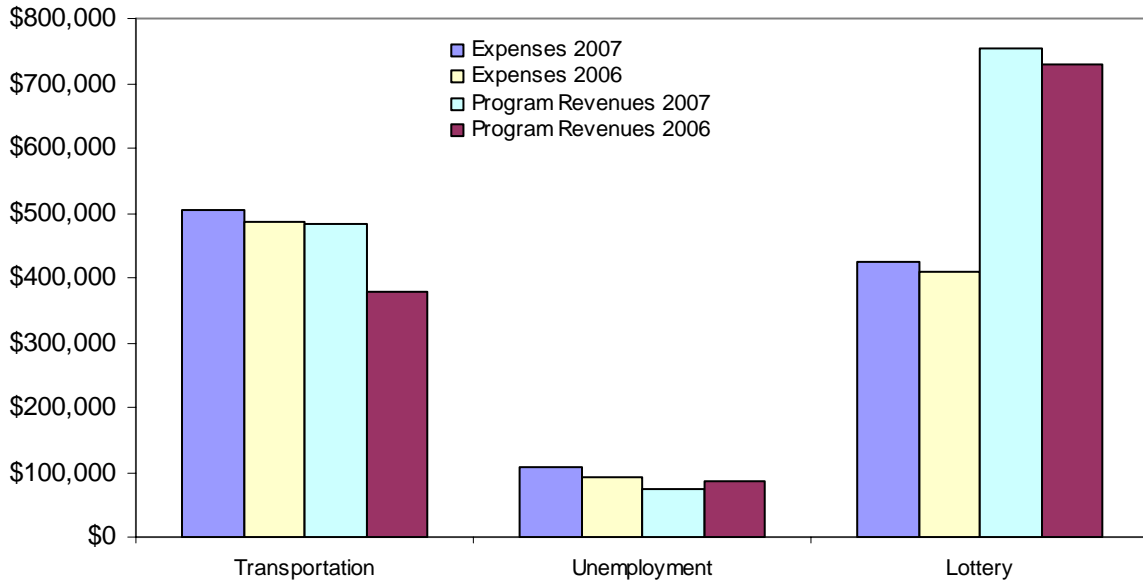
The DeIDOT fund's net assets at June 30, 2007 were \$61.4 million higher than June 30, 2006. DeIDOT's total operating revenues increased by less than \$1 million while operating expenses increased \$13.4 million. The largest contributing factor for the increase in operating expenses for fiscal year 2007 was the \$35.5 million increase in maintenance, preservation, and repairs, offset by a \$29.1 million decrease in professional fees.

The Lottery's net assets changed by less than \$0.1 million. By law, the Lottery's fund balance cannot exceed \$1.0 million. Revenue for the Lottery increased by \$27.1 million (3.7%) over last year due to increased sales of all Lottery games. Therefore, the Lottery transferred \$330.0 million to the State an increase from fiscal year 2006 of \$11.0 million. The total costs of games and prizes increased by \$13.2 million (3.3%) over the previous year.

Revenues by Source – Business-type Activities



Expenses and Program Revenues – Business-type Activities



Financial Analysis of the State's Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the State of Delaware's financing requirements. Unreserved fund balances may serve as a useful measure of a government's net resources at the end of the fiscal year.

As of the end of the current fiscal year, the State of Delaware's governmental funds reported combined ending fund balances of \$1,566.5 million, an increase of \$191.8 million. Approximately 61.2% of the aggregate fund balances, \$958.7 million, constitute unreserved fund balances.

Approximately \$607.7 million of the fund balance is reserved to indicate that its not available for new spending due to the following: 1) to liquidate contracts and purchase orders of the prior period (\$386.4 million), 2) set aside for the budget reserve account (\$182.8 million), 3) for inventories and other assets (\$4.3 million), and 4) for prepaid items (\$34.2 million).

General funds The general fund accounts for the operation and administration of the State. Total general fund balance decreased by \$31 million for the fiscal year. Total general fund revenue increased by \$128.2 million (3.6%) while expenditures increased by \$245.7 million (6.6%). The increases in revenue were caused by an increase in business taxes of \$131.1 million (8.5%) and a decrease in personal income taxes of less than \$1 million. The increase in business taxes was due to increased collection of the bank franchise tax from the revenue growth in the banking industry. Also, included in business tax revenue is insurance tax which increased due to the insurance business climate and an increase in insurance policies written.

Expenditures increased by \$43.5 million (7.2%) for General Government, an increase of \$70.4 million (7.1%) for Health and Children's Services, and \$62.4 million (5.2%) for Education. Increases in energy costs, including development and implementation of alternative fuel sources and reductions in environmental emissions caused the increase in General Government expenditures. Health and Children's Service expenditures increased primarily due to Medicaid cost increases consistent with an increase in the population needing public assistance and new managed care contracts. Educational expenses increased consistent with an increase in student population. Capital outlays increased significantly since fiscal year 2006 (see Capital Assets and Debt Administration below) which primarily impacted the General Government and Education functions. Salary expense increased 6.3% from fiscal year 2006 to fiscal year 2007 with the hiring of new employees and pay raises, which impacted expenditure increases across all functions.

At the end of the current fiscal year, unreserved fund balance of the general fund was \$956.1 million, while total fund balance reached \$1,339.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 24% of total general fund expenditures, while total fund balance represents 33.6% of total fund expenditures or 123 days of operations.

Federal funds Federal funds represent pass through grants used for designated purposes. Revenue increased by \$36.7 million for the year while spending increased by \$8.3 million, due to increased spending in social service programs such as Medicaid and public assistance to children, youth and their families.

Local School funds These funds are used to account for activities relating to the State's local school districts which are funded by locally raised real estate taxes and other revenues. The fund balance increased by \$30.5 million to \$117.4 million. Additional funds were received during fiscal year 2007 from referendums for new capital projects.

Capital Project funds Capital Project Funds are used to account for the construction and acquisition of capital assets of the primary government. Capital outlay expenditures totaled \$220.6 million, a decrease of \$3.1 million from fiscal year 2006. State Legislation authorizes certain Capital Project expenditures prior to the issuance of bonds in an aggregate amount not to exceed 3% of General Fund revenue.

Proprietary funds The State of Delaware's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the Lottery, Unemployment Insurance Trust Fund and the DelDOT fund, all of which are considered to be major funds of the State.

The State's net assets increased in fiscal 2007 by \$32.9 million as a result of operations in the proprietary funds. Page 11 discusses the changes in net assets of the business-type activities.

General Fund Budgetary Highlights

The Budgetary General Fund is the chief operating fund of the State. At the end of the fiscal year, total fund balance decreased by \$99.7 million (14.4%). Revenues were \$120.3 million (3.8%) higher than the previous fiscal year due to the economy's strength sustained reflected in the increase in business tax receipts, which, despite the first full-year impact of a better than 20% reduction in the gross receipts tax, increased \$37.4 million (3.5%). Other non-tax revenue increased in fiscal 2007 by \$66.3 million (16.9%) due to continued strength in abandoned property collections, which grew \$39.8 million (12.2%).

Expenditures were \$209.4 million (6.6%) higher than the previous fiscal year. Salaries and other employment costs increased by \$104.9 million (6.6%). Grants-in-Aid decreased by \$38.0 million (9.4%) while Medicaid and Public Assistance grew by \$62.5 million (13.2%). In addition, contractual services increased by \$37.3 million (14.9%), Personal Services increased by \$35.8 million (19.8%) and capital outlays increased by \$9.6 million (12.4%). Debt service payments decreased by \$1.3 million (0.9%) as the debt payments were made from the special fund.

The original budget authorizes current fiscal year operating and administrative expenditures. Included in the final budget are the original budget, prior year encumbrances, multi-year project budgetary carry-forwards from the prior fiscal years, and all modifications to the original budget. The most significant components are the original budget and carry-forwards of prior fiscal year. The unused appropriations from a prior year will carry forward to the final budget for authorized capital projects and grants for example until the funds are spent. During Fiscal Year 2007, the

original budget was modified to provide increased spending in services in education, health and children's services, self-insurance for health care, expenditures for beach and farmland preservation, land and water conservation, and minor capital renovations in facilities management.

The final budget exceeded actual expenditures in all departments, with significant favorable budget variances in the following departments:

- \$101.7 million in the Executive Department for funds budgeted but not spent on an ongoing significant capital improvement project to upgrade the State's emergency response system and software system upgrades for Enterprise Resource Planning Software and a Courts (Courts Organized to Service) system; other minor capital projects; loans to other agencies and to contractors for subsidized housing improvements;
- \$88.9 million in the Department of Education for funds budgeted but not spent on educational programs (such as the "No Child Left Behind" act);
- \$44.6 million in Natural Resources and Environmental Control for expenditures authorized in the final budget but not spent on energy incentives and incentives for improving the environment such as beach preservation, storm water retention ponds, improvements to State Parks, environmental clean up and water conservation;
- \$38.8 million in the Department of Health and Social Services as well as \$7.5 million in the Department of Children, Youth and Their Families for programs that have been rendered but not yet billed such as Delaware Healthy Children Program costs.

Funded projects which are not completed by year-end may carry over unspent funds into Fiscal Year 2008. Unspent funds are reflected in the final budget which may cause variances from original budget.

Capital Assets and Debt Administration

Capital assets The State of Delaware's investment in capital assets for its governmental and business-type activities, as of June 30, 2007, amounted to \$6.3 billion (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, easements, roads, highways, and bridges. The total increase in capital assets for governmental activities was \$300.7 million (12.9%) and the increase for business-type activities was \$36.0 million (1.0%).

Major capital asset acquisitions during the current fiscal year included the following:

- Completion of new schools and renovations of existing schools of \$244.0 million as well as completion of the Delaware Veteran's Home in Milford of \$29.7 million and the completion of Delaware Department of Natural Resources' Blue Ball Barn of \$9.0 million. In addition, construction-in-progress as of June 30, 2007 was \$316.8 million for governmental activities. Approximately 80% of this total is related to the building of new schools and improvements to existing schools across all counties, with the majority of spending occurring in New Castle County.

- The DelDOT fund increased due to the Riverfront projects and Route 141/US 202 projects.

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording expense related to selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include 4,454 center-line miles of roads and 1,417 bridges that the State is responsible to maintain.

DelDOT performs condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every year using the Overall Pavement Condition (OPC) rating system. Bridge condition assessments are conducted, for the most part, every two years using the Bridge Condition Rating (BCR) system.

Of the State's 1,417 bridges that were rated in 2006, 78.5% received a good or better BCR rating (a 2.2% increase over 2005), 17.3% were rated fair, and 4.2% received a substandard rating. Of the 7,267,932 square feet of bridge deck that was rated, 94.4 % or 6,860,141 square feet received an OPC condition rating of good or better (a 0.4% increase over 2005), 5.3% received a fair rating, and 0.3% received a substandard deck rating. In 2006, 4,454 center line miles were rated; 89.5% received a fair or better OPC rating and 10.5% received a poor rating.

The 2007 estimate to maintain and preserve the Department of Transportation's infrastructure was \$129.1 million, but the actual expenditures were \$256.6 million, which is \$127.4 million over the estimate. The variance was for the increase in the costs of materials which is predominantly attributed to change orders necessary on jobs that are not estimated when the project is set up and budgeted.

Additional information on the State's capital assets can be found in Note 1 on pages 34-45, Note 12 on pages 92-95 and on pages 122-123 in the Required Supplementary Information.

A summary of the State's primary government's capital assets, net of depreciation is provided below.

State of Delaware Capital Assets as of June 30

Net of Depreciation

(Expressed in Thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2007 | 2006* | 2007 | 2006 | 2007 | 2006 |
| Land | \$ 413,080 | \$ 386,717 | \$ 206,411 | \$ 211,272 | \$ 619,491 | \$ 597,989 |
| Land improvements | 61,030 | 57,438 | | | 61,030 | 57,438 |
| Buildings | 1,682,438 | 1,450,519 | 35,459 | 36,901 | 1,717,897 | 1,487,420 |
| Easements | 117,997 | 97,515 | | | 117,997 | 97,515 |
| Equipment and vehicles | 48,066 | 43,763 | 84,201 | 75,616 | 132,267 | 119,379 |
| Infrastructure | | | 3,283,783 | 3,255,998 | 3,283,783 | 3,255,998 |
| Construction-in-progress | 316,789 | 302,753 | 21,240 | 15,312 | 338,029 | 318,065 |
| Total | \$ 2,639,400 | \$ 2,338,705 | \$ 3,631,094 | \$ 3,595,099 | \$ 6,270,494 | \$ 5,933,804 |

* Certain amounts have been reclassified to conform to current year presentation.

Long-term debt Delaware uses general obligation debt to finance capital projects. At the end of the current fiscal year, the State had total general obligation bond debt outstanding of \$1,310.9 million backed by the full faith and credit of the State. Its relatively large debt burden reflects its centralized role in financing school construction projects that are typically funded by local governments or school districts in other states. As of June 30, 2007, \$482.1 million, or 36.8%, of the State's outstanding debt was issued on behalf of local school districts. Local school districts transferred \$45.7 million of property tax revenue to the State to cover related debt service during Fiscal Year 2007.

The State has no constitutional debt limits. However, in 1991, the State enacted legislation that limits debt issuance with a three-part test as follows:

- A 5% test restricts new debt authorization to 5% of budgetary General Fund revenue as projected on June 30th for the next fiscal year. Should actual revenue collections increase during the year, no additional authorizations are made. For fiscal 2007, the debt authorized was limited to \$163.8 million.
- A 15% test restricts debt issuance if the annual payments on all outstanding debt exceed 15% of estimated budgetary General Fund and Transportation Trust Fund Revenue for the next fiscal year. Currently, these annual payments represent approximately 7% of estimated general fund and transportation trust fund revenues.
- Finally, a cash balance test restricts debt issuance if the debt service payment in any year exceeds the estimated cumulative cash balance for the following fiscal year. For fiscal 2008, the projected cash balance exceeds debt service by three times.

Due to the State's statutory debt limits, its conservative fiscal management and its above-average income levels, three principal rating agencies, Moody's Investor's Service, Fitch Ratings and Standard & Poor's, reaffirmed their triple-A ratings on Delaware's general obligation bonds during fiscal 2007. On August 1, 2006, the State issued \$189.2 million of tax-exempt, fixed rate general obligation bonds and, on May 10, 2007, the State issued \$192.5 million of tax-exempt, fixed rate general obligation bonds.

Debt issued by the Delaware Transportation Authority, or "DTA", does not constitute a debt of the State or a pledge of its general taxing power or of its full faith and credit. Rather, the outstanding revenue bonds are obligations of the DTA payable solely from and secured by a pledge and assignment of certain tolls and revenues such as motor fuel tax revenues, motor vehicle document fees and motor vehicle registrations. The DTA has revenue bonds outstanding of \$1.019 billion as of June 30, 2007. In November 2006, the DTA issued \$127.4 million to support its ongoing capital transportation program and, in April 2007, issued \$87.9 million in refunding bonds replacing \$88.4 million in revenue bonds.

Additional information on the State of Delaware's long-term debt can be found in Notes 5, 6 and 7 on pages 70-87 of this report.

Other Post-Employment Benefits

The State provides post-employment health care to its employees and, through the fiscal 2007 reporting cycle, continued to recognize these costs on a "pay-as-you-go" basis. Such "pay-as-you-go" costs were \$93.3 million in 2006 and \$102.5 million in fiscal 2007. However, pursuant to GASB Statement No. 45, "*Accounting and Reporting for Other Post-Employment Benefits (OPEB)*", the State will account for retiree health care benefits on an actuarial basis beginning in fiscal 2008. An actuarial study completed as of June 30, 2006 has determined the State's obligation to be approximately \$3.2 billion and the annual required contribution is currently estimated at \$350.0 million for fiscal year 2008, based on a discount rate of 8%. Through legislation effective July 1, 2007, Delaware created an OPEB trust fund and currently has approximately \$65 million accumulated. The State hopes to fund the annual required contribution over a six-year period using a combination of funding strategies, savings through a variety of health care initiatives and will work to minimize benefit modifications.

Economic Factors and Next Year's Budgets and Rates

The Delaware Economic and Financial Advisory Council (DEFAC) met on June 18, 2007, to prepare the final revenue and expenditure estimates upon which the fiscal year 2008 operating and capital budgets would be based. The Department of Finance estimated at that time that employment in Delaware had increased by 0.4% during fiscal year 2007, continuing the positive trend that began during fiscal year 2004. Fiscal year 2008 employment is expected to continue to grow, with job growth pegged at 0.9%.

The fiscal year 2008 operating and capital budgets meet budgetary spending limitations imposed by law. The budget reflects higher growth rates in revenues and carryover of surplus cash from fiscal year 2007. The fiscal year 2008 operating budget is \$3,285.6 million, 5.9% greater than fiscal year 2007. Supplemental appropriations, typically in the form of cash allocated to the

capital budget fell 68.0%, decreasing from \$243.3 million in fiscal year 2007 to \$77.9 million in fiscal year 2008.

Requests for Information

This financial report is designed to provide a general overview of the State of Delaware's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Accounting, 820 Silver Lake Boulevard, Suite 200, Silver Lake Plaza, Dover, Delaware 19904. This CAFR is located at the State's website below:

<http://accounting.delaware.gov/cafrdefault.shtml>

The State's component units publish their own separately issued audited financial statements. These statements may be obtained from their respective administrative offices or from the Office of Auditor of Accounts, Townsend Building, Suite #1, 401 Federal Street, Dover, Delaware 19901.

STATE OF DELAWARE
STATEMENT OF NET ASSETS
JUNE 30, 2007
(Expressed in Thousands)

| | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|---------------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 401,369 | \$ 233,753 | \$ 635,122 | \$ 46,789 |
| Cash and cash equivalents - restricted | - | 1,611 | 1,611 | 33,185 |
| Investments | 350,245 | 155,311 | 505,556 | 43,095 |
| Investments - securities lending transactions | 152,788 | - | 152,788 | - |
| Investments - restricted | - | 111,140 | 111,140 | 5,444 |
| Accounts and other receivables, net | 202,587 | 59,026 | 261,613 | 39,947 |
| Loans and notes receivable, net | 6,514 | 1,198 | 7,712 | 10,509 |
| Internal balances | 7,563 | (7,563) | - | - |
| Inventories | 4,337 | 12,928 | 17,265 | 527 |
| Prepaid items | 34,248 | 357 | 34,605 | 3,814 |
| Other current assets | - | 1,284 | 1,284 | 1,378 |
| Total current assets | 1,159,651 | 569,045 | 1,728,696 | 184,688 |
| Noncurrent assets: | | | | |
| Investments | 1,072,869 | 3,246 | 1,076,115 | 248,637 |
| Investments - restricted | - | 47,797 | 47,797 | 31,918 |
| Accrued interest receivable | - | 80 | 80 | - |
| Accounts and other receivables, net | 65,824 | - | 65,824 | 4,282 |
| Loans and notes receivable, net | 160,680 | 23,463 | 184,143 | 684,857 |
| Capital assets | | | | |
| Non-depreciable | 847,866 | 3,511,434 | 4,359,300 | 133,075 |
| Depreciable capital assets, net | 1,791,534 | 119,660 | 1,911,194 | 376,068 |
| Deferred bond issuance costs | 4,920 | - | 4,920 | 8,579 |
| Other restricted assets | - | - | - | 5,912 |
| Other noncurrent assets | - | 2,659 | 2,659 | 3,792 |
| Total noncurrent assets | 3,943,693 | 3,708,339 | 7,652,032 | 1,497,120 |
| Total assets | 5,103,344 | 4,277,384 | 9,380,728 | 1,681,808 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | 367,636 | 45,587 | 413,223 | 16,966 |
| Accrued liabilities | 38,731 | 30,241 | 68,972 | 14,326 |
| Interest payable | 23,804 | 23,637 | 47,441 | - |
| Notes payable | 2,281 | - | 2,281 | 5,118 |
| Unearned revenues | 12,415 | 4,314 | 16,729 | 197 |
| Capital leases | - | - | - | 15 |
| Escheat liabilities | 8,000 | - | 8,000 | - |
| Compensated absences | 20,018 | 4,014 | 24,032 | 44 |
| Claims and judgments | 26,847 | 2,458 | 29,305 | - |
| Escrow deposits | - | 1,548 | 1,548 | 169 |
| Collateral held for securities lending transactions | 152,788 | - | 152,788 | - |
| Current portion of long-term notes payable | 2,314 | - | 2,314 | - |
| Current portion of general obligation long-term debt | 135,860 | 600 | 136,460 | - |
| Current portion of revenue bonds | - | 67,640 | 67,640 | 13,360 |
| Current portion of bond issue premium, net | 3,715 | 6,623 | 10,338 | - |
| Other current liabilities | 867 | 10,529 | 11,396 | 2,244 |
| Total current liabilities | 795,276 | 197,191 | 992,467 | 52,439 |
| Noncurrent liabilities: | | | | |
| Compensated absences | 120,582 | 9,609 | 130,191 | 6,639 |
| Pension obligation | 104,755 | - | 104,755 | - |
| Claims and judgments | 71,322 | 2,377 | 73,699 | - |
| Escheat liabilities | 32,000 | - | 32,000 | - |
| Escrow deposits | - | - | - | 28,526 |
| Liabilities payable from restricted assets | - | 6,228 | 6,228 | - |
| Notes payable | 287 | - | 287 | 37,995 |
| General obligation long-term debt | 1,171,627 | 2,783 | 1,174,410 | - |
| Revenue bonds | - | 951,175 | 951,175 | 788,990 |
| Bond issue premium, net | 53,056 | 22,731 | 75,787 | - |
| Other long-term obligations | 2,605 | - | 2,605 | 47,685 |
| Total noncurrent liabilities | 1,556,234 | 994,903 | 2,551,137 | 909,835 |
| Total liabilities | 2,351,510 | 1,192,094 | 3,543,604 | 962,274 |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 1,385,413 | 2,653,221 | 4,038,634 | 366,861 |
| Restricted: | | | | |
| Budgetary reserve | 182,750 | - | 182,750 | - |
| Unemployment benefits | - | 188,429 | 188,429 | - |
| Federal and state regulations | - | - | - | 195,263 |
| Bond covenants | - | - | - | 31,576 |
| Capital projects | - | - | - | 37,088 |
| Other restrictions | - | 153,834 | 153,834 | 21,496 |
| Unrestricted | 1,183,671 | 89,806 | 1,273,477 | 67,250 |
| Total net assets | \$ 2,751,834 | \$ 3,085,290 | \$ 5,837,124 | \$ 719,534 |

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

| Function | Expenses | Program Revenues | | | Net (Expenses) Revenue and Changes in Net Assets | | | Component Units |
|--|------------|----------------------|------------------------------------|----------------------------------|--|--------------------------|--------------|-----------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | |
| | | | | | Governmental Activities | Business-Type Activities | Total | |
| Primary government: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government | \$ 513,326 | \$ 223,600 | \$ 41,020 | \$ 1,740 | \$ (246,966) | | \$ (246,966) | |
| Health and children's services | 1,699,475 | 110,168 | 711,263 | - | (878,044) | | (878,044) | |
| Judicial and public safety | 574,809 | 49,535 | 40,556 | - | (484,718) | | (484,718) | |
| Natural resources and environmental control | 173,331 | 56,559 | 32,426 | - | (84,346) | | (84,346) | |
| Labor | 74,194 | 10,918 | 35,899 | - | (27,377) | | (27,377) | |
| Education | 1,774,528 | 40,317 | 140,817 | - | (1,593,394) | | (1,593,394) | |
| Unrestricted payments to component units - Education | 89,945 | - | - | - | (89,945) | | (89,945) | |
| Interest | 50,560 | - | - | - | (50,560) | | (50,560) | |
| Total governmental activities | 4,950,168 | 491,097 | 1,001,981 | 1,740 | (3,455,350) | | (3,455,350) | |
| Business-type activities: | | | | | | | | |
| Lottery | 424,111 | 755,127 | - | - | | \$ 331,016 | 331,016 | |
| Transportation | 504,466 | 379,387 | - | 103,331 | | (21,748) | (21,748) | |
| Unemployment | 108,851 | 72,254 | - | - | | (36,597) | (36,597) | |
| Total business-type activities | 1,037,428 | 1,206,768 | - | 103,331 | | 272,671 | 272,671 | |
| Total primary government | 5,987,596 | 1,697,865 | 1,001,981 | 105,071 | | | | |
| Component units: | | | | | | | | |
| Delaware State Housing Authority | 85,210 | 35,278 | 52,295 | 1,285 | | | | \$ 3,648 |
| Diamond State Port Corporation | 32,260 | 30,621 | - | 23,400 | | | | 21,761 |
| Riverfront Development Corporation | 7,962 | 1,696 | 251 | 27,509 | | | | 21,494 |
| Delaware State University | 101,485 | 40,951 | 28,947 | 4,898 | | | | (26,689) |
| Delaware Technical & Community College (DTCC) Educational Foundation | 921 | 595 | 2,985 | - | | | | 2,659 |
| Delaware Charter Schools | 72,296 | 3,124 | 10,790 | 557 | | | | (57,825) |
| Total component units | 300,134 | 112,265 | 95,268 | 57,649 | | | | (34,952) |
| General revenues: | | | | | | | | |
| Taxes: | | | | | | | | |
| Personal income | | | | | 1,016,911 | | 1,016,911 | |
| Business | | | | | 1,672,112 | | 1,672,112 | |
| Real estate | | | | | 388,135 | | 388,135 | |
| Other | | | | | 254,960 | | 254,960 | |
| Unrestricted payments from primary government | | | | | - | - | - | 89,945 |
| Investment earnings | | | | | 82,701 | 23,486 | 106,187 | 15,007 |
| Gain (loss) on sale of assets | | | | | (72) | (2,680) | (2,752) | 396 |
| Miscellaneous gain (loss) | | | | | 24,287 | (1,000) | 23,287 | (430) |
| Transfers | | | | | 259,612 | (259,612) | - | - |
| Total general revenues and transfers | | | | | 3,698,646 | (239,806) | 3,458,840 | 104,918 |
| Change in net assets | | | | | 243,296 | 32,865 | 276,161 | 69,966 |
| Net assets - beginning of year (as restated) | | | | | 2,508,538 | 3,052,425 | 5,560,963 | 649,568 |
| Net assets - end of year | | | | | \$ 2,751,834 | \$ 3,085,290 | \$ 5,837,124 | \$ 719,534 |

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
 COMBINED BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2007
 (Expressed in Thousands)

| | <u>General</u> | <u>Federal</u> | <u>Local School District</u> | <u>Capital Projects</u> | <u>Total Governmental Funds</u> |
|--|---------------------|-------------------|--------------------------------------|-----------------------------|---|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 394,000 | \$ 396 | \$ 6,973 | \$ - | \$ 401,369 |
| Investments | 1,150,456 | - | 164,706 | 107,952 | 1,423,114 |
| Investments - securities | | | | | |
| lending transactions | 152,788 | - | - | - | 152,788 |
| Accounts receivable, net | 61,038 | 12,233 | 238 | - | 73,509 |
| Taxes receivable, net | 87,379 | - | 19,147 | - | 106,526 |
| Intergovernmental | | | | | |
| receivables, net | 227 | 88,149 | - | - | 88,376 |
| Due from other funds | 47,856 | - | - | - | 47,856 |
| Inventories | 4,337 | - | - | - | 4,337 |
| Prepaid items | 17,124 | 17,124 | - | - | 34,248 |
| Loans and notes receivable | 131,121 | 36,073 | - | - | 167,194 |
| Total assets | <u>2,046,326</u> | <u>153,975</u> | <u>191,064</u> | <u>107,952</u> | <u>2,499,317</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities | | | | | |
| Accounts payable | 266,411 | 33,936 | 43,477 | 23,812 | 367,636 |
| Accrued liabilities | 38,731 | - | - | - | 38,731 |
| Claims and judgments | 867 | - | - | - | 867 |
| Escheat liability | 8,000 | - | - | - | 8,000 |
| Due to other funds | - | 28,060 | 12,233 | - | 40,293 |
| Deferred revenues | 239,737 | 66,795 | 17,990 | - | 324,522 |
| Obligations under securities | | | | | |
| lending transactions | 152,788 | - | - | - | 152,788 |
| Total liabilities | <u>706,534</u> | <u>128,791</u> | <u>73,700</u> | <u>23,812</u> | <u>932,837</u> |
| Fund balances (deficit) | | | | | |
| Reserved for: | | | | | |
| Encumbrances | 179,508 | 49,120 | 11,281 | 146,493 | 386,402 |
| Inventories | 4,337 | - | - | - | 4,337 |
| Prepaid items | 17,124 | 17,124 | - | - | 34,248 |
| Budgetary reserve | 182,750 | - | - | - | 182,750 |
| Unreserved (deficit) | 956,073 | (41,060) | 106,083 | (62,353) | 958,743 |
| Total fund balances | <u>1,339,792</u> | <u>25,184</u> | <u>117,364</u> | <u>84,140</u> | <u>1,566,480</u> |
| Total liabilities and fund balances | <u>\$ 2,046,326</u> | <u>\$ 153,975</u> | <u>\$ 191,064</u> | <u>\$ 107,952</u> | <u>\$ 2,499,317</u> |

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

June 30, 2007

(Expressed in Thousands)

Total Fund Balances - Governmental Funds \$ 1,566,480

Amounts reported for governmental activities in the statement of net assets are different because:

Net capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

| | | |
|--------------------------|------------|-----------|
| Land | \$ 413,080 | |
| Land improvements | 61,030 | |
| Buildings | 1,682,438 | |
| Easements | 117,997 | |
| Equipment and vehicles | 48,066 | |
| Construction in progress | 316,789 | |
| | | 2,639,400 |

Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 312,107

Some liabilities net of related assets are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

| | | |
|--|-------------|-------------|
| Interest payable | \$ (23,804) | |
| Claims and judgments | (98,169) | |
| Compensated absences | (140,600) | |
| Pension obligation | (104,755) | |
| General obligation long-term debt and related accounts | (1,359,338) | |
| Notes payable (current and long-term) | (4,882) | |
| Other long-term obligations | (2,605) | |
| Escheat liability | (32,000) | |
| | | (1,766,153) |

Net assets of governmental activities \$ 2,751,834

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES (DEFICITS)
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

| | General | Federal | Local School District | Capital Projects | Total Governmental Funds |
|--|---------------------|------------------|-----------------------------|---------------------|--------------------------------|
| Revenues | | | | | |
| Personal taxes | \$ 1,012,824 | \$ - | \$ - | \$ - | \$ 1,012,824 |
| Business taxes | 1,668,434 | - | - | - | 1,668,434 |
| Other tax revenue | 254,846 | - | 386,419 | - | 641,265 |
| Licenses, fees, permits and fines | 338,496 | - | 851 | - | 339,347 |
| Rentals and sales | 22,927 | - | 36,620 | - | 59,547 |
| Federal government | 33,154 | 981,667 | 1,394 | - | 1,016,215 |
| Interest and other investment income | 66,541 | 160 | 16,000 | - | 82,701 |
| Other | 283,406 | 1,032 | 29,277 | 50 | 313,765 |
| Total revenues | <u>3,680,628</u> | <u>982,859</u> | <u>470,561</u> | <u>50</u> | <u>5,134,098</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| General government | 650,946 | 30,663 | - | - | 681,609 |
| Health and children's services | 1,064,855 | 686,940 | - | - | 1,751,795 |
| Judicial and public safety | 543,753 | 36,954 | - | - | 580,707 |
| Natural resources and environmental control | 179,428 | 32,868 | - | - | 212,296 |
| Labor | 31,591 | 35,194 | - | - | 66,785 |
| Education | 1,269,989 | 148,950 | 402,271 | - | 1,821,210 |
| Unrestricted payments to component unit - Education | 77,741 | - | 12,204 | - | 89,945 |
| Capital outlay | - | - | - | 220,635 | 220,635 |
| Debt service: | | | | | |
| Principal | 116,617 | - | - | - | 116,617 |
| Interest and other charges | 50,609 | - | - | - | 50,609 |
| Costs of issuance of debt | - | - | - | 764 | 764 |
| Total expenditures | <u>3,985,529</u> | <u>971,569</u> | <u>414,475</u> | <u>221,399</u> | <u>5,592,972</u> |
| Revenues under expenditures | <u>(304,901)</u> | <u>11,290</u> | <u>56,086</u> | <u>(221,349)</u> | <u>(458,874)</u> |
| Other Sources (Uses) of Financial Resources | | | | | |
| Transfers in | 375,653 | 9,453 | 17,857 | - | 402,963 |
| Transfers out | (101,718) | - | (45,693) | - | (147,411) |
| Other financing sources | - | - | 2,281 | - | 2,281 |
| Issuance of general obligation bonds | - | - | - | 383,133 | 383,133 |
| Premiums on bond sales | - | - | - | 9,661 | 9,661 |
| Total other sources (uses) of financial resources | <u>273,935</u> | <u>9,453</u> | <u>(25,555)</u> | <u>392,794</u> | <u>650,627</u> |
| Net change in fund balances | <u>(30,966)</u> | <u>20,743</u> | <u>30,531</u> | <u>171,445</u> | <u>191,753</u> |
| Fund balances (deficits) - beginning | 1,370,758 | 4,441 | 86,833 | (87,305) | 1,374,727 |
| Fund balances - ending | <u>\$ 1,339,792</u> | <u>\$ 25,184</u> | <u>\$ 117,364</u> | <u>\$ 84,140</u> | <u>\$ 1,566,480</u> |

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
RECONCILIATION OF THE NET CHANGES IN FUND BALANCES -
TOTAL GOVERNMENT FUNDS TO CHANGE IN NET ASSETS
OF GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

Net Changes in Fund Balances \$ 191,753

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

| | | |
|----------------------|----------------|---------|
| Capital outlays | 372,567 | |
| Depreciation expense | (71,872) | |
| | <u>300,695</u> | 300,695 |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 55,809

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Components of the debt related adjustments consist of:

| | | |
|--|------------------|-----------|
| Debt service principal repayments | \$ 116,617 | |
| New debt issued (face value) | (383,133) | |
| Premium received | (9,661) | |
| Issuance costs | 764 | |
| Amortization of premium/issuance costs | 6,961 | |
| | <u>(268,452)</u> | (268,452) |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, the changes in these liabilities are not reported as expenditures in the governmental funds:

| | | |
|---------------------------------|--|-----------------|
| Accrued interest expense | | (2,717) |
| Claims and judgments | | (10,039) |
| Notes payable | | (1,136) |
| Compensated absences | | (12,732) |
| Pension obligation | | (5,753) |
| Physician loan and scholarships | | (132) |
| Escheat liability | | (4,000) |
| | | <u>(27,479)</u> |

Change in Net Assets of Governmental Activities **\$ 243,296**

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2007
(Expressed in Thousands)

| | Business-Type Activities - Enterprise Funds | | | |
|--|--|-----------------|---------------------|---------------------|
| | Unemployment | Lottery | DELDOT | Total |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 191,908 | \$ 8,653 | \$ 33,192 | \$ 233,753 |
| Cash and cash equivalents - restricted | - | - | 1,611 | 1,611 |
| Investments | - | - | 155,311 | 155,311 |
| Investments - restricted | - | 2,053 | 109,087 | 111,140 |
| Accounts receivable, net | 5,738 | 12,492 | 11,798 | 30,028 |
| Taxes receivable, net | 16,272 | - | - | 16,272 |
| Intergovernmental receivables, net | 604 | - | 10,023 | 10,627 |
| Current portion of interest receivable | - | - | 2,099 | 2,099 |
| Inventories | - | - | 12,928 | 12,928 |
| Current portion of loans and notes receivable | - | - | 1,198 | 1,198 |
| Escrow insurance deposits | - | - | 1,284 | 1,284 |
| Prepaid items | - | - | 357 | 357 |
| Total current assets | 214,522 | 23,198 | 338,888 | 576,608 |
| Noncurrent assets: | | | | |
| Investments | - | - | 3,246 | 3,246 |
| Investments - restricted | - | 4,545 | 43,252 | 47,797 |
| Interest receivable | - | - | 80 | 80 |
| Loans and notes receivable | - | - | 23,463 | 23,463 |
| Other assets | - | 1,683 | - | 1,683 |
| Prepaid pension | - | - | 976 | 976 |
| Capital assets, non-depreciable | - | - | 3,511,434 | 3,511,434 |
| Capital assets, depreciable, net | - | 7 | 119,653 | 119,660 |
| Total noncurrent assets | - | 6,235 | 3,702,104 | 3,708,339 |
| Total assets | 214,522 | 29,433 | 4,040,992 | 4,284,947 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable | - | 8,491 | 37,096 | 45,587 |
| Accrued liabilities | 21,715 | - | 8,526 | 30,241 |
| Interest payable | - | - | 23,637 | 23,637 |
| Deferred revenue | - | - | 4,314 | 4,314 |
| Compensated absences | - | - | 4,014 | 4,014 |
| Claims and judgments | - | - | 2,458 | 2,458 |
| Prizes liability | - | 6,151 | - | 6,151 |
| Escrow deposits | - | - | 1,548 | 1,548 |
| Note payable | - | - | - | - |
| Current portion of general obligation long-term debt | - | - | 600 | 600 |
| Current portion of revenue bonds | - | - | 67,640 | 67,640 |
| Current portion of bond issue premium | - | - | 6,623 | 6,623 |
| Tax refunds payable | 4,378 | - | - | 4,378 |
| Due to other funds | - | 7,563 | - | 7,563 |
| Total current liabilities | 26,093 | 22,205 | 156,456 | 204,754 |
| Noncurrent liabilities: | | | | |
| Compensated absences | - | - | 9,609 | 9,609 |
| Claims and judgments | - | - | 2,377 | 2,377 |
| Liabilities payable from restricted assets | - | 6,228 | - | 6,228 |
| General obligation long-term debt | - | - | 2,783 | 2,783 |
| Revenue bonds | - | - | 951,175 | 951,175 |
| Bond issue premium, net | - | - | 22,731 | 22,731 |
| Total noncurrent liabilities | - | 6,228 | 988,675 | 994,903 |
| Total liabilities | 26,093 | 28,433 | 1,145,131 | 1,199,657 |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | - | 7 | 2,653,214 | 2,653,221 |
| Restricted for: | | | | |
| Unemployment benefits | 188,429 | - | - | 188,429 |
| Other | - | - | 153,834 | 153,834 |
| Unrestricted | - | 993 | 88,813 | 89,806 |
| Total net assets | \$ 188,429 | \$ 1,000 | \$ 2,895,861 | \$ 3,085,290 |

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

| | Business-Type Activities - Enterprise Funds | | | Total |
|---|--|-------------|--------------|--------------|
| | Unemployment | Lottery | DELDOT | |
| Operating revenues: | | | | |
| Unemployment taxes | \$ 72,254 | \$ - | \$ - | \$ 72,254 |
| Gaming revenue | - | 755,127 | - | 755,127 |
| Pledged revenues: | | | | |
| Turnpike revenue | - | - | 96,748 | 96,748 |
| Motor vehicle and related revenue | - | - | 235,432 | 235,432 |
| Turnpike revenue | - | - | 32,606 | 32,606 |
| Passenger fares | - | - | 10,618 | 10,618 |
| Miscellaneous | - | - | 3,983 | 3,983 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total operating revenues | 72,254 | 755,127 | 379,387 | 1,206,768 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Operating expenses: | | | | |
| Unemployment benefits | 108,851 | - | - | 108,851 |
| Cost of sales | - | 353,141 | - | 353,141 |
| Prizes | - | 61,325 | - | 61,325 |
| Transportation | - | - | 439,787 | 439,787 |
| Depreciation | - | 62 | 14,375 | 14,437 |
| General and administrative | - | 9,583 | 7,096 | 16,679 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total operating expenses | 108,851 | 424,111 | 461,258 | 994,220 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Operating income (loss) | (36,597) | 331,016 | (81,871) | 212,548 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Nonoperating revenues (expenses): | | | | |
| Interest and investment revenue | 8,026 | - | 15,460 | 23,486 |
| Interest expense | - | - | (43,208) | (43,208) |
| Contributions to Thoroughbred Program | - | (1,000) | - | (1,000) |
| Loss on disposal of assets | - | - | (2,680) | (2,680) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total nonoperating revenues (expenses) | 8,026 | (1,000) | (30,428) | (23,402) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Income (loss) before transfers and capital contributions | (28,571) | 330,016 | (112,299) | 189,146 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Capital contributions | - | - | 103,331 | 103,331 |
| Transfers in | - | - | 74,408 | 74,408 |
| Transfers out | - | (329,960) | (4,060) | (334,020) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Change in net assets | (28,571) | 56 | 61,380 | 32,865 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total net assets - beginning | 217,000 | 944 | 2,834,481 | 3,052,425 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total net assets - ending | \$ 188,429 | \$ 1,000 | \$ 2,895,861 | \$ 3,085,290 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

| | Business-Type Activities- Enterprise Funds | | | |
|---|---|---------------------|----------------------|-----------------------|
| | Unemployment | Lottery | DELDOT | Total |
| Cash flows from operating activities: | | | | |
| Receipts from employers | \$ 80,255 | \$ - | \$ - | \$ 80,255 |
| Payments for insurance claims | (105,963) | - | (2,829) | (108,792) |
| Receipts from customers and users | - | 750,171 | 378,922 | 1,129,093 |
| Other operating receipts | - | - | 1,301 | 1,301 |
| Payments to suppliers for goods and services | - | (49,823) | (447,347) | (497,170) |
| Payments to employees for services | - | (1,792) | - | (1,792) |
| Payments for prizes | - | (63,162) | - | (63,162) |
| Payment for commissions | - | (307,201) | - | (307,201) |
| Net cash provided (used) by operating activities | <u>(25,708)</u> | <u>328,193</u> | <u>(69,953)</u> | <u>232,532</u> |
| Cash flows from noncapital financing activities: | | | | |
| Transfers in | - | - | 74,408 | 74,408 |
| Transfers out | - | (327,519) | - | (327,519) |
| Net cash provided (used) by noncapital financing activities | <u>-</u> | <u>(327,519)</u> | <u>74,408</u> | <u>(253,111)</u> |
| Cash flows from capital and related financing activities: | | | | |
| Capital grants | - | - | 101,699 | 101,699 |
| Purchases of capital assets | - | - | (65,600) | (65,600) |
| Principal paid on capital debt | - | - | (62,235) | (62,235) |
| Interest paid on capital debt | - | - | (51,120) | (51,120) |
| Proceeds from sale of equipment | - | - | 8,428 | 8,428 |
| Proceeds from issuance of debt | - | - | 215,335 | 215,335 |
| Premium from bond sale | - | - | 6,180 | 6,180 |
| Payment to escrow agent for refunding of debt | - | - | (88,415) | (88,415) |
| Net cash provided by capital and related financing activities | <u>-</u> | <u>-</u> | <u>64,272</u> | <u>64,272</u> |
| Cash flows from investing activities: | | | | |
| Interest and investment revenues | 8,026 | - | 14,685 | 22,711 |
| Repayment on loan receivable | - | - | 11,745 | 11,745 |
| Escrow deposits received | - | - | 649 | 649 |
| Purchase of investments | - | - | (99,638) | (99,638) |
| Proceeds from sales and maturities of investments | - | 1,857 | - | 1,857 |
| Net cash provided (used) by investing activities | <u>8,026</u> | <u>1,857</u> | <u>(72,559)</u> | <u>(62,676)</u> |
| Net increase (decrease) in cash and cash equivalents | (17,682) | 2,531 | (3,832) | (18,983) |
| Cash and cash equivalents - beginning of year | 209,590 | 6,122 | 38,635 | 254,347 |
| Cash and cash equivalents - end of year | <u>191,908</u> | <u>8,653</u> | <u>34,803</u> | <u>235,364</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Operating income (loss) | (36,597) | 331,016 | (81,871) | 212,548 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation expense | - | 62 | 14,375 | 14,437 |
| Decrease (increase) in assets: | | | | |
| Receivables, net | 9,589 | (3,769) | 1,563 | 7,383 |
| Inventories | - | - | 161 | 161 |
| Prepaid items | - | 216 | (405) | (189) |
| Increase (decrease) in liabilities: | | | | |
| Accounts and other payables | 69 | 2,464 | 9,314 | 11,847 |
| Accrued liabilities | 1,483 | 40 | (726) | 797 |
| Accrued expenses | - | (1,836) | (12,244) | (14,080) |
| Accrued payroll and related expenses | - | - | (120) | (120) |
| Due to/from other governments | (252) | - | - | (252) |
| Net cash provided (used) by operating activities | <u>(25,708)</u> | <u>328,193</u> | <u>(69,953)</u> | <u>232,532</u> |
| Supplemental disclosures of noncash investing and capital related financing activities: | | | | |
| Interest capitalized on loan | - | - | 1,181 | 1,181 |
| Transfers of land to Riverfront Development Corporation | - | - | (3,100) | (3,100) |
| Transfers of land to Delaware Department of Natural Resources and Environmental Control | \$ - | \$ - | \$ (4,060) | \$ (4,060) |

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007
(Expressed in Thousands)

| | Pension Trust Funds | Investment Trust Funds | Agency Funds |
|--|--------------------------------|-----------------------------------|-------------------------|
| Assets: | | | |
| Cash and cash equivalents | \$ 201,283 | \$ 1,467 | \$ 32,233 |
| Receivables: | | | |
| Accrued interest | 17,160 | 106 | - |
| Investment sales pending | 37,395 | 231 | - |
| Employer contributions | 10,139 | - | - |
| Member contributions | 3,391 | - | - |
| Other receivables | | | 27,619 |
| Investments, at fair value: | | | |
| Domestic fixed income | 706,949 | 6,177 | - |
| Domestic equities | 1,372,550 | 11,633 | - |
| Pooled equity and fixed income | 3,010,947 | 18,632 | - |
| Alternative investments | 913,188 | 6,698 | - |
| Short term investments | - | - | 18,598 |
| Foreign fixed income | 171,110 | 1,773 | - |
| Foreign equities | 1,014,542 | 7,770 | - |
| Invested securities lending collateral | 763,084 | 4,721 | - |
| | <u>8,221,738</u> | <u>59,208</u> | <u>78,450</u> |
| Total assets | | | |
| Liabilities: | | | |
| Accounts payable | - | - | 78,450 |
| Investment purchase payable | 92,835 | 574 | - |
| Securities lending collateral payable | 763,084 | 4,721 | - |
| Benefits payable | 822 | - | - |
| Accrued investment expense | 5,152 | 37 | - |
| Accrued administrative expenses | 351 | - | - |
| | <u>862,244</u> | <u>5,332</u> | <u>78,450</u> |
| Total liabilities | | | |
| Net assets: | | | |
| Assets held in trust for pension benefits and pool participants | <u>\$ 7,359,494</u> | <u>\$ 53,876</u> | <u>\$ -</u> |

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

| | <u>Pension Trust Funds</u> | <u>Investment Trust Funds</u> |
|---|--------------------------------|-----------------------------------|
| Additions: | | |
| Contributions: | | |
| Employer contributions | \$ 182,796 | \$ - |
| Transfer from Post-Retirement Increase Fund | 45,649 | - |
| Transfer of assets from outside the system | 3,149 | 15,169 |
| Member contributions | 50,074 | - |
| Other | 27 | - |
| | <u>281,695</u> | <u>15,169</u> |
| Investments: | | |
| Investment earnings | 116,497 | 719 |
| Net increase in fair value of investments | 903,606 | 5,452 |
| | <u>1,020,103</u> | <u>6,171</u> |
| Less investment manager/advisor/custody fees | (21,036) | (154) |
| Less investment administrative expenses | (477) | (4) |
| | <u>998,590</u> | <u>6,013</u> |
| Securities lending income | 30,342 | 188 |
| Less borrower rebates | (28,502) | (176) |
| Less bank fees | (369) | (2) |
| Total securities lending expense | (28,871) | (178) |
| | <u>1,471</u> | <u>10</u> |
| Total net securities lending income | <u>1,471</u> | <u>10</u> |
| Total additions | <u>1,281,756</u> | <u>21,192</u> |
| Deductions: | | |
| Transfer of assets from Post-Retirement Increase Fund | 45,649 | - |
| Transfer of assets outside the system | 2,626 | - |
| Pension payments | 355,308 | - |
| Refunds of contributions to members | 3,466 | - |
| Group life payments | 4,231 | - |
| Administrative expenses | 5,313 | - |
| | <u>416,593</u> | <u>-</u> |
| Total deductions | <u>416,593</u> | <u>-</u> |
| Change in net assets | 865,163 | 21,192 |
| Net assets - beginning of year | 6,494,331 | 32,684 |
| Net assets - end of year | \$ 7,359,494 | \$ 53,876 |

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2007
(Expressed in Thousands)

| | Delaware State Housing Authority | Diamond State Port Corporation | Riverfront Development Corporation | Delaware State University | DTCC * Educational Foundation | Delaware Charter Schools | All Component Units Total |
|--|---|---|--|---------------------------------|-------------------------------------|--------------------------------|------------------------------------|
| ASSETS | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | \$ 27 | \$ 2,769 | \$ 8,809 | \$ 16,147 | \$ 215 | \$ 18,822 | \$ 46,789 |
| Cash and cash equivalents - restricted | - | 20,729 | 297 | 7,456 | - | 4,703 | 33,185 |
| Investments | 40,200 | - | - | 414 | 2,481 | - | 43,095 |
| Investments - restricted | - | - | - | - | 5,444 | - | 5,444 |
| Accounts and other net | 30,357 | 2,674 | 259 | 6,505 | - | 152 | 39,947 |
| Loans and notes receivable, net | 10,509 | - | - | - | - | - | 10,509 |
| Inventories | - | 527 | - | - | - | - | 527 |
| Prepaid items | 2,613 | 601 | 27 | - | - | 51 | 3,292 |
| Deferred bond issuance costs | 498 | - | - | - | - | 24 | 522 |
| Other restricted assets | - | - | - | 1,238 | 120 | - | 1,358 |
| Other current assets | - | - | - | - | - | 20 | 20 |
| Total current assets | 84,204 | 27,300 | 9,392 | 31,760 | 8,260 | 23,772 | 184,688 |
| Noncurrent assets: | | | | | | | |
| Long-term investments | 243,817 | - | 4,820 | - | - | - | 248,637 |
| Long-term investments - restricted | - | - | 9,900 | 21,956 | 62 | - | 31,918 |
| Accounts and other receivables, net | 4,021 | - | - | 261 | - | - | 4,282 |
| Loans and notes receivable, net | 680,150 | - | 4,707 | - | - | - | 684,857 |
| Capital assets - non-depreciable | 4,707 | 26,967 | 79,158 | 21,905 | - | 338 | 133,075 |
| Capital assets - depreciable, net | 17,730 | 137,866 | 22,355 | 152,432 | - | 45,685 | 376,068 |
| Deferred bond issuance costs | 7,530 | - | - | 179 | - | 870 | 8,579 |
| Other restricted assets | - | - | - | 3,284 | 2,628 | - | 5,912 |
| Other noncurrent assets | - | - | 2,943 | 671 | - | 178 | 3,792 |
| Total noncurrent assets | 957,955 | 164,833 | 123,883 | 200,688 | 2,690 | 47,071 | 1,497,120 |
| Total assets | 1,042,159 | 192,133 | 133,275 | 232,448 | 10,950 | 70,843 | 1,681,808 |
| LIABILITIES | | | | | | | |
| Current liabilities: | | | | | | | |
| Accounts payable | 6,005 | 247 | 783 | 7,166 | - | 2,765 | 16,966 |
| Accrued liabilities | 479 | 2,853 | 186 | 4,615 | 27 | 6,166 | 14,326 |
| Deferred revenue | 102 | 22 | 73 | - | - | - | 197 |
| Current portion - capital leases | - | - | - | - | - | 15 | 15 |
| Compensated absences | 21 | - | - | - | - | 23 | 44 |
| Escrow deposits | - | - | 2 | - | - | 167 | 169 |
| Notes payable | 4,115 | 937 | - | 66 | - | - | 5,118 |
| Current portion of revenue bonds | 11,615 | - | 275 | 1,470 | - | - | 13,360 |
| Current portion of other long-term debt | - | - | 64 | 554 | - | 1,626 | 2,244 |
| Total current liabilities | 22,337 | 4,059 | 1,383 | 13,871 | 27 | 10,762 | 52,439 |
| Noncurrent liabilities: | | | | | | | |
| Compensated absences | 928 | - | - | 4,871 | - | 840 | 6,639 |
| Escrow deposits | 28,526 | - | - | - | - | - | 28,526 |
| Notes payable | 394 | 36,733 | - | 868 | - | - | 37,995 |
| Revenue bonds | 723,387 | - | 4,220 | 61,383 | - | - | 788,990 |
| Long-term debt | - | - | 9,658 | - | - | 36,839 | 46,497 |
| Other noncurrent liabilities | 324 | - | - | 844 | - | 20 | 1,188 |
| Total noncurrent liabilities | 753,559 | 36,733 | 13,878 | 67,966 | - | 37,699 | 909,835 |
| Total liabilities | 775,896 | 40,792 | 15,261 | 81,837 | 27 | 48,461 | 962,274 |
| NET ASSETS | | | | | | | |
| Invested in capital assets, net of related debt | 22,437 | 127,163 | 87,295 | 119,788 | - | 10,178 | 366,861 |
| Restricted: | | | | | | | |
| Federal and state regulations | 182,393 | - | - | 4,616 | 8,254 | - | 195,263 |
| Bond covenants | 31,576 | - | - | - | - | - | 31,576 |
| Capital projects | - | 20,729 | 9,741 | 6,618 | - | - | 37,088 |
| Other | 5,292 | - | - | 14,297 | - | 1,907 | 21,496 |
| Unrestricted | 24,565 | 3,449 | 20,978 | 5,292 | 2,669 | 10,297 | 67,250 |
| Total net assets | \$ 266,263 | \$ 151,341 | \$ 118,014 | \$ 150,611 | \$ 10,923 | \$ 22,382 | \$ 719,534 |

* Fiscal year-end December 31, 2006

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

| | <u>Expenses</u> | <u>Program Revenues</u> | | |
|--|-------------------|-----------------------------|---|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Component units: | | | | |
| Delaware State Housing Authority | \$ 85,210 | \$ 35,278 | \$ 52,295 | \$ 1,285 |
| Diamond State Port Corporation | 32,260 | 30,621 | | 23,400 |
| Riverfront Development Corporation | 7,962 | 1,696 | 251 | 27,509 |
| Delaware State University | 101,485 | 40,951 | 28,947 | 4,898 |
| Delaware Technical and Community College (DTCC) Educational Foundation | 921 | 595 | 2,985 | |
| Delaware Charter Schools | 72,296 | 3,124 | 10,790 | 557 |
| Total component units | <u>\$ 300,134</u> | <u>\$ 112,265</u> | <u>\$ 95,268</u> | <u>\$ 57,649</u> |

General revenues:

Unrestricted payments from primary governments
Investment earnings (loss)
Gain (Loss) on sale of assets
Miscellaneous

Total general revenues

Change in net assets

Net assets - beginning of year
(as restated)

Net assets - end of year

* Fiscal year ended December 31, 2006

See Accompanying Notes to the Financial Statements

**Net (Expense) Revenue and
Changes in Net Assets**

| <u>Delaware State Housing Authority</u> | <u>Diamond State Port Corporation</u> | <u>Riverfront Development Corporation</u> | <u>Delaware State University</u> | <u>DTCC * Educational Foundation</u> | <u>Delaware Charter Schools</u> | <u>Totals</u> |
|---|---|---|--|--|---|-------------------|
| <u>\$ 3,648</u> | | | | | | \$ 3,648 |
| | <u>\$ 21,761</u> | | | | | 21,761 |
| | | <u>\$ 21,494</u> | | | | 21,494 |
| | | | <u>\$ (26,689)</u> | | | (26,689) |
| | | | | <u>\$ 2,659</u> | | 2,659 |
| | | | | | <u>\$ (57,825)</u> | (57,825) |
| | | | | | | <u>(34,952)</u> |
| | | | 28,989 | | 60,956 | 89,945 |
| 10,947 | (404) | 678 | 2,948 | (357) | 1,195 | 15,007 |
| - | (204) | 600 | - | - | - | 396 |
| - | - | - | (774) | - | 344 | (430) |
| <u>10,947</u> | <u>(608)</u> | <u>1,278</u> | <u>31,163</u> | <u>(357)</u> | <u>62,495</u> | <u>104,918</u> |
| 14,595 | 21,153 | 22,772 | 4,474 | 2,302 | 4,670 | 69,966 |
| 251,668 | 130,188 | 95,242 | 146,137 | 8,621 | 17,712 | 649,568 |
| <u>\$ 266,263</u> | <u>\$ 151,341</u> | <u>\$ 118,014</u> | <u>\$ 150,611</u> | <u>\$ 10,923</u> | <u>\$ 22,382</u> | <u>\$ 719,534</u> |

See Accompanying Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Delaware (the State) have been prepared in conformity with Accounting Principles Generally Accepted in the United States (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

(a) Reporting Entity

The accompanying financial statements present the State's primary government and include all funds, elected officials, departments and organizations, bureaus, boards, commissions, and authorities that make up the State's legal entity. The State's 19 local school districts, which are not legally separate, are included in the reporting entity of the primary government. The DelDOT enterprise fund, which includes the Transportation Trust Fund and the Delaware Transit Corporation, is also included in the reporting entity of the primary government. Fiduciary funds, although legally separate entities, are in substance part of the State's operations. The State's reporting entity is also comprised of its component units, entities for which the State is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that such are legally separate from the State.

Financial accountability is defined in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The State is financially accountable for legally separate organizations if it appoints a voting majority of the organization's board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The State may also be financially accountable if an organization is fiscally dependent on the State, regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

Discretely Presented Component Units

The following component units are entities that are legally separate from the State, but are financially accountable to the State for reporting purposes or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The component unit's column of the basic financial statements includes the financial data of these entities. Except for the Delaware Technical and Community College Educational Foundation, which has a fiscal year-end of December 31, 2006, each discretely presented component unit has a June 30, 2007 fiscal year-end.

Delaware State Housing Authority

The Delaware State Housing Authority (DSHA) is a public corporation whose Director is appointed by and reports directly to the Governor of the State. The DSHA administers the role of providing affordable housing as a key aspect of State policy. The DSHA's relationship with the State is such that exclusion of the DSHA from the State's basic financial statements would cause the statements to be misleading or incomplete. The DSHA is authorized, among other things, to (1) make mortgage, construction and other

loans to not-for-profit and limited for-profit housing sponsors; (2) make loans to mortgage lenders, requiring the proceeds thereof to be used for making newly qualified residential mortgage loans; (3) purchase qualified mortgage loans from mortgage lenders; and (4) apply for and receive assistance and subsidies under programs from the federal government and others.

Diamond State Port Corporation

The Diamond State Port Corporation (DSPC) was organized as a body corporate and politic constituting a public instrumentality of the State. The DSPC is empowered to operate, improve and maintain the Port of Wilmington and related facilities. The Governor appoints 8 of the 15 members of the board of directors, with the advice and consent of the Senate.

Riverfront Development Corporation

The Riverfront Development Corporation (RDC) was formed to plan, develop and manage programs and projects intended to foster economic development along the Brandywine and Christina Rivers. The Governor appoints 7 of the 18 board members; however, 7 of the remaining 11 directors consist of the Governor and six State officials. Authorization by the State's Budget Director and Controller General is required before funds of the RDC may be expended.

Delaware State University

Delaware State University (DSU) is a public institution of higher education. Funding is primarily through State appropriations. State appropriations without restrictions as to use by the University are reported in general revenue. Additional funding is derived from tuition, federal grants, private donations and grants. The Board of Trustees is comprised of 15 members, 8 appointed by the Governor of Delaware and 7 elected by the Trustees. The President of the University and the Governor of the State of Delaware serve as ex-officio members of the Board. Delaware State University financial data includes its two component units: the Delaware State University Housing Foundation and the Delaware State University Foundation, Inc.

Delaware Technical and Community College Educational Foundation

The Delaware Technical and Community College Educational Foundation (DTCC Foundation) is a fiduciary-type component unit of Delaware Technical and Community College, which is part of the primary government. The DTCC Foundation was established on November 13, 1968 by a trust agreement. On April 20, 1999, the Foundation restated the trust document incorporating all previous amendments to the previous trust document. The trust agreement stipulates that the activities of the DTCC Foundation be limited to such educational purposes that come under Section 501(c)(3) of the Internal Revenue Code. Activities include, but are not limited to, making contributions, gifts or grants, or otherwise rendering financial aid and assistance by direct payments to the Delaware Technical and Community College (DTCC) and providing

financial assistance to qualified students. The DTCC Foundation has a fiscal year-end of December 31, 2006.

Delaware Charter Schools

Delaware's 17 Charter Schools are public schools funded primarily through State appropriations. Additional funding is derived from federal grants passed through from the primary government, private donations and funds received from local school districts on a tax portion per child basis. Charter schools are each managed by a board of directors, which operate independently, under a charter granted by the State Department of Education with the approval of the State Board of Education. Charters are granted for an initial period of three years and renewable every five years thereafter. Financial information for Delaware Charter Schools is presented in the aggregate as they are individually immaterial.

Complete financial statements for each of the discretely presented component units may be obtained from their respective administrative offices or from the Office of the Auditor of Accounts, The Townsend Building, Suite #1, 401 Federal Street, Dover, DE 19901.

Related Organizations

Officials of the State's primary government appoint a voting majority of the governing board of the Delaware Solid Waste Authority. The primary government's accountability for the Authority does not extend beyond making the appointments. The financial activities of the Authority are not included in the State's financial statements.

The Governor appoints eight members of the governing board of the University of Delaware. The remaining 20 members are elected separately. The primary government's accountability does not extend beyond State grants to the University. The financial activities of the University are not included in the State's financial statements.

Jointly Governed Organization

The Delaware River and Bay Authority, a body politic, was created with the intention of advancing the economic growth and development of those areas in the State of Delaware and the State of New Jersey which border the Delaware River and Delaware Bay. The Authority is governed by 12 commissioners: six appointed by the State of Delaware and six appointed by the State of New Jersey. The Authority is autonomous from a day-to-day operations perspective and neither State is obligated for the Authority's debt. The Authority is not included in these financial statements as the State of Delaware has no ongoing financial interest.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type

activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is separately presented from certain legally separate component units for which the State is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded among program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements.

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds reported as part of the fiduciary fund financial statements are custodial in nature and do not present results of operations and, therefore, do not have a measurement of focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the State's enterprise operations and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are

reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Intrafund transactions between the primary government and component units are reported as operating or capital grants as appropriate for restricted amounts. Unrestricted amounts are reported as general revenue as payments from the primary government.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, grants, fees, sales, rents, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the State. Revenue related to expenditure driven grants is recognized when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental Funds

The State reports the following major governmental funds:

General Fund – The general fund is the State’s primary operating fund. It accounts for all financial resources obtained and used for those services traditionally provided by a state government, which are not required to be accounted for in other funds. These services include, among others, education, and health and social services.

Federal Fund – The federal fund accounts for all activities relating to the State’s federal grant programs.

Local School District Fund – The local school district fund accounts for activities relating to the State’s local school districts funded by locally raised real estate taxes and other revenue.

Capital Projects Fund – Transactions related to resources obtained and used for the acquisition or construction of major capital facilities (other than those financed by proprietary and fiduciary funds), are accounted for in the Capital Projects Fund. Such resources are derived principally from proceeds of general obligation bond issues, federal grants, and operating transfers from the General Fund.

Proprietary Funds

Proprietary Funds are used to account for those activities which are financed and operated in a manner similar to private business enterprises. The costs of providing services to the

general public on a continuing basis are financed by or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Unemployment Fund, Lottery Fund and DelDOT fund are charges to customers for sales and services.

The Lottery recognizes revenue from on-line games the day of the drawing. Revenue from the sale of instant tickets is recognized when the book has been activated and 85% of the related prizes of an activated book are paid. Revenue from video lottery sales is recognized, net of prizes paid, at the time the public plays the game.

Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The State reports the following major proprietary funds:

DelDOT Fund – The DelDOT fund accounts for the activities relating to the operation of the State's Department of Transportation, including the Delaware Transportation Authority (the Authority).

Unemployment Fund – The unemployment fund accounts for the activities relating to the State's Unemployment Insurance Trust Fund.

Lottery Fund – The lottery fund accounts for the activities relating to the Lottery program.

Fiduciary Funds

The accounts of the pension and investment trust funds are reported using the flow of economic resources measurement focus and are maintained on the accrual basis of accounting. For pension trust funds, employee contributions are recognized as revenue in the period in which the employee services are performed. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The State reports the following fiduciary funds:

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

Pension Trust Funds – The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity; however, as it provides services and benefits almost

exclusively to the primary government, the DPERS is considered a fiduciary fund and is shown in the financial statements as part of the primary government as a pension trust fund. Pension trust funds account for transactions, assets, liabilities and net assets available for plan benefits (Note 14). The financial report of DPERS for the year ended June 30, 2007 may be obtained on its website at: <http://www.delawarepensions.com/information/financials.shtml> or by writing to the State Board of Pension Trustees and Office of the Pensions, McArdle Building, and Suite #1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

Investment Trust Funds – Investment trust funds are used to account for external investment pools where a government commingles the monies of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. The investment trust fund accounts for the transactions, assets, liabilities and fund equity for the Delaware Public Employee Retirement System's external investment pool (Note 14).

New Accounting Pronouncements

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes a uniform financial reporting standard that supersedes the interim guidelines included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. This Statement addresses financial statement and disclosure requirements for reporting by administrators or trustees of Other Postemployment Benefit (OPEB) plan assets, or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of Other Postemployment Benefit (OPEB) expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

The State established a trust fund effective July 1, 2007 and will implement Statements No. 43 and No. 45 during fiscal year ending June 30, 2008. The future impact of this statement is currently being evaluated by the State.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The Statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or as a collateralized borrowing. Such transactions are likely to comprise the sale of delinquent property tax liens, certain mortgages, student loans, or future revenues such as those arising from tobacco settlement agreements. Statement No. 48 also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components.

The State will be required to implement Statement No. 48 in fiscal year ending June 30, 2008. The future impact of this statement is currently being evaluated by the State.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement establishes accounting and financial reporting standards for pollution remediation obligations. Statement No. 49 identifies the obligating events which require a governmental entity to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired.

The requirements of Statement No. 49 are effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated. However, governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are required to apply the provisions retroactively for all such prior periods presented. The future impact of this statement is currently being evaluated by the State.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*. This Statement more closely aligns the financial reporting requirements for pensions with those of OPEB and, as such, enhances information disclosed in the notes to the financial statements or presented as RSI by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43 and No. 45. Statement No. 50 is effective for fiscal periods beginning after June 15, 2007, and the State is currently evaluating the impact on its footnotes and RSI presentation for the fiscal year ended June 30, 2008.

(c) Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents. For the purposes of the statement of cash flows, restricted cash is considered to be cash equivalents. Investment securities with maturities of greater than one year are reported as long-term investments.

Investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost (Note 2). Investment securities with remaining maturities of greater than one year are identified as long-term investments.

The State presents its deposits and investments in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including repurchase agreements) and Reverse Repurchase Agreements*. This standard requires that state and local governments, including colleges and universities, disclose essential risk information about deposits and investments.

The disclosure requirements cover four main areas; credit risk, interest rate and maturity, interest rate sensitivity and foreign exchange exposure.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds” (i.e., the current portion of interfund loans). All trade and property tax receivables, including those for the component units, are shown net of an allowance for uncollectibles and refunds (Note 3).

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

When both restricted and unrestricted resources are available for use, it is the State’s policy to use restricted resources first, and then unrestricted resources as they are needed. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation.

The State has the following restricted assets:

- The Delaware State Lottery has a mandatory deposit with the Multi-State Lottery and annuities for future installment prize payments.
- The Authority restricts revenue bond proceeds that are accounted for in the Transportation Fund.
- Riverfront Development Corporation has restricted assets to cover revenue bond payments and capital projects.
- Diamond State Port Corporation has restricted investments for capital project outlays.
- Delaware State University has restricted assets for capital project outlays, grants, and college endowment funds.
- Charter schools restrict assets to cover debt service payments.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (which are normally immovable and of value only to the State, such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements, the proprietary funds and component units.

Capital assets are defined by the State as assets with estimated useful lives in excess of one year at the date of acquisition. Such assets are recorded at historical cost if purchased or constructed, or estimated historical cost if the original cost is not determinable. Donated capital assets are recorded at estimated fair market value at the date of donation.

All land and buildings are capitalized, regardless of cost. Equipment and vehicles are capitalized when the cost of individual items exceeds \$25,000. Building and land improvements are capitalized when the cost of the project exceeds \$100,000. Infrastructure and software are capitalized when the costs of individual items or projects exceed \$1 million. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' useful lives are not capitalized.

The State possesses certain capital assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include works of art and historical treasures, such as statues, monuments, historical documents, paintings, forts, miscellaneous capitol-related artifacts and furnishings. These assets are held for public exhibition, education or research in furtherance of public service rather than financial gain; they are protected, kept unencumbered, cared for and preserved; and they are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

| <u>Asset</u> | Primary Government Years | Component Units Years |
|-------------------------------------|---|--------------------------------------|
| Buildings and Building Improvements | 40 | 15 - 75 |
| Land Improvements | 20 | N/A |
| Furniture and Equipment | 3 - 10 | 3 - 40 |
| Vehicles | 7 | N/A |
| Software | 5 | N/A |

The State has elected to use the “modified approach” to account for certain infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the State, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the

predetermined condition levels. Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

Compensated Absences

It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. In the governmental fund financial statements, liabilities for compensated absences are accrued when they are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end. In the government-wide and proprietary fund financial statements, the State has accrued a liability for compensated absences, recognizing the obligation to make payments.

Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

The State Constitution provides that certain excess unencumbered budgetary General Funds at the end of a fiscal year must be placed in a reserve account (the "Budget Reserve Account"). This account, designed to provide a cushion against unanticipated deficits, may not exceed 5% of the estimated General Fund revenue for the ensuing fiscal year. Total funding of the Budget Reserve Account was \$182.8 million at June 30, 2007. Per the Delaware Constitution, the General Assembly, by three-fifths vote of the members elected to each House, may appropriate from the Budget Reserve Account. Should the State attempt to use this reserve for other purposes, such could be challenged by citizens.

(d) Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables when entitlement occurs. All other federal reimbursement type grants are recorded as accounts receivable when the related expenditures or expenses are recognized. Related revenue is recorded subject to availability. Amounts not collected within

60 days of fiscal year-end are recorded as Deferred Revenue. In addition to monetary transactions, Federal grants also include non-monetary transactions related to food stamps.

(e) Litigation Revenue

In 1997, several states began litigation against defendant tobacco product manufacturers to recover certain amounts the states expended to provide health care to the users of tobacco products. In 1998, a settlement was reached which provided that the states cease litigation against the manufacturers. As part of the Master Settlement Agreement, certain manufacturers agreed to remit periodic payments to the states until 2025. Delaware's share of the estimated \$200 billion settlement amounted to \$774.5 million. Amounts to be remitted are calculated based on a variety of specific settlement provisions. Future tobacco product sales are one key factor used in determining periodic payment amounts. A receivable of \$12.0 million has been recorded pursuant to the settlement. The Master Settlement agreement receipts of \$24.3 million are recorded in the General Fund as part of "other" revenue and as Miscellaneous general revenue on the Government-wide Statement of Activities. Expenditures of monies received under the Master Settlement Agreement are authorized by legislation and are dedicated to health care and related programs.

NOTE 2 CASH, INVESTMENTS AND RESTRICTED ASSETS

The Cash Management Policy Board: The policy for the investment of State funds is the responsibility of the Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the State except money in the DPERS and money held under the State deferred compensation program.

Investment Guidelines and Management:

The State's Cash Management Policy categorizes all cash and special purpose funds for which the State is financially accountable as follows:

- A. Cash Accounts. Cash accounts divide the State's available cash into three parts:
- 1) Collection and Disbursement Accounts: The State maintains an amount of cash in its general collection and disbursement accounts sufficient to meet its outstanding obligations.
 - 2) Cash and Liquidity Accounts: The majority of the State's cash balance available for investment is maintained in the cash and liquidity accounts. These accounts will be managed and invested by investment managers, selected by the Board through competitive bid, in order to maximize the return to the State while, at the same time, providing for safety of principal and sufficient liquidity for the State to meet its cash needs. The State will manage its short-term (12- to 18-month) investments to ensure sufficient liquidity and prevent their premature sale for the purpose of covering expenditures. Short-term investments should mature at face value in sufficient amounts to meet any needs.

- 3) Reserve Cash (Intermediate) Account: To the extent cash is not expected to be needed on short notice, the Board will direct the funding of a third part. This fund shall be managed and invested by an investment manager or managers, selected by the Board after a competitive bid, in order to maximize the return on said money to the State while providing for the safety of principal. The State will manage its intermediate investments to ensure they are made under circumstances and in amounts in which the State would not be forced to liquidate them at a loss.

B. Special Purpose Accounts. There are two primary types of Special Purpose Accounts:

- 1) Endowment Accounts: Endowment accounts consist of funds set-aside for specified purposes.
- 2) Authority Accounts: The State's Authorities (State Agencies, Local School Districts and Component Units) maintain a variety of fund types, including various operating funds, bond funds and debt service reserve funds.

The investment guidelines, adopted by the Board provide, among other things, that no more than 10% of the entire portfolio may be invested in obligations of any one issuer other than the U.S. government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances. The State's Cash Management Policy is available on the Internet at the website listed below:

http://treasurer.delaware.gov/information/cash_investment.shtml.

Custodial Credit Risk

Collateralization Requirements: All State deposits are required by law to be collateralized by direct obligations of, or obligations which are guaranteed by, the United States of America or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized, unless the bank issuing the certificate has assets of not less than \$5 billion and is rated not lower than "B" by Fitch, Inc. Bank Watch. The Board has also determined that State demand deposits need not be collateralized provided that any bank that holds these funds has had for the last two years, a return on average assets of 0.5% or greater and an average equity-capital ratio of at least 1:20. If the bank does not meet the above criteria, collateral must consist of one or more of the following:

- (a) U.S. government securities;
- (b) U.S. government agency securities;
- (c) Federal Home Loan Board letters of credit;
- (d) State of Delaware securities; or
- (e) Securities of a political subdivision of the State with a Moody's Investors Service rating of "A" or better.

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

At June 30, 2007, the financial institutions maintaining the State's investment pool satisfied the criteria listed above and the investments managed by those institutions did not require collateralization.

Cash and cash equivalents consist of demand deposits, short-term money market funds and other deposits held by financial institutions, generally with a maturity of three months or less when purchased. Cash and cash equivalents are reported as deposits.

Cash and cash equivalents, as reported on the statement of net assets, may be under the control of the State Treasurer or other administrative bodies as determined by the Cash Management Policy Board. All cash deposited with the State Treasurer by State organizations is maintained by the Treasurer in various pooled investment funds (State Investment Pool). The State Treasurer invests the deposited cash, including the cash float in short-term securities and other investments.

Primary Government

Deposits

At June 30, 2007, the carrying value and the bank balances of the State's deposits were \$668,966,000 and \$834,714,000, respectively. Of the bank balances, \$44,502,000 is insured by the Federal Deposit Insurance Corporation (FDIC) and/or collateralized with securities held by the State or by its agent in the State's name. \$598,304,000 is uninsured and uncollateralized. The remaining \$191,908,000 represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury. (Disclosures relating to \$202,750,000 of Cash, which is excluded above, and all Investments of the Delaware Public Employees Retirement System (DPERS) are found on pages 54-60.)

Investments

The table following provides information about the custodial credit risks associated with the State's investments. The investments disclosed below are uninsured, unregistered, and the securities are held by the counterparty or by its trust department or agent but not in the State's name.

Primary Government Investments

(Expressed in Thousands)

| Investment Type | Fair Value |
|--------------------------|----------------------------|
| Commercial Paper | \$ 141,487 |
| U.S. Government Bonds | 547,066 |
| Corporate Obligations | 421,658 |
| Municipal Bonds | 193,354 |
| Certificates of Deposit | 49,400 |
| Other Pooled Investments | 7,304 |
| Private Placements | 67,776 |
| | <hr/> |
| TOTAL | <u><u>\$ 1,428,045</u></u> |

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the value of an investment. Although the State's Cash Management Policy does not limit total portfolio maturities, it provides maximum maturity restrictions for each of the investment account types as described below.

Cash Account The maximum maturity for any investment at the time of purchase for the Cash Account shall be one year.

Liquidity Accounts The maximum maturity for any investment at the time of purchase shall be two years for the Liquidity Accounts.

Reserve Cash (Intermediate) Account The maximum maturity for any investment at the time of purchase shall be ten years. The maximum average maturity of the portfolio shall be seven years.

Endowment Accounts The maximum maturity for any investment at the time of purchase shall be ten years. The maximum average maturity of the portfolio shall be seven years. The Board shall consider tailoring maturity restrictions to meet specific purposes for endowment accounts to be established in the future.

Authority Operating, Bond and Debt Service Reserve Fund Accounts Maturity Restrictions: The maximum maturity for any investment at the time of purchase shall be ten years, except when prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

The following schedule presents a listing of directly held bonds and short-term investments and related maturity schedule.

| State of Delaware | | | | | |
|---------------------------------------|---------------------|---|-------------------|------------------|-------------------|
| Investment Maturity | | | | | |
| (Expressed in Thousands) | | | | | |
| Investment Type | Fair Value | Investment Maturities (in years) | | | |
| | | Less than 1 | 1 - 5 | 6 - 10 | Over 10 |
| 1) Fixed Income: | | | | | |
| A) U.S. Government Bonds | | | | | |
| U.S. Government Agencies | \$ 655,065 | \$ 273,749 | \$ 365,400 | \$ 9,083 | \$ 6,833 |
| U.S. Treasuries | 35,395 | 14,312 | 21,083 | - | - |
| B) Mortgage Backed | | | | | |
| Government Pass-Through | 2,497 | - | - | - | 2,497 |
| C) Corporate | | | | | |
| Corporate Bonds | 220,713 | 154,694 | 59,495 | - | 6,524 |
| Corporate Asset Backed | 148,910 | 3,730 | 61,421 | 6,668 | 77,091 |
| Bank Corporate Bonds | 35,715 | 27,327 | 8,388 | - | - |
| D) State and Local Obligations | 193,354 | 49,511 | 72,265 | 28,452 | 43,126 |
| E) Other Bonds | | | | | |
| Foreign | 15,913 | 7,082 | 8,831 | - | - |
| Private Placement | 67,775 | 28,577 | 39,198 | - | - |
| Canadian | 406 | 406 | - | - | - |
| Other | | | | | |
| F) Pooled Investments | 26,389 | 26,389 | - | - | - |
| 2) Short Term | | | | | |
| Commercial Paper | 281,340 | 281,340 | - | - | - |
| Certificate of Deposit | 49,400 | 42,942 | 6,458 | - | - |
| Agencies | 26,334 | 26,334 | - | - | - |
| Total Invested Assets | \$ 1,759,206 | \$ 936,393 | \$ 642,539 | \$ 44,203 | \$ 136,071 |

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State's Investment Pool follows the Cash Management Policy by investing only in securities authorized in the policy for reducing investment credit risk. The State's general investment policy for credit risk is to apply the prudent-person rule. Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

In addition, the Cash Management Policy Board guidelines limits investments in commercial paper, senior long-term debt, and corporate bonds to the following ratings issued by nationally recognized statistical rating organizations:

| <u>Investment</u> | <u>Standard & Poor's</u> | <u>Moody's</u> |
|------------------------------|------------------------------|----------------|
| Commercial Paper | A-1 | P-1 |
| Senior Long-Term Debt | A | A |
| Corporate Bonds | AA | Aa |
| Mortgage Backed Securities * | AAA | |

*Limitation of no more than 20% of total managed portfolio

Additionally, the State has multiple non-rated/pooled accounts which represent immaterial amounts when treated individually. The Cash Management Policy Board permits the types of investments which are held in these accounts.

The schedule below presents the credit risk characteristics of the State's investments as of June 30, 2007.

State of Delaware
Credit Risk - Quality Ratings
(Expressed in Thousands)

| <u>Investment Type</u> | <u>TSY*</u> | <u>AGY**</u> | <u>AAA</u> | <u>AA</u> | <u>A</u> | <u>A-1</u> | <u>NR***</u> |
|---------------------------------------|------------------|-------------------|-------------------|-------------------|-----------------|-------------------|-------------------|
| 1) Fixed Income: | | | | | | | |
| A) U.S. Government Bonds | | | | | | | |
| U.S. Treasuries | \$ 14,035 | \$ - | \$ 21,360 | \$ - | \$ - | \$ - | \$ - |
| U.S. Government Agencies | - | 146,396 | 497,183 | - | - | 11,486 | - |
| B) Mortgage Backed | | | | | | | |
| Government Pass-Through | - | 2,497 | - | - | - | - | - |
| C) Corporate | | | | | | | |
| Corporate Bonds | - | - | 41,066 | 163,925 | 4,002 | - | 11,720 |
| Corporate Asset Backed | - | - | 143,124 | 3,170 | - | 2,616 | - |
| Bank Corporate Bonds | - | - | - | 35,715 | - | - | - |
| D) State and Local Obligations | - | - | 129,221 | 20,448 | 1,755 | 858 | 41,072 |
| E) Other Bonds | | | | | | | |
| Foreign | - | - | 8,831 | 7,082 | - | - | - |
| Private Placement | - | - | 41,751 | 22,423 | - | 3,601 | - |
| Canadian | - | - | - | 406 | - | - | - |
| F) Pooled Investments | - | - | - | - | - | - | 26,389 |
| 2) Short Term | | | | | | | |
| Commercial Paper | - | - | - | - | - | 246,792 | 34,548 |
| Certificate of Deposit | - | - | - | 21,541 | - | 24,848 | 3,011 |
| Agencies | - | 20,948 | - | - | - | 5,386 | - |
| TOTAL | \$ 14,035 | \$ 169,841 | \$ 882,536 | \$ 274,710 | \$ 5,757 | \$ 295,587 | \$ 116,740 |

*TSY = Treasury

** AGY = Agency which represents securities issued by government -sponsored enterprises that are not rated, but have an implied but not explicit guarantee from the federal government.

*** NR = Non-rated pooled accounts

Derivatives

The State's cash management prohibits investment in derivatives.

Securities Lending

In accordance with a contract between the State of Delaware and its custodian and trustee, the Bank of New York (BONY), the State participates in a securities lending program. State statutes neither specifically authorize nor prohibit the lending of the State's securities.

BONY, acting as lending agent, lends the State's equity, debt, and money market securities for cash, securities, or letter-of-credit collateral. Collateral is required at 102% of the fair value of the securities loaned. Collateral is marked to market daily. If the collateral falls below guidelines for the fair value of the securities loaned, additional collateral is obtained. Cash collateral is invested by the lending agent in accordance with investment guidelines per the contract. The lending agent cannot pledge or sell securities collateral unless the borrower defaults.

As of June 30, 2007, the State's credit exposure to individual borrowers was limited because the amounts the State owed the borrowers exceeded the amounts the borrowers owed the State. The Treasurer's contract with the lending agent requires the agent to indemnify the State if the borrowers fail to return the underlying securities and the collateral is inadequate to replace the loaned securities or if the borrowers fail to pay income distributions on the loaned securities.

All securities loans at June 30, 2007 could be terminated immediately by either the lending agent or the borrower. The duration of the investments in the pool at June 30, 2007 was 447 days, on average.

As of June 30, 2007, the fair value of loaned securities was \$149.5 million; the fair value of the associated collateral was \$152.8 million.

Securities lending transactions at June 30, 2007 are as follows (Expressed in Thousands):

| <u>Types of Securities Lent</u> | <u>Fair Value of Underlying Securities</u> |
|-----------------------------------|--|
| U.S. Government Agency Securities | \$ 106,580 |
| Corporate Bonds | 7,020 |
| Other Bonds | 1,322 |
| Treasury Bills | <u>34,614</u> |
| TOTAL | <u><u>\$ 149,536</u></u> |

| Collateral Received | Fair Value |
|-----------------------------------|--------------------------|
| Corporate Bonds | \$ 40,168 |
| Corporate Asset Backed Securities | 20,883 |
| Certificates of Deposit | 19,561 |
| Mutual Funds | 18,571 |
| Bank Notes* | 29,195 |
| Repurchase Agreements | <u>24,410</u> |
| TOTAL | <u>\$ 152,788</u> |

* A note issued by the bank representing its promise to pay a specific sum to the bearer on demand.

The following table presents the maturity of the investments underlying the securities lending transactions should those investments be held to full term:

| State of Delaware | | | |
|-----------------------------------|--------------------------|------------------------------|-------------------------|
| Investment Maturity | | | |
| (Expressed in Thousands) | | Investment Maturities | |
| Collateral Received | Fair Value | (in years) | |
| | | 1 | 1-5 |
| Corporate Bonds | \$ 40,168 | \$ 10,008 | \$ 30,160 |
| Corporate Asset Backed Securities | 20,883 | 6,785 | 14,098 |
| Certificates of Deposit | 19,561 | 14,560 | 5,001 |
| Mutual Funds | 18,571 | 18,571 | - |
| Bank Notes* | 29,195 | - | 29,195 |
| Repurchase Agreements | <u>24,410</u> | <u>24,410</u> | <u>-</u> |
| Total Invested Assets | <u>\$ 152,788</u> | <u>\$ 74,334</u> | <u>\$ 78,454</u> |

* A note issued by the bank representing its promise to pay a specific sum to the bearer on demand.

The schedule below represents the credit risk characteristics of the investments held for securities lending as of June 30, 2007:

State of Delaware
Credit Risk - Quality Ratings
(Expressed in Thousands)

| Investment Type | AAA | AA | A | A-1 | NR |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Corporate Bonds | \$5,066 | \$10,007 | \$15,088 | \$10,008 | \$ - |
| Corporate Asset Backed Securities | 20,883 | - | - | - | - |
| Certificate of Deposit | - | 5,001 | - | 14,560 | - |
| Mutual Funds | 18,570 | - | - | - | - |
| Bank Notes | - | 20,088 | 9,107 | - | - |
| Repurchase Agreements | - | - | - | - | 24,410 |
| Total | <u>\$44,519</u> | <u>\$35,096</u> | <u>\$24,195</u> | <u>\$24,568</u> | <u>\$24,410</u> |

Investments in Excess of 5%

The Cash Management Policy provides the following percentage of account limitations, valued at market. Investments due to mature in one business day may be excluded from the computation of said limitations.

- A. U.S. government – no restrictions.
- B. Government Agency – 50% total; 20% in any one agency.
- C. CDs, Time Deposits and Bankers Acceptances – 50% total; 10% in any one issuer.
 1. Domestic – No additional restrictions.
 2. Non-Domestic – 25%.
 3. Delaware Domiciled – Securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.
- D. Corporate Debt – 50% total; 25% in any one industry; 10% in any one issuer, 10% of any issuer's total outstanding securities.
 1. Domestic – No additional restrictions.
 2. Non-Domestic – 25%; 10% in any one issuer.
- E. Repurchase Agreements – 50% total.

- F. Reverse Repurchase Agreements – 25% total.
- G. Money Market Funds – 25% total; 10% in any one fund except for the Cash Account, which may invest 100% of the Account in the Delaware Local Government Investment Pool (DELGIP) Fund. The Investment Guidelines for the DELGIP Fund are defined in Appendix B of the Policy.
- H. Canadian Treasuries – 25% total; 10% in any one agency.
- I. Canadian Agency Securities – 25% total; 10% in any one agency.
- J. Municipal Obligations – 10% in any one issuer.
- K. Guaranteed Investment Contracts – Permitted where it is prudent to match a specific investment instrument with a known specific future liability, subject to credit quality guidelines for commercial paper and corporate bonds and debentures and with adequate exit provisions in the event of the future downgrade of the issuer.
- L. Mortgage-backed securities – 20% total.

At June 30, 2007, the State's investments have met the requirement of all the State's laws and policies, when applicable. The following investments have a fair value in excess of 5% of the investment portfolio at June 30, 2007:

| | | |
|---|---------------|-----|
| Federal National Mortgage Association | \$274,909,725 | 16% |
| Federal Home Loan Banks | 209,881,989 | 12% |
| Delaware Local Government Investment Pool | 164,648,912 | 9% |
| Federal Home Loan Mortgage Corporation | 157,532,187 | 9% |
| Blackrock Provident Institutional | 97,885,974 | 6% |

Investment Commitments

The State has made no investment commitments as of June 30, 2007.

Foreign Investments/Forward Exchange Contracts

The State does not have a formal policy that limits foreign currency risk. The Non-U.S. Fixed Income securities are debt instruments that are issued by non-domestic organizations and denominated in U.S. dollars, therefore they are not subject to foreign currency risk.

Delaware Public Employees' Retirement System (DPERS or System)

Investment Policy

There are no State statutes limiting allowable investments for the System. The investment decisions are dictated by the prudent person rule and the internal investment guidelines established by the Pensions Board as outlined on the following page.

- a. Allocate a minimum of 20% of assets to fixed income investments such as bonds, cash equivalents, and certain real estate investments;
- b. Maintain a widely diversified portfolio, to minimize the risk of overexposure in any one market segment or investment style;
- c. Monitor the performance of all investment managers using specific benchmarks;
- d. Control exposure in illiquid asset classes;
- e. Review, re-examine, and reconfirm the operation of results of the investment process regularly;
- f. Identify new long-term opportunities for risk reduction and improved investment returns; and
- g. Review actuarial assumptions to ensure consistency with capital market expectations.

For the fiscal year ended June 30, 2007, management of the System believes it has operated in all material respects in accordance with these policies.

Securities Lending

The System entered into a contract with its custodian during Fiscal Year 2007. The System's investment policy permits securities lending from its separately managed accounts. The System may also participate indirectly in securities lending through certain non-separately managed accounts.

The objective of securities lending is to earn income through a conservatively operated and well-controlled program. Income expected is commensurate with the market demand for the stocks, bonds, and other securities made available by the System and return earned on the investment of cash collateral.

Cash collateral received is invested in a high-quality investment program provided by the custodian that emphasizes the return of principal, maintains required daily liquidity, and ensures diversification across approved investment types. The Investment Committee regularly reviews the status of the program, including the approved list of borrowers.

Securities are loaned for cash, US government securities, and irrevocable letters of credit. Domestic securities are loaned for collateral valued at 102% of market value of the securities plus any accrued interest. Non-US securities are loaned for collateral valued at 105% of the market value of the securities plus any accrued interest. As of June 30, 2007 the total market value of the System's securities on loan was \$747.1 million.

Investments

The following is a listing of fixed income investments and cash equivalents and related maturity schedule which shows the System's exposure to interest rate risk. The totals presented are derived from the individual assets held by the System as of June 30, 2007. It is the System's policy to classify corporate convertible bonds as equity securities on the

Statement of Net Assets because these securities generally convert to preferred equity interests upon maturity. Corporate convertible bonds are included in this chart because they have maturity dates and are exposed to interest rate risk.

Delaware Public Employees' Retirement System (DPERS or System)
Investment Maturities (in Years)
(Expressed in Thousands)

| Investment Type/Sector | Fair Value | Less than 1 | 1 - 5 | 5 - 10 | 10 + | Not Determined |
|--|---------------------|--------------------|-------------------|-------------------|-------------------|-----------------------|
| Asset backed Securities | \$ 43,344 | \$ - | \$ 14,403 | \$ 18 | \$ 28,923 | \$ - |
| Commercial Mortgage-backed | 46,198 | 182 | 605 | - | 45,411 | - |
| Commercial Paper | 2,993 | 2,993 | - | - | - | - |
| Corporate Bonds | 378,416 | 63,541 | 71,201 | 91,162 | 152,512 | - |
| Corporate Convertible Bonds | 697,358 | 20,429 | 421,566 | 71,912 | 183,451 | - |
| Government Agencies | 49,566 | - | 28,502 | 6,616 | 14,448 | - |
| Government Bonds | 170,670 | 14,499 | 67,412 | 18,216 | 70,543 | - |
| Government Mortgage Backed | 130,422 | - | 803 | 283 | 91,316 | 38,020 |
| Government Issued Commercial Mortgage-Backed | 1,319 | - | - | - | 1,319 | - |
| Municipal/Provincial Bonds | 20,532 | - | 12,981 | 1,826 | 5,725 | - |
| Non-Government Backed C.M.O.s | 45,542 | - | 991 | 4,040 | 40,511 | - |
| Pooled Investments | 1,374,001 | 197,420 | - | 674,926 | 48,550 | 453,105 |
| Total | \$ 2,960,361 | \$ 299,064 | \$ 618,464 | \$ 868,999 | \$ 682,709 | \$ 491,125 |

Interest Rate Risk

The State has delegated an investment policy for the System to the Board and its Committees. The Investment Committee sets its own guidelines in conjunction with the Board to manage and review the System's exposure to fluctuating interest rates. Interest rate risk is a consideration when establishing and reviewing investment manager guidelines and asset allocation. Both topics are included in the Statement of Investment Policies and Objectives which are published on the System's website.

Credit Risk

The System's general investment policy is to apply the prudent-person rule to all risks incurred by the fund: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The System has no investment policy that would further limit its investment choices related to credit risk. As of June 30, 2007, the System's fixed income investments and cash equivalents had the following risk characteristics as indicated in the following schedule (expressed in thousands):

| Moody's Ratings or Comparable | Percent of Total Fund | Market Value |
|----------------------------------|--------------------------|---------------------|
| AAA to A | 6.40% | \$ 471,263 |
| BBB to B | 4.10% | 300,386 |
| CCC to C | 0.40% | 31,339 |
| Less than C | 0.00% | - |
| U.S. Government Guaranteed | 1.80% | 135,997 |
| Not Rated | 8.70% | 647,375 |
| Total | 21.40% | \$ 1,586,360 |

Custodial Credit Risk

Of the System's \$202.8 million bank balance, there are two accounts which are uninsured and uncollateralized. Pooled deposits of \$908,000 are held by the State Treasurer's Office. The balance of \$201.9 million represents deposits in short-term investments held by The Northern Trust Co., the custodial bank as of June 30, 2007.

Investments in Excess of 5% of Net Assets Held in Trust for Pension Benefits

As of June 30, 2007, the System held investments in the following pooled investments that are in excess of 5% of the fair value of the System's net assets held in trust for pension benefits as of June 30, 2007:

| | Fair Value (Expressed in Thousands) |
|---|---|
| Mellon Capital Global Asset Allocation Fund | \$1,267,427 |
| Mellon Capital Asset Allocation Fund | 964,332 |
| Western Asset Absolute Return Strategy Ltd. | 404,024 |

Management Fees

The System paid \$16.9 million in management fees to the venture capital limited partnerships for the fiscal year ended June 30, 2007. These fees are netted against investment income.

Investment Commitments

The System has commitments to invest up to an additional \$364.4 million in venture capital limited partnerships in varying amounts as of June 30, 2007, to be drawn down, as called upon at any time during the term of each partnership, which is usually a ten-year period. Generally, these commitments are self-funding, in that the capital calls are met using cash flows generated by the existing venture capital/limited partnerships as managers in this asset class realize the proceeds of their investments.

Foreign Investments/Forward Exchange Contracts

Foreign investments include equity securities, bonds, and short-term investments. From time to time, the System has entered into forward exchange contracts to sell or purchase certain

foreign currencies at specified rates at stated dates. At June 30, 2007, the System did not hold any directly-held open forward exchange contracts.

The following is a listing of the System's foreign assets as of June 30, 2007, excluding foreign-issuer assets valued at \$348.4 million which were U.S. dollar denominated.

Investment Types
(Expressed in Thousands)

| Currency | Fair Value in | | Fixed | |
|------------------------|----------------------|-----------------|---------------|-------------|
| Currency | U.S. Dollars | Equities | Income | Cash |
| Australian Dollar | \$ 21,623 | \$ 21,598 | \$ - | \$ 25 |
| Brazilian Real | 6,850 | - | 6,850 | - |
| British Pound Sterling | 97,376 | 96,922 | 377 | 77 |
| Canadian Dollar | 61,195 | 11,837 | 49,294 | 64 |
| Euro | 345,449 | 320,676 | 21,001 | 3,772 |
| Hong Kong Dollar | 18,944 | 18,944 | - | - |
| Iceland Krona | 6,405 | - | 6,405 | - |
| Indonesian Rupiah | 1,410 | - | 1,410 | - |
| Japanese Yen | 128,213 | 128,167 | - | 46 |
| Mexian Peso | 9,800 | - | 9,800 | - |
| New Zealand Dollar | 12,305 | - | 12,305 | - |
| Norwegian Krone | 16,057 | 15,927 | - | 130 |
| Singapore Dollar | 22,606 | 22,468 | 133 | 5 |
| South African Rand | 5,906 | 1,724 | 4,182 | - |
| South Korean Won | 8,923 | 8,923 | - | - |
| Swedish Krona | 19,047 | 8,077 | 10,446 | 524 |
| Swiss Franc | 63,478 | 63,252 | - | 226 |
| Thai Baht | 6,080 | - | 6,081 | (1) |
| Total: | \$ 851,667 | \$ 718,515 | \$ 128,284 | \$ 4,868 |

Derivatives

Derivatives are instruments (securities or contracts) whose value is dependent on such things as stock or bond prices, interest rate levels, or currency exchange rates. In June 1994, the Board adopted a formal written policy on the use of derivatives which is reviewed periodically. This policy, as amended was incorporated in the formalized investment policy adopted by the Board during fiscal year 2006. Only a few selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are stated in the manager's contract and are monitored on an ongoing basis. Derivatives serve a variety of useful purposes for the System, including the reduction of foreign exchange risk, the minimization of transaction costs and as a means of implementing value added strategies to

enhance returns. So-called “exotic” derivatives are not used. If the use of derivatives in a portfolio strategy results in some leverage, that leverage is never permitted to expose the Fund to a loss greater than the amount committed to that strategy.

The following lists principal categories of derivatives and their uses during the year:

| <u>Category</u> | <u>Purpose</u> |
|------------------------------------|--|
| Foreign exchange forward contracts | Hedge currency risk of investments denominated in foreign currencies; enhance return |
| Exchange traded futures contracts | Reduce transaction costs; hedge equity market risk; control fixed income; portfolio duration; enhance return |
| Exchange traded options contracts | Enhance return; reduce transaction costs |
| Asset backed securities | Enhance return |
| Total return equity swaps | Hedge equity market risk exposure |

Generally, derivatives are subject both to market risk and counterparty risk. The derivatives utilized by the System typically have no greater risk than their physical counterparts, and in many cases are offset by exposures elsewhere in the portfolio (for example, a short S&P 500 futures contract partially hedging a long position in S&P 500 securities). Counterparty risk, the risk that the “other party” to a contract will default, is managed by utilization of exchange traded futures and options where practical (in which case the futures exchange is the counterparty and guarantees performance) and by careful screening of counterparties where use of exchange traded products is impractical or uneconomical.

Derivative securities are priced and accounted for at their fair value. For exchange traded securities such as futures and options, closing prices from the securities exchanges are used. For fixed income derivatives such as collateralized mortgage obligations (CMOs), commercial pricing services (where available) or bid-side prices from a broker/dealer are used. Foreign exchange contracts are valued at the price at which the transaction could be settled by offset in the forward markets.

The Investment Committee monitors the System’s derivative holdings on a regular basis to ensure that the derivatives used by managers of the System will not have a material adverse impact on its financial condition.

Risk and Uncertainty

The plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk inherent in investment securities, it is possible that changes in the values of investment securities will occur in the near term and that such changes could affect the amounts reported in the Statement of Plan Net Assets.

The actuarial accrued plan liabilities are measured based on assumptions pertaining to the interest rates, inflation rates and employee demographic behavior in future years. While these assumptions have been chosen after review of past history of the covered participants, it is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more experience deviates the larger the impact on future financial statements.

COMPONENT UNITS

Diamond State Port Corporation

At June 30, 2007, the carrying value and the bank balances of the Corporation's deposits were \$23,498,263 and \$23,998,338, respectively. Of the bank balances, \$100,000 is insured by the Federal Deposit Insurance Corporation (FDIC) and \$23,898,338 is subject to custodial credit risk because it is uninsured and uncollateralized. However, it is held at financial institutions that satisfied the State's collateralization requirements and does not require collateralization.

Riverfront Development Corporation

At June 30, 2007, the Riverfront Development Corporation's cash deposits carrying value and bank balances amounted to \$9,105,988 and \$9,235,600 respectively. Cash deposits include \$297,276 of restricted cash and cash equivalents that have been assigned to the bank as collateral for repayment in the event of a default under the bond or collateral agreements. Of the bank balances, \$367,365 is insured by the FDIC and \$8,868,235 is uninsured and uncollateralized.

Delaware State University

At June 30, 2007, Delaware State University's deposits carrying value and bank balance was \$14,702,524 and \$14,930,473, respectively. An additional \$8,899,987 of cash and cash equivalents related to unexpended State appropriations are included on the Statement of Net Assets. Of the bank balances, \$12,680,932 was uninsured and uncollateralized. The additional \$8,899,987 represents pooled deposits held by the State Treasurer's Office.

Delaware Technical and Community College Educational Foundation

At December 31, 2006, the DTCC Foundation's carrying value and bank balance was \$215,003 and \$243,351 respectively. Of the bank balance, \$143,351 was uninsured and uncollateralized. The Foundation maintains cash balances at one financial institution located in Delaware. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$100,000.

Delaware Charter Schools

At June 30, 2007, the Delaware Charter Schools deposits carrying value was \$23,524,847. Deposits include \$18,483,560 held in the State Investment Pool. Carrying value of the

remainder of deposits was \$5,041,287. Bank balances totaled \$4,610,026, consisting of \$518,899 insured by FDIC and \$4,091,127 uninsured and uncollateralized.

Delaware State Housing Authority

Investment Policies

The DSHA has an investment policy that encompasses all moneys related to the issuance of bonds, as well as, all funds otherwise held by the DSHA. DSHA seeks first and foremost to ensure safety of principal, and secondly, to attain the highest possible return available given the risk constraints.

The DSHA is allowed to invest in certain qualified investments as defined by amended Section 4013, Chapter 40, Title 31, of the Delaware Code and DSHA's formal investment policy. Subject to certain limitations, such as the credit ratings on bonds and the capitalization level of depositories, "qualified investments" include:

- a. Obligations of or explicitly guaranteed by the U.S. or Delaware state governments.
- b. Obligations of U.S. government-sponsored enterprises and U.S. government agencies and instrumentalities.
- c. Obligations of depositories and other financial institutions.
- d. Bankers' acceptances
- e. Commercial paper
- f. Money market mutual funds
- g. Corporate debt obligations
- h. The State of Delaware investment pool with the State Treasurer's Office.
- i. Other investment arrangements made pursuant to an investment agreement authorized by a resolution of the DSHA.

Certain federal funds administered by the DSHA are subject to additional limitations within the qualified investments listed above.

For the State of Delaware Investment Pool, fair value of the pool shares is the same as the carrying value of the pool shares. The State of Delaware Cash Management Policy Board provides oversight for this pool.

Investments

Investments are presented at fair value. Fair values are determined by quoted market prices based on national exchange prices for all investments, except for the State of Delaware Investment Pool. The State pool is valued based on the pool's share price. The table on the next page lists investments and their maturities.

Investment Maturities (in Years)
(Expressed in Thousands)

| Investment Type | Fair Value | Less than 1 | 1 - 5 | 5 - 10 | 10 - 20 | 20 - 30 | More than 30 |
|-----------------------------------|-------------------|------------------|-------------------|------------------|-----------------|-----------------|-----------------|
| U.S. Treasury Notes | \$ 8,058 | \$ 5,462 | \$ 2,300 | \$ 266 | \$ 467 | - | - |
| U.S. Treasury Bonds | 82 | - | - | 53 | - | 19 | - |
| U.S. Treasury Bills | 1,016 | 1,040 | - | - | - | - | - |
| U.S. Treasury Strips | 1,842 | 456 | 1,590 | - | - | - | - |
| U.S. Agencies | 9,586 | 4,633 | 5,170 | - | - | - | - |
| Commercial Paper | 447 | 450 | - | - | - | - | - |
| Corporate Note | 3,153 | 1,870 | 1,319 | - | - | - | - |
| Municipal Bonds | 2,132 | - | 2,010 | 335 | - | - | - |
| Investment Agreements | 203,849 | 2,001 | 176,315 | 12,949 | 2,859 | 7,696 | 2,029 |
| Money Market Savings Acct. | 3,685 | 3,685 | - | - | - | - | - |
| Bank Money Market Acct. | | | | | | | |
| Account | 3,104 | 3,104 | - | - | - | - | - |
| State of Delaware Investment Pool | 47,063 | 47,063 | - | - | - | - | - |
| Total Investments: | \$ 284,017 | \$ 69,764 | \$ 188,704 | \$ 13,603 | \$ 3,326 | \$ 7,715 | \$ 2,029 |

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the DSHA's investment policy places limits on maturities for the various funds as follows:

- a. **Single Family & Multi-Family Program Funds:** Investment contracts for bond program funds should have a maturity that matches the final bond maturity to minimize reinvestment risk. Individual investments of bond program funds should match anticipated cash requirements or provide sufficient liquidity to allow funds to be accessed to meet bond resolution requirements without incurring material principal losses.
- b. **Federal Program Funds:** HUD funds held by the DSHA should have a maximum maturity of one year. HUD-related funds held by the Authority (escrows, replacement reserves, residual receipts) shall have a maximum maturity of three years.
- c. **General Fund:** The Operating Reserve Account, which is managed externally, should have a maximum maturity at the time of purchase of ten years. However, specific investments may be transferred into the account from time to time that may have a longer maturity. The DSHA may further reduce the maximum maturity of the operating reserve investments from time to time.
- d. **Other DSHA funds** should be invested with a maturity that matches, or is prior to, the anticipated time at which the funds will be needed.

- e. DSHA investments (other than deposit accounts, money market fund shares, or deposits with the State Treasurer's Office) should have a fixed maturity date by which principal and accrued interest will be fully repaid. The DSHA is not permitted to enter into investments that have an expected maturity date that can be extended, depending upon market conditions.

Credit Risk

The DSHA's general investment policy is to make investments with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as, the probable income to be derived. The DSHA's investment policy limits its investment choices as mentioned above under Investments. For the DSHA's Single and Multi-Family Programs, the investment rating must be equal or exceed the bond rating. The DSHA's Operating Reserve Account has a specific credit quality requirement. Corporate debt obligations and shares of money market mutual funds shall have a long-term rating of AA and/or Aa, respectively by Standard & Poor's (S&P) and Moody's at the time of purchase. As of June 30, 2007, the Authority's investments were rated as follows:

| Investment Type | Ratings (S & P) (Expressed in Thousands) | | | | | | | |
|----------------------|---|-----------------|---------------|-----------------|---------------|-----------------|---------------|---------------|
| | Treasury | Agency * | AAA | AA | A+ | AA- | A1- | A1 |
| U.S. Treasury Notes | \$ 8,058 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| U.S. Treasury Bonds | 82 | - | - | - | - | - | - | - |
| U.S. Treasury Bills | 1,016 | - | - | - | - | - | - | - |
| U.S. Treasury Strips | 1,842 | - | - | - | - | - | - | - |
| U.S. Agencies | - | 9,586 | - | - | - | - | - | - |
| Corporate Notes | - | - | 713 | 1,549 | 642 | 249 | - | - |
| Municipal Bonds | - | - | 264 | - | - | 1,868 | - | - |
| Commercial Paper | - | - | - | - | - | - | 273 | 174 |
| Total | \$ 10,998 | \$ 9,586 | \$ 977 | \$ 1,549 | \$ 642 | \$ 2,117 | \$ 273 | \$ 174 |

* The Agency column above represents securities issued by government-sponsored enterprises that are not rated, but have an implied but not explicit guarantee from the federal government.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the DSHA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the DSHA's \$284,016,934 investment balance, \$203,848,842 represents deposits held by various Guaranteed Investment Contract (GIC) providers under investment agreements. These accounts are uninsured and uncollateralized. The funds are specifically identified for the DSHA, but the custodial credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the financial institution providing the GIC. The DSHA's investment policy does not limit the amount of securities that can be held by the counterparties.

Riverfront Development Corporation

The Riverfront's unrestricted investments of \$4,819,906 are for real estate ventures. Its restricted investments totaling \$9,899,523 consist of \$7,640,699 of short-term investments (rated A1 or better), \$2,100,000 of Governmental bonds (rated AAA), and \$158,824 of certificates of deposit (insured up to \$100,000). These investments are uninsured, unregistered and held by the counterparty's trust department or agent in the RDC's name. The following issuers have investments at fair value in excess of 5% of RDC's investment portfolio:

| Investments | Fair Value | % of Assets |
|--|-------------------|--------------------|
| American Express Credit Corp. Note | \$ 500,000 | 5.1 % |
| General Electric Capital Corp. Note | 500,000 | 5.1 % |
| Household Finance Corp. Note | 500,000 | 5.1 % |
| Prudential Funding Corp Note | 500,000 | 5.1 % |
| Federal Home Loan Bank Bonds | 2,098,349 | 21.2% |
| American General Finance Corp. Note | 750,000 | 7.6% |
| Chevron Texaco Funding Corp. Note | 500,000 | 5.1% |
| Federal Home Loan Mortgage Corp. Note | 840,405 | 8.5% |
| Federal National Mortgage Association Note | 1,372,026 | 13.9% |

Delaware State University

Investments of the University totaled \$22,369,969 stated at quoted market value, which consist of pooled investments where the University does own specific securities.

Delaware Technical and Community College Educational Foundation

Investments of the DTCC Foundation totaled \$7,925,509, stated at quoted market value. These investments consist of pooled investments where the University does not own specific securities. An additional \$61,459 is invested in life insurance, recorded at the cash surrender value.

NOTE 3 RECEIVABLES

All trade, loan and tax account receivables are recorded net of an allowance for doubtful accounts. In the governmental funds, receivables that will not be available within 60 days of year-end are recorded as deferred revenue. In the government-wide statements, receivables not expected to be collected during the subsequent year are recorded as noncurrent.

Taxes receivable represent the amount of personal, business, and other taxes determined to be measurable and available as of June 30, 2007. Uncollectibility for taxes receivable primarily results from identified assessment problems, inability to locate taxpayers, and accounts of decedents.

The State of Delaware levies taxes on real property through its school districts. Each of the three counties of the State establishes the assessed values of real estate and bills and collects its own property taxes. Local school property taxes are levied by local school districts based on the assessed value of real estate, as determined by county taxation formulas. Taxes are levied on July 1 and are payable on or before September 30. Taxes paid after the payable date are assessed a 6% penalty for nonpayment and 1% interest per month thereafter. Taxes are billed and collected by the Counties with funds remitted to the local school district to be used for the local share of school operating costs and debt service on general obligation bonds issued for capital improvements.

Receivables as of year-end for the State's individual funds, including the applicable allowances for uncollectible accounts, are as follows:

**Receivables - Primary Government
Governmental Activities**
(Expressed in Thousands)

| | General | Federal Funds | Local School District Funds | Total Receivables |
|---|-------------------|--------------------------|--|------------------------------|
| Receivables: | | | | |
| Taxes | \$ 210,206 | \$ - | \$ 19,219 | \$ 229,425 |
| Interest | 68 | - | 11 | 79 |
| Accounts | 804,699 | 90,579 | 398 | 895,676 |
| Loans and Notes | 132,019 | 36,073 | - | 168,092 |
| Intergovernmental | 227 | 88,149 | - | 88,376 |
| Total receivables | 1,147,219 | 214,801 | 19,628 | 1,381,648 |
| Allowance for doubtful accounts | (867,454) | (78,346) | (243) | (946,043) |
| Total receivables (net) | <u>\$ 279,765</u> | <u>\$ 136,455</u> | <u>\$ 19,385</u> | <u>\$ 435,605</u> |
| Amounts not scheduled for collection during the subsequent year | <u>\$ 175,340</u> | <u>\$ 36,016</u> | <u>\$ 12,242</u> | <u>\$ 223,598</u> |

**Receivables - Primary Government
Business-Type Activities**
(Expressed in Thousands)

| | Unemployment | Lottery | DelDOT | Total Receivables |
|---|---------------------|----------------|---------------|------------------------------|
| Receivables: | | | | |
| Taxes | \$ 33,072 | \$ - | \$ - | \$ 33,072 |
| Interest | - | - | 2,179 | 2,179 |
| Accounts | 8,238 | 13,217 | 11,798 | 33,253 |
| Loans and Notes | - | - | 24,661 | 24,661 |
| Intergovernmental | 604 | - | 10,023 | 10,627 |
| | 41,914 | 13,217 | 48,661 | 103,792 |
| Total receivables | | | | |
| Allowance for doubtful accounts | (19,300) | (725) | - | (20,025) |
| Total receivables (net) | \$ 22,614 | \$ 12,492 | \$ 48,661 | \$ 83,767 |
| Amounts not scheduled for collection during the subsequent year | \$ - | \$ - | \$ 23,543 | \$ 23,543 |

Receivables as of year-end for the State’s component units, including the applicable allowances for uncollectible accounts, are shown below.

| Receivables | | | | | | |
|---|---|---|---|--|---|------------------------------|
| Component Unit Activities | | | | | | |
| (Expressed in Thousands) | | | | | | |
| | Delaware State Housing Authority | Diamond State Port Corporation | Riverfront Development Corporation | Delaware State University | Delaware Charter Schools | Total Receivables |
| Receivables: | | | | | | |
| Interest | \$ 26,261 | \$ - | \$ - | \$ - | \$ - | \$ 26,261 |
| Accounts | 7,247 | 2,740 | 259 | 6,447 | 152 | 16,845 |
| Loans and Notes | 691,272 | | 6,546 | 261 | - | 698,079 |
| Intergovernmental | 870 | - | - | 2,844 | - | 3,714 |
| Total receivables | 725,650 | 2,740 | 6,805 | 9,552 | 152 | 744,899 |
| Less: Allowance for doubtful accounts | (613) | (66) | (1,839) | (2,786) | - | (5,304) |
| Total receivables (net) | <u>\$ 725,037</u> | <u>\$ 2,674</u> | <u>\$ 4,966</u> | <u>\$ 6,766</u> | <u>\$ 152</u> | <u>\$ 739,595</u> |
| Amounts not scheduled for collection during the subsequent year | <u>\$ 684,171</u> | <u>\$ -</u> | <u>\$ 4,707</u> | <u>\$ 261</u> | <u>\$ -</u> | <u>\$ 689,139</u> |

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Amounts considered unearned federal grant drawdowns are reported as deferred revenue.

The various components of deferred revenue and unearned revenue reported at year-end in the governmental funds are as follows:

| Deferred Revenues | |
|---------------------------------|--------------------------|
| (Expressed in Thousands) | |
| Unavailable | |
| Taxes Receivable | \$ 78,931 |
| Non-tax Receivables | <u>233,176</u> |
| Subtotal Unavailable | 312,107 |
| Unearned | |
| Advance Park Reservation Fees | 869 |
| Federal Grant Advance Drawdowns | <u>11,546</u> |
| Total Deferred Revenue | <u><u>\$ 324,522</u></u> |

NOTE 4 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

(a) Due From/Due to Other Funds

Receivables reported as “Due From Other Funds” and the related payables reported as “Due To Other Funds” represent amounts owed to State organizations by other organizations within the State reporting entity. Amounts receivable from or payable to other levels of government are reported as Intergovernmental receivables or payables. The composition of Due From/Due To balances as of June 30, 2007, expressed in thousands, is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|-----------------------|-------------------------|
| General Fund | Federal Fund | \$ 28,060 |
| | Local School District | <u>12,233</u> |
| | Subtotal | 40,293 |
| General Fund | Enterprise Fund | |
| | Lottery | <u>7,563</u> |
| | Total | <u><u>\$ 47,856</u></u> |

The amounts due from the Federal Fund are recorded for borrowings to eliminate negative balances in the State Investment Pool. The amount for the Federal Fund is created by expenditures relating to reimbursement type federal grant revenues. These costs result in a negative balance in the State Investment Pool. Amounts due from local school districts represent balances due from Christina School District which were borrowed for general operating expenses and capital projects.

The amount due from the Delaware Lottery (reported as an internal balance on the Statement of Net Assets), represents profits required by law to be transferred to the General Fund.

(b) Transfers In From/Out To Other Funds

Transfers in and transfers out from/to other funds in the Statement of Revenues, Expenditures and Changes in Fund Balance, the Statement of Revenues, Expenses and Changes in Fund Net Assets, Proprietary Funds and Payment from the Primary Government in the Statement of Activities-Component Units represent transfers between funds. Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) move profits from the Delaware State Lottery as required by State law.

A schedule of transfers in and transfers out for the year ended June 30, 2007 is presented below (expressed in thousands):

| | Transfers In | Transfers Out |
|--|---------------------------------|---------------------------------|
| | <u> </u> | <u> </u> |
| Governmental Fund Types | | |
| General Fund | \$ 375,653 | \$ 101,718 |
| Federal Fund | 9,453 | - |
| Local School Fund | 17,857 | 45,693 |
| Proprietary Fund Types | | |
| Lottery | - | 329,960 |
| DelDOT Fund | 74,408 | 4,060 |
| Primary Government (Entity Wide Only) | | |
| Transfer of Capital Assets from DelDOT | <u>4,060</u> | <u>-</u> |
| Total All Funds | <u><u>\$ 481,431</u></u> | <u><u>\$ 481,431</u></u> |

NOTE 5 GENERAL OBLIGATION BONDS

General obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for State administrative operations, public and higher education, public and mental health, correction and conservation purposes and for maintenance and construction of highway facilities.

The State Constitution provides that the State may issue general obligation bonds for specific purposes in amounts approved by the General Assembly. The enabling acts pursuant to which the bonds are issued provide that all bonds issued shall be direct obligations of the State of Delaware; that is, the bonds are secured by the pledge of the full faith and credit of the State. General obligation bonds are redeemed over a period not to exceed 20 years, generally from available resources in the General fund. Accordingly, the State of Delaware has generally issued 10- and 20-year serial bonds with equal amounts of principal maturing each year. Bonds outstanding have call provisions providing for early redemption at the option of the State, generally beginning 8 or 10 years following the date of issue in the inverse order of maturity, in whole or in part, at redemption prices not to exceed 100% of par value.

On August 1, 2006, the State issued \$189.2 million of general obligation bonds. The serial bonds mature between August 1, 2007 and August 1, 2026. The Series 2006A Bonds totaling \$33.655 million were sold to retail investors. Series 2006B Bonds totaling \$155.545 million were sold competitively. The bonds bear coupon rates between 3.75% and 5.5%. Proceeds were used to fund various capital projects of the State as authorized by the General Assembly.

On December 8, 2006, the State issued \$1.4 million of General Obligation Qualified Zone Academy Bonds (QZABs). The QZABs are debt instruments that provide a substantial federal tax credit to the lending financial institution. The lender receives no interest payment from the borrower but receives an interest credit. The lender benefits from the tax credit that provides a greater return than bond interest would provide, while the State benefits because the loan is essentially interest free. Proceeds were used for renovation of public schools. The bonds mature in 2023.

On May 10, 2007, the State issued \$192.5 million of general obligation bonds maturing between May 1, 2008 and May 1, 2027. The bonds bear coupon rates of 4.0% and 5.0%. Proceeds were used to fund various capital projects as authorized by the General Assembly.

Bonds issued and outstanding totaled \$1,310.9 million at June 30, 2007. Of this amount, \$482.1 million is supported by property taxes collected by the Local School District Funds. During fiscal year 2007, the Local School District Funds transferred \$45.7 million of property tax revenue to the State to meet the required debt service on their share of the debt.

The State is authorized to issue an additional \$235.1 million of general obligation bonds at June 30, 2007. Interest rates and maturities of the outstanding General Obligation Bonds are detailed as follows:

General Obligation Bonds

| <u>Sale #</u> | <u>Description</u> | <u>Interest Rates</u> | <u>Maturity Date (Fiscal Year)</u> | <u>Balance Outstanding June 30, 2007 (Expressed in Thousands)</u> |
|---------------|----------------------|-----------------------|--|---|
| 200 | GO 2007A | 4.0% - 5.0% | 2027 | \$192,500 |
| 199 | GO 2006C | 0% | 2023 | 1,433 |
| 198 | GO 2006B | 4.0% - 5.5% | 2027 | 155,545 |
| 197 | GO 2006A | 3.75% - 4.5% | 2027 | 33,655 |
| 196 | GO 2005D | 3.5% - 5.0% | 2024 | 123,400 |
| 195 | GO Refunding 2005C | 5.0% | 2023 | 45,335 |
| 194 | GO 2005B | 2.625% - 5.0% | 2024 | 79,845 |
| 193 | GO 2005A | 2.25% - 4.25% | 2025 | 26,405 |
| 192 | QZAB 2004B | 0% | 2020 | 224 |
| 191 | GO + Refunding 2004A | 3.0% - 6.0% | 2024 | 173,600 |
| 190 | QZAB 2003D | 0% | 2018 | 908 |
| 189 | GO Refunding 2003C | 4.0% - 6.0% | 2023 | 85,000 |
| 188 | GO Refunding 2003B | 4.0% - 5.0% | 2011 | 22,500 |
| 187 | GO 2003A | 2.625% - 5.0% | 2022 | 68,100 |
| 186 | QZAB 2002B | 0% | 2016 | 760 |
| 185 | GO + Refunding 2002A | 4.0% - 5.25% | 2021 | 186,840 |
| 184 | QZAB 2001B | 0% | 2011 | 649 |
| 183 | GO + Refunding 2001A | 4.0% - 4.75% | 2009 | 40,335 |
| 182 | GO 2000 A | 5.0% - 5.5% | 2012 | 22,500 |
| 181 | GO 1999 A | 4.0% - 4.625% | 2019 | 19,250 |
| 179 | GO + Refunding 1998A | 4.5% - 4.75% | 2008 | 30,315 |
| 170 | GO 1992 B | 4.7% - 6.1% | 2013 | 1,771 |
| Total | | | | <u>\$ 1,310,870</u> |

The following table sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2007.

Total General Obligation Bonds

(Expressed in Thousands)

| Fiscal Year Ending June 30 | Principal | Interest | Total |
|---|----------------------------|--------------------------|----------------------------|
| 2008 | \$ 135,860 | \$ 57,826 | \$ 193,686 |
| 2009 | 130,165 | 51,579 | 181,744 |
| 2010 | 124,585 | 45,209 | 169,794 |
| 2011 | 117,267 | 39,517 | 156,784 |
| 2012 | 112,923 | 36,135 | 149,058 |
| 2013-2017 | 402,660 | 106,621 | 509,281 |
| 2018-2022 | 191,007 | 42,180 | 233,187 |
| 2023-2027 | <u>96,403</u> | <u>9,175</u> | <u>105,578</u> |
| Totals | \$ <u>1,310,870</u> | \$ <u>388,242</u> | \$ <u>1,699,112</u> |

Changes in general obligation bonded debt during the year ended June 30, 2007 are summarized in Note 10.

In prior years, the State has defeased certain general obligation bonds by creating separate irrevocable trust funds. New debt has been issued or cash appropriated and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt. Accordingly, the debt has been considered defeased and has been removed as a liability from the government-wide financial statements. As of June 30, 2007, a total of \$147.6 million of defeased bonds were outstanding.

NOTE 6 REVENUE BONDS

Revenue Bonds

The State Constitution empowers certain State agencies and authorities to issue bonds that are not supported by the full faith and credit of the State. These bonds pledge income derived from acquired or constructed assets or some other stream of revenues to retire the debt and pay related interest.

(a) Primary Government**DelDOT Fund***Delaware Transportation Authority*

The Authority is subject to oversight by the Department of Transportation. The Authority assists in the implementation of the State's plans and policies regarding the coordination and development of a comprehensive, balanced transportation system for the State. It has the power to develop a unified system of air, water, vehicular and specialized transportation in the State. The Authority includes the Transportation Trust Fund and the Delaware Transit Corporation. The Secretary of the Department of Transportation, with consent of the Governor, appoints the Authority's Director.

To assist the Authority in financing a unified transportation system, the State created a Transportation Trust Fund (the Trust Fund) within the Authority which receives all receipts of the Authority. The primary sources of funding of the Trust Fund are motor fuel taxes and motor vehicles fees imposed and collected by the State and deposited in the Trust Fund, and revenue from the Delaware Turnpike, which the Authority owns and operates. The Authority also has the power to issue bonds, with legislative authorization, to finance improvements to the State's transportation system. The Authority may apply Trust Fund revenue in excess of debt service requirements for transportation projects, subject to legislative authorization, and may pledge any or all of this revenue to secure financing for these projects.

In April 2007, the Trust Fund issued \$87,890,000 of Transportation System Senior Revenue Bonds, 2007A Series, to provide an advance refunding of the following Transportation System Senior Revenue Bonds:

| | |
|--------------|----------------------|
| 1997 Series | \$ 38,925,000 |
| 2001 Series | 12,715,000 |
| 2002B Series | 26,870,000 |
| 2003 Series | 9,905,000 |
| | <u>\$ 88,415,000</u> |

The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of \$2,803,107 and a reduction of \$3,225,552 in future debt service payments.

The Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is therefore not reported as a liability. As of June 30, 2007, the amount of defeased debt outstanding amounted to \$229,220,000.

The Delaware Transportation Authority had a total of \$62,938,525 in authorized but unissued bonds at June 30, 2007. Bonds outstanding at June 30, 2007 amounted to \$1,018,815,000 and are as follows:

Delaware Transportation Authority Revenue Bonds

(Expressed in Thousands)

| Description | Interest Rates | Maturity Date (Fiscal Year) | Balance Outstanding June 30, 2007 |
|---|----------------|--------------------------------|--------------------------------------|
| Transportation System Senior Revenue Bonds - Series | | | |
| 1997 | 5.0% - 6.0% | 2017 | \$ 7,550 |
| 1998 | 4.5% - 5.5% | 2016 | 51,985 |
| 2000 | 5.50% | 2020 | 14,520 |
| 2001 | 4.5% - 5.0% | 2021 | 34,910 |
| 2002 | 5.00% | 2008 | 11,305 |
| 2002 B | 4.0% - 5.25% | 2022 | 112,910 |
| 2003 | 4.5% - 5.0% | 2023 | 225,055 |
| 2004 | 3.0% - 5.0% | 2024 | 160,705 |
| 2005 | 4.0% - 5.0% | 2025 | 149,000 |
| 2006 | 3.5% - 5.0% | 2026 | 127,445 |
| 2007 | 4.0% - 5.0% | 2027 | 87,890 |
| Transportation System Junior Revenue Bonds - Series | | | |
| 2002 | 4.625% - 5.0% | 2009 | <u>35,540</u> |
| Totals | | | 1,018,815 |
| Less: Current portion | | | <u>67,640</u> |
| Long Term Portion | | | <u><u>\$ 951,175</u></u> |

Future debt service requirements for the Authority's outstanding bonds are shown in the table below.

Delaware Transportation Authority Revenue Bonds
(Expressed in Thousands)

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|---------------------|-------------------|---------------------|
| 2008 | \$ 67,640 | \$ 46,210 | \$ 113,850 |
| 2009 | 73,510 | 38,641 | 112,151 |
| 2010 | 75,660 | 35,099 | 110,759 |
| 2011 | 64,220 | 31,943 | 96,163 |
| 2012 | 64,775 | 29,036 | 93,811 |
| 2013-2017 | 302,875 | 102,664 | 405,539 |
| 2018-2022 | 241,170 | 44,592 | 285,762 |
| 2023-2027 | <u>128,965</u> | <u>8,287</u> | <u>137,252</u> |
| Totals | <u>\$ 1,018,815</u> | <u>\$ 336,472</u> | <u>\$ 1,355,287</u> |

The Transportation System Revenue Bonds have fixed interest rates and are limited obligations of the Authority secured only by the pledged revenues of the Trust Funds. Summary financial information at June 30, 2007 for the Trust Funds, which is the segment of the Transportation department that supports the revenue bonds, is presented on the next page.

Condensed Balance Sheets
(Expressed in Thousands)

| | |
|---|--------------------------|
| Assets: | |
| Current Assets | \$ 278,452 |
| Capital Assets | 1,015,469 |
| Other Assets | <u>70,041</u> |
| Total Assets | <u>1,363,962</u> |
| Liabilities: | |
| Current Liabilities | 127,267 |
| Noncurrent Liabilities | <u>977,001</u> |
| Total Liabilities | <u>1,104,268</u> |
| Net Assets: | |
| Invested in Capital Assets, Net of realated debt | 37,595 |
| Unrestricted | 69,270 |
| Restricted | <u>152,829</u> |
| Total Net Assets | <u><u>\$ 259,694</u></u> |

**Condensed Statements of Revenues,
Expense and Changes in Net assets**
(Expressed in Thousands)

| | |
|--|--------------------------|
| Operating revenues (pledged against bonds) | \$ 332,180 |
| Other operating revenues | 37,407 |
| Depreciation expense | (190) |
| Other operating expenses | <u>(384,068)</u> |
| Operating loss | <u>(14,671)</u> |
| Nonoperating revenues (expenses): | |
| Investment Income (pledging against bonds) | 14,774 |
| Other investment Income (loss) | 964 |
| Interest expense | (43,208) |
| Transfer from DelDOT | 5,494 |
| Transfer from State General Fund | <u>79,409</u> |
| Change in net assets | 42,762 |
| Beginning net assets | <u>216,932</u> |
| Ending net assets | <u><u>\$ 259,694</u></u> |

Condensed Statements of Cash Flows
(Expressed in Thousands)

| | |
|--|------------------------|
| Net cash provided by (used in): | |
| Operating activities | \$ (19,812) |
| Noncapital financing activities | 84,903 |
| Capital and related financing activities | 14,247 |
| Investing activity | <u>(74,307)</u> |
| Net increase (decrease) | 5,031 |
| Beginning cash and cash equivalents | <u>2,441</u> |
| Ending cash and cash equivalents | <u><u>\$ 7,472</u></u> |

(b) Component Units

Debt issued by the following component units is not secured by the full faith, credit and taxing power of the State.

Delaware State Housing Authority

The Authority is authorized to issue bonds and notes, with the approval of the State, in order to exercise its powers. These bonds and notes are secured solely by the revenues, loans, and other pledged assets under the related Bond Indenture of the Authority.

The Delaware State Housing Authority has issued revenue bonds to provide financing for mortgage, construction, and other loans to not-for-profit and limited for-profit housing sponsors; to make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans; and to purchase qualified mortgage loans from mortgage lenders. The bonds are direct obligations of the Authority and are secured by the mortgage loans made or purchased under the applicable resolutions; the revenues, prepayments and foreclosure proceeds received are related to the mortgage loans, and certain funds and accounts established pursuant to the applicable bond resolutions. All bonds are callable subject to certain restrictions. Interest rates on bonds outstanding range from 3.40% to 7.375% with maturities of such bonds up through July 1, 2048.

On August 24, 2006, the Authority issued \$60,000,000 of Single Family Mortgage Revenue Bonds, 2006 Series C. The proceeds of the sale were used to provide down payment assistance and low rate mortgages to first-time home buyers.

On October 31, 2006, the Authority issued \$85,000,000 of Single Family Mortgage Revenue Bonds, 2006 Series D. The proceeds of the sale were used to provide down payment assistance and low rate mortgages to first-time home buyers.

On March 20, 2007, the Authority issued \$100,000,000 of Single Family Mortgage Revenue Bonds, 2007 Series A. The proceeds of the sale were used to provide down payment assistance and low rate mortgages to first-time home buyers.

On June 12, 2007, the Authority issued \$100,000,000 of Single Family Mortgage Revenue Bonds, 2007 Series B. The proceeds of the sale were used to provide down payment assistance and low rate mortgages to first-time home buyers.

Outstanding bonds at June 30, 2007 amounted to \$735,002,121. Future debt service requirements for the Authority's bonds are shown on the following table.

Delaware State Housing Authority Revenue
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|-------------------|-------------------|---------------------|
| 2008 | \$ 11,615 | \$ 36,945 | \$ 48,560 |
| 2009 | 13,020 | 36,380 | 49,400 |
| 2010 | 14,105 | 35,707 | 49,812 |
| 2011 | 14,810 | 34,955 | 49,765 |
| 2012 | 15,230 | 34,138 | 49,368 |
| 2013-2017 | 74,710 | 158,908 | 233,618 |
| 2018-2022 | 87,847 | 138,469 | 226,316 |
| 2023-2027 | 112,818 | 112,410 | 225,228 |
| 2028-2032 | 136,169 | 80,903 | 217,072 |
| 2033-2037 | 204,001 | 41,276 | 245,277 |
| 2038-2042 | 21,345 | 6,984 | 28,329 |
| 2043-2047 | 24,124 | 2,931 | 27,055 |
| 2048-2048 | 5,208 | 66 | 5,274 |
| Total | \$ <u>735,002</u> | \$ <u>720,072</u> | \$ <u>1,455,074</u> |

Riverfront Development Corporation

Bonds payable represents amounts due under variable rate bonds, which were issued by RDC in November 1997. The bonds bear interest at a rate which is determined quarterly and is equal to the yield on 90-day U.S. Treasury Bills plus 0.30% with a minimum rate of 5.125%. The rate as of June 30, 2007 was 5.49%. The bonds mature December 1, 2017. Debt service requirements are shown on the next page.

Riverfront Development Corporation Revenue Bonds

(Expressed in Thousands)

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|------------------|-----------------|-----------------|
| 2008 | \$ 275 | \$ 239 | \$ 514 |
| 2009 | 300 | 223 | 523 |
| 2010 | 320 | 206 | 526 |
| 2011 | 360 | 188 | 548 |
| 2012 | 385 | 167 | 552 |
| 2013-2017 | 2,545 | 459 | 3,004 |
| 2018 | <u>310</u> | <u>9</u> | <u>319</u> |
| Total | <u>\$ 4,495</u> | <u>\$ 1,491</u> | <u>\$ 5,986</u> |

Delaware State University

Revenue bonds payable at June 30, 2007 are shown below.

Delaware State University**Revenue Bonds Payable**

(Expressed in Thousands)

| | |
|----------------------------------|------------------|
| Revenue Refunding Bonds | \$ 9,685 |
| Student Housing Foundation Bonds | <u>53,168</u> |
| Total | <u>\$ 62,853</u> |

In May 1999, the University issued Revenue Refunding Bonds of \$15,865,000 (par value) to advance refund the 1992 and 1996 series bonds with a total par value of \$14,625,000. The Bond Trust Indenture requires the University to maintain a Debt Service Reserve Fund equal to the maximum annual debt service on all bonds outstanding under the indenture. The indenture provides for the deposit of a surety bond in the Debt Reserve Fund, replacing the investment requirement. This bond was obtained from MBIA Insurance Corporation in the amount of \$1,580,000. The bond ratings were not changed as a result of this substitution. In addition, the University has pledged for payment of debt all net operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding.

Interest rates range from 4.00% to 5.25% on the outstanding Revenue Refunding Bonds. Debt service requirements for the Delaware State University Bonds are shown in the following schedule:

Delaware State University Revenue Refunding Bonds
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|------------------------------------|------------------|-----------------|------------------|
| 2008 | \$ 720 | \$ 417 | \$ 1,137 |
| 2009 | 745 | 387 | 1,132 |
| 2010 | 775 | 356 | 1,131 |
| 2011 | 805 | 324 | 1,129 |
| 2012 | 835 | 290 | 1,125 |
| 2013 - 2017 | 4,760 | 841 | 5,601 |
| 2018 | <u>1,095</u> | <u>14</u> | <u>1,109</u> |
| Total | \$ 9,735 | \$ 2,629 | \$ 12,364 |
| Less: Unamortized Bond Discount | <u>(50)</u> | <u>-</u> | <u>(50)</u> |
| | <u>\$ 9,685</u> | <u>\$ 2,629</u> | <u>\$ 12,314</u> |

The Delaware State University Student Housing Foundation (the Foundation), a component unit of Delaware State University, is a non-profit corporation organized for the purpose of owning and operating student housing facilities primarily for students and faculty of Delaware State University. The Foundation has a fiscal year-end of May 31, 2007. The Foundation has issued student housing revenue bonds secured by deed and payable solely from the revenues of the Foundation. Bond proceeds were restricted to the development, construction, furnishing and equipping of the student housing facilities.

The Foundation refinanced the 2002A Bonds (the Prior Bonds) with a loan payable funded with proceeds from the issuance of student housing revenue bonds and Series 2004A (Delaware State University Student Housing Foundation Project). Pursuant to the Trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004A Bonds are restricted to refunding the Prior Bonds, to fund a debt service reserve fund for the Series 2004A Bonds, to fund an operating reserve fund, and to pay a portion of the costs of issuance of the Series 2004A Bonds.

The Taxable Series 2002B bonds were not callable prior to their maturity date on October 1, 2006. Funds, which were provided by Phase III, were deposited with the Trustee to accomplish the defeasance of the Taxable Refunded Bonds. The funds held in trust and the taxable refunded bonds were reflected in the financial statements until their maturity.

The liability of the Delaware State University Student Housing Foundation under the loan agreements is limited to the value of the building and improvements, pledged revenues and amounts deposited with the trustee. Total accrued interest on all bonds as of May 31, 2007, is \$465,332.

Management determined that it wanted to hedge the variable interest rate risk on the tax-exempt Series 2004B bonds of \$35,900,000. To accomplish this, management acquired two separate interest rate swap agreements: 1) The interest rate swap agreement owned by Phase I and II in the notional amount of \$17,630,000 (the "Old Swap") and 2) New interest rate swap agreement in the notional amount of \$18,270,000 (the "New Swap"). Together these swap agreements convert the variable interest rate on the tax-exempt Series 2004B bonds to an effective fixed rate of 3.223%. The Old Swap matured on October 1, 2005 and provided for payments by Phase III at a fixed rate of 3.875% in exchange for receipts at a variable rate of 67% of one-month Libor rate of 5.39% and 5.41% at May 31, 2007 and 2006, respectively.

The New Swap matures on February 1, 2009 and provides for payments by Phase III at a fixed rate of 2.594% in exchange for receipts at a variable rate of 67% of the one-month Libor rate. The fair market value of the New Sap at May 31, 2007 and 2006 is an asset of \$528,702 and \$890,398, respectively.

As of May 31, 2007 and the ten month period ended May 31, 2006, the net change in the fair value for the swap agreements was \$361,690 and \$(562,404) has been included in the Statement of Revenues, Expenses, and Changes in Net Assets. The fair market value of both swap agreements has been recorded in the Statement of Net Assets.

Maturities of long-term debt at May 31, 2007 are presented on the following table.

**Delaware State University
Student Housing Foundation
Revenue Bonds**

(Expressed in Thousands)

| <u>Year Ending July 31</u> | <u>Tax-exempt</u> | <u>Taxable</u> | <u>Total</u> |
|---|-------------------|----------------|-------------------------|
| 2008 | \$ 650 | \$ 100 | \$ 750 |
| 2009 | 840 | - | 840 |
| 2010 | 935 | - | 935 |
| 2011 | 1,040 | - | 1,040 |
| 2012 - 2016 | 5,945 | - | 5,945 |
| 2017 - 2021 | 7,405 | - | 7,405 |
| 2022 - 2026 | 9,315 | - | 9,315 |
| 2027 - 2031 | 11,745 | - | 11,745 |
| 2032 - 2036 | 13,635 | - | 13,635 |
| 2037 | 2,160 | - | 2,160 |
| Subtotal | <u>\$ 53,670</u> | <u>\$ 100</u> | <u>\$ 53,770</u> |
| Less: bond discount (net of accumulated amortization) | | | <u>(602)</u> |
| Total | | | <u><u>\$ 53,168</u></u> |

NOTE 7 LOANS AND NOTES PAYABLE

(a) Component Units

Delaware State Housing Authority (DSHA)

Notes payable of the DSHA represent obligations to the Federal Home Loan Bank (FHLBank) Pittsburgh and the State.

The Authority entered into a \$4,000,000 loan agreement with FHLBank in May 2007 to provide funds for debt service needs within the Multi-Family Revenue Bond 1995 Series A & B.

The total principal balance at June 30, 2007 was \$4,000,000, all of which is considered current. The loan agreement has a maturity date of June 2, 2008 and an interest rate of 5.18%, due quarterly.

The State issued general obligation bonds on behalf of the DSHA to provide funding for low-income housing loans. Proceeds from these bonds enabled the DSHA to receive the savings from the Financing Adjustment Factor (FAF) issues in advance. Interest rates on these notes payable range from 4.60% to 6.10% with maturities through February 1, 2015. Debt service requirements for these notes are shown on the following table.

**Delaware State Housing Authority
Financing Adjustment Factor Notes**
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|--------------------------------|------------------|-----------------|--------------|
| 2008 | \$ 115 | \$ 19 | \$ 134 |
| 2009 | 72 | 14 | 86 |
| 2010 | 71 | 10 | 81 |
| 2011 | 123 | 117 | 240 |
| 2012 | 69 | 117 | 186 |
| 2013-2015 | 59 | 5 | 64 |
| Total | \$ 509 | \$ 282 | \$ 791 |

Diamond State Port Corporation (DSPC)

Loan and notes payable of the DSPC at June 30, 2007 are shown below.

**Diamond State Port Corporation
Loan and Notes Payable**
(Expressed in Thousands)

| | |
|--|-----------|
| City of Wilmington Port Debt Service Notes | \$ 12,747 |
| Transportation Trust Fund Loan | 20,923 |
| Delaware River and Bay Authority | 4,000 |
| Total | \$ 37,670 |

Transportation Trust Fund Loan

On November 30, 2001, the DSPC entered into a loan agreement with the State of Delaware's Department of Transportation (DOT). The DSPC borrowed \$27,500,000. The funds were used to repay the balances in full of the Delaware River and Bay Authority Note and the Wilmington Trust Company Note and, at a discount, the City of Wilmington Deferred Payment Note.

In July 2006, the loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2006 and January 1, 2007, and to restructure the repayment of the outstanding principal balance effective July 1, 2007 over the next 22 years. Additionally, the State appropriated \$10,000,000 to be applied as a repayment of principal and interest in fiscal year 2007. The interest rate of 4.6% remained unchanged. Beginning March 31, 2007, principal and interest payments are March 1 and May 1 each year. The loan matures May 2028. Interest capitalized during fiscal year 2007, as part of the restructuring, amounted to \$483,719.

Interest expense charged to operations in 2007 and 2006 was \$971,586 and \$1,379,660, respectively.

The future maturities of principal and interest payments on the Transportation Trust Fund are as follows:

Transportation Trust Fund Loan
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|--------------------------------|------------------|------------------|------------------|
| 2008 | \$ 35 | \$ 965 | \$ 1,000 |
| 2009 | 657 | 961 | 1,618 |
| 2010 | 687 | 931 | 1,618 |
| 2011 | 719 | 899 | 1,618 |
| 2012 | 752 | 866 | 1,618 |
| 2013-2017 | 4,318 | 3,770 | 8,088 |
| 2018-2022 | 5,414 | 2,674 | 8,088 |
| 2023-2027 | 6,789 | 1,299 | 8,088 |
| After 2027 | 1,552 | 66 | 1,618 |
| Total | <u>\$ 20,923</u> | <u>\$ 12,431</u> | <u>\$ 33,354</u> |

City of Wilmington Note

In 1995, in consideration of the acquisition of the Port of Wilmington assets from the City of Wilmington, Delaware (the City), the DSPC issued to the City two separate notes consisting of a Port Deferred Payment Note in the amount of \$39,900,000 and Port Debt Service Notes with original face amounts of \$51,080,622. These notes are secured by a first lien on substantially all of the DSPC's assets. These notes obligate the DSPC to pay the City amounts that generally represent the outstanding principal balance of certain DSPC-related City general obligation bonds. The interest rates on the City bonds range from 3.2% to 6.4%.

On October 5, 2004, the City issued \$12,945,000 of general obligation bonds with an average interest rate of 3.73% to advance refund \$11,655,000 of outstanding 1993 B Series general obligation bonds with an average interest rate of 5.0%, and a portion of interest of \$161,921 due January 1, 2005. The Port-related portions of the new bonds issued and old bonds redeemed were \$3,992,497 and \$3,594,635, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of \$397,862, it reduces the Corporation's debt service payments by \$251,815 over the next seventeen and a half years resulting in an economic gain. The deferred loss on the refunding is accreted over the seventeen and a half year life of the debt. The deferred loss balance on the 2004 refunding as of June 30, 2007 was \$389,563.

On October 20, 2001, the City issued \$22,165,000 of general obligation bonds with an average interest rate of 3.7% to advance refund \$21,335,000 of outstanding 1992 A, B, and C Series general obligation bonds with an average interest rate of 6.16%. The Port related portions of the new bonds issued and old bonds redeemed were \$7,206,705 and \$6,945,086, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of \$261,619 for the year ended June 30, 2002, it reduced the Corporation's debt service payments by \$281,293 over eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven year life of the debt. The deferred loss balance as of June 30, 2007 was \$40,921.

Total deferred loss balance as of June 30, 2007 was \$429,854.

Principal and interest payments made on the notes during 2007 were \$671,361 and \$518,573, respectfully. Interest expense in 2007 was \$205,057.

The principal and interest payments on Port Debt Service Notes are reflected below:

Port Debt Service Note
(Expressed in Thousands)

| Year Ending June 30 | Principal | Interest | Total |
|--------------------------------|------------------|-----------------|------------------|
| 2008 | \$ 699 | \$ 426 | \$ 1,125 |
| 2009 | 2,291 | 541 | 2,832 |
| 2010 | 2,405 | 424 | 2,829 |
| 2011 | 1,351 | 329 | 1,680 |
| 2012 | 1,409 | 267 | 1,676 |
| 2013-2017 | 3,212 | 804 | 4,016 |
| 2018-2022 | 1,479 | 222 | 1,701 |
| 2023-2027 | 331 | 7 | 338 |
| Subtotal | 13,177 | 3,020 | 16,197 |
| Deferred Loss on Refunding | (430) | - | (430) |
| Total | <u>\$ 12,747</u> | <u>\$ 3,020</u> | <u>\$ 15,767</u> |

Riverfront Development Corporation (RDC)

The RDC has entered into multiple mortgage agreements with various banks. These mortgages are secured by the real estate and vehicles financed. Principal balances of the mortgages total \$9,722,097 at June 30, 2007. Interest rates for the mortgages vary between 5.455% and 7.0% and mature between August 2008 and August 2010. Estimated future annual debt service requirements are shown below.

Riverfront Development Mortgage Debt

(Expressed in Thousands)

| Year Ending | | | |
|--------------------|------------------|-----------------|------------------|
| June 30 | Principal | Interest | Total |
| 2008 | \$ 64 | \$ 724 | \$ 788 |
| 2009 | 2,089 | 630 | 2,719 |
| 2010 | 6,719 | 231 | 6,950 |
| 2011 | <u>850</u> | <u>8</u> | <u>858</u> |
| Total | <u>\$ 9,722</u> | <u>\$ 1,593</u> | <u>\$ 11,315</u> |

Demand Note Payable and Advance Payable

RDC has available a line of credit in the amount \$250,000. When used, this line bears interest at 1.00% over prime (9.25% at June 30, 2007) and is due on demand. There was no outstanding balance on this line as of June 30, 2007.

NOTE 8 LEASE COMMITMENTS**Primary Government**

The State has entered into various property and equipment operating leases (terms in excess of one year) with aggregate future rentals approximating \$154.6 million, of which \$128.0 million relates to property leases and \$26.6 million relates to equipment leases. Operating leases contain various renewal options. Any escalation clauses, sublease rentals and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures of the related fund when paid. Appropriations of approximately \$30.4 million were made by the General Assembly to meet the rental payments in fiscal 2007, of which \$23.8 million was for office space and \$6.6 million was for equipment consisting mainly of computers, data processing equipment and fleet vehicles.

Significant annual equipment rentals include \$4.2 million for fleet vehicles and data processing equipment for the Office of Management and Budget and \$1.4 million for data processing equipment for the Department of Education. Significant annual real estate rentals include \$5.3 million for leases for Health and Social Services facilities, \$2.7 million for the

Department of Labor, \$2.3 million for the Department of Services for Children, Youth and their Families, \$2.0 million for the Department of Safety and Homeland Security and \$1.9 million for office space for the Department of Correction.

Future minimum lease commitments for operating leases as of June 30, 2007 are shown in the following table.

| State of Delaware Lease | |
|--------------------------------|-----------------------------|
| (Expressed in Thousands) | |
| Year Ending June 30 | Operating Leases |
| 2008 | \$ 29,928 |
| 2009 | 24,466 |
| 2010 | 21,777 |
| 2011 | 18,068 |
| 2012-2016 | 14,459 |
| 2017-2021 | 33,079 |
| 2022-2026 | 6,876 |
| 2027-2031 | 5,935 |
| Years | <u>4</u> |
| Total | <u>\$ 154,592</u> |

NOTE 9 OTHER LONG-TERM OBLIGATIONS

Compensated absences payable are reported in the Government-wide Financial Statements and in Proprietary Funds. They represent benefits accrued to State employees for vacation earned as of year-end and sick leave estimated to be paid out at retirement for services rendered as of June 30, 2007. Employees earn from 1.25 to 1.75 days of vacation leave per month depending on years of service. Employees or their estates are paid for unused vacation upon termination of employment. Employees earn 1.25 days of sick leave per month. The State's obligation for sick leave credit is a maximum of 45 workdays. \$140.6 million has been accrued in long-term obligations for the Governmental Activities and \$13.6 million in the Business-type Activities for the compensated absences liability. The current portion of the long-term obligation for compensated absences is \$20.0 million in the Governmental Activities and \$4.0 million in the Business-type Activities. Approximately \$117.7 million (83.7%) of the long-term obligation for compensated absences will be liquidated by the General Fund. Of the remainder, approximately \$9.0 million (6.4%) and \$13.9 million (9.9%) will be paid with Federal Funds and Local School District Funds, respectively.

The State has recorded \$32.0 million relating to the accrual of the long-term obligation for escheat (abandoned property). \$8.0 million was recorded as a current obligation.

The State has incurred obligations relating to scholarship and physician loan repayment programs, resulting in an additional long-term obligation of \$3.5 million. \$0.9 million was recorded as a current obligation.

NOTE 10 CHANGES IN LONG-TERM OBLIGATIONS

The following table provides a summary of changes in long-term obligations of the Primary Government for the year ended June 30, 2007.

| Changes in Long-Term Obligations | | | | | |
|--|------------------------------------|------------------|-------------------|---------------------------------|--------------------------------------|
| Primary Government | | | | | |
| (Expressed in Millions) | | | | | |
| | <u>Beginning</u> <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending</u> <u>Balance</u> | <u>Due Within</u> <u>One Year</u> |
| Governmental Activities: | | | | | |
| General obligation bonds | \$ 1,045.2 | \$ 383.1 | \$ (120.8) | \$ 1,307.5 | \$ 135.9 |
| Bond issue premium, net of accumulated amortization | 50.5 | 9.7 | (3.4) | 56.8 | 3.7 |
| Notes payable | 3.6 | 4.7 | (5.7) | 2.6 | 2.3 |
| Physician and scholarship programs | 3.1 | 1.0 | (0.6) | 3.5 | 0.9 |
| Claims and judgments (notes 13 and 17) | 88.5 | 92.6 | (82.9) | 98.2 | 26.8 |
| Compensated absences | 127.9 | 27.5 | (14.8) | 140.6 | 20.0 |
| Net pension obligation (note 14) | 99.0 | 14.3 | (8.5) | 104.8 | - |
| Escheat payable | 35.0 | 15.1 | (10.1) | 40.0 | 8.0 |
| | <u>1,452.8</u> | <u>548.0</u> | <u>(246.8)</u> | <u>1,754.0</u> | <u>197.6</u> |
| Governmental Activities long-term liabilities | | | | | |
| | <u>\$ 1,452.8</u> | <u>\$ 548.0</u> | <u>\$ (246.8)</u> | <u>\$ 1,754.0</u> | <u>\$ 197.6</u> |
| Business-type Activities: | | | | | |
| Revenue bonds | \$ 953.3 | \$ 215.3 | \$ (149.8) | \$ 1,018.8 | \$ 67.6 |
| Bond issue premium, net of accumulated amortization | 30.9 | 6.2 | (7.7) | 29.4 | 6.6 |
| Liabilities payable from restricted assets | 8.1 | - | (1.9) | 6.2 | - |
| General obligation bonds | 4.2 | - | (0.8) | 3.4 | 0.6 |
| Compensated absences | 14.5 | - | (0.9) | 13.6 | 4.0 |
| Claims and judgments (notes 13 and 17) | 16.7 | 2.7 | (14.6) | 4.8 | 2.5 |
| | <u>1,027.7</u> | <u>224.2</u> | <u>(175.7)</u> | <u>1,076.2</u> | <u>81.3</u> |
| Business-type Activities long-term liabilities | | | | | |
| | <u>\$ 1,027.7</u> | <u>\$ 224.2</u> | <u>\$ (175.7)</u> | <u>\$ 1,076.2</u> | <u>\$ 81.3</u> |

Changes in long-term obligations for the Component Units are summarized below.

Changes in Long-Term Obligations
Component Units
(Expressed in Millions)

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Delaware State Housing Authority | | | | | |
| Notes payable | \$ 4.0 | \$ 4.2 | \$ (3.7) | \$ 4.5 | \$ 4.1 |
| Revenue bonds | 429.2 | 357.4 | (51.6) | 735.0 | 11.6 |
| Compensated absences | 0.9 | 0.5 | (0.4) | 1.0 | - |
| Escrow Deposits | 27.0 | 1.5 | - | 28.5 | - |
| Other long-term obligations | 0.4 | - | (0.1) | 0.3 | - |
| Total long-term obligations | <u>\$ 461.5</u> | <u>\$ 363.6</u> | <u>\$ (55.8)</u> | <u>\$ 769.3</u> | <u>\$ 15.7</u> |
| Diamond State Port Corporation | | | | | |
| Notes and loans payable | \$ 47.8 | \$ 1.1 | \$ (11.2) | \$ 37.7 | \$ 0.9 |
| Total long-term obligations | <u>\$ 47.8</u> | <u>\$ 1.1</u> | <u>\$ (11.2)</u> | <u>\$ 37.7</u> | <u>\$ 0.9</u> |
| Riverfront Development Corporation | | | | | |
| Bonds payable | \$ 4.7 | \$ - | \$ (0.2) | \$ 4.5 | \$ 0.3 |
| Long-term debt | 9.5 | 0.8 | (0.6) | 9.7 | 0.1 |
| Total long-term obligations | <u>\$ 14.2</u> | <u>\$ 0.8</u> | <u>\$ (0.8)</u> | <u>\$ 14.2</u> | <u>\$ 0.4</u> |
| Delaware State University | | | | | |
| Other long-term obligations | \$ 1.9 | \$ 0.1 | \$ (0.6) | \$ 1.4 | \$ 0.6 |
| Compensated absences | 4.7 | 0.2 | - | 4.9 | - |
| Notes payable | 1.3 | - | (0.4) | 0.9 | 0.1 |
| Revenue bonds | 64.3 | - | (1.4) | 62.9 | 1.5 |
| Total long-term obligations | <u>\$ 72.2</u> | <u>\$ 0.3</u> | <u>\$ (2.4)</u> | <u>\$ 70.1</u> | <u>\$ 2.2</u> |
| Delaware Charter Schools | | | | | |
| Compensated absences | \$ 0.6 | \$ 0.3 | \$ - | \$ 0.9 | \$ 0.1 |
| Long-term debt | 29.4 | 15.4 | (6.3) | 38.5 | 1.6 |
| Total long-term obligations | <u>\$ 30.0</u> | <u>\$ 15.7</u> | <u>\$ (6.3)</u> | <u>\$ 39.4</u> | <u>\$ 1.7</u> |

NOTE 11 NO COMMITMENT DEBT (NOT INCLUDED IN FINANCIAL STATEMENTS)

The State of Delaware, by action of the General Assembly, created various authorities for the express purpose of providing private entities with an available low cost source of capital financing for construction of facilities deemed to be in the public interest. The bonds of the authorities represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers to the entity served by the bond issuance. The State has no obligation for this debt. Accordingly, these bonds are not reflected in the accompanying financial statements. These bonds are issued through the Delaware Economic Development Authority and the Delaware Health Facilities Authority. The principal amount of bonds outstanding at June 30, 2007 for these entities amounted to \$1.5 billion and \$448.5 million, respectively.

NOTE 12 CAPITAL ASSETS**(a) Primary Government**

Capital asset activities for the fiscal year ended June 30, 2007 were as follows:

| Governmental Activities | Capital Assets | | | Ending Balance |
|---|--------------------------------|------------------|------------------|---------------------------|
| | Beginning Balance * | Increases | Decreases | |
| Capital Assets, not being depreciated | | | | |
| Land | \$ 386,717 | \$ 26,378 | \$ (15) | \$ 413,080 |
| Easements | 97,515 | 20,482 | - | 117,997 |
| Construction-in-progress | 302,753 | 300,080 | (286,044) | 316,789 |
| Total capital assets, not being depreciated | 786,985 | 346,940 | (286,059) | 847,866 |
| Capital assets, being depreciated | | | | |
| Vehicles | 79,710 | 11,425 | (8,932) | 82,203 |
| Buildings | 2,171,281 | 285,710 | (3,578) | 2,453,413 |
| Equipment | 78,121 | 8,481 | (1,192) | 85,410 |
| Land Improvements | 86,013 | 7,956 | - | 93,969 |
| Total capital assets being depreciated | 2,415,125 | 313,572 | (13,702) | 2,714,995 |
| Less accumulated depreciation for: | | | | |
| Vehicles | (57,546) | (9,408) | 8,115 | (58,839) |
| Buildings | (720,762) | (52,978) | 2,765 | (770,975) |
| Equipment | (56,522) | (5,122) | 936 | (60,708) |
| Land Improvements | (28,575) | (4,364) | - | (32,939) |
| Total accumulated depreciation | (863,405) | (71,872) | 11,816 | (923,461) |
| Total capital assets, being depreciated, net | 1,551,720 | 241,700 | (1,886) | 1,791,534 |
| Governmental activities capital assets, net | \$ 2,338,705 | \$ 588,640 | \$ (287,945) | \$ 2,639,400 |

* Certain amounts have been reclassified to conform to current year presentation.

Capital Assets
(Expressed in Thousands)

| Business-type Activity DeIDOT Fund | Beginning Balance | Increases | Decreases | Ending Balance |
|---|------------------------------|------------------|--------------------|---------------------------|
| Capital Assets, not being depreciated | | | | |
| Land | \$ 211,272 | \$ 9,889 | (14,750) | \$ 206,411 |
| Infrastructure | 3,255,998 | 27,785 | - | 3,283,783 |
| Construction-in-progress | 15,312 | 5,928 | - | 21,240 |
| Total capital assets, not being depreciated | <u>3,482,582</u> | <u>43,602</u> | <u>(14,750)</u> | <u>3,511,434</u> |
| Capital assets, being depreciated | | | | |
| Buildings & Improvements | 54,857 | 194 | - | 55,051 |
| Furniture & Equipment | 161,945 | 21,804 | (4,282) | 179,467 |
| Total capital assets being depreciated | <u>216,802</u> | <u>21,998</u> | <u>(4,282)</u> | <u>234,518</u> |
| Less accumulated depreciation for: | | | | |
| Buildings & Improvements | (17,956) | (1,636) | - | (19,592) |
| Furniture & Equipment | (86,398) | (12,739) | 3,864 | (95,273) |
| Total accumulated depreciation | <u>(104,354)</u> | <u>(14,375)</u> | <u>3,864</u> | <u>(114,865)</u> |
| Total capital assets, being depreciated, net | <u>112,448</u> | <u>7,623</u> | <u>(418)</u> | <u>119,653</u> |
| Total capital assets, net | <u>\$ 3,595,030</u> | <u>\$ 51,225</u> | <u>\$ (15,168)</u> | <u>\$ 3,631,087</u> |

Capital Assets

(Expressed in Thousands)

| Business-type Activity Delaware State Lottery | Beginning Balance | Increases | Decreases | Ending Balance |
|--|------------------------------|------------------|------------------|---------------------------|
| Capital assets, being depreciated | | | | |
| Computer Equipment & Software | \$ 1,395 | \$ - | \$ - | \$ 1,395 |
| Total capital assets being depreciated | <u>1,395</u> | <u>-</u> | <u>-</u> | <u>1,395</u> |
| Less accumulated depreciation | <u>(1,326)</u> | <u>(62)</u> | <u>-</u> | <u>(1,388)</u> |
| Total capital assets, being depreciated, net | <u>\$ 69</u> | <u>\$ (62)</u> | <u>\$ -</u> | <u>\$ 7</u> |

Depreciation expense was charged to the following primary government functions as follows:

Depreciation Expense

(Expressed in Thousands)

| | |
|---|------------------|
| Governmental Activities: | |
| General Government | \$ 17,219 |
| Health and Children's Services | 4,887 |
| Judicial and Public Safety | 10,315 |
| Natural Resources and Environmental Control | 3,912 |
| Labor | 109 |
| Education | <u>35,430</u> |
| Total Depreciation Expense - Governmental Activities | <u>\$ 71,872</u> |
| Business-type Activities: | |
| Transportation | \$ 14,375 |
| Lottery | <u>62</u> |
| Total Depreciation Expense - Business-type Activities | <u>\$ 14,437</u> |

(b) Component Units

Capital asset activities for the fiscal year ended June 30, 2007 were as follows:

| | Component Units | | | |
|---|--------------------------|------------------|------------------|-------------------|
| | (Expressed in Thousands) | | | |
| | Beginning | | | Ending |
| | Balance | Increases | Decreases | Balance |
| Delaware State Housing Authority | | | | |
| Capital Assets, not being depreciated | \$ 5,621 | \$ 1,223 | \$ 2,137 | \$ 4,707 |
| Capital Assets, being depreciated | 37,121 | 2,219 | - | 39,340 |
| Accumulated Depreciation | (20,075) | (1,535) | - | (21,610) |
| Total Capital Assets, Net | <u>\$ 22,667</u> | <u>\$ 1,907</u> | <u>\$ 2,137</u> | <u>\$ 22,437</u> |
| Diamond State Port Corporation | | | | |
| Capital Assets, not being depreciated | \$ 26,087 | \$ 5,690 | \$ 4,810 | \$ 26,967 |
| Capital Assets, being depreciated | 173,828 | 4,824 | 572 | 178,080 |
| Accumulated Depreciation | (35,376) | (4,838) | - | (40,214) |
| Total Capital Assets, Net | <u>\$ 164,539</u> | <u>\$ 5,676</u> | <u>\$ 5,382</u> | <u>\$ 164,833</u> |
| Riverfront Development Corporation | | | | |
| Capital Assets, not being depreciated | \$ 61,443 | \$ 23,439 | \$ 5,724 | \$ 79,158 |
| Capital Assets, being depreciated | 43,219 | 251 | - | 43,470 |
| Accumulated Depreciation | (17,593) | (3,522) | - | (21,115) |
| Total Capital Assets, Net | <u>\$ 87,069</u> | <u>\$ 20,168</u> | <u>\$ 5,724</u> | <u>\$ 101,513</u> |
| Delaware State University | | | | |
| Capital Assets, not being depreciated | \$ 17,279 | \$ 4,626 | \$ - | \$ 21,905 |
| Capital Assets, being depreciated | 226,426 | 8,122 | 7,482 | 227,066 |
| Accumulated Depreciation | (73,315) | (1,319) | - | (74,634) |
| Total Capital Assets, Net | <u>\$ 170,390</u> | <u>\$ 11,429</u> | <u>\$ 7,482</u> | <u>\$ 174,337</u> |
| Delaware Charter Schools | | | | |
| Capital Assets, not being depreciated | \$ 1,172 | \$ 772 | \$ 1,606 | \$ 338 |
| Capital Assets, being depreciated | 42,340 | 10,067 | - | 52,407 |
| Accumulated Depreciation | (5,292) | (1,430) | - | (6,722) |
| Total Capital Assets, Net | <u>\$ 38,220</u> | <u>\$ 9,409</u> | <u>\$ 1,606</u> | <u>\$ 46,023</u> |

NOTE 13 RISK MANAGEMENT

The State is exposed to various risks of losses related to workers' compensation, employee health-care and accident, automobile accident, police professional malpractice and property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, State management believes it is more economical to manage its risk internally and thus, covers all claim settlements and judgments out of its General Fund. The State continues to carry commercial insurance for all other risks of loss, including general liability and the remainder of the property and casualty liability. There have been no significant reductions in insurance coverage from prior years. In the past three years of insured coverage, settled claims have not exceeded commercial coverage.

Claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process does not result in an exact amount. Claim liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors. There are no non-incremental claims adjustments expenses factored into the claim liability estimates.

The management of the State estimates that the amount of actual or potential claims against the State as of June 30, 2007, for workers' compensation, automobile accident and health-care claim liabilities is \$135.5 million. The claim liabilities relating to health-care totaling \$38.7 million have been recorded as accrued liabilities in the Governmental activities. The liability for workers' compensation and automobile accident liabilities totaling \$96.7 million has been recorded in Governmental activities as claims and judgments. The current portion of these claims totals \$26.8 million. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2007 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2007 and 2006 were as follows:

Changes in Claim Liabilities
(Expressed in Thousands)

| Fiscal Year | Beginning Balance July 1 | Current Year Claims and Changes in Estimates | Actual Claim Payments | Ending Balance June 30 |
|----------------|--------------------------------|---|--------------------------|------------------------------|
| 2006 | \$ 126,499 | \$ 416,018 | \$ (409,666) | \$ 132,851 |
| 2007 | 132,851 | 469,857 | (467,227) | 135,481 |

DelDOT Fund

The Delaware Transit Corporation (DTC) maintains coverage auto insurance through both the retention of risk and the purchase of commercial insurance. The DTC has recorded \$4.8

million of claim liabilities as claims and judgments. Of this amount, \$2.4 million has been recorded as current.

NOTE 14 PENSIONS

(a) Primary Government

State of Delaware Pension Plans

The State Board of Pension Trustees administers the defined benefit plans (the Plans) of the Delaware Public Employees' Retirement System (DPERS) as described below.

- State Employees' Pension Plan;
- Special Pension Plan;
- New State Police Pension Plan;
- Judiciary Pension Plans (Closed and Revised);
- County and Municipal Police/Firemen's Pension Plans (FICA and Non-FICA);
- County and Municipal Other Employees' Pension Plan;
- Volunteer Firemen's Pension Plan;
- Diamond State Port Corporation Pension Plan; and
- Closed State Police Pension Plan.

With the exception of the Diamond State Port Corporation Pension Plan, the State of Delaware General Assembly is responsible for setting benefits and contributions and amending plan provisions. The Board of Directors for the Diamond State Port Corporation is responsible for setting benefits and contributions and amending plan provisions.

The individual Plans comprising the DPERS are considered part of the State's financial reporting entity and are included in the accompanying financial statements as pension trust funds in the fiduciary funds. All of the investment assets of the Plans, with the exception of the Closed Police Pension Plan, are pooled and invested in the common DPERS Master Trust Fund (Master Trust). Each of the Plans has equity in the Master Trust based on funds contributed and earnings allocated. Individual investments in the Master Trust are not specifically identified to the various Plans.

Additionally, the following non-DPERS funds, described below, have been established under the custody of the State Board of Pension Trustees.

- County and Municipal Police/Firemen's COLA Fund;
- Post-Retirement Increase Fund;
- Delaware Post-Retirement Health Insurance Premium Fund, and
- Delaware Local Government Retirement Investment Pool (DELRIP).

The DELRIP is presented separately as Investment Trust Funds in the Fiduciary Funds Statement of Net Assets and Statement of Changes in Net Assets. The remaining non-DPERS funds are included in the Pension Trust Fund.

Non-DPERS Fund Descriptions and Contributions

County and Municipal Police and Firemen's COLA Fund

During 1990, the State passed legislation which established a mechanism for funding post-retirement increases granted by employers who participate in the County and Municipal Police and Firemen’s Pension Plans. This mechanism allows the State to appropriate funds relating to a cost of living adjustment (COLA) to a separate County and Municipal Police and Firemen's COLA Fund managed by the Board. The funds are generated by a 0.25% tax on the value of insurance premiums written within the State. The proceeds of the tax are transferred to the State and local governments on a per member basis. In 1994, the New State Police Plan began receiving funding for post-retirement increases from the Post-Retirement Increase Fund. Since that time, funds calculated for the State Police membership were re-directed into the COLA Fund. In accordance with 18 Del. C. §708(c), when a participating employer grants a post-retirement increase for a plan outside of the State’s County & Municipal Plans, funds are transferred from the COLA Fund to the employer. The participating employer must provide funds to match the State’s contribution.

Post-Retirement Increase Fund (PRI)

The State of Delaware passed legislation which established a mechanism for funding ad hoc post-retirement increases granted by the General Assembly to members retired under the State Employees’ Plan, the New State Police Plan and the Judiciary Plans (Closed and Revised) beginning with Fiscal Year 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate PRI Fund managed by the Board. When the Legislature grants an ad hoc post-retirement adjustment, funds are transferred from this PRI Fund on a monthly basis based on a five-year actuarial funding schedule to the appropriate pension plan from which the additional benefits are disbursed.

As of June 30, 2007, previously granted post-retirement increases have outstanding liabilities totaling \$127.0 million, which will be transferred to the appropriate plans over the next four years as follows:

| <u>Fiscal Year</u> | <u>PRI Fund</u> (Expressed in Thousands) | |
|--------------------|---|----------------|
| 2008 | \$ | 47,416 |
| 2009 | | 39,334 |
| 2010 | | 26,457 |
| 2011 | | 13,825 |
| Total | \$ | <u>127,032</u> |

The Board adopted actuarially determined funding for the Post-Retirement Increase Fund. Funding for fiscal Year 2007 was 2.62% of covered payroll. Funding for Fiscal Year 2008 will be 2.52%.

Investment Trust Fund

In June 1996, the State passed legislation that established the Delaware Local Government Retirement Investment Pool (DELRIP) in the custody of the Board of Pension Trustees to allow local governments the option to pool their pension assets with the Delaware Public Employees' Retirement System. The DELRIP is an external investment pool that allows local governments to maximize their rate of return and reduce administrative expenses related to the investment of funds. Participation in the pool is totally voluntary. There were five participating entities in the DELRIP as of June 30, 2007, which comprises the pool in its entirety.

The DELRIP is subject to the oversight of the System's Investment Committee and not subject to the regulatory oversight of the Securities and Exchange Commission (SEC). The System has not provided or obtained any legal binding guarantees during the year to support the value of shares. The fair value of the shares in the pool is determined in the same manner as the value of the Master Trust shares. Since this pool is a portion of the total System, the same accounting and investment policies apply.

Post-Retirement Health Insurance Premium Fund

The Post-Retirement Health Insurance Premium Fund, which was established in June 2000, is an investment fund for the benefit of retired members of the State Employees' Pension Plan. The State of Delaware provides health insurance to eligible retirees and their dependents. Under 29 Del. C. c.52, the State Legislature has the authority to establish and amend benefit provisions, including contributions requirements. Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts monthly toward the cost of health insurance premiums. For the fiscal year ended June 30, 2007, plan members contributed \$3.4 million, or 3.1% of total premiums through their required contributions. The State of Delaware General Fund was required to contribute the balance of the premium cost (\$107.0 million, or 96.9% for Fiscal Year 2007). Pre-funding levels are set annually by the Legislature as part of the budget process. Funding began in Fiscal Year 2002 in the amount of 0.7% of covered payroll and continued in Fiscal Year 2003 at the rate of 0.4%. Funding was suspended for Fiscal Years 2004 and 2005. A \$10 million lump-sum contribution to the Fund was appropriated during the State's Fiscal Year 2006 General Fund budget process. Funding for Fiscal Year 2007 will be 0.3% of covered payroll.

In June 2007, the State Legislature passed and the Governor signed House Bill 136, creating a new trust fund for Other Post-Employment Benefits (OPEB). This bill took effect July 1, 2007, and the trust fund will be used to accumulate and invest assets to pay the State share of future retiree health insurance premiums. The assets of the State Employees' Post-Retirement Health Insurance Premium Fund will be transformed into the new trust once it has been established. Also subsequent to the 2007 fiscal year end, the State made an additional \$30.5 million contribution, the result of cost savings in the State health insurance program. Fiscal Year 2008 funding will be 0.54% of covered payroll which is not actuarially determined.

In addition to the premium payments described above, the State provides post-retirement health care benefits, in accordance with State statutes, to all employees who retire from the

State after meeting the eligibility requirements. The State reimburses substantially all validated claims for medical and hospitalization costs incurred by pre-Medicare retirees and their dependents. The State also pays a fixed amount of \$339.00 per month for a Medicare supplement for each retiree eligible for Medicare. Expenditures for post-retirement health care benefits are recognized as retirees report claims. During the year, General Government expenditures of \$102,486,752 were recognized in the General Fund for post-retirement health care.

Plan Membership, Benefit and Contribution Provisions

A description of the individual plans including eligibility provisions, types of benefits and contribution requirements are set forth in general terms below and on the following pages. Detailed information regarding these plans is available in the Delaware Code and in the Rules and Regulations of the Board of Pension Trustees.

State Employees' Pension Plan

Plan Description and Eligibility:

The State Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

Service Benefits: Final average monthly compensation multiplied by 2.0% and multiplied by years of credited service prior to January 1, 1997, plus final average compensation multiplied by 1.85% and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three years of compensation.

Vesting: 5 years of credited service.

Retirement: Age 62 with 5 years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age.

Disability Benefits: Same as Service Benefits. Employee must have 5 years of credited service. In lieu of disability pension benefits, over 90% of the members of this plan opted into a disability insurance program offered by the State effective January 1, 2006.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension (or 75% with 3% reduction of benefit); if employee is active with at least 5 years of credited service, eligible survivor receives 75% of the benefit the employee would have received at age 62.

Contributions:

- ◆ Employer - Determined by Board of Pension Trustees.
- ◆ Member - 3% of earnings in excess of \$6,000.

Death Benefit: \$7,000 per member.

Special Pension Plan

Plan Description and Eligibility:

The Special Pension Plan is a cost-sharing multiple employer defined benefit plan that covers benefits granted to certain retirees or groups of retirees through legislation passed by the General Assembly.

Service Benefits: Defined by special legislation

Vesting: Defined by special legislation

Retirement: Defined by special legislation

Disability Benefits: Defined by special legislation.

Survivor Benefits: Same as State Employees' Plan.

Contributions: Employer contributions are actuarially determined and fully funded in advance by the General Assembly.

Death Benefit: \$7,000 per member.

New State Police Pension Plan

Plan Description and Eligibility:

The New State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed on or after July 1, 1980.

Service Benefits: 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 10 years of credited service at age 62.

Retirement: Age 55 with 10 years of credited service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits: Duty – *Total Disability* - 75% of compensation plus 10% for each dependent not to exceed 25% for all dependents. *Partial Disability* - calculated the same as Service Benefits subject to minimum 50% of final average compensation.

Non-Duty – same as Service Benefits

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 75% of compensation.

Contributions:

- ◆ Employer - Determined by Board of Pension Trustees.
- ◆ Member - 7% of compensation.

Death Benefit: \$7,000 per member.

Judiciary Pension Plans (Closed and Revised)

Plan Description and Eligibility:

The Closed Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed before July 1, 1980.

The Revised Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed on or after July 1, 1980 or members appointed before July 1, 1980 who accept the provisions of this Plan.

Assets of one plan can be used to satisfy the liabilities of the other plan.

Service Benefits:

Closed - 3% of final average compensation multiplied by years of credited service, subject to maximum and minimum limitations

Revised - 1/24th of final average monthly compensation multiplied by years of service up to 12 years, plus 1/48th of final average monthly compensation, multiplied by years of service from 13 to 24 years, subject to maximum limitations

For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 12 years of credited service.

Retirement:

Closed - Age 65 with 12 years of credited service, or any age with 24 years of credited service.

Revised - Age 62 with 12 years of credited service, or any age with 24 years of credited service.

Disability Benefits: Same as Service Benefits

Survivor Benefits:

Closed - If employee is receiving a pension, then eligible survivor receives 2/3 of pension; if employee is active with 12 years of credited service, then eligible survivor receives 2/3 of pension the employee would have been eligible to receive.

Revised - If employee is receiving a pension, then eligible survivor receives 1/2 of pension (or 2/3 with 3% reduction of benefit); if employee is active with at least 5 years credited service, eligible survivor receives 2/3 of pension the employee would have received at age 62.

Contributions:

- ◆ Employer - Determined by Board of Pension Trustees.
- ◆ Member:
 - Closed - \$500 per year for the first 25 years of service.
 - Revised - 3% of earnings that exceed \$6,000 per year, plus 2% of earnings that exceed the Social Security Wage Base for the first 24 years of service.

Death Benefit: Not applicable.

County and Municipal Police/Firefighters' Pension Plans (FICA & Non-FICA)

Plan Description and Eligibility:

County and Municipal Police/Firefighters' Pension Plans, both FICA and Non-FICA, are cost-sharing multiple employer defined benefit plans that cover police officers and firemen employed by a county or municipality of the State which have become part of the Plans.

Service Benefits: 1/40th of final average monthly compensation multiplied by years of credited service are subject to limitations. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 10 years of credited service.

Retirement: Age 62 with 10 years of service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits:

Duty - *Total Disability* - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents;

Partial Disability - calculated the same as Service benefits, subject to minimum 50% of final average compensation.

Non-Duty - Same as Service Benefits

Survivor Benefits: If employee is receiving a pension, then eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

- ◆ Employer - Determined by Board of Pension Trustees.
- ◆ Member - 7% of compensation.

Death Benefit: Not applicable.

County & Municipal Other Employees' Pension Plan

Plan Description and Eligibility:

County & Municipal Other Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers employees of counties or municipalities which have become part of the Plan.

Service Benefits: 1/60th of final average monthly compensation multiplied by years of credited service are subject to maximum limitations. For this plan, final average monthly compensation is the monthly average of highest five years of compensation.

Vesting: 5 years of credited service.

Retirement: Age 62 with 5 years of credited service, age 60 with 15 years of credited service, or after 30 years of credited service.

Disability Benefits: Same as Service Benefits. Employee must have 5 years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least 5 years of credited service, then eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

- ◆ Employer - Determined by Board of Pension Trustees.
- ◆ Member - 3% of earnings in excess of \$6,000, plus 2% of earnings that exceed the Social Security Wage Base.

Death Benefit: Not applicable.

Volunteer Firemen's Pension Plan

Plan Description and Eligibility:

The Volunteer Firemen's Pension Plan is a cost-sharing multiple employer defined benefit plan which covers all actively participating volunteers of fire departments, ladies auxiliaries, or ambulance organizations within the State of Delaware.

Service Benefits: \$5 multiplied by years of credited service (not to exceed 25 years) per month

Vesting: 10 years of credited service.

Retirement: Age 60 with 10 years credited service.

Disability Benefits: Not applicable.

Survivor Benefits: Not applicable.

Contributions:

- ◆ Employer - Determined by Board of Pension Trustees.
- ◆ Member - \$60 per member per calendar year.

Death Benefit: Not applicable.

Diamond State Port Corporation Pension Plan

Plan Description and Eligibility:

The Diamond State Port Corporation Pension Plan is a single-employer defined benefit plan that covers all employees of the Diamond State Port Corporation.

Service Benefits: 1.75% of final average monthly compensation multiplied by the years of credited service is not to exceed 30 years. For this plan, final average monthly compensation is the monthly average of the highest consecutive five years of compensation within the last ten years of employment.

Vesting: 5 years of credited service.

Retirement: Age 65 with 5 years of credited service, or age (not less than 55 years) plus credited service equals 90.

Disability Benefits: Same as Service Benefits. Employee must have 15 years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least 15 years of credited service, then eligible survivor receives 50% of pension the employee would have received at age 65.

Contributions:

- ◆ Employer - Determined by Board of Pension Trustees.
- ◆ Member - 2% of compensation.

Death Benefit: Not applicable.

Closed State Police Pension Plan

Plan Description and Eligibility:

The Closed State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed before July 1, 1980.

Service Benefits: 50% of monthly salary

Vested/Retirement: 20 years of credited service or age 55.

Disability Benefits: Duty - 75% of salary. Non-Duty – Same as Service Benefit.

Survivor Benefits: If employee is active or is receiving a service or service-related disability pension, the eligible survivor receives 75% of pension; if employee is receiving a non-service related disability pension eligible survivor receives 50% of pension.

Contributions:

- ◆ Employer - Funded on a pay-as-you-go basis
- ◆ Member - 5% of salary with 20 years or less of credited service;
2% of salary with over 20 years credited service.

Death Benefit: \$7,000 per member.

Historical Trend Information

Historical trend information for the current year and the preceding five years designed to provide information about progress made by the individual plans in accumulating sufficient assets to pay benefits when due is presented in the separately issued financial report of the DPERS.

The DPERS issues a publicly available financial report that includes financial statements and required supplementary information for each of the individual plans and funds identified above. The financial report may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

(b) Net Pension Obligation (NPO)

The Annual Pension Cost (APC) and Net Pension Obligation (NPO) for the Closed State Police Plan for the fiscal years ended June 30, 2007, 2006, and 2005 are as follows.

Net Pension Obligation (NPO)

(Expressed in Thousands)

| | Fiscal Year Ended June 30, 2007 | Fiscal Year Ended June 30, 2006 | Fiscal Year Ended June 30, 2005 |
|---|--|--|--|
| Annual Required Contribution | \$ 25,479 | \$ 24,623 | \$ 24,358 |
| Interest on Net Pension Obligation | 7,920 | 7,641 | 7,089 |
| Adjustment to Annual Required Contribution | <u>(8,487)</u> | <u>(8,122)</u> | <u>(7,479)</u> |
| Annual Pension Cost | 24,912 | 24,142 | 23,968 |
| Less Contributions Made | <u>(19,159)</u> | <u>(20,655)</u> | <u>(17,071)</u> |
| Increase in Net Pension Obligation | 5,753 | 3,487 | 6,897 |
| Net Pension Obligation, Beginning of Year | <u>99,002</u> | <u>95,515</u> | <u>88,618</u> |
| Net Pension Obligation, End of Year | <u>\$ 104,755</u> | <u>\$ 99,002</u> | <u>\$ 95,515</u> |

Three-Year Trend Information

(Expressed in Thousands)

| | <u>Plan Year Ended</u> | <u>Contribution Made</u> | <u>Annual Pension Cost (APC)</u> | <u>Percent Of APC Contributed</u> | <u>Net Pension Obligation</u> |
|---|----------------------------|------------------------------|--|---|---------------------------------------|
| State Employees | 6/30/2007 | \$ 97,000 | \$ 97,000 | 100.00% | \$ - |
| | 6/30/2006 | 91,013 | 91,013 | 100.00% | - |
| | 6/30/2005 | 70,638 | 70,638 | 100.00% | - |
| County & Municipal Police & Firefighters | 6/30/2007 | \$ 5,780 | \$ 5,780 | 100.00% | \$ - |
| | 6/30/2006 | 5,488 | 5,488 | 100.00% | - |
| | 6/30/2005 | 5,627 | 5,627 | 100.00% | - |
| County & Municipal Other | 6/30/2007 | \$ 820 | \$ 820 | 100.00% | \$ - |
| | 6/30/2006 | 734 | 734 | 100.00% | - |
| | 6/30/2005 | 2,271 | 2,271 | 100.00% | - |
| Volunteer Fireman's | 6/30/2007 | \$ 978 | \$ 1,528 | 64.01% | \$ 1,682 |
| | 6/30/2006 | 899 | 1,464 | 61.41% | 1,150 |
| | 6/30/2005 | 810 | 1,403 | 57.73% | 594 |
| Judiciary | 6/30/2007 | \$ 2,495 | \$ 2,495 | 100.00% | \$ - |
| | 6/30/2006 | 2,002 | 2,002 | 100.00% | - |
| | 6/30/2005 | 1,391 | 1,391 | 100.00% | - |
| New State Police | 6/30/2007 | \$ 6,334 | \$ 6,334 | 100.00% | \$ - |
| | 6/30/2006 | 5,276 | 5,276 | 100.00% | - |
| | 6/30/2005 | 3,785 | 3,785 | 100.00% | - |
| Closed State Police | 6/30/2007 | \$ 19,159 | \$ 24,912 | 76.91% | \$ 104,755 |
| | 6/30/2006 | 20,655 | 24,623 | 83.88% | 99,002 |
| | 6/30/2005 | 17,020 | 24,358 | 69.87% | 95,515 |
| Diamond State Port Corporation | 6/30/2007 | \$ 626 | \$ 626 | 100.00% | \$ - |
| | 6/30/2006 | 703 | 703 | 100.00% | - |
| | 6/30/2005 | 352 | 352 | 100.00% | - |

Delaware Transportation Authority

Generally, employees of the Expressways Operations/Toll Administration are covered under DPERS. The Delaware Transit Corporation (DTC), a subsidiary public corporation of the Delaware Transportation Authority, contributes to two single-employer defined benefit plans consisting of the Contributory Pension Plan and the Delaware Transit Corporation (DTC) Pension Plan. Each plan provides retirement, disability and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Financial data for these plans has not been included in the fiduciary statements due to immateriality.

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan as well as information concerning funding policies and annual pension costs may be found in Required Supplementary Information on pages 116-126.

Annual pension cost is equal to the respective plans required and actual contributions.

Three-Year Trend Information

(Expressed in Dollars)

| | Plan Year Ended | Contribution Made | Annual Pension Cost (APC) | Percent Of APC Contributed | Net Pension Asset |
|---------------------------|----------------------------|------------------------------|--|---|----------------------------------|
| DTC Pension Plan | 6/30/2007 | \$ 707,897 | \$ 707,897 | 100.00% | \$ - |
| | 6/30/2006 | 626,894 | 626,894 | 100.00% | - |
| | 6/30/2005 | 610,666 | 610,666 | 100.00% | - |
| Contributory Pension Plan | 12/31/2006 | \$ 835,280 | \$ 547,899 | 152.45% | \$ 976,275 |
| | 12/31/2005 | 748,661 | 542,133 | 138.10% | 688,884 |
| | 12/31/2004 | 916,604 | 601,299 | 152.44% | 482,356 |

Deferred Compensation Plan

The State offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all State of Delaware employees, permits them to defer a portion of their salary to future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Plan changed in January 2001 to include an employer-matching contribution. The State will match the first \$10 per pay contributed by employees who have participated in the plan for six months. Maximum annual State match per employee is \$260. The State contribution totaled \$2,719,397 for the year ended June 30, 2007.

NOTE 15 AFFILIATED ORGANIZATIONS**(a) Delaware State Lottery****Multi-State Lottery Association**

The Delaware State Lottery is a member of the Multi-State Lottery Association (MUSL), which operates on-line games on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the member's share of the estimated grand prize liability. Each MUSL member pays lesser prizes directly to the winners. The MUSL operates the Powerball games, as well as the Powerplay feature associated with Powerball. Participating lotteries are required to maintain deposits with MUSL for contingency reserves to protect MUSL from unforeseen prize liabilities. The money in this reserve fund is refundable to MUSL members if the MUSL disbands or if a member leaves the MUSL Board.

The amount the Lottery had on deposit with MUSL as of June 30, 2007, was \$1,683,048. This amount is reported by the Lottery as a liability its balance sheet because it represents the amount to be paid to the State upon separation from the MUSL if the MUSL is not required to use a portion of the Lottery's reserves held by the MUSL.

Complete separate financial statements for the MUSL may be obtained at the Multi-State Lottery Association, 4400 N.W. Urbandale Drive, Urbandale, IA 50322.

(b) DelDOT Fund**Delaware Transportation Authority**

During fiscal year 1998, Expressways Operations/Toll Administration entered into a regional electronic toll collection system consortium (the Consortium). The Consortium includes an agreement among member jurisdictions to share in the potential revenues and costs associated with the construction, financing and operations of an electronic toll collection customer service center (CSC). The CSC collects tolls and violation fees from motorists in each member jurisdiction and remits to each jurisdiction their share of tolls collected based upon actual road usage. The Consortium also leased fiber optic transmission lines to the public, which will generate rental income to the CSC. The rental income and violation fees are expected to exceed the costs associated with operating the CSC.

In order to fund operations, the Consortium issued \$150,000,000 in fixed rate and \$150,000,000 in variable rate bonds to be repaid in 2008. In the event that the CSC generated costs in excess of revenues during its ten-year operating term, each member jurisdiction will be obligated to finance their share of this operating deficit under the terms of a True-Up Agreement, which each member jurisdiction has signed. The Department is obligated for 4% or \$12,000,000. Each year the Consortium performed a True-Up Study that showed with each year a lessened ability of the CSC to pay the debt.

On March 25, 2003, the Department withdrew from the Consortium that governed the E-Zpass operation jointly with three agencies from other states. As of that date, the Department began operating its E-ZPass system independent of the Consortium. Per the terms of the settlement agreement, the Trust Fund received approximately \$7.6 million during fiscal year 2003 to cover various transition costs. The New Jersey Turnpike Authority, acting as lead agency for the Consortium, also completed the remaining work on Delaware's portion of the fiber optic network at no cost to the Department. The value of this work was an additional \$1 million. For the year ended June 30, 2007, \$0 was recognized in income related to E-ZPass transition costs. There were no deferred revenues remaining at June 30, 2007.

As part of the separation agreement, the Department agreed to pay principal on the bonds for its share of the debt of \$12,000,000, which was paid in full during the year ended June 30, 2007.

NOTE 16 COMMITMENTS

Primary Government

The State has entered into various contractual commitments that contracts for services and for construction of various highway and capital projects. These commitments are expected to be funded from existing program resources, current and future appropriations and from the proceeds of revenue and general obligation bonds to be issued. Commitments of the Governmental funds totaling \$386.4 million are shown on the balance sheet as Encumbrances. Commitments of the Proprietary fund activities include \$258.8 million for the DelDOT fund and \$179.2 million for the Lottery.

Component Units

Diamond State Port Corporation

The Corporation has various contracts for construction and renovation of significant facilities in accordance with the Capital Budget approved by its Board of Directors. As of June 20, 2007, the Corporation had commitments totaling \$20.7 million.

Riverfront Development Corporation

The Riverfront Development Corporation has entered into construction contracts for various projects. As of June 30, 2007, the Corporation had construction commitments totaling \$3.4 million.

NOTE 17 CONTINGENCIES

Various parties have made claims against the State. For those cases in which it is reasonably possible that a loss will be incurred and in which the amount of the potential judgment can be reasonably estimated, the State estimates the liability to be \$11.2 million. The State recognized \$1.4 million in Governmental Activities as claims and judgments liabilities for pending litigation settlements estimated to be probable as of June 30, 2007. In the opinion of the Attorney General of the State, however, the remaining cases are either subject to a valid defense or are not expected to result in an impairment of the State's financial position. Management believes the settlement in aggregate of claims outstanding will not result in amounts material to the financial statements of the State.

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The right to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the State. The State does not believe that the liabilities that may result from such audits for periods through June 30, 2007 would have a material effect on its financial position or the results of operations.

The State Lottery has discharged its primary responsibility for payment of annual installments (generally 14 to 20 years) to winners of jackpots greater than \$150,000 by purchasing annuities from private insurance companies. The Lottery remains liable for future periodic payments of deferred prize obligations (approximately \$6.6 million at June 30, 2007) in the event that the annuity issuers default on their obligations.

NOTE 18 SUBSEQUENT EVENTS**(a) Primary Government**

On July 1, 2007, the State made a \$30.5 million contribution to the Other Post-employment Benefit Trust Fund. This contribution was made as part of the State's implementation of GASB Statement No. 43, "Financial Reporting of Post-employment Benefit Plans Other Than Pension Plans".

(b) Component Units**Delaware State Housing Authority**

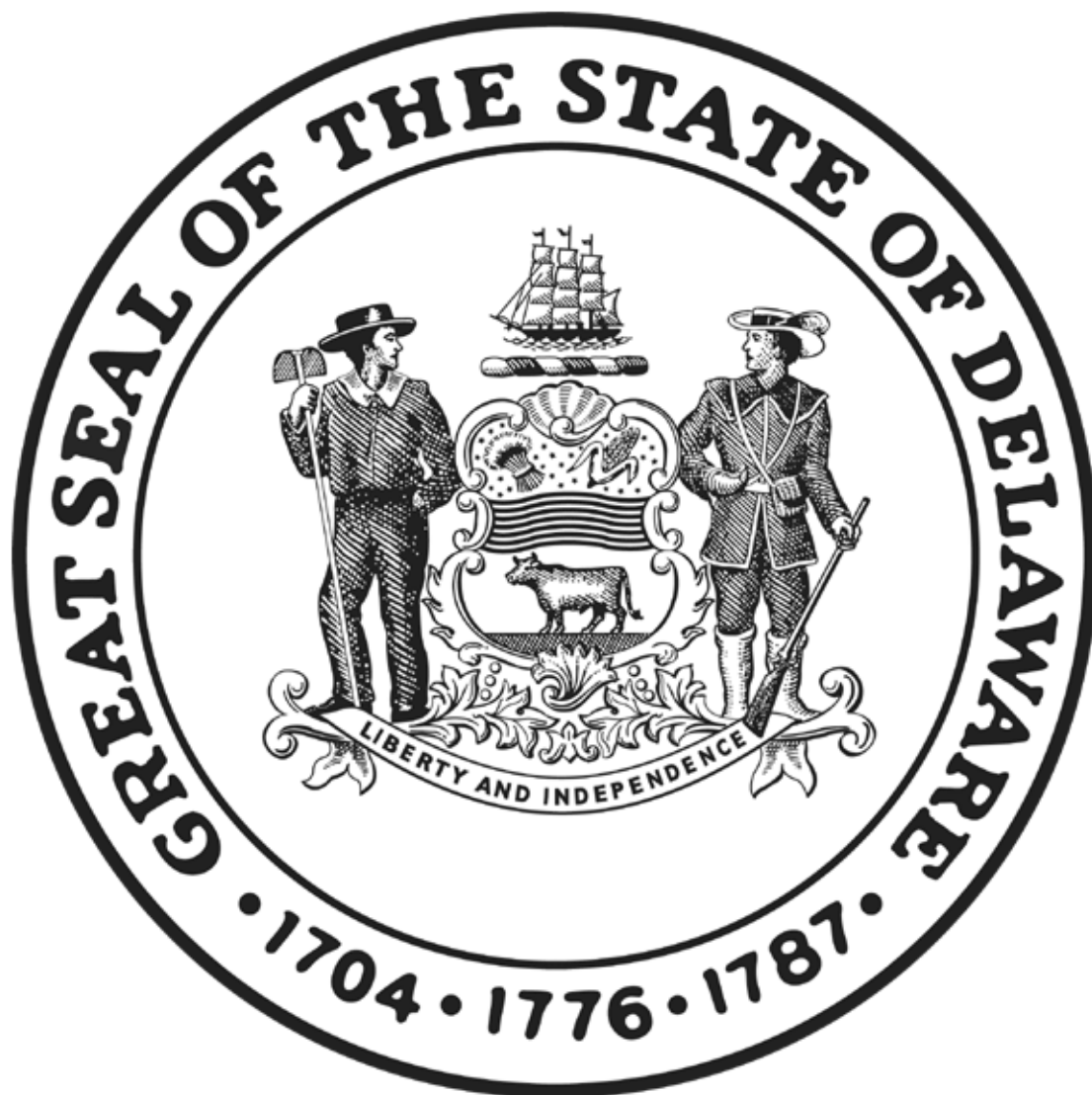
On August 29, 2007, the Delaware State Housing Authority issued \$100,000,000 in Single Family Mortgage Revenue Bonds. The proceeds will be used to provide down payment assistance and low rate mortgages to first-time home buyers over the next fiscal year.

NOTE 19 CHANGE IN FISCAL YEAR

Component Units

Delaware State University

In July 2005, the Delaware State University Housing Foundation, a component unit of the University, elected to change their fiscal year end from July 31 to May 31, 2006, to reflect a more accurate consolidation with the University. This change resulted in a shorter year of only 10 months for the Foundation for their year ended May 31, 2006. As a result, net assets of the University for fiscal year 2006 have been restated from \$145,676,000 to \$146,137,000.



*Required Supplementary
Information*



Red Fox – The red fox belongs to the family Canidae, which includes the domestic dog, the gray wolf, the coyote and other fox species. During the mid-18th century, the red fox was introduced to the United State of America from England, particularly to the states of New York, New Jersey, Maryland, Delaware and Virginia by landowners intent on hunting with hounds. The red fox has a doglike frame—a slender body and legs and slim muzzle, upright triangular ears and full tail, usually tipped in white. While its cousins, the wolf and dog, are social, the red fox tends to be more solitary, cautious and tense.

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY REPORTING

BUDGETARY BASIS VS. GAAP

While GAAP requires the use of the fund structure described in Note 1(b), 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. Summary 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. Additional detailed information regarding compliance with the legal level on control can be obtained by contacting the Office of Management and Budget at (302) 739-4206.

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, 2006, and do 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 Delaware Economic and Financial Advisory Council (DEFAC) meeting in June 2007, 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 tables on the following two pages represent the Budgetary Statements 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 \$590.9 million Budgetary General Fund Balance at June 30, 2007, \$182.8 million is reserved for the Budget Reserve Account and \$335.8 million is designated as continuing and encumbered appropriations.

Budgetary Comparison Schedule-General Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2007
(Expressed in Millions)

| | <u>Budgeted Amounts</u> | | <u>Actual</u> <u>Amounts</u> | <u>Variance with</u> <u>Final Budget</u> |
|--|-------------------------|-----------------|---------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Personal income taxes | \$ 1,062.4 | \$ 1,009.5 | \$ 1,020.4 | \$ 10.9 |
| Business taxes | 1,460.2 | 1,490.8 | 1,116.9 | (373.9) |
| Other taxes | 199.4 | 178.3 | 178.9 | 0.6 |
| License, permits, fines and fees | 227.8 | 233.7 | 233.9 | 0.2 |
| Interest earnings | 16.1 | 25.2 | 25.3 | 0.1 |
| Lottery sales | 259.3 | 256.7 | 256.7 | - |
| Other non-tax revenue | 67.1 | 80.1 | 458.1 | 378.0 |
| Total revenue | <u>3,292.3</u> | <u>3,274.3</u> | <u>3,290.2</u> | <u>15.9</u> |
| Expenditures | | | | |
| Legislature | 14.3 | 18.5 | 13.2 | 5.3 |
| Judicial | 83.6 | 92.4 | 89.4 | 3.0 |
| Executive | 178.0 | 376.7 | 275.0 | 101.7 |
| Department of Technology & Information | 36.2 | 39.7 | 37.6 | 2.1 |
| Other Elective Offices | 35.6 | 66.1 | 56.5 | 9.6 |
| Legal | 39.7 | 42.1 | 41.6 | 0.5 |
| Department of State | 23.8 | 38.6 | 25.6 | 13.0 |
| Department of Finance | 19.8 | 56.6 | 45.6 | 11.0 |
| Department of Health & Social Services | 849.8 | 891.4 | 852.6 | 38.8 |
| Department of Services to Child, Youth and Their Families | 121.5 | 139.2 | 131.7 | 7.5 |
| Department of Corrections | 229.2 | 260.8 | 252.1 | 8.7 |
| Department of Natural Resources and Environmental Control | 41.4 | 115.1 | 70.5 | 44.6 |
| Department of Safety & Homeland Security | 114.5 | 126.1 | 120.9 | 5.2 |
| Department of Transportation | - | 1.9 | 2.0 | (0.1) |
| Department of Labor | 7.3 | 7.7 | 7.3 | 0.4 |
| Department of Agriculture | 7.9 | 10.9 | 9.3 | 1.6 |
| Department of Elections | 3.9 | 7.5 | 7.1 | 0.4 |
| Fire Prevention Commission | 4.7 | 5.6 | 5.3 | 0.3 |
| Delaware National Guard | 4.3 | 4.5 | 3.9 | 0.6 |
| Advisory Council for Exceptional Citizens | 0.1 | 0.2 | 0.2 | - |
| Higher Education | 235.6 | 258.5 | 253.8 | 4.7 |
| Department of Education | <u>1,050.6</u> | <u>1,177.6</u> | <u>1,088.7</u> | <u>88.9</u> |
| Total expenditures | <u>3,101.8</u> | <u>3,737.7</u> | <u>3,389.9</u> | <u>347.8</u> |
| Excess (deficiency) of revenue over expenditures | 190.5 | (463.4) | (99.7) | 363.7 |
| Budgetary fund balance, beginning of year | <u>690.6</u> | <u>690.6</u> | <u>690.6</u> | <u>-</u> |
| Budgetary fund balance, end of year | <u>\$ 881.1</u> | <u>\$ 227.2</u> | <u>\$ 590.9</u> | <u>\$ 363.7</u> |
| Budgetary fund balance | | | | |
| Designated: | | | | |
| Budget reserve account | | | \$ 182.8 | |
| Continuing and encumbered appropriations | | | 335.8 | |
| Undesignated | | | <u>72.3</u> | |
| Total | | | <u>\$ 590.9</u> | |

Budgetary Comparison Schedule-Special Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2007
(Expressed in Millions)

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|---|-------------------------|-----------------|-----------------------|-----------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Personal income taxes | - | \$ - | \$ 1.6 | \$ 1.6 |
| Business taxes | 30.0 | 30.0 | 16.1 | (13.9) |
| Other taxes | 4.0 | 4.0 | 15.0 | 11.0 |
| License, permits, fines and fees | 78.2 | 78.2 | 103.5 | 25.3 |
| Rentals and sales | 16.1 | 16.1 | 25.4 | 9.3 |
| Interest earnings | 37.8 | 37.8 | 12.9 | (24.9) |
| Grants | 3.7 | 3.7 | 35.9 | 32.2 |
| Other non-tax revenue | 653.8 | 653.8 | 456.6 | (197.2) |
| Total Revenue | 823.6 | 823.6 | 667.0 | (156.6) |
| Expenditures | | | | |
| Legislature | - | 0.1 | - | 0.1 |
| Judicial | 9.3 | 10.0 | 7.2 | 2.8 |
| Executive | 123.1 | 116.1 | 80.1 | 36.0 |
| Department of Technology & Information | 27.7 | 37.4 | 21.3 | 16.1 |
| Other Elective Offices | 59.8 | 64.0 | 61.8 | 2.2 |
| Legal | 5.3 | 5.9 | 4.3 | 1.6 |
| Department of State | 30.8 | 44.6 | 28.2 | 16.4 |
| Department of Finance | 54.4 | 67.5 | 59.9 | 7.6 |
| Department of Health & Social Services | 74.8 | 90.8 | 67.4 | 23.4 |
| Department of Services to Child, Youth and Their Families | 19.3 | 24.9 | 18.5 | 6.4 |
| Department of Corrections | 4.1 | 5.6 | 3.0 | 2.6 |
| Department of Natural Resources and Environmental Control | 57.0 | 78.0 | 45.6 | 32.4 |
| Department of Safety & Homeland Security | 10.7 | 14.4 | 10.4 | 4.0 |
| Department of Transportation | 338.9 | 335.2 | 234.7 | 100.5 |
| Department of Labor | 17.0 | 18.8 | 15.8 | 3.0 |
| Department of Agriculture | 6.0 | 6.3 | 4.5 | 1.8 |
| Department of Elections | - | - | - | - |
| Fire Prevention Commission | 2.7 | 2.7 | 2.3 | 0.4 |
| Delaware National Guard | - | - | - | - |
| Department of Education | 3.9 | 6.5 | 3.5 | 3.0 |
| Total Expenditures | 844.8 | 928.8 | 668.5 | 260.3 |
| Excess (deficiency) of revenue over expenditures | (21.2) | (105.2) | (1.5) | 103.7 |
| Budgetary fund balance, beginning of year | 352.2 | 352.2 | 352.2 | - |
| Budgetary fund balance, end of year | \$ 331.0 | \$ 247.0 | \$ 350.7 | \$ 103.7 |

(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 For the Fiscal Year Ended June 30, 2007 (Expressed in Millions)

| | | |
|---|---------|-------------------------|
| Budget Basis General and Special Fund Revenue for Fiscal Year 2007 | | \$3,957.2 |
| Non Appropriated Revenue by Category: | | |
| Other Revenue | 212.6 | |
| License, Fees, Permits, and Fines | 40.8 | |
| Personal, Business, and Other Taxes | 106.3 | |
| Federal Government | 8.8 | |
| Rentals and Sales | 9.4 | |
| Interest and Other Investment Income | 21.2 | |
| Adjustments and Accruals: | | |
| DelDOT Fund Revenue | (232.5) | |
| Lottery Sales | (322.3) | |
| Local School Districts | (33.5) | |
| Other Accruals and Adjustments | (87.5) | |
| Total General Fund Revenues for Fiscal Year 2007 | | \$3,680.5 |
| Federal Funds Revenue | | 982.9 |
| Local School Fund Revenue | | 470.6 |
| Capital Projects Fund Revenue | | 0.1 |
| Total GAAP Basis Governmental Funds Revenue for Fiscal Year 2007 | | <u><u>\$5,134.1</u></u> |

Budget vs. GAAP Expenditures Reconciliation
For the Year Ended June 30, 2007
(Expressed in Millions)

| | | |
|--|---------|-----------------------------|
| Total Budget Basis General & Special Fund Expenditures for Fiscal Year 2007 | | \$4,058.4 |
| Non Appropriated Expenditures by Function: | | |
| General government | \$404.3 | |
| Health and children's services | 20.4 | |
| Judicial and public safety | 12.5 | |
| Natural resources and environmental control | 62.6 | |
| Labor | 8.0 | |
| Education | 58.6 | |
| Transportation | 11.8 | |
| Adjustments and Accruals: | | |
| Tax refunds | (244.7) | |
| Component units | (1.5) | |
| Transportation | (234.5) | |
| Other accruals and adjustments | (170.4) | |
| | | |
| Total General Fund Expenditures for Fiscal Year 2007 | | \$3,985.5 |
| Federal Revenue Funds Expenditures | | 971.6 |
| Local School District Funds Expenditures | | 414.5 |
| Capital Projects Funds Expenditures | | 221.4 |
| Total GAAP Basis Governmental Funds Expenditures for Fiscal Year 2007 | | <u><u>\$5,593.0</u></u> |

Required Supplementary Information

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expends certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 4,454 centerline miles and approximately 1,417 bridges that the State is responsible to maintain.

The condition of the State’s road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

The condition of bridges is measured using the “Bridge Condition Rating” (BCR) which is based on the Federal Highway Administration (FHWA) Coding Guide, “Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation’s Bridges.” The BCR uses a measurement scale that is based on a condition index ranging from 0 to 9, 0 to 4 for substandard bridges and 9 for bridges in perfect condition. For reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges were taken as those with ratings of between 6 and 9. A 5 rating is considered fair. The information is taken from past “Bridge Inventory Status” reports.

It is the State’s policy to maintain at least 85% of its highways at a fair or better condition level and 75% of its bridge systems at a good or better condition level. No more than 10% of bridges and 15% of roads should be in substandard condition. Condition assessments are determined every year for roads and every two years for bridges. Due to the timing of these condition assessments, information for the fiscal year ended June 30, 2007 is not available.

State of Delaware
Department of Transportation
Supplementary Information for Governments That Use the
Modified Approach for Infrastructure Assets

Structural Rating Numbers and Percentages for Bridges

| | | Calendar Year Ended December 31 | | | | | |
|---------------|--------|---------------------------------|---------|--------|---------|--------|---------|
| | | 2006 | | 2005 | | 2004 | |
| BCR Condition | Rating | Number | Percent | Number | Percent | Number | Percent |
| | Good | 6-9 | 1,112 | 78.5 | 1,048 | 76.3 | 1,029 |
| Fair | 5 | 245 | 17.3 | 243 | 17.7 | 256 | 18.6 |
| Poor | 0-4 | 60 | 4.2 | 83 | 6.0 | 86 | 6.3 |
| Totals | | 1,417 | 100 | 1,374 | 100 | 1,371 | 100 |

Deck Rating Numbers and Percentages for Bridges

| | | Calendar Year Ended December 31 | | | | | |
|---------------|--------|---------------------------------|-----------|-------------|-----------|-------------|-----------|
| | | 2006 | | 2005 | | 2004 | |
| OPC Condition | Rating | Square Feet | Percent | Square Feet | Percent | Square Feet | Percent |
| | Good | 6-9 | 6,860,141 | 94.4 | 6,808,227 | 94.0 | 6,731,463 |
| Fair | 5 | 383,680 | 5.3 | 390,978 | 5.4 | 399,554 | 5.6 |
| Poor | 0-4 | 24,111 | 0.3 | 42,604 | 0.6 | 31,983 | 0.4 |
| Totals | | 7,267,932 | 100 | 7,241,809 | 100 | 7,163,000 | 100 |

Center-Line Mile Numbers and Percentages for Road Pavement

| | | Calendar Year Ended December 31 | | | | | |
|---------------|-----------|---------------------------------|---------|------------------|---------|------------------|---------|
| | | 2006 | | 2005 | | 2004 | |
| OPC Condition | Rating | Center-Line Mile | Percent | Center-Line Mile | Percent | Center-Line Mile | Percent |
| | Good | 3.0-5.0 | 3,055 | 68.6 | 3,070 | 69.0 | 3,296 |
| Fair | 2.5-3.0 | 933 | 20.9 | 914 | 20.5 | 775 | 17.4 |
| Poor | Below 2.5 | 466 | 10.5 | 469 | 10.5 | 393 | 8.8 |
| Totals | | 4,454 | 100 | 4,453 | 100 | 4,464 | 100 |

Comparison of Estimated-to-Actual Maintenance/Preservation*

(Expressed In Thousands)

| | Fiscal Year ended June 30 | | | | |
|-----------|---------------------------|-----------|-----------|-----------|-----------|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| Estimated | \$129,138 | \$135,991 | \$138,517 | \$122,662 | \$129,180 |
| Actual | \$256,571 | \$211,347 | \$311,397 | \$133,765 | \$146,352 |

* The estimated expenditures represent annual Bond Bill authorizations. The actual expenditures represent the current year spending, which includes cumulative authorizations.

Required Supplementary Information – Pensions

The following tables present additional information related to funding status and progress, annual pension costs and actuarial methods and assumptions. It is intended to help readers assess the individual plans' funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

Delaware Public Employees' Retirement System (DPERS)

The amount shown below as "actuarial accrued liability" is a measure of the difference between the actuarial present value of future plan benefits, and the actuarial present value of future normal cost.

Delaware Public Employees' Retirement System Schedule of Funding Status and Progress (Expressed in Thousands)

| Plan | Actuarial Valuation Date | (1) Actuarial Value of Assets | (2) Actuarial Accrued Liability (AAL) | (3) | (4) Funded Ratio (1) / (2) | (5) Annual Covered Payroll | (6) |
|---|--------------------------|----------------------------------|--|---|-------------------------------|-------------------------------|--|
| | | | | Unfunded AAL (UAAL) (Excess of Assets over Liabilities) (2) - (1) | | | UAAL/ (Excess) as % of Covered Payroll (3) / (5) |
| State Employees' * | 6/30/07 | \$ 6,437,916 | \$ 6,208,025 | \$ (229,891) | 103.7% | \$ 1,654,609 | (13.9%) |
| | 6/30/06 | 5,998,746 | 5,901,072 | (97,674) | 101.7% | 1,589,185 | (6.1%) |
| | 6/30/05 | 5,660,057 | 5,572,719 | (87,338) | 101.6% | 1,471,931 | (5.9%) |
| Special | 6/30/07 | \$ 673 | \$ 530 | \$ (143) | 127.0% | N/A | N/A |
| | 6/30/06 | 758 | 704 | (54) | 107.7% | N/A | N/A |
| | 6/30/05 | 855 | 791 | (64) | 108.1% | N/A | N/A |
| Closed State Police + | 6/30/07 | \$ 514 | \$ 297,183 | \$ 296,669 | 0.2% | \$ 1,695 | 17,502.6% |
| | 6/30/06 | 1,663 | 294,149 | 292,486 | 0.6% | 1,912 | 15,297.4% |
| | 6/30/05 | 749 | 283,902 | 283,153 | 0.3% | 2,579 | 10,979.2% |
| New State Police * | 6/30/07 | \$ 194,560 | \$ 195,811 | \$ 1,251 | 99.4% | \$ 46,924 | 2.7% |
| | 6/30/06 | 169,824 | 170,877 | 1,053 | 99.4% | 43,579 | 2.4% |
| | 6/30/05 | 150,209 | 149,657 | (552) | 100.4% | 39,645 | (1.4%) |
| Judiciary* | 6/30/07 | \$ 43,050 | \$ 53,686 | \$ 10,636 | 80.2% | \$ 9,825 | 108.3% |
| | 6/30/06 | 38,407 | 50,177 | 11,770 | 76.5% | 9,397 | 125.3% |
| | 6/30/05 | 35,112 | 44,079 | 8,967 | 79.7% | 8,475 | 105.8% |
| Diamond State Port Corporation | 6/30/07 | \$ 11,911 | \$ 13,604 | \$ 1,693 | 87.6% | \$ 11,213 | 15.1% |
| | 6/30/06 | 10,361 | 12,738 | 2,377 | 81.3% | 11,130 | 21.4% |
| | 6/30/05 | 8,948 | 9,732 | 784 | 91.9% | 9,248 | 8.5% |
| County and Municipal Police and Firefighters' | 6/30/07 | \$ 87,395 | \$ 89,022 | \$ 1,627 | 98.2% | \$ 45,059 | 3.6% |
| | 6/30/06 | 72,120 | 72,832 | 712 | 99.0% | 38,342 | 1.9% |
| | 6/30/05 | 59,711 | 61,335 | 1,624 | 97.4% | 33,389 | 4.9% |
| County and Municipal Other Employees' | 6/30/07 | \$ 10,405 | \$ 11,578 | \$ 1,173 | 89.9% | \$ 16,183 | 7.2% |
| | 6/30/06 | 8,529 | 9,222 | 693 | 92.5% | 13,027 | (5.3%) |
| | 6/30/05 | 7,048 | 6,722 | (326) | 104.8% | 9,737 | (3.3%) |
| Volunteer Firemen's | 6/30/07 | \$ 12,225 | \$ 24,809 | \$ 12,584 | 49.3% | Active 5,170 | Cost per Active++ 2,434 |
| | 6/30/06 | 11,340 | 23,925 | 12,585 | 47.4% | 5,160 | 2,439 |
| | 6/30/05 | 10,665 | 22,913 | 12,248 | 46.5% | 5,106 | 2,399 |

* Excludes liability and amortization payments due to ad hoc benefit adjustments. This liability is funded from the Post-Retirement Increase Fund and is funded over five years.

+ The Closed State Police Pension Plan is a pay-as-you-go pension plan.

++ Not expressed in thousands.

Annual Pension Cost, Actuarial Methods and Assumptions - DPERS

The schedules below provide information concerning annual pension costs. Annual pension cost for each plan, except the Closed State Police Plan, is equal to the respective plan's required and actual contributions for the fiscal year ended June 30, 2007.

Annual Pension Cost, Actuarial Methods and Assumptions (Expressed in Thousands)

| Plan | State Employees' | Special | Closed State Police | New State Police | Judiciary |
|-------------------------------|--|------------------------|------------------------|------------------------|------------------------|
| Annual Pension Cost | \$ 97,000 | N/A | \$ 24,912 | \$ 6,334 | \$ 2,495 |
| Actuarial Valuation | 6/30/07 | 6/30/07 | 6/30/07 | 6/30/07 | 6/30/07 |
| Actuarial Cost Method | Entry Age Normal | N/A | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Amortization Method | Level Percent Closed for Plan Bases & Open for Aggregate Gain/Loss | N/A | Level Dollar Closed | Level Percent Closed | Level Percent Closed |
| Remaining Amortization Period | 16.5 years | N/A | 30 years | 5.2 years | 15 years |
| Asset Valuation Method | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market |
| Actuarial Assumptions: | | | | | |
| Investment rate of return | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| Projected Salary | 4.3% to 10.1% | N/A | 4.8% to 5.3% | 4.8% to 16.7% | 4.3% to 13.1% |
| Cost-of-living | Ad Hoc | Ad Hoc | Based on CPI | Ad Hoc | Ad Hoc |

| Plan | Diamond State Port Corporation | County & Municipal Police & Firefighters' | County & Municipal Other Employees | Volunteer Firemen's |
|-------------------------------|--------------------------------|---|------------------------------------|------------------------|
| Annual Pension Cost | \$ 626 | \$ 5,780 | \$ 820 | \$ 1,528 |
| Actuarial Valuation Date | 6/30/07 | 6/30/07 | 6/30/07 | 6/30/07 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal** | Entry Age Normal** | Entry Age Normal |
| Amortization Method | Level Percent Closed | Level Percent Open | Level Percent Open | Level Dollar Closed |
| Remaining Amortization Period | 16 years | 10 years | 10 years | 21 years |
| Asset Valuation Method | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market | 5-year Smoothed Market |
| Actuarial Assumptions: | | | | |
| Investment rate of return | 8.0% | 8.0% | 8.0% | 8.0% |
| Projected Salary Increases* | 4.8% | 4.3% to 15.7% | 4.3% to 10.1% | N/A |
| Cost-of-living adjustments | Ad Hoc | Ad Hoc | Ad Hoc | Ad Hoc |

* Projected Salary Increases include an inflation component of 3.75% for all Plans.

** Actuarial cost method changed to Entry Age Normal from Frozen Initial Liability effective June 30, 2002.

DelDOT - Delaware Transit Corporation – Pension Data

The most recent information available for Delaware Transit Corporation’s annual pension cost and related information for each plan is as follows (note – the current year information is not available for each plan):

Funding Status and Progress

| Plan | Actuarial Valuation Date | (a) Actuarial Value of Assets | (b) Actuarial Accrued Liability (AAL) | (c) Unfunded AAL (UAAL) (Excess of Assets over AAL) (a-b) | (d) Funded Ratio (a / b) | (e) Annual Covered Payroll | (f) UAAL (Excess) as % of Covered Payroll (c / e) |
|------------------|--------------------------|----------------------------------|--|--|-----------------------------|-------------------------------|--|
| DTC Pension Plan | 07/01/2006 | \$ 8,709,127 | \$ 9,076,068 | \$ (366,941) | 95.96% | \$ 8,897,785 | (4.12)% |
| | 07/01/2005 | 7,539,479 | 7,932,143 | (392,664) | 95.05% | 8,019,950 | (4.89)% |
| | 07/01/2004 | 6,450,349 | 6,874,823 | (424,474) | 93.83% | 7,350,742 | (5.77)% |

Annual Pension Cost, Actuarial Methods and Assumptions

| Plan | DTC Pension Plan | Contributory Pension Plan |
|-------------------------------|--------------------------|---------------------------|
| Contribution Rates: | | |
| Employer | Actuarially Determined | 5.00% |
| Participants | N/A | 5.00% |
| Annual Pension Cost | \$ 707,897 | \$ 547,889 |
| Contributions Made | \$ 707,897 | \$ 835,280 |
| Actuarial Valuation Date | 7/01/06 | 01/01/07 |
| Actuarial Cost Method | Frozen Initial Liability | Aggregate * |
| Remaining Amortization Period | 19 | 16 |
| Asset Valuation Method | Market | ** |
| Actuarial Assumptions: | | |
| Investment rate of return | 7.50% | 7.00% |
| Projected Salary Increases | 4.50% | 4.00% |

N/A = Not Applicable

* = This method does not identify and separately amortize unfunded actuarial liabilities.

** = Book value plus 20% of the difference between book and market value, but not less than 80% or greater than 90% of market value.

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*Supplementary Information
Combining Statements*



Horseshoe Crab – In 2002, the Delaware Legislature designated the horseshoe crab as the state's official marine animal. The horseshoe crab is not a true crab but is related to the scorpion and the extinct trilobite. Its eggs are the principal food source for a variety of shore birds, including black-bellied plovers and sand pipers. The Delaware Bay is home to the largest population of spawning horseshoe crabs in the world.

STATE OF DELAWARE
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2007
(Expressed in Thousands)

| | State Employees' Pension Plan | Special Pensions Plan | New State Police Plan | Judiciary Pension Plan | Volunteer Firemen's Pension Plan |
|--|--|-----------------------------|--------------------------------|------------------------------|---|
| Assets | | | | | |
| Cash and cash equivalents | \$ 188,906 | \$ 20 | \$ 5,654 | \$ 1,257 | \$ 359 |
| Receivables: | | | | | |
| Accrued interest | 16,178 | 2 | 473 | 106 | 30 |
| Investment sales pending | 35,257 | 4 | 1,031 | 231 | 65 |
| Employer contributions | 5,943 | - | 370 | 152 | - |
| Member contributions | 2,912 | - | 181 | 17 | - |
| Total receivables | 60,290 | 6 | 2,055 | 506 | 95 |
| Investments at fair value: | | | | | |
| Domestic fixed income | 663,591 | 63 | 20,599 | 4,512 | 1,284 |
| Domestic equities | 1,288,956 | 125 | 39,772 | 8,730 | 2,484 |
| Pooled equity and fixed income | 2,838,810 | 316 | 83,028 | 18,560 | 5,255 |
| Alternative investments | 859,272 | 90 | 25,823 | 5,719 | 1,623 |
| Foreign fixed income | 160,161 | 14 | 5,156 | 1,116 | 319 |
| Foreign equities | 954,104 | 97 | 28,891 | 6,382 | 1,813 |
| Total investments | 6,764,894 | 705 | 203,269 | 45,019 | 12,778 |
| Invested securities lending collateral | 719,458 | 80 | 21,042 | 4,704 | 1,332 |
| Total assets | 7,733,548 | 811 | 232,020 | 51,486 | 14,564 |
| Liabilities | | | | | |
| Investment purchases payable | 87,527 | 10 | 2,560 | 572 | 162 |
| Securities lending collateral payable | 719,458 | 80 | 21,042 | 4,704 | 1,332 |
| Benefits payable | 777 | - | 10 | - | 22 |
| Accrued investment expenses | 4,846 | 1 | 146 | 32 | 9 |
| Accrued administrative expenses | 333 | - | 4 | 1 | - |
| Total liabilities | 812,941 | 91 | 23,762 | 5,309 | 1,525 |
| Assets held in trust for pension benefits and pool participants | \$ 6,920,607 | \$ 720 | \$ 208,258 | \$ 46,177 | \$ 13,039 |

| Diamond State Port Corporation Fund | County and Municipal Police and Firefighters' Plan | County and Municipal Police and Firefighters' Cola Fund | County and Municipal Other Plans | DPERS Post Retirement Increase Fund | SEPP Post Retirement Health Care Premium Fund | Closed State Police Plan | Totals |
|--|---|--|---|--|--|---------------------------------|---------------|
| \$ 343 | \$ 2,523 | \$ 337 | \$ 304 | \$ 114 | \$ 925 | \$ 541 | \$ 201,283 |
| 29 | 206 | 27 | 25 | 11 | 73 | - | 17,160 |
| 62 | 448 | 60 | 54 | 24 | 159 | - | 37,395 |
| 50 | 464 | - | 65 | 2,559 | 536 | - | 10,139 |
| 17 | 232 | - | 30 | - | - | 2 | 3,391 |
| 158 | 1,350 | 87 | 174 | 2,594 | 768 | 2 | 68,085 |
| 1,250 | 9,440 | 1,261 | 1,138 | 295 | 3,516 | - | 706,949 |
| 2,412 | 18,135 | 2,423 | 2,184 | 605 | 6,724 | - | 1,372,550 |
| 5,008 | 36,090 | 4,829 | 4,309 | 1,931 | 12,811 | - | 3,010,947 |
| 1,562 | 11,507 | 1,538 | 1,380 | 494 | 4,180 | - | 913,188 |
| 314 | 2,434 | 325 | 295 | 47 | 929 | - | 171,110 |
| 1,749 | 12,961 | 1,732 | 1,557 | 519 | 4,737 | - | 1,014,542 |
| 12,295 | 90,567 | 12,108 | 10,863 | 3,891 | 32,897 | - | 7,189,286 |
| 1,269 | 9,147 | 1,224 | 1,092 | 489 | 3,247 | - | 763,084 |
| 14,065 | 103,587 | 13,756 | 12,433 | 7,088 | 37,837 | 543 | 8,221,738 |
| 154 | 1,113 | 149 | 133 | 60 | 395 | - | 92,835 |
| 1,269 | 9,147 | 1,224 | 1,092 | 489 | 3,247 | - | 763,084 |
| - | 1 | - | 10 | - | - | 2 | 822 |
| 9 | 65 | 9 | 8 | 3 | 24 | - | 5,152 |
| 2 | 5 | - | 3 | - | - | - | - |
| 1,434 | 10,331 | 1,382 | 1,246 | 552 | 3,666 | 3 | 351 |
| 14,065 | 103,587 | 13,756 | 12,433 | 7,088 | 37,837 | 543 | 8,221,738 |
| \$ 12,631 | \$ 93,256 | \$ 12,374 | \$ 11,187 | \$ 6,536 | \$ 34,171 | \$ 538 | \$ 7,359,494 |

STATE OF DELAWARE
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

| | State Employees' Pension Plan | Special Pensions Plan | New State Police Plan | Judiciary Pension Plan | Volunteer Firemen's Pension Plan |
|---|--|-----------------------------|--------------------------------|------------------------------|---|
| Additions | | | | | |
| Contributions: | | | | | |
| Employer contributions | \$ 97,000 | \$ - | \$ 6,334 | \$ 2,495 | \$ 978 |
| Transfer of assets from post-retirement increase fund | 45,110 | - | 202 | 337 | - |
| Transfer of assets from outside the system | - | - | - | - | - |
| Member contributions | 42,856 | - | 3,191 | 342 | 198 |
| Other | - | - | 26 | - | - |
| Total contributions | 184,966 | - | 9,753 | 3,174 | 1,176 |
| Investments: | | | | | |
| Investment income | 109,622 | 12 | 3,206 | 717 | 203 |
| Net increase (decrease) in fair value | 851,864 | 107 | 24,960 | 5,616 | 1,590 |
| Total investment income | 961,486 | 119 | 28,166 | 6,333 | 1,793 |
| Less investment manager/ advisor/custody fees | (19,795) | (2) | (595) | (132) | (37) |
| Less investment administrative expenses | (449) | - | (13) | (3) | (1) |
| Net investment income | 941,242 | 117 | 27,558 | 6,198 | 1,755 |
| Securities lending income | 28,608 | 3 | 837 | 187 | 53 |
| Less borrower rebates | (26,871) | (3) | (786) | (176) | (50) |
| Less bank fees | (347) | - | (10) | (2) | (1) |
| Total securities lending expense | (27,218) | (3) | (796) | (178) | (51) |
| Net securities lending income | 1,390 | - | 41 | 9 | 2 |
| Total additions | 1,127,598 | 117 | 37,352 | 9,381 | 2,933 |
| Deductions: | | | | | |
| Transfer of assets from post-retirement increase fund | - | - | - | - | - |
| Transfer of assets outside the system | - | - | - | - | - |
| Pension payments | 327,824 | 102 | 2,245 | 2,403 | 1,294 |
| Refunds of contributions to members | 3,164 | - | 15 | - | 72 |
| Group life payments | 4,142 | 49 | - | - | - |
| Administrative expenses | 5,005 | - | 64 | 13 | 26 |
| Total deductions | 340,135 | 151 | 2,324 | 2,416 | 1,392 |
| Change in net assets | 787,463 | (34) | 35,028 | 6,965 | 1,541 |
| Net assets held in trust for pension benefits: | | | | | |
| Balance - beginning of year | 6,133,144 | 754 | 173,230 | 39,212 | 11,498 |
| Balance - end of year | \$ 6,920,607 | \$ 720 | \$ 208,258 | \$ 46,177 | \$ 13,039 |

| <u>Diamond State Port Corporation Fund</u> | <u>County and Municipal Police and Firefighters' Plan</u> | <u>County and Municipal Police and Firefighters' Cola Fund</u> | <u>County and Municipal Other Plans</u> | <u>DPERS Post Retirement Increase Fund</u> | <u>SEPP Post Retirement Health Care Premium Fund</u> | <u>Closed State Police Plan</u> | <u>Totals</u> |
|--|---|--|---|--|--|---------------------------------|---------------------|
| \$ 626 | \$ 5,780 | \$ - | \$ 820 | \$ 44,414 | \$ 5,190 | \$ 19,159 | \$ 182,796 |
| - | - | - | - | - | - | - | 45,649 |
| - | - | 3,149 | - | - | - | - | 3,149 |
| 209 | 2,877 | - | 366 | - | - | 35 | 50,074 |
| - | - | - | - | - | - | 1 | 27 |
| <u>835</u> | <u>8,657</u> | <u>3,149</u> | <u>1,186</u> | <u>44,414</u> | <u>5,190</u> | <u>19,195</u> | <u>281,695</u> |
| 193 | 1,394 | 187 | 166 | 75 | 495 | 227 | 116,497 |
| <u>1,465</u> | <u>10,972</u> | <u>1,426</u> | <u>1,421</u> | <u>793</u> | <u>3,392</u> | <u>-</u> | <u>903,606</u> |
| <u>1,658</u> | <u>12,366</u> | <u>1,613</u> | <u>1,587</u> | <u>868</u> | <u>3,887</u> | <u>227</u> | <u>1,020,103</u> |
| (36) | (265) | (35) | (32) | (11) | (96) | - | (21,036) |
| <u>(1)</u> | <u>(6)</u> | <u>(1)</u> | <u>(1)</u> | <u>-</u> | <u>(2)</u> | <u>-</u> | <u>(477)</u> |
| <u>1,621</u> | <u>12,095</u> | <u>1,577</u> | <u>1,554</u> | <u>857</u> | <u>3,789</u> | <u>227</u> | <u>998,590</u> |
| 50 | 364 | 49 | 43 | 19 | 129 | - | 30,342 |
| (47) | (342) | (46) | (41) | (19) | (121) | - | (28,502) |
| (1) | (4) | (1) | (1) | - | (2) | - | (369) |
| <u>(48)</u> | <u>(346)</u> | <u>(47)</u> | <u>(42)</u> | <u>(19)</u> | <u>(123)</u> | <u>-</u> | <u>(28,871)</u> |
| <u>2</u> | <u>18</u> | <u>2</u> | <u>1</u> | <u>-</u> | <u>6</u> | <u>-</u> | <u>1,471</u> |
| <u>2,458</u> | <u>20,770</u> | <u>4,728</u> | <u>2,741</u> | <u>45,271</u> | <u>8,985</u> | <u>19,422</u> | <u>1,281,756</u> |
| - | - | - | - | 45,649 | - | - | 45,649 |
| - | - | 2,626 | - | - | - | - | 2,626 |
| 269 | 715 | - | 113 | - | - | 20,343 | 355,308 |
| 13 | 128 | - | 74 | - | - | - | 3,466 |
| - | - | - | - | - | - | 40 | 4,231 |
| <u>31</u> | <u>84</u> | <u>-</u> | <u>40</u> | <u>-</u> | <u>-</u> | <u>50</u> | <u>5,313</u> |
| <u>313</u> | <u>927</u> | <u>2,626</u> | <u>227</u> | <u>45,649</u> | <u>-</u> | <u>20,433</u> | <u>416,593</u> |
| 2,145 | 19,843 | 2,102 | 2,514 | (378) | 8,985 | (1,011) | 865,163 |
| <u>10,486</u> | <u>73,413</u> | <u>10,272</u> | <u>8,673</u> | <u>6,914</u> | <u>25,186</u> | <u>1,549</u> | <u>6,494,331</u> |
| <u>\$ 12,631</u> | <u>\$ 93,256</u> | <u>\$ 12,374</u> | <u>\$ 11,187</u> | <u>\$ 6,536</u> | <u>\$ 34,171</u> | <u>\$ 538</u> | <u>\$ 7,359,494</u> |

STATE OF DELAWARE
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Expressed in Thousands)

| Child Support Collection | Balance July 1, 2006 | Additions | Deductions | Balance June 30, 2007 |
|------------------------------------|---------------------------------|-------------------|-------------------|----------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 2,208 | \$ 280,068 | \$ 280,541 | \$ 1,735 |
| Investments | - | 1,809 | 1,809 | - |
| Receivables, net | 261 | 370 | 274 | 357 |
| Total assets | <u>2,469</u> | <u>282,247</u> | <u>282,624</u> | <u>2,092</u> |
| Liabilities | | | | |
| Accounts payable | 2,469 | 282,247 | 282,624 | 2,092 |
| Total liabilities | <u>2,469</u> | <u>282,247</u> | <u>282,624</u> | <u>2,092</u> |
| | | | | |
| Court Fines and Restitution | Balance July 1, 2006 | Additions | Deductions | Balance June 30, 2007 |
| Assets | | | | |
| Cash and cash equivalents | 15,074 | 23,960 | 20,495 | 18,539 |
| Investments | 17,630 | 5,864 | 22,230 | 1,264 |
| Receivables, net | 26,093 | 11,608 | 10,543 | 27,158 |
| Total assets | <u>58,797</u> | <u>41,432</u> | <u>53,268</u> | <u>46,961</u> |
| Liabilities | | | | |
| Accounts payable | 58,797 | 41,432 | 53,268 | 46,961 |
| Total liabilities | <u>58,797</u> | <u>41,432</u> | <u>53,268</u> | <u>46,961</u> |
| | | | | |
| All Other Agency Funds | Balance July 1, 2006 | Additions | Deductions | Balance June 30, 2007 |
| Assets | | | | |
| Cash and cash equivalents | 10,352 | 36,564 | 34,957 | 11,959 |
| Investments | 7,934 | 28,536 | 19,136 | 17,334 |
| Receivables, net | 6 | 103 | 5 | 104 |
| Total assets | <u>18,292</u> | <u>65,203</u> | <u>54,098</u> | <u>29,397</u> |
| Liabilities | | | | |
| Accounts payable | 18,292 | 65,203 | 54,098 | 29,397 |
| Total liabilities | <u>18,292</u> | <u>65,203</u> | <u>54,098</u> | <u>29,397</u> |
| | | | | |
| Totals - All Agency Funds | Balance July 1, 2006 | Additions | Deductions | Balance June 30, 2007 |
| Assets | | | | |
| Cash and cash equivalents | 27,634 | 340,592 | 335,993 | 32,233 |
| Investments | 25,564 | 36,209 | 43,175 | 18,598 |
| Receivables, net | 26,360 | 12,081 | 10,822 | 27,619 |
| Total assets | <u>79,558</u> | <u>388,882</u> | <u>389,990</u> | <u>78,450</u> |
| Liabilities | | | | |
| Accounts payable | 79,558 | 388,882 | 389,990 | 78,450 |
| Total liabilities | <u>\$ 79,558</u> | <u>\$ 388,882</u> | <u>\$ 389,990</u> | <u>\$ 78,450</u> |

Statistical Section



Tiger Swallowtail Butterfly – Known as Delaware’s “winged flower”, the tiger swallowtail hibernates in the state and is one of the largest butterflies in North America. It is bright yellow with a wide blue band along the rear edge of its hind wings. It is easily identified by its “tiger” pattern of yellow and black stripes. The butterfly can be seen in deciduous woods, along streams, rivers and wooded swamp and in the towns and cities throughout the state.

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Statistical Section

This part of Delaware's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government overall financial health.

| | Pages |
|---|-----------|
| Financial Trends | 135 - 140 |
| <p>These schedules contain trend information to assist the reader in understanding how the State's financial performance and fiscal health have changed over time. Entity wide schedules are presented from fiscal year 2003 and forward, coinciding with the implementation of GASB 34. Fund schedules are presented for the last ten years, except where noted. The following schedules are included:</p> | |
| Revenue Capacity | 141 - 144 |
| <p>These schedules contain information to assist the reader in assessing the State's most significant source of revenue, personal income taxes.</p> | |
| Debt Capacity | 145-148 |
| <p>These schedules present information to assist the reader in assessing the affordability of the State's levels of outstanding debt and the State's ability to issue additional debt in the future.</p> | |
| Demographic and Economic Information | 149-152 |
| <p>These schedules offer demographic and economic indicators to help the reader understand the environment in which the state's financial activities take place.</p> | |
| Operating Information | 153-155 |
| <p>These schedules contain information to assist the reader in understanding how the financial information relates to the services the state provides and the activities it performs.</p> | |

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. In fiscal year 2002, the State implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis— for State and Local Governments* ; consequently, schedules presenting government-wide information commence with that year.

STATE OF DELAWARE
Net Assets by Component
Last Five Fiscal Years
(Accrual basis of accounting)
(Expressed in Thousands)

| | 2003 | 2004 | 2005 * | 2006 | 2007 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Governmental activities | | | | | |
| Invested in capital assets, net of related debt | \$ 762,239 | \$ 767,977 | \$ 983,693 | \$ 1,244,073 | \$ 1,385,413 |
| Restricted | 136,460 | 148,150 | 161,050 | 175,365 | 182,750 |
| Unrestricted | 734,589 | 1,112,774 | 1,159,119 | 1,089,100 | 1,183,671 |
| Total governmental activities net assets | <u>1,633,288</u> | <u>2,028,901</u> | <u>2,303,862</u> | <u>2,508,538</u> | <u>2,751,834</u> |
| Business-type activities | | | | | |
| Invested in capital assets, net of related debt | 2,464,049 | 2,561,502 | 2,530,183 | 2,616,971 | 2,653,221 |
| Restricted | 256,792 | 219,844 | 341,895 | 358,547 | 342,263 |
| Unrestricted | 299,855 | 172,428 | 75,335 | 76,907 | 89,806 |
| Total business-type activities net assets | <u>3,020,696</u> | <u>2,953,774</u> | <u>2,947,413</u> | <u>3,052,425</u> | <u>3,085,290</u> |
| Primary government | | | | | |
| Invested in capital assets, net of related debt | 3,226,288 | 3,329,479 | 3,513,876 | 3,861,044 | 4,038,634 |
| Restricted | 393,252 | 367,994 | 502,945 | 533,912 | 525,013 |
| Unrestricted | 1,034,444 | 1,285,202 | 1,234,454 | 1,166,007 | 1,273,477 |
| Total primary government net assets | <u>\$ 4,653,984</u> | <u>\$ 4,982,675</u> | <u>\$ 5,251,275</u> | <u>\$ 5,560,963</u> | <u>\$ 5,837,124</u> |

* Restated Department of Transportation

STATE OF DELAWARE
Changes in Net Assets, Last Five Fiscal Years
(Accrual basis of accounting)
(Expressed in Thousands)

| | 2003* | 2004 | 2005* | 2006 | 2007 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Expenses | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 341,054 | \$ 339,945 | \$ 404,190 | \$ 480,490 | \$ 513,326 |
| Health and children's services | 1,363,289 | 1,399,354 | 1,450,505 | 1,619,176 | 1,699,475 |
| Judicial and public safety | 422,921 | 442,345 | 477,691 | 539,365 | 574,809 |
| Natural resources and environmental control | 100,171 | 113,189 | 95,622 | 114,287 | 173,331 |
| Labor | 59,521 | 61,963 | 61,360 | 61,013 | 74,194 |
| Education | 1,422,820 | 1,422,046 | 1,592,035 | 1,719,901 | 1,774,528 |
| Payment to component unit: | | | | | |
| General government | 10,107 | 1,952 | - | - | - |
| Education | 64,670 | 73,361 | 73,279 | 81,575 | 89,945 |
| Interest | 42,000 | 50,201 | 44,003 | 46,051 | 50,560 |
| Total governmental activities expenses | 3,826,553 | 3,904,356 | 4,198,685 | 4,661,858 | 4,950,168 |
| Business-type activities: | | | | | |
| Lottery | 353,840 | 357,011 | 388,062 | 408,997 | 424,111 |
| Transportation | 505,409 | 506,351 | 526,234 | 485,169 | 504,466 |
| Unemployment | 125,270 | 114,136 | 92,284 | 92,025 | 108,851 |
| Total business-type activities expenses | 984,519 | 977,498 | 1,006,580 | 986,191 | 1,037,428 |
| Total primary government expenses | 4,811,072 | 4,881,854 | 5,205,265 | 5,648,049 | 5,987,596 |
| Program revenues | | | | | |
| Governmental activities: | | | | | |
| Charges for services: | | | | | |
| General government | 166,077 | 131,470 | 130,493 | 148,056 | 223,600 |
| Health and children's services | 142,245 | 138,056 | 117,708 | 83,445 | 110,168 |
| Judicial and public safety | 49,809 | 42,086 | 55,026 | 46,762 | 49,535 |
| Natural resources and environmental control | 53,009 | 36,491 | 20,806 | 66,354 | 56,559 |
| Labor | 4,726 | 3,241 | 2,910 | - | 10,918 |
| Education | 96,179 | 76,862 | 78,577 | 65,552 | 40,317 |
| Operating grants and contributions | 772,470 | 894,779 | 905,737 | 959,567 | 1,001,981 |
| Capital grants and contributions | - | - | 5,000 | 3,334 | 1,740 |
| Total governmental activities program revenues | \$ 1,284,515 | \$ 1,322,985 | \$ 1,316,257 | \$ 1,373,070 | \$ 1,494,818 |

| | | | | | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--|--|--|--|
| Business-type activities: | | | | | | | | | |
| Charges for services: | | | | | | | | | |
| Lottery | \$ 628,064 | \$ 640,925 | \$ 689,291 | \$ 727,993 | \$ 755,127 | | | | |
| Transportation | 312,463 | 341,772 | 342,743 | 379,246 | 379,387 | | | | |
| Unemployment | 53,525 | 62,836 | 73,449 | 86,632 | 72,254 | | | | |
| Operating grants and contributions | - | - | - | - | - | | | | |
| Capital grants and contributions | 115,502 | 92,680 | 106,389 | 107,463 | 103,331 | | | | |
| Total business-type program revenues | <u>1,109,554</u> | <u>1,138,213</u> | <u>1,211,872</u> | <u>1,301,334</u> | <u>1,310,099</u> | | | | |
| Total primary government program revenues | <u>2,394,069</u> | <u>2,461,198</u> | <u>2,528,129</u> | <u>2,674,404</u> | <u>2,804,917</u> | | | | |
| Net (expenses) revenue | <u>(2,542,038)</u> | <u>(2,581,371)</u> | <u>(2,882,428)</u> | <u>(3,288,788)</u> | <u>(3,455,350)</u> | | | | |
| Governmental activities | <u>125,035</u> | <u>160,715</u> | <u>205,292</u> | <u>315,143</u> | <u>272,671</u> | | | | |
| Business-type activities | <u>(2,417,003)</u> | <u>(2,420,656)</u> | <u>(2,677,136)</u> | <u>(2,973,645)</u> | <u>(3,182,679)</u> | | | | |
| Total primary government net expense | | | | | | | | | |
| General revenues and other changes in net assets | | | | | | | | | |
| Governmental activities: | | | | | | | | | |
| Taxes: | | | | | | | | | |
| Personal Income | 706,277 | 777,969 | 882,020 | 1,014,499 | 1,016,911 | | | | |
| Business | 1,180,281 | 1,356,081 | 1,375,828 | 1,535,139 | 1,672,112 | | | | |
| Real estate | 201,115 | 240,296 | 317,664 | 349,728 | 388,135 | | | | |
| Other | 267,177 | 289,346 | 264,165 | 287,651 | 254,960 | | | | |
| Investment earnings | 73,911 | 36,109 | 35,624 | 49,577 | 82,701 | | | | |
| Gain (loss) on sale of assets | 13,536 | (2,482) | - | 721 | (72) | | | | |
| Miscellaneous | - | 37,105 | 37,570 | 33,595 | 24,287 | | | | |
| Transfers | 246,553 | 242,560 | 244,518 | 222,554 | 259,612 | | | | |
| Total governmental activities | <u>2,688,850</u> | <u>2,976,984</u> | <u>3,157,389</u> | <u>3,493,464</u> | <u>3,698,646</u> | | | | |
| Business-type activities: | | | | | | | | | |
| Investment earnings | 25,073 | 18,261 | 18,208 | 16,634 | 23,486 | | | | |
| Miscellaneous | - | - | - | - | (1,000) | | | | |
| Gain (loss) on sale of assets | (287) | (654) | 561 | (4,211) | (2,680) | | | | |
| Transfers | (246,553) | (242,560) | (244,518) | (222,554) | (259,612) | | | | |
| Total business activities | <u>(221,767)</u> | <u>(224,953)</u> | <u>(225,749)</u> | <u>(210,131)</u> | <u>(239,806)</u> | | | | |
| Change in net assets | | | | | | | | | |
| Governmental activities | <u>146,812</u> | <u>395,613</u> | <u>274,961</u> | <u>204,676</u> | <u>243,296</u> | | | | |
| Business-type activities | <u>(96,732)</u> | <u>(64,238)</u> | <u>(20,457)</u> | <u>105,012</u> | <u>32,865</u> | | | | |
| Total primary government | <u>\$ 50,080</u> | <u>\$ 331,375</u> | <u>\$ 254,504</u> | <u>\$ 309,688</u> | <u>\$ 276,161</u> | | | | |

* Restated Department of Transportation in Fiscal Year 2005 and 2003

STATE OF DELAWARE
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Expressed in Thousands)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenues | | | | | | | | | | |
| Taxes (1) | \$ 1,999,391 | \$ 2,077,462 | \$ 2,141,475 | \$ 2,257,952 | \$ 2,271,259 | \$ 2,352,666 | \$ 2,673,622 | \$ 2,836,555 | \$ 3,187,378 | \$ 3,322,523 |
| Licenses, fees, permits and fines (9) | 587,086 | 642,081 | 733,851 | 728,414 | 228,599 | 241,663 | 296,238 | 296,011 | 319,768 | 339,347 |
| Rentals and sales | 115,440 | 107,609 | 118,422 | 333,747 | 49,576 | 43,461 | 51,793 | 57,246 | 51,047 | 59,547 |
| Federal government | 635,114 | 621,069 | 790,201 | 664,263 | 731,918 | 775,725 | 913,880 | 929,703 | 976,143 | 1,016,215 |
| Interest and other investment income | 69,508 | 66,148 | 81,843 | 111,374 | 58,624 | 73,911 | 36,109 | 35,624 | 49,577 | 82,701 |
| Other revenues (9) | 244,453 | 329,515 | 231,997 | 153,234 | 230,241 | 260,270 | 295,087 | 266,657 | 340,827 | 313,765 |
| Total revenues | 3,650,992 | 3,843,884 | 4,097,789 | 4,248,984 | 3,570,217 | 3,747,696 | 4,266,729 | 4,421,796 | 4,924,740 | 5,134,098 |
| Expenditures | | | | | | | | | | |
| General government (2) (9) | 576,910 | 857,308 | 865,673 | 938,328 | 466,848 | 413,096 | 422,785 | 503,097 | 633,784 | 681,609 |
| Health and children's services (3) | 874,074 | 933,107 | 1,050,181 | 1,175,376 | 1,261,128 | 1,372,705 | 1,407,976 | 1,480,000 | 1,674,907 | 1,751,795 |
| Judicial and public safety (4) | 292,775 | 327,254 | 372,274 | 398,293 | 407,608 | 410,084 | 439,640 | 472,406 | 543,684 | 580,707 |
| Natural resources and environmental control | 104,251 | 123,479 | 128,222 | 128,272 | 125,301 | 116,399 | 165,960 | 160,840 | 192,706 | 212,296 |
| Labor (6) | - | - | 45,347 | 49,228 | 60,572 | 59,500 | 62,716 | 68,156 | 66,646 | 66,785 |
| Transportation (7) | 336,793 | 380,667 | 429,447 | 293,358 | - | - | - | - | - | - |
| Education (5) | 1,157,766 | 1,193,678 | 1,297,611 | 1,446,986 | 1,440,044 | 1,432,937 | 1,501,237 | 1,633,834 | 1,773,371 | 1,821,210 |
| Payment to component unit: | | | | | | | | | | |
| General government (9) | - | - | - | - | 8,821 | 5,927 | 1,952 | - | - | - |
| Education (9) | - | - | - | - | 40,571 | 68,850 | 73,361 | 73,279 | 81,575 | 89,945 |
| Other (6) | 102,390 | 126,077 | - | - | - | - | - | - | - | - |
| Capital outlay (8) | - | - | - | - | 168,418 | 189,713 | 162,154 | 173,561 | 223,779 | 220,635 |
| Debt service: | | | | | | | | | | |
| Principal (7) | 102,244 | 108,175 | 115,961 | 120,281 | 79,757 | 84,079 | 94,522 | 107,890 | 113,781 | 116,617 |
| Interest (7) | 68,367 | 68,895 | 67,881 | 70,012 | 34,134 | 33,676 | 39,246 | 46,160 | 49,037 | 50,609 |
| Costs of issuance of debt (10) | - | - | - | - | - | - | 515 | 533 | 343 | 764 |
| Total expenditures | 3,615,570 | 4,118,640 | 4,372,597 | 4,620,134 | 4,093,202 | 4,186,966 | 4,372,064 | 4,719,756 | 5,353,613 | 5,592,972 |
| Revenues over (under) expenditures | \$ 35,422 | \$ (274,756) | \$ (274,808) | \$ (371,150) | \$ (522,985) | \$ (439,270) | \$ (105,335) | \$ (297,960) | \$ (428,873) | \$ (458,874) |

STATE OF DELAWARE
Fund Balance, Governmental Funds
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Expressed in Thousands)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|-------------------|-------------------|-------------------|-------------------|------------------|------------------|-------------------|-------------------|------------------|-------------------|
| General fund | | | | | | | | | | |
| Reserved | \$ 197,815 | \$ 220,084 | \$ 272,137 | \$ 315,386 | \$ 341,391 | \$ 305,592 | \$ 286,755 | \$ 314,533 | \$ 331,388 | \$ 383,719 |
| Unreserved | 696,007 | 659,729 | 640,218 | 447,175 | 580,248 | 643,461 | 929,157 | 999,231 | 1,039,370 | 956,073 |
| Total general fund | <u>893,822</u> | <u>879,813</u> | <u>912,355</u> | <u>762,561</u> | <u>921,639</u> | <u>949,053</u> | <u>1,215,912</u> | <u>1,313,764</u> | <u>1,370,758</u> | <u>1,339,792</u> |
| All other governmental funds: | | | | | | | | | | |
| Reserved | 40,970 | 91,153 | 83,388 | 121,893 | 125,936 | 129,226 | 178,201 | 156,212 | 196,502 | 224,018 |
| Unreserved, reported in: | | | | | | | | | | |
| Federal revenue fund | 769 | 1,894 | 23,095 | 8,268 | (33,705) | (47,878) | (43,422) | (40,172) | (60,841) | (41,060) |
| Local school district fund | 113,967 | 125,945 | 112,559 | 114,232 | 110,560 | 101,445 | 101,361 | 101,052 | 74,206 | 106,083 |
| Debt service fund | 93,410 | 96,617 | 102,365 | 107,904 | - | - | - | - | - | - |
| Capital projects fund | 129,375 | 58,363 | 117,096 | 72,499 | (189,822) | (149,345) | (62,942) | (86,660) | (205,898) | (62,353) |
| Total all other governmental funds | <u>\$ 378,491</u> | <u>\$ 373,972</u> | <u>\$ 438,503</u> | <u>\$ 424,796</u> | <u>\$ 12,969</u> | <u>\$ 33,448</u> | <u>\$ 173,198</u> | <u>\$ 130,432</u> | <u>\$ 3,969</u> | <u>\$ 226,688</u> |

Note: The State changed its fund structure when it implemented GASB 34 in Fiscal 2002. Prior to 2002, the State considered Federal and Local School District Funds to be Special Revenue Funds

STATE OF DELAWARE
Personal Income by Industry
Last Five Fiscal Years
(Expressed in Millions)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Farm earnings | \$ 206.4 | \$ 241.8 | \$ 249.7 | \$ 209.3 | \$ 332.0 |
| Agricultural/forestry, fishing and other | 20.4 | 19.3 | 20.0 | 21.0 | 21.0 |
| Mining* | 17.2 | 22.3 | 6.1 | 32.4 | 33.0 |
| Construction/utilities | 1,640.4 | 1,854.7 | 1,876.4 | 2,248.6 | 2,145.0 |
| Manufacturing | 2,756.7 | 2,747.9 | 2,698.4 | 2,805.7 | 2,968.0 |
| Wholesale trade | 1,044.5 | 1,158.1 | 1,198.9 | 1,369.4 | 1,373.0 |
| Retail trade | 1,545.0 | 1,614.3 | 1,687.4 | 1,731.1 | 1,770.0 |
| Transportation and warehousing | 477.7 | 570.5 | 593.6 | 622.9 | 646.0 |
| Information | 480.5 | 477.5 | 503.4 | 526.7 | 543.0 |
| Finance, insurance and real estate | 3,776.9 | 4,018.6 | 4,589.6 | 4,596.8 | 4,672.0 |
| Professional and business services | 4,295.9 | 4,637.5 | 4,902.6 | 5,114.3 | 5,422.0 |
| Education and health services | 2,429.1 | 2,657.4 | 2,847.2 | 3,014.5 | 3,237.0 |
| Entertainment, accommodation, food service | 828.6 | 887.2 | 919.5 | 969.2 | 1,042.0 |
| Federal, civilian | 375.8 | 408.8 | 418.5 | 439.0 | 459.0 |
| Military | 439.4 | 458.2 | 462.1 | 432.3 | 430.0 |
| State and local government | 2,549.6 | 2,729.3 | 2,950.4 | 3,133.5 | 3,421.0 |
| Other** | 4,511.2 | 4,765.4 | 5,060.0 | 6,005.5 | 6,645.0 |
| Total personal income | \$ 27,395.3 | \$ 29,268.8 | \$ 30,983.8 | \$ 33,272.2 | \$ 35,159.0 |

Source: U.S. Bureau of Economic Analysis

Notes:

- * Fiscal year 2005 data excludes oil and gas. Estimate is suppressed by U.S. Bureau of Economic Analysis to avoid disclosure of confidential information.
- ** Includes dividends, interest, rental income, residence adjustment, governmental transfers to individuals, and deductions for social insurance.

STATE OF DELAWARE
Personal Income Tax Rates
Last Ten Fiscal Years
 (Expressed in Millions)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Personal income tax revenue | \$761.3 | \$770.6 | \$732.8 | \$718.3 | \$713.8 | \$711.3 | \$782.4 | \$878.2 | \$1,013.2 | \$1,012.8 |
| Personal income | \$21,565.4 | \$22,416.3 | \$24,276.9 | \$25,537.1 | \$26,509.5 | \$27,672.0 | \$29,527.2 | \$31,281.4 | \$33,695.0 | \$35,159.0 |
| Average effective rate | 3.53% | 3.44% | 3.02% | 2.81% | 2.69% | 2.57% | 2.65% | 2.81% | 3.01% | 2.88% |

Source: Personnel income - U.S. Bureau of Labor Statistics

Notes:

Personal income tax revenue is modified accrual, net of refunds.

Tax Rates on the Portion of Taxable Income in Ranges

| Tax Year | Tax Rate | Income Bracket (in thousands) | Tax Rate | Income Bracket (in thousands) | Tax Rate | Income Bracket (in thousands) | Tax Rate | Income Bracket (in thousands) | Tax Rate | Income Bracket (in thousands) | Tax Rate | Income Bracket (in thousands) |
|-----------|----------|-------------------------------|----------|-------------------------------|----------|-------------------------------|----------|-------------------------------|----------|-------------------------------|----------|-------------------------------|
| 1997-1998 | 0.0% | \$0-2 | 3.1% | \$2-5 | 4.85% | \$5-10 | 5.8% | \$10-20 | 6.45% | \$25-30 | 6.9% | \$30+ |
| | 0.0% | \$0-2 | 2.6% | \$2-5 | 4.3% | \$5-10 | 5.2% | \$10-20 | 5.95% | \$25-60 | 6.4% | \$60+ |
| 1999-2001 | 0.0% | \$0-2 | 2.2% | \$2-5 | 3.9% | \$5-10 | 4.8% | \$10-20 | 5.55% | \$25-60 | 5.95% | \$60+ |
| | 0.0% | \$0-2 | 2.2% | \$2-5 | 3.9% | \$5-10 | 4.8% | \$10-20 | 5.55% | \$25-60 | 5.95% | \$60+ |

As an example, for tax years 2002-2007, a taxable income over \$60,000, pays a tax of \$2,943.50 plus 5.95% of the taxable income in excess of \$60,000.

Source: State tax tables

State of Delaware

Personal Income Tax Filers and Liability by Income Levels

| Taxpayer Percentile | Tax Year 1998 | | | | | | Tax Year 2005 | | | | | | | | | |
|------------------------|---------------------|-------------------|------------------------|--------------------------|------------------------|---------------------|-------------------|---------------------------------------|--------------------------|------------------------|---------------------|-------------------|---------------------------------------|--------------------------|------------------------|-------|
| | Number of Filers | Delaware AGI | | Liability Net of Credits | | Number of Filers | Delaware AGI | | Liability Net of Credits | | Number of Filers | Delaware AGI | | Liability Net of Credits | | |
| | | Average DE AGI | Percentage of Total | Total Liability | Percentage of Total | | Average DE AGI | Percentage of Total ⁽¹⁾ | Total Liability | Percentage of Total | | Average DE AGI | Percentage of Total ⁽¹⁾ | Total Liability | Percentage of Total | |
| From: 0 | 10 | 44,558 | 3,269 | 0.8% | 0 | 0.0% | 47,450 | 3,789 | 0.7% | 0 | 0.0% | 47,450 | 3,789 | 0.7% | 0 | 0.0% |
| 10 | 20 | 44,558 | 8,151 | 2.1% | 477,835 | 0.1% | 47,452 | 10,053 | 1.9% | 0 | 0.0% | 47,452 | 10,053 | 1.9% | 0 | 0.0% |
| 20 | 30 | 44,558 | 13,168 | 3.4% | 9,129,924 | 1.3% | 47,450 | 16,349 | 3.1% | 6,298,341 | 0.7% | 47,450 | 16,349 | 3.1% | 6,298,341 | 0.7% |
| 30 | 40 | 44,558 | 18,225 | 4.7% | 20,465,811 | 2.8% | 47,452 | 22,648 | 4.3% | 17,423,746 | 2.0% | 47,452 | 22,648 | 4.3% | 17,423,746 | 2.0% |
| 40 | 50 | 44,559 | 23,425 | 6.0% | 31,606,969 | 4.3% | 47,450 | 29,046 | 5.5% | 30,247,303 | 3.5% | 47,450 | 29,046 | 5.5% | 30,247,303 | 3.5% |
| 50 | 60 | 44,558 | 29,029 | 7.5% | 44,282,444 | 6.1% | 47,451 | 36,015 | 6.9% | 44,481,081 | 5.1% | 47,451 | 36,015 | 6.9% | 44,481,081 | 5.1% |
| 60 | 70 | 44,558 | 35,654 | 9.2% | 59,352,473 | 8.1% | 47,451 | 44,262 | 8.4% | 61,067,820 | 7.0% | 47,451 | 44,262 | 8.4% | 61,067,820 | 7.0% |
| 70 | 80 | 44,558 | 44,054 | 11.3% | 78,699,770 | 10.8% | 47,451 | 55,333 | 10.6% | 83,108,971 | 9.6% | 47,451 | 55,333 | 10.6% | 83,108,971 | 9.6% |
| 80 | 90 | 44,558 | 57,616 | 14.8% | 110,569,875 | 15.2% | 47,451 | 73,545 | 14.0% | 117,885,785 | 13.6% | 47,451 | 73,545 | 14.0% | 117,885,785 | 13.6% |
| 90 | 95 | 22,280 | 80,699 | 10.4% | 83,327,504 | 11.4% | 23,725 | 104,106 | 9.9% | 92,234,694 | 10.6% | 23,725 | 104,106 | 9.9% | 92,234,694 | 10.6% |
| 95 | 99 | 17,823 | 133,533 | 13.7% | 123,575,064 | 17.0% | 18,981 | 181,925 | 13.9% | 150,184,214 | 17.3% | 18,981 | 181,925 | 13.9% | 150,184,214 | 17.3% |
| 99 | 100 | 4,457 | 626,657 | 16.1% | 167,082,284 | 22.9% | 4,745 | 1,083,687 | 20.7% | 265,387,678 | 30.6% | 4,745 | 1,083,687 | 20.7% | 265,387,678 | 30.6% |
| | | | | 100.0% | | 100.0% | | | | | | | | | | |

Notes:

The number of filers is equal for each 10 percentile.

(1) Percentage of total is that of Delaware Adjusted Gross Income (AGI) by class for fiscal year 2005 forward.

Sources:

Delaware Division of Revenue

STATE OF DELAWARE
Franchise Taxes
Last Ten Fiscal Years

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|-----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Franchise tax (in millions) | \$ 395.5 | \$ 425.2 | \$ 471.5 | \$ 533.6 | \$ 492.5 | \$ 448.2 | \$ 515.8 | \$ 508.1 | \$ 524.8 | \$ 539.7 |
| Number of filers | 227,480 | 228,993 | 241,029 | 254,538 | 240,618 | 243,564 | 240,304 | 239,106 | 239,824 | 231,376 |
| Average amount per filer | \$ 1,738.6 | \$ 1,856.8 | \$ 1,956.2 | \$ 2,096.3 | \$ 2,046.8 | \$ 1,840.2 | \$ 2,146.4 | \$ 2,125.0 | \$ 2,188.3 | \$ 2,332.6 |

Notes:

As a group, business taxes are the largest single category of income for the State of Delaware. However, business taxes consist of several categories with different tax bases and rate structures. In terms of revenue received, franchise tax is the largest single category of business taxes, however, it is not as large as personal income taxes. Other significant business taxes include bank franchise tax, business and occupation gross receipts tax, corporate income tax, insurance tax and public utility tax.

Franchise tax is the lesser of the methods listed below:

| Authorized Share Method | Tax Year 1997-2002 | Tax Year 2003-2007 |
|------------------------------------|-----------------------|-----------------------|
| 3,000 shares or less, minimum tax | \$30.00 | \$35.00 |
| 3,001-5,000 shares | \$50.00 | \$62.50 |
| 5,001-10,000 shares | \$90.00 | \$112.50 |
| Each additional 10,000 shares, add | \$50.00 | \$62.50 |
| Maximum yearly tax | \$150,000 | \$165,000 |

Assumed par value capital method

- 1 Calculate "assumed par" by dividing total gross assets by total issued shares carrying the decimal to six places.
- 2 Multiply the assumed par by the number of authorized shares having a par value less than the assumed par.
- 3 Multiply the number of authorized shares with a par value greater than the assumed par value by their respective value.
- 4 Add the results of #2 and #3 above. The result is your assumed par value capital.
- 5 Calculate the tax by dividing the assumed par value capital, rounded up to the next million if it is over \$1,000,000 and multiply by \$200.00 for tax years 1997-2002. For tax years 2003 to current, the multiplier was \$250.

Sources: Secretary of State, Delaware Division of Corporations
Department of Finance, revenue by category

STATE OF DELAWARE
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years
(Expressed in Thousands)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Governmental activities | | | | | | | | | | |
| General obligation bonds | \$ 686,116 | \$ 720,171 | \$ 738,176 | \$ 653,701 | \$ 709,958 | \$ 854,262 | \$ 1,012,544 | \$ 1,026,947 | \$ 1,045,166 | \$ 1,307,487 |
| Revenue bonds | 14,713 | 1,583 | 940 | 515 | 408 | - | - | - | - | - |
| Notes payable | - | - | - | - | - | - | - | 4,754 | 3,746 | 4,882 |
| Total governmental activities | 700,829 | 721,754 | 739,116 | 654,216 | 710,366 | 854,262 | 1,012,544 | 1,031,701 | 1,048,912 | 1,312,369 |
| Business-type activities | | | | | | | | | | |
| General obligation bonds | - | - | - | - | - | - | - | - | - | 3,383 |
| Revenue bonds | 650,575 | 618,990 | 669,685 | 634,385 | 675,735 | 863,145 | 815,505 | 861,710 | 953,265 | 1,018,815 |
| Notes payable | - | - | - | - | - | - | - | 40,000 | - | - |
| Total business-type activities | 650,575 | 618,990 | 669,685 | 634,385 | 675,735 | 863,145 | 815,505 | 901,710 | 953,265 | 1,022,198 |
| Total primary government | \$ 1,351,404 | \$ 1,340,744 | \$ 1,408,801 | \$ 1,288,601 | \$ 1,386,101 | \$ 1,717,407 | \$ 1,828,049 | \$ 1,933,411 | \$ 2,002,177 | \$ 2,334,567 |
| Personal income | \$21,565,371 | \$22,416,280 | \$24,276,962 | \$25,537,078 | \$26,509,465 | \$27,672,043 | \$29,527,185 | \$31,281,400 | \$33,695,000 | \$35,159,000 |
| Debt as a percentage of personal income | 6.27% | 5.98% | 5.80% | 5.05% | 5.23% | 6.21% | 6.19% | 6.18% | 5.94% | 6.62% |
| Population (in thousands) | 763 | 775 | 786 | 795 | 806 | 818 | 830 | 844 | 853 | N/A |
| Amount of debt per capita | \$1,771 | \$1,730 | \$1,791 | \$1,620 | \$1,720 | \$2,100 | \$2,202 | \$2,292 | \$2,347 | N/A |

Notes: Details regarding the State's debt can be found in Notes to the financial statements.
N/A - Data is not available at this time.

Sources: Personnel Income - U.S. Bureau of Labor Statistics
Population - U.S. Department of Commerce

STATE OF DELAWARE
Debt Limits
Last Ten Fiscal Years
(Expressed in Millions)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Estimated general fund revenue | \$ 1,863.7 | \$ 2,118.9 | \$ 2,213.1 | \$ 2,348.2 | \$ 2,364.5 | \$ 2,364.8 | \$ 2,514.0 | \$ 2,765.1 | \$ 3,006.4 | \$ 3,274.3 |
| Projected new tax-supported debt authorizations (5%) | \$ 93.2 | \$ 105.8 | \$ 110.7 | \$ 117.2 | \$ 118.2 | \$ 118.2 | \$ 125.7 | \$ 138.3 | \$ 150.3 | \$ 163.8 |

Notes:

There is no constitutional debt limit for the state.

In 1991, the General Assembly passed legislation to replace prior statutory debt limits with a three-part debt limit, as follows:

- 1 The aggregate principal amount of new "tax-supported obligations of the State" may not exceed 5% of the estimated budgetary general fund revenue for that fiscal year.
- 2 No "tax-supported obligations of the State" and no "Transportation Trust Fund debt obligations" of the Delaware Transportation Authority may be incurred if the aggregate maximum annual payments on all such outstanding obligations exceed 15% of the estimated budgetary General Fund revenue plus Transportation Trust Fund revenue for the fiscal year following the fiscal year in which such obligations is incurred (the 15% test).
- 3 No general obligation debt (with certain exceptions) may be incurred if the maximum annual debt service payable in any fiscal year on all such outstanding obligations will exceed the estimated cumulative cash balances (including all reserves) for the fiscal year following the fiscal year in which the obligation is incurred.

STATE OF DELAWARE
General Obligation Debt Support
Last Five Fiscal Years
(Expressed in Millions)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|-----------------|-------------------|-------------------|-------------------|-------------------|
| General obligation debt supported by budgetary general revenue | | | | | |
| State facilities | \$ 482.1 | \$ 490.6 | \$ 428.3 | \$ 373.8 | \$ 360.9 |
| School facilities (state share) | 124.2 | 247.1 | 260.6 | 264.8 | 464.0 |
| Miscellaneous | 4.2 | - | - | - | - |
| Subtotal | <u>610.5</u> | <u>737.7</u> | <u>688.9</u> | <u>638.6</u> | <u>824.9</u> |
| General obligation debt supported by budgetary special funds | | | | | |
| Highway and other transportation improvements | 3.3 | 3.7 | 4.8 | 4.2 | 3.4 |
| School facilities (local share) | 240.2 | 270.6 | 332.6 | 401.8 | 482.1 |
| Housing authority loans | 0.3 | 0.6 | 0.6 | 0.6 | 0.5 |
| Subtotal | <u>243.8</u> | <u>274.9</u> | <u>338.0</u> | <u>406.6</u> | <u>486.0</u> |
| Total general obligation debt outstanding | <u>\$ 854.3</u> | <u>\$ 1,012.6</u> | <u>\$ 1,026.9</u> | <u>\$ 1,045.2</u> | <u>\$ 1,310.9</u> |
| Population (thousands) | <u>818</u> | <u>830</u> | <u>844</u> | <u>853</u> | <u>N/A</u> |
| Debt per capita (thousands) | <u>1.04</u> | <u>1.22</u> | <u>1.22</u> | <u>1.23</u> | <u>N/A</u> |

Notes: This table reflects the portions of general obligation debt supported by budgetary general fund and budgetary special fund revenue.
N/A - Data is not available at this time.

STATE OF DELAWARE
Pledged Revenue Coverage
Last Ten Fiscal Years
(Expressed in Thousands)

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|--------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Revenue bonds - DeIDOT | | | | | | | | | | |
| Revenue - tumpike and motor vehicles | \$ 254,887 | \$ 272,398 | \$ 284,167 | \$ 299,962 | \$ 297,894 | \$ 298,536 | \$ 314,205 | \$ 324,962 | \$ 337,350 | \$ 346,954 |
| Debt service: | | | | | | | | | | |
| Principal | 31,585 | 33,300 | 35,330 | 35,315 | 39,565 | 41,490 | 47,640 | 53,920 | 58,445 | 61,370 |
| Interest | 30,176 | 32,718 | 30,809 | 37,537 | 35,269 | 44,957 | 38,176 | 39,370 | 40,573 | 45,534 |
| Debt service requirements | \$ 61,761 | \$ 66,018 | \$ 66,139 | \$ 72,852 | \$ 74,834 | \$ 86,447 | \$ 85,816 | \$ 93,290 | \$ 99,018 | \$ 106,904 |
| Coverage | 4 | 4 | 4 | 4 | 4 | 3 | 4 | 3 | 3 | 3 |
| Revenue bonds - DSU | | | | | | | | | | |
| Revenue - student tuition and fees | \$ 23,702 | \$ 26,262 | \$ 29,899 | \$ 28,858 | \$ 32,170 | \$ 34,504 | \$ 39,191 | \$ 43,695 | \$ 50,551 | \$ 51,836 |
| Less: operating expenses | (19,770) | (20,203) | (14,757) | (14,689) | (15,447) | (20,992) | (24,104) | (26,227) | (32,089) | (40,683) |
| Net available revenue | 3,932 | 6,059 | 15,142 | 14,169 | 16,723 | 13,512 | 15,087 | 17,468 | 18,462 | 11,153 |
| Debt service: | | | | | | | | | | |
| Principal | 835 | 580 | 280 | 785 | 965 | 990 | 1,653 | 1,617 | 2,078 | 1,440 |
| Interest | 830 | 849 | 584 | 761 | 649 | 622 | 737 | 763 | 505 | 2,279 |
| Debt service requirements | \$ 1,665 | \$ 1,429 | \$ 864 | \$ 1,546 | \$ 1,614 | \$ 1,612 | \$ 2,390 | \$ 2,380 | \$ 2,583 | \$ 3,719 |
| Coverage | 2 | 4 | 18 | 9 | 10 | 8 | 6 | 7 | 7 | 3 |
| Revenue bonds - DSHA | | | | | | | | | | |
| Gross revenues | \$ 77,098 | \$ 80,079 | \$ 94,532 | \$ 68,718 | \$ 151,538 | \$ 103,713 | \$ 150,211 | \$ 89,697 | \$ 81,632 | \$ 82,689 |
| Less: operating expenses | (2,105) | (1,546) | (2,015) | (1,864) | (2,030) | (6,355) | (1,794) | (1,995) | (1,137) | (660) |
| Net available revenue | 74,993 | 78,533 | 92,517 | 66,854 | 149,508 | 97,358 | 148,417 | 87,702 | 80,495 | 82,029 |
| Debt service: | | | | | | | | | | |
| Principal | 34,387 | 52,314 | 44,427 | 42,460 | 107,463 | 66,189 | 128,665 | 73,964 | 58,956 | 51,517 |
| Interest * | 27,418 | 25,647 | 24,513 | 24,535 | 23,868 | 22,597 | 18,929 | 16,163 | 18,120 | 28,791 |
| Debt service requirements | \$ 61,805 | \$ 77,961 | \$ 68,940 | \$ 66,995 | \$ 131,331 | \$ 88,786 | \$ 147,594 | \$ 90,127 | \$ 77,076 | \$ 80,308 |
| Coverage | 1.21 | 1.01 | 1.34 | 1.00 | 1.14 | 1.10 | 1.01 | 0.97 | 1.04 | 1.02 |

Notes: Gross revenues represent mortgage principal repayment, mortgage insurance claims received, unused bond proceeds and excess reserves. Expenses do not include interest or amortization. Abbreviations: Delaware Department of Transportation (DeIDOT), Delaware State University (DSU), Delaware State Housing Authority (DSHA)

Debt Service for Delaware State University includes Delaware State University Student Housing Foundation beginning with fiscal year 2004.

* Interest on Delaware State University Student Housing Foundation is a variable rate. In 2007 the increase in interest is reflective of the increase in interest rates due to the market.

STATE OF DELAWARE
Demographic and Economic Statistics
Last Ten Calendar Years
(Expressed in Thousands, unless otherwise stated)

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Population | | | | | | | | | | |
| State | 751 | 763 | 775 | 786 | 796 | 806 | 818 | 830 | 844 | 853 |
| Percentage change | 1.3% | 1.6% | 1.6% | 1.4% | 1.3% | 1.3% | 1.5% | 1.5% | 1.7% | 1.1% |
| National | 272,647 | 275,854 | 279,040 | 282,193 | 285,108 | 287,985 | 290,850 | 293,657 | 296,410 | 299,398 |
| Percentage change | 1.2% | 1.2% | 1.2% | 1.1% | 1.0% | 1.0% | 1.0% | 1.0% | 0.9% | 1.0% |
| Total personal income | | | | | | | | | | |
| State (in millions) | \$19,895.3 | \$21,565.4 | \$22,416.3 | \$24,277.0 | \$25,537.1 | \$26,530.0 | \$27,495.6 | \$29,453.8 | \$31,281.4 | \$33,271.9 |
| Percentage change | 4.4% | 8.4% | 3.9% | 8.3% | 5.2% | 3.9% | 3.6% | 7.1% | 9.8% | 6.4% |
| National (in billions) | \$6,907 | \$7,416 | \$7,796 | \$8,422 | \$8,717 | \$8,873 | \$9,151 | \$9,717 | \$10,225 | \$10,967 |
| Percentage change | 6.1% | 7.4% | 5.1% | 8.0% | 3.5% | 1.8% | 3.1% | 6.2% | 5.2% | 7.3% |
| Per capita personal income | | | | | | | | | | |
| State | \$26,492 | \$28,264 | \$28,924 | \$30,887 | \$32,082 | \$32,916 | \$33,613 | \$35,487 | \$37,063 | \$39,022 |
| Percentage change | 2.9% | 6.3% | 2.3% | 6.4% | 3.7% | 2.5% | 2.1% | 5.3% | 4.3% | 5.0% |
| National | \$25,334 | \$26,883 | \$27,939 | \$29,845 | \$30,574 | \$30,809 | \$31,463 | \$33,090 | \$34,496 | \$36,276 |
| Percentage change | 4.6% | 5.8% | 3.8% | 6.4% | 2.4% | 0.8% | 2.1% | 4.9% | 4.1% | 4.9% |
| Resident civilian labor force and employment | | | | | | | | | | |
| Civilian labor force | 393,500 | 397,300 | 401,100 | 416,500 | 418,700 | 420,500 | 424,500 | 428,900 | 438,000 | 440,300 |
| Employed | 378,100 | 383,300 | 387,800 | 402,800 | 404,100 | 403,800 | 406,700 | 411,600 | 419,500 | 424,500 |
| Unemployed | 15,400 | 14,000 | 13,300 | 13,700 | 14,600 | 16,700 | 17,800 | 17,300 | 18,500 | 15,800 |
| Unemployment rate | 3.9% | 3.5% | 3.3% | 3.3% | 3.5% | 4.0% | 4.2% | 4.0% | 4.2% | 3.6% |

Sources: U.S. Department of Commerce
Delaware Department of Labor
Civilian labor force and employment information has been updated for prior years to reflect changes in census

STATE OF DELAWARE
Largest Private Employers
Current Fiscal Year and Nine Years Ago

| | 1997 | | | 2006 * | | |
|-------------------------------|---------------|------|--------------------------------------|---------------|------|--------------------------------------|
| | Employees | Rank | Percentage of Total State Employment | Employees | Rank | Percentage of Total State Employment |
| MBNA America Bank | 10,900 | 2 | 2.98% | | | |
| Bank of America | | | | 9,117 | 1 | 2.06% |
| E. I. duPont | 12,950 | 1 | 3.54% | 8,869 | 2 | 2.00% |
| Christina Care, Inc | 5,500 | 3 | 1.50% | 7,289 | 3 | 1.65% |
| J.P. Morgan Chase & Co. | | | | 5,147 | 4 | 1.16% |
| AstraZeneca, Inc. | 2,800 | 5 | 0.77% | 4,759 | 5 | 1.07% |
| Wal-Mart Inc. | | | | 3,932 | 6 | 0.89% |
| Mountaineer Farms of Delmarva | | | | 3,513 | 7 | 0.79% |
| Dover Downs | | | | 2,929 | 8 | 0.66% |
| Alfred I. duPont Institute | | | | 2,745 | 9 | 0.62% |
| Perdue Farms, Inc | 2,300 | 8 | 0.63% | 2,672 | 10 | 0.60% |
| Chrysler Corporation | 3,000 | 4 | 0.82% | | | |
| General Motors | 2,700 | 6 | 0.74% | | | |
| Wilmington Trust Company | 2,500 | 7 | 0.68% | | | |
| Delmarva Power | 2,200 | 9 | 0.60% | | | |
| First USA Bank | 1,900 | 10 | 0.52% | | | |
| Total | 46,750 | | 12.78% | 50,972 | | 11.51% |

Source: Delaware Department of Labor

Notes: * Fiscal year 2006 information is the most recent information available.

STATE OF DELAWARE
Largest Public Employers
Current Fiscal Year and Nine Years Ago

| | 1997 | | | 2006 * | | |
|--------------------------------------|---------------|------|--------------------------------------|---------------|------|--------------------------------------|
| | Employees | Rank | Percentage of Total State Employment | Employees | Rank | Percentage of Total State Employment |
| State of Delaware (Non-Education) | 17,100 | 1 | 4.68% | 18,855 | 1 | 4.44% |
| University of Delaware | 5,138 | 2 | 1.40% | 5,566 | 2 | 1.31% |
| Christina School District | 2,857 | 3 | 0.78% | 3,097 | 3 | 0.73% |
| U.S. Postal Service | 2,051 | 4 | 0.56% | 2,198 | 4 | 0.52% |
| Red Clay School District | 1,996 | 5 | 0.55% | 2,014 | 5 | 0.47% |
| New Castle County Government | 1,927 | 6 | 0.53% | 1,981 | 6 | 0.47% |
| Delaware Tech. and Community College | 1,263 | 9 | 0.35% | 1,639 | 7 | 0.39% |
| Brandywine School District | 1,703 | 7 | 0.47% | 1,585 | 8 | 0.37% |
| U.S. Department of Defense | 1,141 | 10 | 0.31% | 1,437 | 9 | 0.34% |
| Colonial School District | 1,383 | 8 | 0.38% | 1,268 | 10 | 0.30% |
| Total | 36,559 | | 10.00% | 39,640 | | 9.34% |

Source: Delaware Department of Labor

Note: * Fiscal year 2006 information is the most recent information available.

STATE OF DELAWARE
State Employees by Function
Last Seven Fiscal Years

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|--------|--------|--------|--------|--------|--------|--------|
| Full-time employees | | | | | | | |
| General government | 1,945 | 1,868 | 1,850 | 1,885 | 1,956 | 1,989 | 2,162 |
| Health and children's services | 5,951 | 5,895 | 5,536 | 5,552 | 5,770 | 5,888 | 6,000 |
| Judicial and public safety | 5,475 | 5,433 | 5,133 | 5,121 | 5,164 | 5,325 | 5,517 |
| Natural resources and environmental control | 1,242 | 1,200 | 1,174 | 1,221 | 1,238 | 1,293 | 1,348 |
| Transportation | 1,719 | 1,618 | 1,793 | 1,839 | 1,950 | 1,997 | 1,994 |
| Labor | 446 | 469 | 455 | 470 | 457 | 426 | 439 |
| Education | 14,997 | 15,075 | 15,259 | 15,538 | 15,940 | 16,493 | 16,555 |
| State Total | 31,775 | 31,558 | 31,200 | 31,626 | 32,475 | 33,411 | 34,015 |

Sources: Delaware Human Resource Management System

Note: Includes employees of local school districts but not those of charter schools.

STATE OF DELAWARE
Operating Indicators by Function
Last Four Fiscal Years

| Department/Agency | 2003 | 2004 | 2005 | 2006 | 2007 |
|--|-----------|-----------|-----------|-----------|-----------|
| Children, Youth and Their Families | | | | | |
| Number of youths in care | 7,949 | 8,130 | 7,885 | 8,882 | 9,129 |
| Corrections | | | | | |
| Average daily inmate population | 6,568 | 6,672 | 6,655 | 6,837 | 7,088 |
| Department of Natural Resources and Environmental Control | | | | | |
| Number of visitors to state parks | N/A | N/A | 5,341,852 | 4,556,931 | 5,513,777 |
| Education | | | | | |
| Public School Enrollment, Grades K-12 | 116,288 | 117,777 | 119,109 | 120,491 | 123,615 |
| Delaware State University - Students enrolled | 3,367 | 3,270 | 3,270 | 3,722 | 3,690 |
| Delaware Technical & Community College - enrolled | 17,501 | 18,783 | 19,462 | 19,593 | 19,565 |
| Health and Social Services | | | | | |
| Medicaid eligibles | 118,775 | 130,411 | 136,885 | 142,515 | 143,386 |
| Prescription assistance program | 5,150 | 5,837 | 6,609 | 9,065 | 8,515 |
| Childcare caseloads | 13,334 | 13,813 | 13,926 | 14,769 | 15,039 |
| Client visits to service centers | 610,190 | 538,503 | 612,170 | 406,487 | 441,196 |
| Judicial | | | | | |
| Court of common pleas - filings | 82,719 | 87,834 | 85,867 | 90,964 | 99,345 |
| Superior court - civil case filings | 10,696 | 10,922 | 10,878 | 11,041 | 12,869 |
| Labor | | | | | |
| Workers' compensations petitions filed | 6,609 | 7,031 | 7,488 | 7,619 | 7,414 |
| Safety and Homeland Security | | | | | |
| Number of criminal histories requested | 29,027 | 29,770 | 38,382 | 35,263 | 37,321 |
| Calls to 911 centers | 209,388 | 617,769 | 346,044 | 605,194 | 395,701 |
| Transportation | | | | | |
| Licensed drivers | 591,713 | 604,124 | 614,410 | 619,877 | 622,027 |
| Registered motor vehicles | 778,016 | 803,942 | 821,716 | 847,692 | 862,473 |
| Bus ridership - fixed routes | 7,493,214 | 7,792,570 | 8,052,452 | 8,472,093 | 8,313,800 |
| Train ridership - Newark to Philadelphia | 732,210 | 783,663 | 838,578 | 974,890 | 1,028,631 |

Notes: Transportation - licensed drivers and registered motor vehicles are tracked on a calendar year.

Source: Delaware Office of Management and Budget

STATE OF DELAWARE
Capital Assets Statistics by Function
Last Five Fiscal Years

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|-----------|-----------|-----------|-----------|-------|
| General government | | | | | |
| Acres of farmland permanently preserved (per year) | 5,886 | 5,360 | 2,770 | 3,216 | 1,094 |
| Health and children's services | | | | | |
| Hospitals | 5 | 5 | 5 | 5 | 5 |
| Service centers | 14 | 14 | 14 | 14 | 14 |
| Natural resources and environmental control | | | | | |
| Acres of wildlife habitat actively managed | 6,817 | 6,910 | 7,250 | 7,975 | 8,911 |
| Transportation | | | | | |
| Centerline miles | 4,464 | 4,464 | 4,453 | 4,454 | N/A |
| Centerline miles rated good | 3,459 | 3,296 | 3,070 | 3,055 | N/A |
| Number of bridges | 1,360 | 1,371 | 1,374 | 1,417 | N/A |
| Structural rating of good | 1,012 | 1,029 | 1,048 | 1,112 | N/A |
| Square feet of bridge deck | 7,145,202 | 7,163,000 | 7,241,809 | 7,267,932 | N/A |
| Square feet of bridge deck rated good | 6,932,464 | 6,731,463 | 6,808,227 | 6,860,141 | N/A |
| National Guard | | | | | |
| Number of armory facilities | 15 | 14 | 14 | 14 | 14 |
| Education | | | | | |
| Local school districts | | | | | |
| Number of elementary schools | 101 | 102 | 102 | 105 | 105 |
| Number of middle schools | 31 | 33 | 33 | 35 | 35 |
| Number of high schools | 29 | 29 | 31 | 33 | 33 |
| Number of special schools | 14 | 14 | 14 | 14 | 14 |
| Number of administration buildings | 19 | 19 | 19 | 19 | 19 |

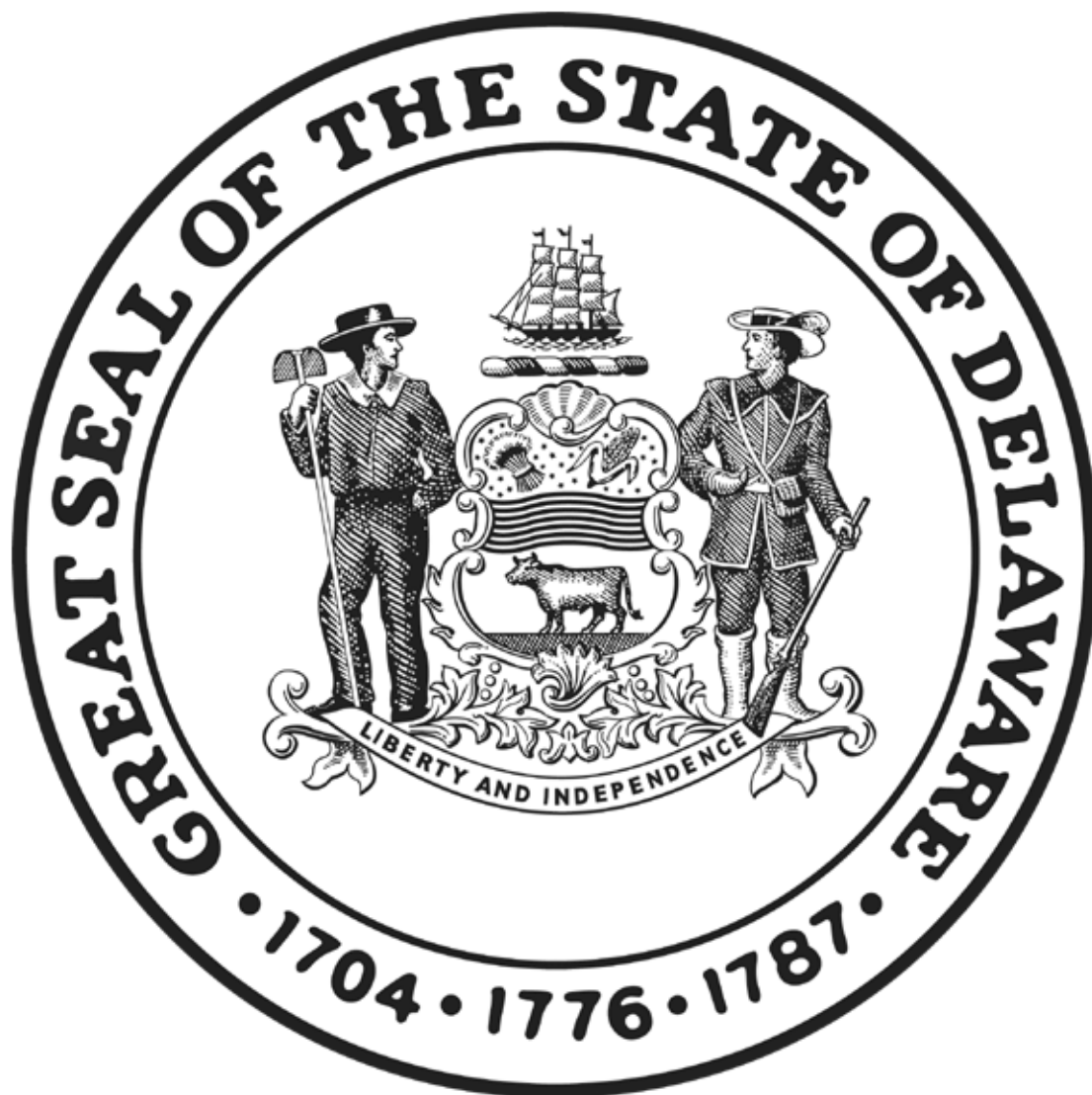
Note: Delaware Department of Transportation tracks this information on a calendar year basis. N/A - Information not available.

STATE OF DELAWARE
Capital Asset Balances by Function
Last Ten Fiscal Years
(Expressed in Thousands)

| <u>Function</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|-------------|
| Buildings | | | | | | | | | | |
| General government | \$ 221,952 | \$ 227,901 | \$ 279,788 | \$ 399,497 | \$ 163,140 | \$ 332,079 | \$ 344,179 | \$ 373,127 | \$ 405,941 | \$ 444,439 |
| Health and children's services | 70,190 | 78,950 | 71,777 | 64,363 | 61,733 | 29,329 | 123,800 | 145,342 | 149,535 | 151,888 |
| Judicial and public safety | 120,165 | 129,569 | 144,242 | 193,957 | 181,777 | 311,261 | 349,902 | 350,393 | 353,106 | 353,315 |
| Natural resources and environmental control | 216 | 1,436 | 2,364 | 3,851 | 4,032 | 6,180 | 6,521 | 7,522 | 10,892 | 23,773 |
| Transportation | 33,642 | 35,361 | 43,271 | 56,332 | 50,658 | 51,971 | 53,415 | 60,820 | 54,857 | 55,051 |
| Education | 439,042 | 448,975 | 513,131 | 576,096 | 615,108 | 758,520 | 946,668 | 1,162,450 | 1,251,807 | 1,479,998 |
| Other (1) | 49,523 | 50,259 | 50,772 | - | - | - | - | - | - | - |
| Total buildings | 934,730 | 972,451 | 1,105,345 | 1,294,096 | 1,076,448 | 1,489,340 | 1,824,485 | 2,099,654 | 2,226,138 | 2,508,464 |
| Land and land improvements | | | | | | | | | | |
| General government | 25,624 | 25,623 | 25,513 | 44,486 | 110,247 | 113,283 | 139,444 | 171,809 | 184,916 | 211,040 |
| Health and children's services | 3,542 | 3,542 | 3,542 | 3,333 | 2,436 | 753 | 3,894 | 10,282 | 10,620 | 11,469 |
| Judicial and public safety | 483 | 483 | 483 | 14,358 | 13,454 | 11,430 | 22,502 | 25,521 | 25,521 | 26,102 |
| Natural resources and environmental control | 109,724 | 137,713 | 155,832 | 184,224 | 192,378 | 213,635 | 239,717 | 263,703 | 284,814 | 300,525 |
| Transportation | 5,323 | 5,536 | 5,834 | 13,949 | 11,230 | 11,230 | 113,673 | 164,703 | 211,272 | 206,411 |
| Education | 27,412 | 27,207 | 28,698 | 33,158 | 45,219 | 47,775 | 47,214 | 60,491 | 64,374 | 75,910 |
| Other (1) | 16,873 | 19,894 | 24,925 | - | - | - | - | - | - | - |
| Total land and land improvements | 188,981 | 219,998 | 244,827 | 293,508 | 374,964 | 398,106 | 566,444 | 696,509 | 781,517 | 831,457 |
| Equipment and vehicles | | | | | | | | | | |
| General government | 18,577 | 18,623 | 20,073 | 27,073 | 25,442 | 25,947 | 32,084 | 36,248 | 38,801 | 33,825 |
| Health and children's services | 11,217 | 11,056 | 11,254 | 11,517 | 12,614 | 6,065 | 14,385 | 13,740 | 14,639 | 18,209 |
| Judicial and public safety | 17,287 | 21,681 | 24,683 | 26,871 | 27,087 | 29,457 | 31,693 | 33,825 | 33,761 | 37,183 |
| Natural resources and environmental control | 9,386 | 10,270 | 11,148 | 12,173 | 12,673 | 14,005 | 15,467 | 18,445 | 19,963 | 21,035 |
| Transportation | 94,582 | 107,987 | 126,052 | 130,930 | 143,377 | 152,567 | 149,831 | 158,779 | 161,945 | 179,466 |
| Labor (1) | - | - | - | 830 | 807 | 807 | 715 | 730 | 712 | 875 |
| Education | 53,693 | 54,909 | 54,964 | 54,362 | 46,430 | 43,325 | 46,326 | 50,422 | 49,955 | 56,486 |
| Other (1) | 7,596 | 7,628 | 7,956 | - | - | - | - | - | - | - |
| Total equipment and vehicles | \$ 212,338 | \$ 232,154 | \$ 256,130 | \$ 263,756 | \$ 268,430 | \$ 272,173 | \$ 290,501 | \$ 312,189 | \$ 319,776 | \$ 347,079 |
| Infrastructure | | | | | | | | | | |
| Transportation (2) | | | | | | | | | | |
| | | | \$ 3,201,814 | \$ 3,226,811 | \$ 3,157,072 | \$ 3,201,817 | \$ 3,255,998 | \$ 3,283,783 | | |

Notes:

- (1) "Other" summarizes capital assets of the following departments: Labor, Agriculture, Elections, Fire Prevention, the National Guard and the Advisory Council of Exceptional Citizens. Effective with fiscal year 2001, the category "Other" was eliminated and the departments were grouped with similar or related functions.
- (2) Reflects changes as a result of GASB 34. Information regarding Infrastructure can be found in the Required Supplementary Information contained on pages 122 and 123. Information is given as to the number of bridges and their condition as well as the center-lane miles and their condition for the past three years. The State preserves farmland under the Department of Agriculture which is part of General Government. In addition, land is preserved as park land under the Department of Natural Resources and Environmental Control. Other land is used for functional purposes of the department, including housing building to perform the Department's function.





STATE OF DELAWARE
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2007

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