

DELAWARE

Comprehensive
Annual
Financial
Report

FISCAL YEAR ENDED JUNE 30

2008





STATE OF DELAWARE
OFFICE OF THE GOVERNOR

RUTH ANN MINNER
GOVERNOR

January 19, 2009

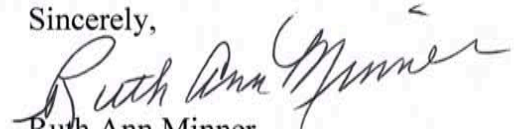
To the People of Delaware
and the Honorable Members of the
145th General Assembly:

I am pleased to present Delaware's Comprehensive Annual Financial Report, or CAFR, for fiscal year 2008. As always, the CAFR includes the State's Basic Financial Statements, prepared in conformity with generally accepted accounting principles and audited by the independent firm of KPMG LLP. The preparation of this report accommodates the information needs of investors, policymakers, legislators and, especially, taxpayers.

Moody's Investor Service, Fitch Ratings and Standard & Poor's recently reaffirmed the State's triple-A bond ratings continuing to make Delaware one of only seven states that hold the nation's highest bond rating. As the first Delaware Governor to maintain these ratings throughout my entire term, I am extremely proud that Delaware remains on a firm foundation. These ratings place Delaware among the most creditworthy states in the nation and reflect the conservative financial strategies and strong management that have been a priority under my administration.

I leave the State well positioned to face the challenges of the future and I am confident our State will continue its long tradition of prudent and effective fiscal management.

Sincerely,


Ruth Ann Minner
Governor

State of Delaware

Comprehensive Annual Financial Report

For the Year Ended June 30, 2008

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, 2008
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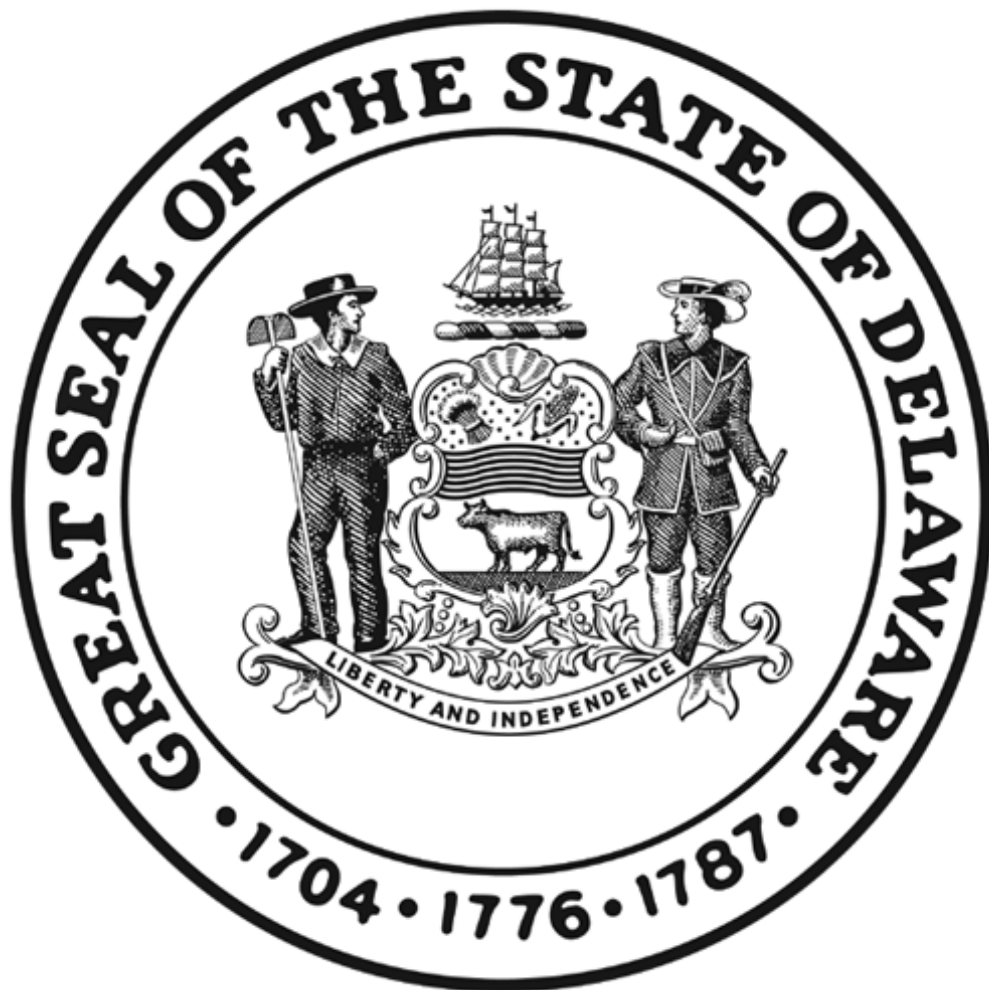
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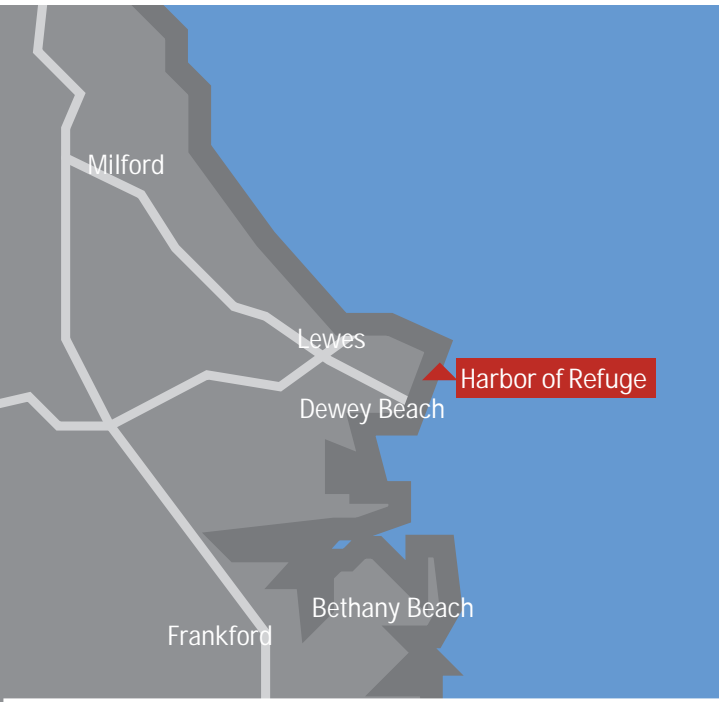
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Cover Photograph:

The Fenwick Island Lighthouse is 84 feet high and was first lighted on August 1, 1859. Its white light, which flashes every three seconds, is visible 15 miles at sea. More than 35,000 tourists visit the lighthouse between April 1 and mid-October.

***The lighthouse photos in the CAFR were provided by Mr. Herb Von Goerres, President of the Delaware River & Bay Lighthouse Foundation.*





Introductory Section

HARBOR OF REFUGE The Harbor of Refuge Light, at the Lewes entrance to the Delaware Bay, is a cast-iron caisson light built into the rocky jetty surrounding it. A solar-powered light replaced the original fourth-order Fresnel lens.



February 18, 2009

The Citizens, Governor, and
Members of the Legislature of the
State of Delaware:

It is my pleasure to present the 2008 Comprehensive Annual Financial Report (CAFR) for the State of Delaware. The report for the fiscal year ended June 30, 2008 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 2007. 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, *Basic Financial Statements and-Management's Discussion and Analysis for-State and Local Governments*, 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 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, GASB 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 31 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.

ECONOMIC CONDITIONS AND OUTLOOK

In recent years, the State's economic performance has largely mirrored national trends. The State's employment growth has matched the nation since fiscal year 2003, but the State has consistently posted lower unemployment rates than the United States. Population increases have outpaced the nation reflecting the State's healthy in-migration trends. In the near-term, the State's employment growth is expected to slow, reflecting the weak outlook for the United States as a whole. 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 the State's economy will again match or exceed national growth rates.

Over the past twenty years, the State'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. While the shift reflects deliberate policies designed to create a business climate attractive to banking and related business and financial services, declining domestic auto sales have furthered the shift. In

October 2008, the State learned that Chrysler's Newark assembly plant would be closing its doors a year earlier than anticipated. While this news was certainly not welcomed, the State has a successful track record in responding to a changing economic landscape. In 2006, when faced with the challenge of losing its largest private employer due to the acquisition of MBNA by Bank of America, the State 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.

Fiscal year 2008 marks the first year of implementation of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As of July 1, 2008, the State's unfunded actuarial liability is estimated at \$5,410.0 million and its actuarial required contribution of \$464.6 million exceeds the State's contribution by \$281.4 million. The State remains committed to finding a long-term solution to the management of retiree health care costs, which will include funding, but has been stalled by the current economic slowdown.

The current economic climate has and will continue to challenge State revenue through fiscal year 2010. The State managed through fiscal year 2008 shortfalls with a combination of revenue increases and budget cuts, but the Delaware Economic and Financial Advisory Council continues to forecast significant downward revisions to fiscal years 2009 and 2010 revenue. A special November DEFAC meeting was convened to provide a full fiscal assessment to Governor-elect Jack Markell's transition team and to those responsible for preparing a fiscal year 2010 budget.

The national economy, the closing of Chrysler's auto assembly plant, and the consolidation of the financial services industry, all will challenge the State's new administration. The State, however, meets these challenges from a position of strength - with fully funded reserves and a fully funded pension plan, and will depend on the same fundamentals that have worked successfully in the past - appropriations limited to 98% of general fund revenue and statutory debt limits. The State's proactive management style, its agility in response to challenges, strong employment and income potential and a business friendly legal system remain intact and will serve the State well.

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, 2008. 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

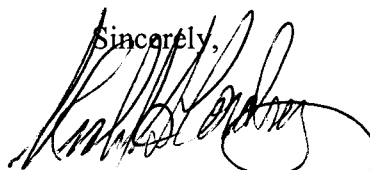
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Delaware for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This is the 13th consecutive year 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://accounting.delaware.gov/cafrdefault.shtml>.

Sincerely,

A handwritten signature in black ink, appearing to read 'Richard S. Cordrey', written over a horizontal line.

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, 2007

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.



President

Executive Director

**State of Delaware
Selected State Officials
As of June 30, 2008**

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, Jr.
Insurance Commissioner	Matthew Denn

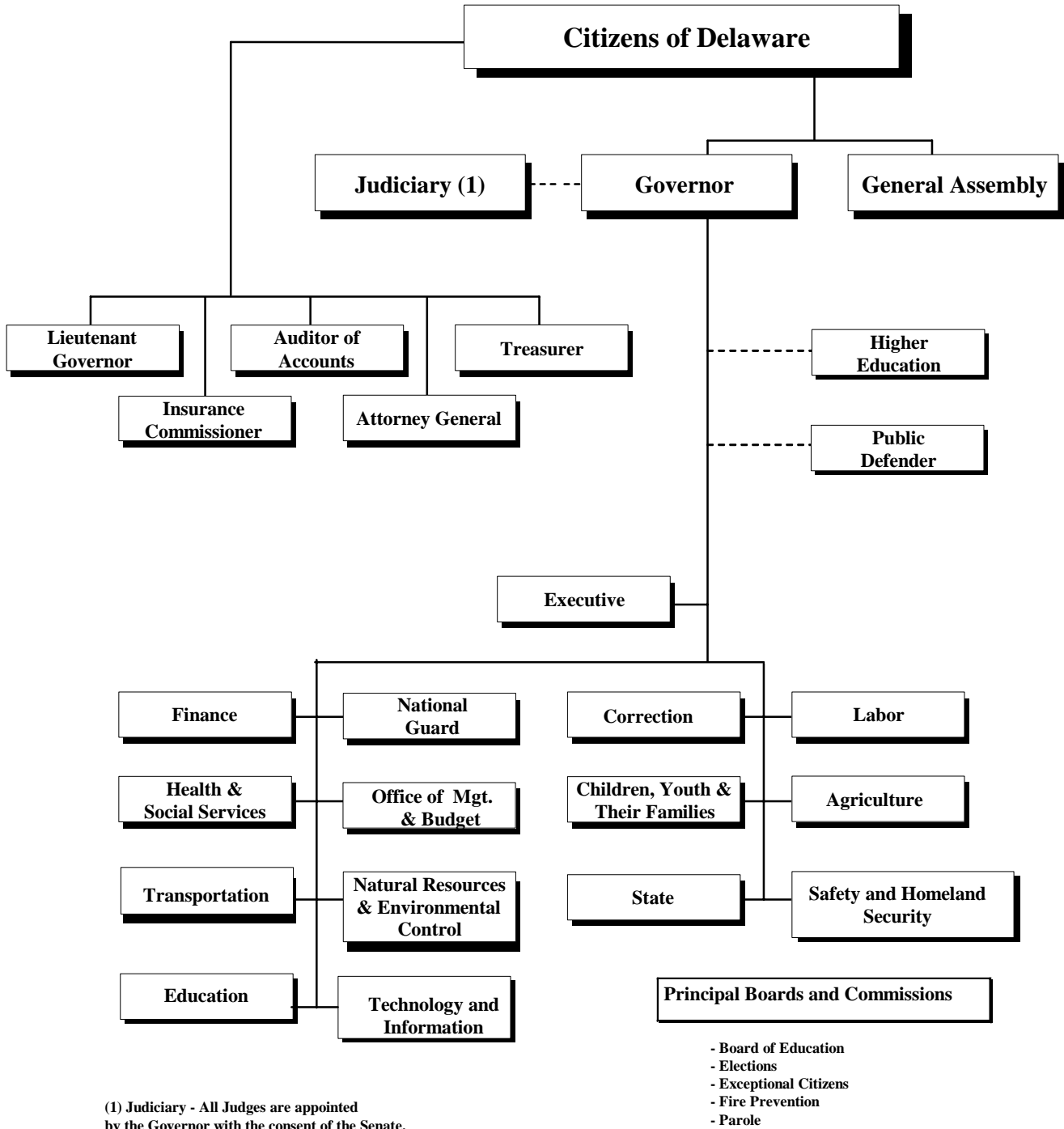
KEY LEGISLATIVE OFFICIALS:

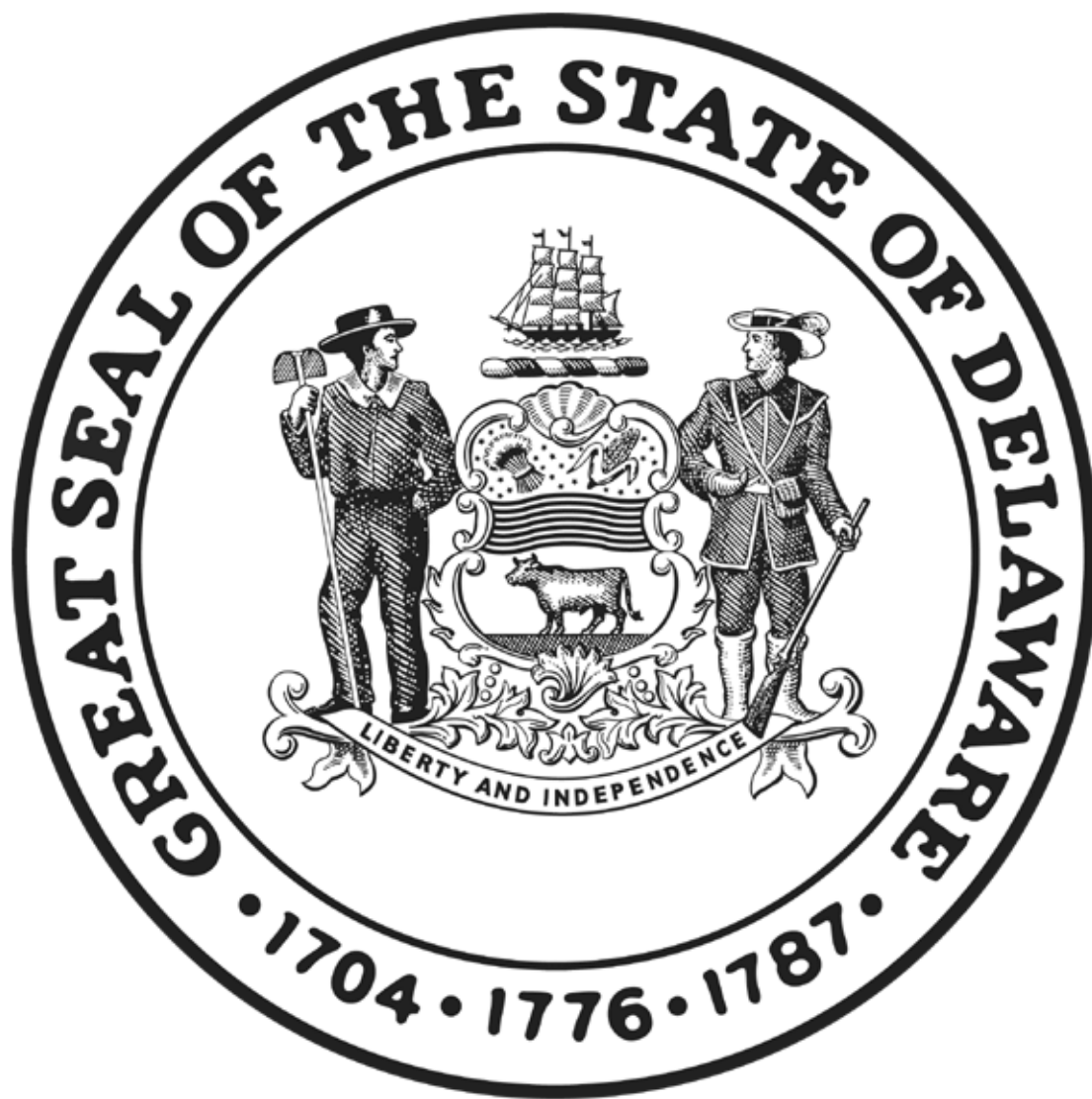
President Pro Tem of the Senate	Thurman G. Adams, Jr.
Senate Majority Leader	Anthony J. DeLuca
Senate Minority Leader	Charles L. Copeland
Speaker of the House of Representatives	Terry R. Spence
House of Representatives Majority Leader	Richard C. Cathcart
House of Representatives Minority Leader	Robert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

CABINET POSITIONS AND OTHER APPOINTED OFFICIALS:

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
Delaware 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







Financial Section

DELAWARE BREAKWATER The Delaware Breakwater Light is a sea-swept, red, caisson-style lighthouse. It flashes a decorative white light towards the beach at Cape Henlopen State park. The original fourth-order Fresnel lens that was first lighted in 1926 is still mounted in its lantern.





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, 2008, 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, 2008, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.



As discussed in note 1(b) to the financial statements, the State adopted Governmental Accounting Standards Board Statement (GASB) No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, and GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, during the year ended June 30, 2008.

The management's discussion and analysis on pages 4 through 19, the budgetary comparison schedules for the general fund and special fund on pages 124 through 129, the information about infrastructure assets reported using the modified approach on pages 130 and 131, and the schedules of required supplementary pension and other post-employment trust data on pages 132 through 136 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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

February 18, 2009

Management's Discussion and Analysis

The following is a discussion and analysis of the State of Delaware's (the State's) financial activities as of and for the fiscal year ended June 30, 2008. 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, and the state's financial statements, which follow this section.

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 \$5,710.3 million (net assets). Component units reported net assets of \$751.7 million, an increase of \$32.2 million from the previous year.
- As a result of its operations, the primary government's total net assets decreased by \$126.8 million (2.2%) in fiscal year 2008. Net assets of governmental activities decreased by \$149.6 million (5.4%) from the previous year, while net assets of the business-type activities increased \$22.8 million (0.7%) from the previous year.
- The State's governmental funds reported combined ending fund balances of \$1,488.5 million, a decrease of \$78.0 million (5.0%) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$856.5 million, which was 21.2% 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 \$65.1 million (5.0%) during fiscal year 2008 to \$1,376.0 million. Of the State's outstanding debt, \$516.2 million (37.5%) 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 additional required supplementary information and other 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's operations, in a manner similar to a private sector business.

The statement of net assets presents information on all of the State'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 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 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 18 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. The State's funds 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 basic governmental funds financial statements can be found on pages 22-25 of this report.

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 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 schedule can be found on page 126 of this report.

Proprietary funds Proprietary funds charge customers for the services they provide – whether they are provided to outside customers (enterprise funds) or other State agencies and other governments (internal service funds). 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 Delaware Department of Transportation (DelDOT), all of which are considered to be major funds of the State.

The State uses proprietary funds to account for operations of the Delaware State Lottery (Lottery), Unemployment Insurance Trust Fund and DelDOT as business-type activities in the government-wide financial statements. The State does not maintain any internal service funds.

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 and other post-employment benefit trust fund 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 138-144.

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 -121 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 124-136 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. The State's assets exceeded liabilities for the primary government by \$5,710.3 million at the close of the most recent fiscal year.

The largest portion of the State's net assets (74.4%) 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 8.7% 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 (16.9%), 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, 2008

(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other non-current assets	\$ 2,405,647	\$ 2,463,944	\$ 560,350	\$ 646,290	\$ 2,965,997	\$ 3,110,234
Capital assets	2,908,209	2,639,400	3,738,986	3,631,094	6,647,195	6,270,494
Total assets	<u>5,313,856</u>	<u>5,103,344</u>	<u>4,299,336</u>	<u>4,277,384</u>	<u>9,613,192</u>	<u>9,380,728</u>
Long-term liabilities outstanding	1,909,847	1,556,234	986,287	994,903	2,896,134	2,551,137
Other liabilities	801,745	795,276	204,968	197,191	1,006,713	992,467
Total liabilities	<u>2,711,592</u>	<u>2,351,510</u>	<u>1,191,255</u>	<u>1,192,094</u>	<u>3,902,847</u>	<u>3,543,604</u>
Net assets:						
Invested in capital assets, net of related debt	1,515,272	1,385,413	2,731,901	2,653,221	4,247,173	4,038,634
Restricted	186,430	182,750	308,738	342,263	495,168	525,013
Unrestricted	900,562	1,183,671	67,442	89,806	968,004	1,273,477
Total net assets	<u>\$ 2,602,264</u>	<u>\$ 2,751,834</u>	<u>\$ 3,108,081</u>	<u>\$ 3,085,290</u>	<u>\$ 5,710,345</u>	<u>\$ 5,837,124</u>

The capital assets of the governmental activities increased \$268.8 million (10.2%) since June 30, 2007. 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 due to an increase in fuel charges.

The increase in long-term obligations is primarily due to the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In fiscal year 2008, the State recognized a long-term obligation of \$291.5 million. The information for the other post employment benefits (OPEB) can be found in Note 14 of the financial statements. In addition to the increase for OPEB, general obligation debt increased by \$58.8 million in long-term obligations.

In addition to the increases noted above, the securities lending activities of the State decreased both assets and liabilities \$36.8 million from fiscal year 2007 to fiscal year 2008. 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 \$116.0 million at June 30, 2008. The leading factor to this decrease was the downturn in the financial markets during fiscal year 2008.

The decrease of business-type current assets is due to a reduction in unrestricted investment balances at year-end with DelDOT. Liabilities were also reduced as a result of decreased revenue bonds payable and associated interest payable. This information can be found on page 5 of the DelDOT's financial statements as of and for the year ended June 30, 2008.

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.

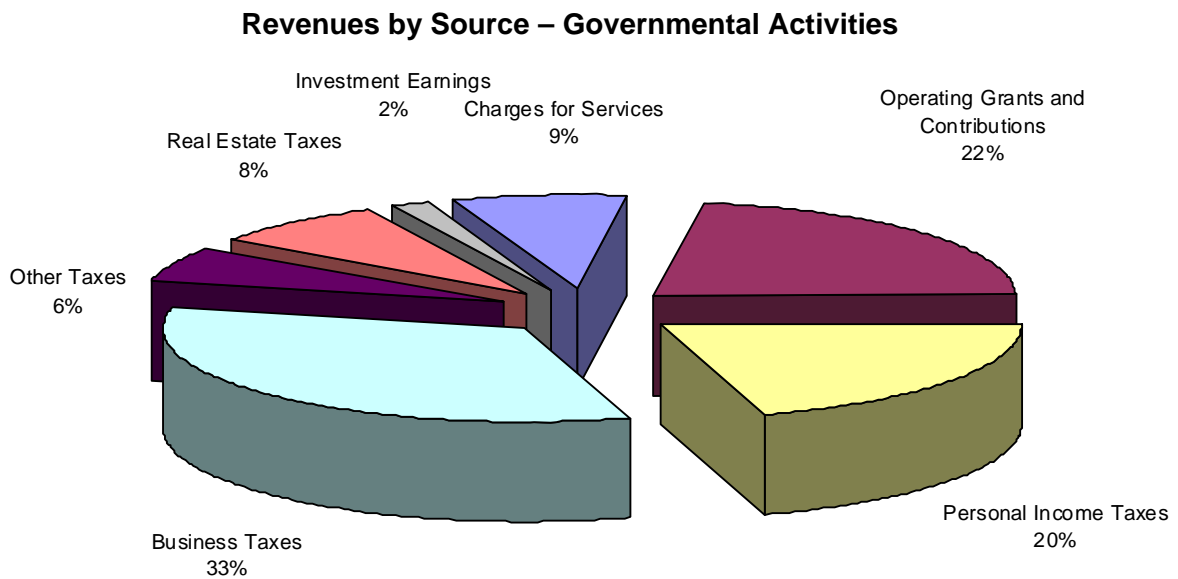
Changes in Net Assets - Primary Government
For Year End June 30, 2008
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 400,943	\$ 491,097	\$ 1,245,890	\$ 1,206,768	\$ 1,646,833	\$ 1,697,865
Operating grants and contributions	1,094,610	1,001,981			1,094,610	1,001,981
Capital grants and contributions	16,142	1,740	156,740	103,331	172,882	105,071
General revenues:						
Taxes:						
Personal income taxes	1,010,325	1,016,911			1,010,325	1,016,911
Business taxes	1,659,565	1,672,112			1,659,565	1,672,112
Real estate taxes	398,881	388,135			398,881	388,135
Other taxes	297,971	254,960			297,971	254,960
Investment earnings	84,449	82,701	21,322	23,486	105,771	106,187
Gain (loss) on sale of assets		(72)	299	(2,680)	299	(2,752)
Miscellaneous	30,629	24,287	(1,000)	(1,000)	29,629	23,287
Total revenues	<u>4,993,515</u>	<u>4,933,852</u>	<u>1,423,251</u>	<u>1,329,905</u>	<u>6,416,766</u>	<u>6,263,757</u>
Expenses:						
General Government	549,263	513,326			549,263	513,326
Health and Children's Services	1,869,754	1,699,475			1,869,754	1,699,475
Judicial and Public Safety	640,380	574,809			640,380	574,809
Natural Resources and Environmental Control	164,446	173,331			164,446	173,331
Labor	68,172	74,194			68,172	74,194
Education	2,031,009	1,774,528			2,031,009	1,774,528
Payment to Component Unit - Education	99,969	89,945			99,969	89,945
Interest Expense	52,224	50,560			52,224	50,560
Lottery			419,223	424,111	419,223	424,111
Transportation			535,150	504,466	535,150	504,466
Unemployment			113,955	108,851	113,955	108,851
Total expenses	<u>5,475,217</u>	<u>4,950,168</u>	<u>1,068,328</u>	<u>1,037,428</u>	<u>6,543,545</u>	<u>5,987,596</u>
Increase (decrease) in net assets before transfers	(481,702)	(16,316)	354,923	292,477	(126,779)	276,161
Transfers	332,132	259,612	(332,132)	(259,612)	-	-
Increase (decrease) in net assets	(149,570)	243,296	22,791	32,865	(126,779)	276,161
Net assets - beginning of year	2,751,834	2,508,538	3,085,290	3,052,425	5,837,124	5,560,963
Net assets - end of year	<u>\$ 2,602,264</u>	<u>\$ 2,751,834</u>	<u>\$ 3,108,081</u>	<u>\$ 3,085,290</u>	<u>\$ 5,710,345</u>	<u>\$ 5,837,124</u>

Governmental activities Governmental activities decreased the State’s net assets by \$149.6 million while business-type activities increased the State’s net assets by \$22.8 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:

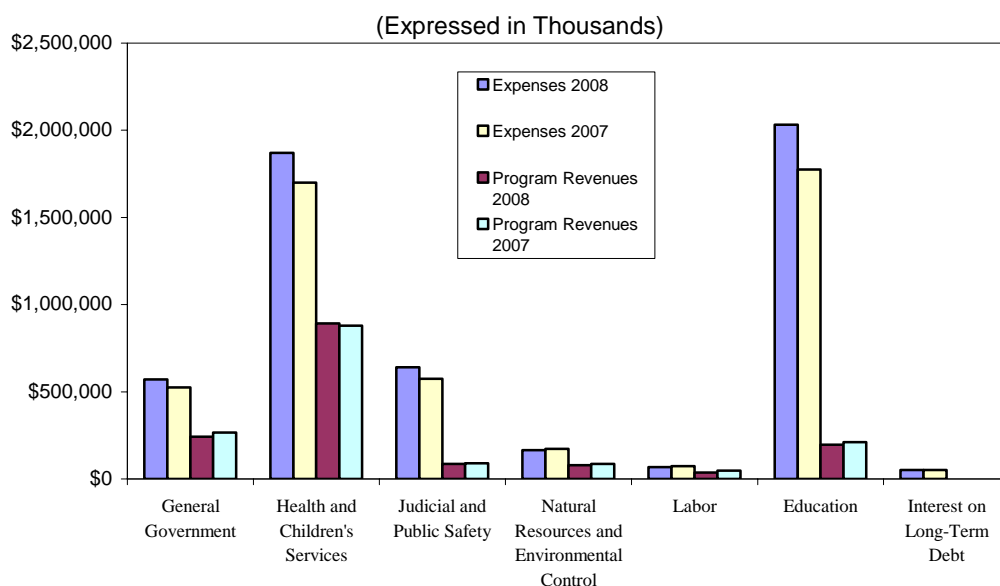
Total general revenues increased overall by \$42.8 million (1.2%) with increases in tax revenues such as real estate taxes and cigarette taxes. These increases helped offset decreasing personal income tax growth.

Program revenues increased by \$16.9 million (1.1%) from the prior year. Charges for services were lower by \$90.2 million. Although fees and fines increased, revenue decreased due to the downturn in the economy. Operating grants increased by \$92.6 million with \$86.2 million relating to increases in federal payments for Medicaid at Health and Children’s Services. The State also received capital property with a value of \$16.1 million, which is properly reflected as income from capital grants and contributions.



Expenses for governmental activities increased during fiscal year 2008 by \$525.0 million (10.6%). Increases occurred in Health and Children’s Services due to an increase in spending of \$170.3 million over the prior fiscal year. This increase is attributable to escalating Medicaid costs to cover increasing healthcare costs for a continued increase of approximately 1,000 eligible people, and increased stop loss payments. Educational expenses increased by \$256.5 million due to the continued increase in student population causing an increase in education personnel costs and operation costs. Judicial and Public Safety expenses increased by \$65.6 million due to additional caseloads within the court system and increased spending on homeland security. Natural Resources and Environmental Control expenditures decreased by \$8.9 million due to decreased spending on environmental programs such as beach erosion at Rehoboth and Dewey Beaches.

Expenses and Program Revenues- Governmental Activities



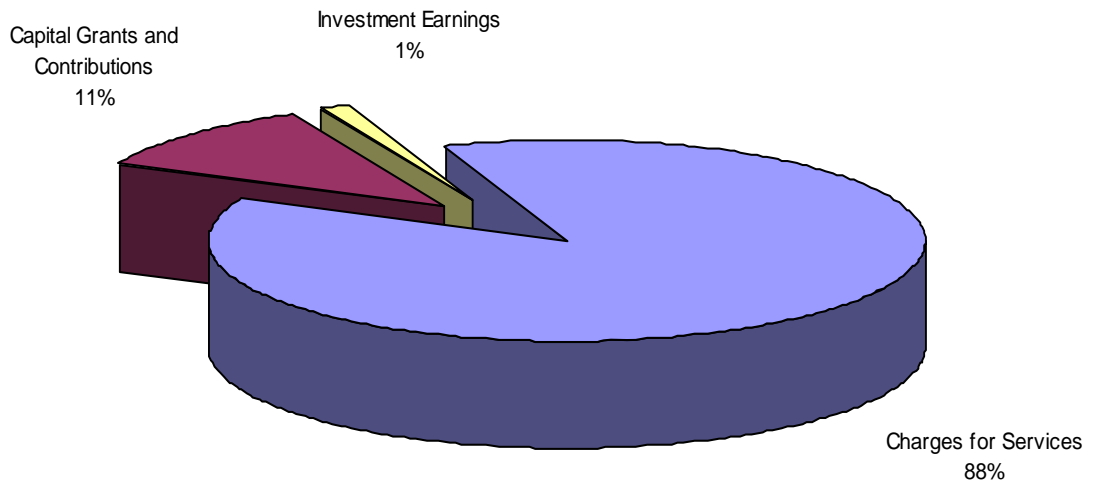
Business-type activities Business-type activities increased the State's net assets by \$22.8 million. This increase is comprised of a \$54.1 million increase in net assets by DelDOT, a \$30.5 million decrease at the Unemployment Insurance Trust Fund, and a \$0.8 million decrease of Lottery's net assets.

Although there was a decrease in net assets of the Delaware Unemployment Insurance Trust Fund, there was a 3.8% increase in unemployment insurance taxes revenue. The benefit expenses increased 4.7%. However, even though benefits exceeded insurance taxes by \$39.0 million, fund equity remains adequate to pay average benefits for the next two years without additional revenue.

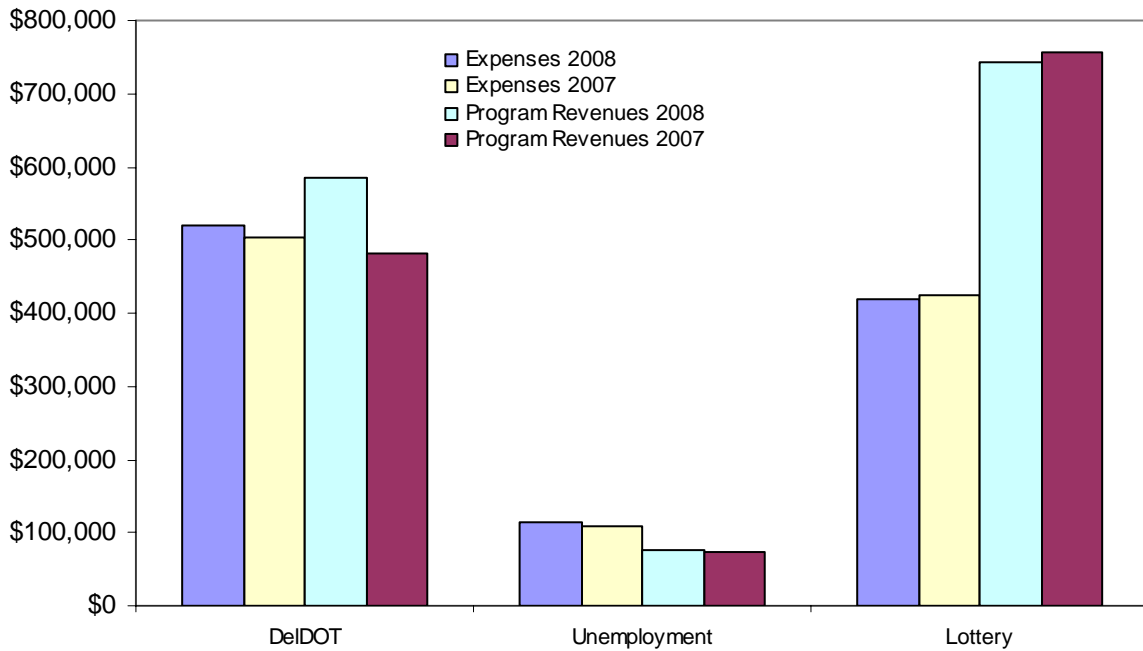
The DelDOT's net assets at June 30, 2008 were \$54.1 million higher than June 30, 2007. DelDOT's total operating revenues increased by \$49.3 million (13.0%) while operating expenses increased by \$35.6 million (7.7%). The October 1, 2007 toll and fee increases were the main contributors of the operating revenue increase. The largest contributing factor for the increase in operating expenses was the increase in vehicle operations expenses, primarily from higher fuel costs.

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 decreased by \$12.9 million (1.7%) over last year due to a \$6.6 million increase in traditional games revenue and a \$19.5 million decrease in video lottery revenues. As a result, the Lottery transferred \$322.8 million to the State, a decrease from fiscal year 2007 of \$7.1 million. The total costs of games and prizes decreased by \$6.7 million (1.6%) 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'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's governmental funds reported combined ending fund balances of \$1,488.5 million, a decrease of \$78.0 million. Approximately 62.5% of the aggregate fund balances, \$929.6 million, constitute unreserved fund balances.

Approximately \$558.8 million of the fund balance is reserved to indicate that it's not available for new spending due to the following: 1) to liquidate contracts and purchase orders of the prior period (\$329.3 million), 2) set aside for the budgetary reserve account (\$186.4 million), 3) for inventories and other assets (\$4.8 million), and 4) for prepaid items (\$38.3 million).

General fund The general fund accounts for the operation and administration of the State. Total general fund balance decreased by \$114.3 million for the fiscal year. Total general fund revenue decreased by \$166.9 million (4.5%) while expenditures increased by \$50.0 million (1.3%).

Expenditures increased by \$71.2 million (6.7%) for Health and Children's Services. Health and Children's Service expenditures increased primarily due to Medicaid cost increases consistent with an increase in the population needing public assistance and an increase in healthcare costs.

At the end of the current fiscal year, unreserved fund balance of the general fund was \$856.5 million, while total fund balance reached \$1,225.5 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 21.2% of total general fund expenditures, while total fund balance represents 30.4% of total fund expenditures or 111 days of operations.

Federal funds Federal funds represent pass through grants used for designated purposes. Revenue increased by \$93.5 million for the year while spending increased by \$33.0 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 \$60.9 million to \$178.3 million. Spending decreased because of spending cuts in school districts.

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 \$277.8 million in fiscal year 2008, an increase of \$57.1 million. 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'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 DeIDOT fund, all of which are considered to be major funds of the State.

The State's net assets increased in fiscal year 2008 by \$22.8 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 \$64.9 million (11.0%). Revenues were \$66.5 million (2.0%) higher than the previous fiscal year this was primarily due to increases in cigarette taxes of \$37.0 million and corporate incomes taxes of \$36.0 million. However, there were decreases in bank franchise tax of \$45.5 million (26.0%) and realty transfer taxes of \$15.0 million (16.5%), which is due to the poor performance in the housing and credit markets and the increase in energy prices.

Expenditures were \$31.7 million (0.9%) higher than the previous fiscal year. Salaries and other employment costs increased by \$64.9 million (4.4%). Grants-in-Aid decreased by \$105.9 million (29.0%) while Medicaid grew by \$52.6 million (11.9%). In addition, contractual services increased by \$7.2 million (2.5%), personal services and travel decreased by \$6.2 million (2.9%) and capital outlays decreased by \$20.8 million (23.8%). Debt service payments increased by \$19.8 million (15.1%) 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 2008, the original budget was modified to provide decreased 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:

- \$131.4 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 other minor capital projects;
- \$74.8 million in the Department of Education for funds budgeted, but not spent on educational programs (such as the "No Child Left Behind" act);

- \$26.7 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;
- \$43.6 million in the Department of Health and Social Services, as well as \$4.6 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 2009. Unspent funds are reflected in the final budget which may cause variances from original budget.

Capital Assets and Debt Administration

Capital assets The State's investment in capital assets for its governmental and business-type activities, as of June 30, 2008, amounted to \$6,647.2 million (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 \$268.8 million (10.2%) and the increase for business-type activities was \$107.9 million (3.0%).

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

- Completion of new schools and renovations of existing schools of \$209.5 million, as well as completion of major renovations such as the Old State House. In addition, construction-in-progress as of June 30, 2008 was \$336.1 million for governmental activities. Approximately 61.2% 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 increase in business-type activities is due to the DelDOT fund increase resulting from several major purchases of rolling stock, as well as the I-95 expansion project and the US 301 toll road project.

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 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 1,457 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 1,457 bridges that were rated in 2007, 77.6% received a good or better BCR rating, 17.9% were rated fair, and 4.5% received a substandard rating. Of the 7,289,913 square feet of bridge deck that was rated, 93.4% or 6,809,939 square feet received an OPC condition rating of good or better, 6.2% received a fair rating, and 0.4% received a substandard deck rating. In 2007, 4,454 center line miles were rated; 89.9% received a fair or better OPC rating and 10.1% received a poor rating.

The 2008 estimate to maintain and preserve DelDOT's infrastructure was \$197.3 million, but the actual expenditures were \$271.3 million, which is \$74.0 million over the estimate. The estimated expenditures represent annual Bond Bill authorizations; and the actual expenditures represent the current year spending, which includes cumulative authorizations.

Additional information on the State's capital assets can be found in Note 1 on pages 34-45, Note 12 on pages 95-99 and on pages 130-131 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	
	2008	2007	2008	2007	2008	2007
Land	\$ 437,874	\$ 413,080	\$ 222,986	\$ 206,411	\$ 660,860	\$ 619,491
Land improvements	62,241	61,030			62,241	61,030
Buildings	1,879,679	1,682,438	56,017	35,459	1,935,696	1,717,897
Easements	145,893	117,997			145,893	117,997
Equipment and vehicles	46,411	48,066	114,584	84,201	160,995	132,267
Infrastructure			3,345,399	3,283,783	3,345,399	3,283,783
Construction-in-progress	336,111	316,789		21,240	336,111	338,029
Total	\$ 2,908,209	\$ 2,639,400	\$ 3,738,986	\$ 3,631,094	\$ 6,647,195	\$ 6,270,494

Long-term debt The State 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 \$1,376.0 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, 2008, \$516.2 million, or 37.5%, of the State's outstanding debt was issued on behalf of local school districts. Local school districts transferred \$52.0 million of property tax revenue to the State to cover related debt service during fiscal year 2008.

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 year 2008, debt issuance was limited to \$168.3 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 between 7% and 8% 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 year 2009, the projected cash balance exceeded debt service.

Due to the State's statutory debt limits and its fiscal management, three principal rating agencies, Moody's Investor's Service, Fitch Ratings and Standard & Poor's, reaffirmed their triple-A ratings on the State's general obligation bonds during fiscal year 2008. On March 1, 2008, the State issued \$217.4 million of tax-exempt, fixed rate general obligation bonds including \$16.4 million issued to refund higher cost debt.

Debt issued by the Delaware Transportation Authority (the Authority) 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 Authority 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 Authority has revenue bonds outstanding of \$992.6 million as of June 30, 2008. In June 2008, the Authority issued \$84.7 million in Transportation System Senior Revenue Bonds. The sale resulted in \$43.4 million to support its ongoing capital transportation program and \$41.3 million refunding bonds.

Additional information on the State's long-term debt can be found in Notes 5, 6 and 7 on pages 71-92 of this report.

Other Post-Employment Benefits

Pursuant to GASB Statement No. 45, the State began accounting for retiree health care benefits on an actuarial basis in fiscal year 2008. An actuarial study completed as of June 30, 2008 has determined the State's unfunded actuarial liability to be approximately \$5,410.0 million. Based on a discount rate of 5%, the State's annual required contribution was established at \$464.6 million and the net OPEB obligation as of June 30, 2008 was \$281.4 million. The State formed an irrevocable OPEB trust and, as of June 30, 2008, has accumulated \$79.4 million through a combination of one-time contributions and funding as a percentage of payroll. In addition to pre-funding, the State will manage its obligation through a variety of measures using a multi-pronged, incremental approach. The fiscal year 2009 operating budget authorizes the exploration of employee health benefit design and program eligibility for the purpose of reducing the State's future retiree health care obligations.

Economic Factors and Next Year's Budgets and Rates

The Delaware Economic and Financial Advisory Council (DEFAC) met on June 16, 2008, to prepare the final revenue and expenditure estimates upon which the fiscal year 2009 operating and capital budgets would be based. The Department of Finance estimated at that time that employment in the State had increased by 0.2% during fiscal year 2008, continuing the positive trend that began during fiscal year 2004. Fiscal year 2009 employment; however, is expected to reflect the lift national economy and register job growth.

The fiscal year 2009 operating and capital budgets meet budgetary spending limitations imposed by law. The fiscal year 2009 operating budget is \$3,347.9 million, 2.4% greater than fiscal year 2008, but also includes \$144.1 million in revenue packages. Supplemental appropriations, typically in the form of cash allocated to the capital budget increased to \$83.4 million from \$77.9 million in fiscal year 2009 and also included a \$75 million one-time special fund contribution for school construction.

The downturn in the investment market has not had a negative impact on the State's investments. The primary objective of the State's Investment Policy is the safety of principal by minimizing credit risk and interest rate risk. The principal amount of the investment portfolio has not been compromised in the recent downturn.

Financial Management

The State's 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 financial management 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 the State's budget reserve requirement – the State'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 January 2009.

Requests for Information

This financial report is designed to provide a general overview of the State'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 can also be found on the Internet at <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, 2008
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 560,614	\$ 213,334	\$ 773,948	\$ 49,999
Cash and cash equivalents - restricted	-	1,699	1,699	31,202
Investments	247,007	74,918	321,925	43,783
Investments - securities lending transactions	115,984	-	115,984	-
Investments - restricted	-	108,961	108,961	7,241
Accounts and other receivables, net	243,335	71,845	315,180	38,047
Loans and notes receivable, net	14,289	1,246	15,535	16,462
Internal balances	6,325	(6,325)	-	-
Other post-employment benefits asset	-	-	-	67
Inventories	4,826	15,094	19,920	469
Prepaid items	38,296	348	38,644	4,138
Other current assets	-	961	961	440
Total current assets	1,230,676	482,081	1,712,757	191,848
Noncurrent assets:				
Investments	926,499	7,851	934,350	109,731
Investments - restricted	-	44,585	44,585	71,383
Accrued interest receivable	-	80	80	-
Accounts and other receivables, net	67,431	-	67,431	4,613
Loans and notes receivable, net	176,267	22,182	198,449	994,451
Capital assets				
Non-depreciable	919,878	3,568,385	4,488,263	172,324
Depreciable capital assets, net	1,988,331	170,601	2,158,932	360,266
Deferred bond issuance costs	4,774	-	4,774	10,673
Other restricted assets	-	-	-	10,686
Other noncurrent assets	-	3,571	3,571	2,809
Total noncurrent assets	4,083,180	3,817,255	7,900,435	1,736,936
Total assets	5,313,856	4,299,336	9,613,192	1,928,784
LIABILITIES				
Current liabilities:				
Accounts payable	419,339	47,201	466,540	15,614
Accrued liabilities	33,602	35,466	69,068	17,523
Interest payable	24,193	21,822	46,015	-
Notes payable	8,377	-	8,377	3,364
Unearned revenues	3,800	3,013	6,813	2,946
Capital leases	-	-	-	26
Escheat liabilities	8,000	-	8,000	-
Compensated absences	11,257	4,148	15,405	43
Claims and judgments	29,948	1,889	31,837	-
Escrow deposits	-	1,641	1,641	2
Collateral held for securities lending transactions	115,984	-	115,984	-
Current portion of liabilities payable from restricted assets	-	1,699	1,699	-
Current portion of general obligation long-term debt	142,069	676	142,745	-
Current portion of revenue bonds	-	73,213	73,213	16,561
Current portion of bond issue premium, net	4,576	6,779	11,355	-
Other current liabilities	600	7,421	8,021	6,511
Total current liabilities	801,745	204,968	1,006,713	62,590
Noncurrent liabilities:				
Compensated absences	135,529	9,597	145,126	7,560
Pension obligation	108,823	-	108,823	-
Other post-employment benefits payable	265,600	25,943	291,543	-
Claims and judgments	77,184	2,542	79,726	-
Escheat liabilities	32,000	-	32,000	-
Escrow deposits	-	-	-	30,974
Liabilities payable from restricted assets	-	5,089	5,089	-
Notes payable	186	-	186	58,874
General obligation long-term debt	1,231,143	2,107	1,233,250	-
Revenue bonds	-	919,423	919,423	995,706
Bond issue premium, net	56,025	21,586	77,611	-
Other long-term obligations	3,357	-	3,357	21,381
Total noncurrent liabilities	1,909,847	986,287	2,896,134	1,114,495
Total liabilities	2,711,592	1,191,255	3,902,847	1,177,085
NET ASSETS				
Invested in capital assets, net of related debt	1,515,272	2,731,901	4,247,173	411,928
Restricted:				
Budgetary reserve	186,430	-	186,430	-
Unemployment benefits	-	157,948	157,948	-
Federal and state regulations	-	-	-	219,607
Bond covenants	-	-	-	34,026
Capital projects	-	-	-	27,448
Other restrictions	-	150,790	150,790	15,885
Unrestricted	900,562	67,442	968,004	42,805
Total net assets	\$ 2,602,264	\$ 3,108,081	\$ 5,710,345	\$ 751,699

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(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	\$ 549,263	\$ 172,093	\$ 34,168	\$ 13,732	\$ (329,270)		\$ (329,270)	
Health and children's services	1,869,754	99,438	791,794	-	(978,522)		(978,522)	
Judicial and public safety	640,380	53,803	31,980	-	(554,597)		(554,597)	
Natural resources and environmental control	164,446	47,374	33,792	2,410	(80,870)		(80,870)	
Labor	68,172	-	36,310	-	(31,862)		(31,862)	
Education	2,031,009	28,235	166,566	-	(1,836,208)		(1,836,208)	
Unrestricted payments to component units - Education	99,969	-	-	-	(99,969)		(99,969)	
Interest	52,224	-	-	-	(52,224)		(52,224)	
Total governmental activities	5,475,217	400,943	1,094,610	16,142	(3,963,522)		(3,963,522)	
Business-type activities:								
Lottery	419,223	742,260	-	-		\$ 323,037	323,037	
Transportation	535,150	428,646	-	156,740		50,236	50,236	
Unemployment	113,955	74,984	-	-		(38,971)	(38,971)	
Total business-type activities	1,068,328	1,245,890	-	156,740		334,302	334,302	
Total primary government	6,543,545	1,646,833	1,094,610	172,882				
Component units:								
Delaware State Housing Authority	106,893	52,299	61,224	612				\$ 7,242
Diamond State Port Corporation	31,657	26,816	-	3,000				(1,841)
Riverfront Development Corporation	13,230	2,028	1,800	21,099				11,697
Delaware State University	103,728	44,821	27,443	4,811				(26,653)
Delaware Technical & Community College Educational Foundation	1,939	624	7,101	-				5,786
Delaware Charter Schools	83,810	9,778	5,546	72				(68,414)
Total component units	341,257	136,366	103,114	29,594				(72,183)
General revenues:								
Taxes:								
Personal income					1,010,325		1,010,325	
Business					1,659,565		1,659,565	
Real estate					398,881		398,881	
Other					297,971		297,971	
Unrestricted payments from primary government					-	-	-	99,969
Investment earnings					84,449	21,322	105,771	11,220
Gain (loss) on sale of assets					-	299	299	(490)
Miscellaneous					30,629	(1,000)	29,629	(6,351)
Transfers					332,132	(332,132)	-	-
Total general revenues and transfers					3,813,952	(311,511)	3,502,441	104,348
Change in net assets					(149,570)	22,791	(126,779)	32,165
Net assets - beginning of year (as restated)					2,751,834	3,085,290	5,837,124	719,534
Net assets - end of year					\$ 2,602,264	\$ 3,108,081	\$ 5,710,345	\$ 751,699

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
 COMBINED BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2008
 (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	\$ 552,339	\$ 543	\$ 7,732	\$ -	\$ 560,614
Investments	904,939	-	223,902	44,665	1,173,506
Investments - securities					
lending transactions	115,984	-	-	-	115,984
Accounts receivable, net	64,665	12,504	340	-	77,509
Taxes receivable, net	85,914	-	21,998	-	107,912
Intergovernmental					
receivables, net	219	125,126	-	-	125,345
Due from other funds	46,526	-	-	-	46,526
Inventories	4,826	-	-	-	4,826
Prepaid items	19,148	19,148	-	-	38,296
Loans and notes receivable	142,549	48,007	-	-	190,556
Total assets	<u>1,937,109</u>	<u>205,328</u>	<u>253,972</u>	<u>44,665</u>	<u>2,441,074</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	301,422	40,036	46,423	31,458	419,339
Accrued liabilities	33,602	-	-	-	33,602
Claims and judgments	600	-	-	-	600
Escheat liability	8,000	-	-	-	8,000
Due to other funds	-	31,871	8,330	-	40,201
Deferred revenues	251,964	61,982	20,934	-	334,880
Obligations under securities					
lending transactions	115,984	-	-	-	115,984
Total liabilities	<u>711,572</u>	<u>133,889</u>	<u>75,687</u>	<u>31,458</u>	<u>952,606</u>
Fund balances (deficit)					
Reserved for:					
Encumbrances	158,654	38,291	10,208	122,147	329,300
Inventories	4,826	-	-	-	4,826
Prepaid items	19,148	19,148	-	-	38,296
Budgetary reserve	186,430	-	-	-	186,430
Unreserved (deficit)	856,479	14,000	168,077	(108,940)	929,616
Total fund balances	<u>1,225,537</u>	<u>71,439</u>	<u>178,285</u>	<u>13,207</u>	<u>1,488,468</u>
Total liabilities and fund balances	<u>\$ 1,937,109</u>	<u>\$ 205,328</u>	<u>\$ 253,972</u>	<u>\$ 44,665</u>	<u>\$ 2,441,074</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, 2008

(Expressed in Thousands)

Total Fund Balances - Governmental Funds \$ 1,488,468

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	\$ 437,874	
Land improvements	62,241	
Buildings	1,879,679	
Easements	145,893	
Equipment and vehicles	46,411	
Construction in progress	336,111	
	<u> </u>	2,908,209

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.	331,080
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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	\$ (24,193)	
Claims and judgments (current and long-term)	(107,132)	
Compensated absences (current and long-term)	(146,786)	
Other post employment benefits	(265,600)	
Pension obligation	(108,823)	
General obligation long-term debt and related accounts	(1,429,039)	
Notes payable (current and long-term)	(8,563)	
Other long-term obligations	(3,357)	
Escheat liability	(32,000)	
	<u> </u>	(2,125,493)

Net assets of governmental activities \$ 2,602,264

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES (DEFICITS)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	<u>General</u>	<u>Federal</u>	<u>Local School District</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues					
Personal taxes	\$ 1,008,734	\$ -	\$ -	\$ -	\$ 1,008,734
Business taxes	1,663,611	-	-	-	1,663,611
Other tax revenue	277,151	-	416,812	-	693,963
Licenses, fees, permits and fines	353,523	-	2,081	-	355,604
Rentals and sales	25,510	-	8,784	-	34,294
Federal government	34,293	1,074,516	2,438	-	1,111,247
Interest and other investment income	68,239	422	15,652	-	84,313
Other	82,618	1,374	25,349	44	109,385
Total revenues	<u>3,513,679</u>	<u>1,076,312</u>	<u>471,116</u>	<u>44</u>	<u>5,061,151</u>
Expenditures					
Current:					
General government	552,620	15,788	-	-	568,408
Health and children's services	1,136,021	744,807	-	-	1,880,828
Judicial and public safety	554,920	30,728	-	-	585,648
Natural resources and environmental control	148,641	26,182	-	-	174,823
Labor	31,826	33,830	-	-	65,656
Education	1,315,113	153,265	367,714	-	1,836,092
Unrestricted payments to component unit - Education	87,052	-	12,917	-	99,969
Capital outlay	-	-	-	277,754	277,754
Debt service:					
Principal	151,650	-	-	-	151,650
Interest and other charges	57,673	-	-	-	57,673
Costs of issuance of debt	-	-	-	415	415
Total expenditures	<u>4,035,516</u>	<u>1,004,600</u>	<u>380,631</u>	<u>278,169</u>	<u>5,698,916</u>
Excess (deficiency) of of revenues over expenditures	<u>(521,837)</u>	<u>71,712</u>	<u>90,485</u>	<u>(278,125)</u>	<u>(637,765)</u>
Other Sources (Uses) of Financial Resources					
Transfers in	434,605	-	56,165	268	491,038
Transfers out	(27,049)	(25,457)	(85,729)	(20,671)	(158,906)
Other financing sources	26	-	-	-	26
Issuance of general obligation bonds	-	-	-	201,750	201,750
Issuance of advanced refundings	-	-	-	15,625	15,625
Premiums on bond sales	-	-	-	10,220	10,220
Total other sources (uses) of financial resources	<u>407,582</u>	<u>(25,457)</u>	<u>(29,564)</u>	<u>207,192</u>	<u>559,753</u>
Net change in fund balances	<u>(114,255)</u>	<u>46,255</u>	<u>60,921</u>	<u>(70,933)</u>	<u>(78,012)</u>
Fund balances - beginning	<u>1,339,792</u>	<u>25,184</u>	<u>117,364</u>	<u>84,140</u>	<u>1,566,480</u>
Fund balances - ending	<u>\$ 1,225,537</u>	<u>\$ 71,439</u>	<u>\$ 178,285</u>	<u>\$ 13,207</u>	<u>\$ 1,488,468</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, 2008
(Expressed in Thousands)

Net Changes in Fund Balances \$ (78,012)

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	351,462	
Depreciation expense	(82,653)	
	268,809	268,809

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 18,973

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	\$ 151,650	
New debt issued (face value)	(217,375)	
Premium received	(10,220)	
Issuance costs	389	
Amortization of premium/issuance costs	5,854	
	(69,702)	(69,702)

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	(389)
Claims and judgments	(8,962)
Notes payable	(3,681)
Compensated absences	(6,186)
Pension obligation	(4,068)
Other post employment benefits	(265,600)
Other liabilities	(752)
	(752)

Change in Net Assets of Governmental Activities \$ (149,570)

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008
(Expressed in Thousands)

	<u>Unemployment</u>	<u>Lottery</u>	<u>DelDOT</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 164,360	\$ 5,834	\$ 43,140	\$ 213,334
Cash and cash equivalents - restricted	-	-	1,699	1,699
Investments	-	-	74,918	74,918
Investments - restricted	-	1,699	107,262	108,961
Accounts receivable, net	5,546	14,940	12,996	33,482
Taxes receivable, net	16,491	-	-	16,491
Intergovernmental receivables, net	550	-	20,586	21,136
Current portion of interest receivable	-	-	736	736
Inventories	-	-	15,094	15,094
Current portion of loans and notes receivable	-	-	1,246	1,246
Escrow insurance deposits	-	-	961	961
Prepaid items	-	-	348	348
Total current assets	<u>186,947</u>	<u>22,473</u>	<u>278,986</u>	<u>488,406</u>
Noncurrent assets:				
Investments	-	-	7,851	7,851
Investments - restricted	-	2,966	41,619	44,585
Interest receivable	-	-	80	80
Loans and notes receivable	-	-	22,182	22,182
Other assets	-	2,123	-	2,123
Prepaid pension	-	-	1,448	1,448
Capital assets, non-depreciable	-	-	3,568,385	3,568,385
Capital assets, depreciable, net	-	5	170,596	170,601
Total noncurrent assets	<u>-</u>	<u>5,094</u>	<u>3,812,161</u>	<u>3,817,255</u>
Total assets	<u>186,947</u>	<u>27,567</u>	<u>4,091,147</u>	<u>4,305,661</u>
LIABILITIES				
Current liabilities:				
Accounts payable	-	9,730	37,471	47,201
Accrued liabilities	25,861	-	9,605	35,466
Interest payable	-	-	21,822	21,822
Deferred revenue	-	-	3,013	3,013
Compensated absences	-	-	4,148	4,148
Claims and judgments	-	-	1,889	1,889
Prizes liability	-	4,283	-	4,283
Escrow deposits	-	-	1,641	1,641
Current portion of liabilities payable from restricted assets	-	1,699	-	1,699
Current portion of general obligation long-term debt	-	-	676	676
Current portion of revenue bonds	-	-	73,213	73,213
Current portion of bond issue premium	-	-	6,779	6,779
Tax refunds payable	3,138	-	-	3,138
Due to other funds	-	6,325	-	6,325
Total current liabilities	<u>28,999</u>	<u>22,037</u>	<u>160,257</u>	<u>211,293</u>
Noncurrent liabilities:				
Compensated absences	-	-	9,597	9,597
Claims and judgments	-	-	2,542	2,542
Other post-employment benefits payable	-	246	25,697	25,943
Liabilities payable from restricted assets	-	5,089	-	5,089
General obligation long-term debt	-	-	2,107	2,107
Revenue bonds	-	-	919,423	919,423
Bond issue premium, net	-	-	21,586	21,586
Total noncurrent liabilities	<u>-</u>	<u>5,335</u>	<u>980,952</u>	<u>986,287</u>
Total liabilities	<u>28,999</u>	<u>27,372</u>	<u>1,141,209</u>	<u>1,197,580</u>
Net assets:				
Invested in capital assets, net of related debt	-	5	2,731,896	2,731,901
Restricted for:				
Unemployment benefits	157,948	-	-	157,948
Other	-	-	150,790	150,790
Unrestricted	-	190	67,252	67,442
Total net assets	<u>\$ 157,948</u>	<u>\$ 195</u>	<u>\$ 2,949,938</u>	<u>\$ 3,108,081</u>

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, 2008
(Expressed in Thousands)

	<u>Unemployment</u>	<u>Lottery</u>	<u>DelDOT</u>	<u>Total</u>
Operating revenues:				
Unemployment taxes	\$ 74,984	\$ -	\$ -	\$ 74,984
Gaming revenue	-	742,260	-	742,260
Pledged revenues:				
Turnpike revenue	-	-	117,869	117,869
Motor vehicle and related revenue	-	-	252,945	252,945
Turnpike revenue	-	-	40,509	40,509
Passenger fares	-	-	11,922	11,922
Miscellaneous	-	-	5,401	5,401
	<u>74,984</u>	<u>742,260</u>	<u>428,646</u>	<u>1,245,890</u>
Operating expenses:				
Unemployment benefits	113,955	-	-	113,955
Cost of sales	-	341,865	-	341,865
Prizes	-	65,896	-	65,896
Transportation	-	-	471,876	471,876
Depreciation	-	2	17,062	17,064
General and administrative	-	11,460	7,907	19,367
	<u>113,955</u>	<u>419,223</u>	<u>496,845</u>	<u>1,030,023</u>
Total operating expenses	<u>113,955</u>	<u>419,223</u>	<u>496,845</u>	<u>1,030,023</u>
Operating income (loss)	<u>(38,971)</u>	<u>323,037</u>	<u>(68,199)</u>	<u>215,867</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	8,490	-	12,832	21,322
Interest expense	-	-	(38,305)	(38,305)
Contributions to Thoroughbred Program	-	(1,000)	-	(1,000)
Gain on disposal of assets	-	-	299	299
	<u>8,490</u>	<u>(1,000)</u>	<u>(25,174)</u>	<u>(17,684)</u>
Total nonoperating revenues (expenses)	<u>8,490</u>	<u>(1,000)</u>	<u>(25,174)</u>	<u>(17,684)</u>
Income (loss) before transfers and capital contributions	(30,481)	322,037	(93,373)	198,183
Capital contributions	-	-	156,740	156,740
Transfers in	-	-	5,690	5,690
Transfers out	-	(322,842)	(14,980)	(337,822)
Increase (decrease) in net assets	(30,481)	(805)	54,077	22,791
Total net assets - beginning	<u>188,429</u>	<u>1,000</u>	<u>2,895,861</u>	<u>3,085,290</u>
Total net assets - ending	<u>\$ 157,948</u>	<u>\$ 195</u>	<u>\$ 2,949,938</u>	<u>\$ 3,108,081</u>

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	<u>Unemployment</u>	<u>Lottery</u>	<u>DelDOT</u>	<u>Total</u>
Cash flows from operating activities:				
Receipts from employers	\$ 75,011	\$ -	\$ -	\$ 75,011
Payments for insurance claims	(111,049)	-	(2,732)	(113,781)
Receipts from customers and users	-	739,812	424,756	1,164,568
Other operating receipts	-	-	1,392	1,392
Payments to suppliers for goods and services	-	(52,788)	(333,405)	(386,193)
Payments to employees for services	-	(1,823)	(119,312)	(121,135)
Payments for prizes	-	(67,643)	-	(67,643)
Payment for commissions	-	(297,230)	-	(297,230)
	<u>(36,038)</u>	<u>320,328</u>	<u>(29,301)</u>	<u>254,989</u>
Net cash provided (used) by operating activities				
Cash flows from noncapital financing activities:				
Transfers in	-	-	5,690	5,690
Transfers out	-	(325,080)	(14,981)	(340,061)
	<u>-</u>	<u>(325,080)</u>	<u>(9,291)</u>	<u>(334,371)</u>
Net cash used by noncapital financing activities				
Cash flows from capital and related financing activities:				
Capital grants	-	-	146,177	146,177
Purchases of capital assets	-	-	(125,798)	(125,798)
Principal paid on capital debt	-	-	(68,240)	(68,240)
Interest paid on capital debt	-	-	(46,784)	(46,784)
Proceeds from sale of land and equipment	-	-	1,141	1,141
Proceeds from issuance of debt	-	-	84,720	84,720
Premium from bond sale	-	-	5,111	5,111
Payment to escrow agent for refunding of debt	-	-	(42,696)	(42,696)
	<u>-</u>	<u>-</u>	<u>(46,369)</u>	<u>(46,369)</u>
Net cash used by capital and related financing activities				
Cash flows from investing activities:				
Interest and investment revenues	8,490	-	13,008	21,498
Repayment on loan receivable	-	-	1,233	1,233
Escrow deposits received	-	-	323	323
Purchase of investments	-	-	(2,743,274)	(2,743,274)
Proceeds from sales and maturities of investments	-	1,933	2,823,707	2,825,640
	<u>8,490</u>	<u>1,933</u>	<u>94,997</u>	<u>105,420</u>
Net cash provided by investing activities				
Net increase (decrease) in cash and cash equivalents	(27,548)	(2,819)	10,036	(20,331)
Cash and cash equivalents - beginning of year	191,908	8,653	34,803	235,364
Cash and cash equivalents - end of year	164,360	5,834	44,839	215,033
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	(38,971)	323,037	(68,199)	215,867
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	-	2	17,062	17,064
Decrease (increase) in assets:				
Receivables, net	(26)	(2,448)	(1,198)	(3,672)
Inventories	-	-	(2,167)	(2,167)
Prepaid items	-	-	(461)	(461)
Increase (decrease) in liabilities:				
Accounts and other payables	4,146	1,924	(491)	5,579
Accrued liabilities	(1,240)	(439)	(1,300)	(2,979)
Accrued expenses	-	(1,748)	555	(1,193)
Accrued payroll and related expenses	-	-	1,201	1,201
Post-employment benefits	-	-	25,697	25,697
Due to/from other governments	53	-	-	53
	<u>(36,038)</u>	<u>320,328</u>	<u>(29,301)</u>	<u>254,989</u>
Net cash provided (used) by operating activities				

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008
(Expressed in Thousands)

	<u>Pension Trust</u>	<u>OPEB Trust</u>	<u>Investment Trust</u>	<u>Agency</u>
Assets:				
Cash and cash equivalents	\$ 380,273	\$ 11,629	\$ 2,393	\$ 30,807
Receivables:				
Accrued interest	17,140	8	90	-
Investment sales pending	10,485	-	55	-
Employer contributions	9,782	7,578	-	-
Member contributions	3,731	38	-	-
Other receivables	-	-	-	34,571
Investments, at fair value:				
Domestic fixed income	649,100	30,444	12,855	-
Domestic equities	1,201,215	24,771	15,266	-
Pooled equity and fixed income	2,258,337	-	11,797	-
Alternative investments	1,274,596	-	6,658	-
Short term investments	-	-	-	17,243
Foreign fixed income	126,807	-	662	-
Foreign equities	1,213,354	13,603	11,070	-
Total assets	<u>7,144,820</u>	<u>88,071</u>	<u>60,846</u>	<u>82,621</u>
Liabilities:				
Accounts payable	-	-	-	82,621
Investment purchase payable	78,881	-	412	-
Benefits/claims payable	584	8,671	-	-
Accrued investment expense	5,327	5	29	-
Accrued administrative expenses	656	-	3	-
Total liabilities	<u>85,448</u>	<u>8,676</u>	<u>444</u>	<u>82,621</u>
Net assets:				
Assets held in trust for pension benefits and pool participants	<u>\$ 7,059,372</u>	<u>\$ 79,395</u>	<u>\$ 60,402</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, 2008
(Expressed in Thousands)

	<u>Pension Trust</u>	<u>OPEB Trust</u>	<u>Investment Trust</u>
Additions:			
Contributions:			
Employer contributions	\$ 185,204	\$ 183,216	\$ -
Transfer from post-retirement increase fund	47,416	-	-
Transfer from state employee health insurance premium fund	-	34,171	-
Transfer of assets from outside the system	2,905	-	30,953
Member contributions	53,468	3,511	-
Other	38	-	-
	<u>289,031</u>	<u>220,898</u>	<u>30,953</u>
Total contributions			
Investments:			
Investment earnings	108,682	2,506	828
Net decrease in fair value of investments	(201,016)	(4,512)	(1,006)
	<u>(92,334)</u>	<u>(2,006)</u>	<u>(178)</u>
Total investment earnings			
Less investment manager/advisor/custody fees	(21,954)	(73)	(167)
Less investment administrative expenses	(502)	-	(4)
	<u>(114,790)</u>	<u>(2,079)</u>	<u>(349)</u>
Net investment earnings			
Securities lending income	19,454	-	147
Less borrower rebates	(17,488)	-	(132)
Less bank fees	(393)	-	(3)
Total securities lending expense	(17,881)	-	(135)
	<u>1,573</u>	<u>-</u>	<u>12</u>
Total net securities lending income			
Total additions	<u>175,814</u>	<u>218,819</u>	<u>30,616</u>
Deductions:			
Transfer of assets from post-retirement increase fund	47,416	-	-
Transfer of assets outside the system	37,249	-	24,090
Pension/claim payments	377,118	139,331	-
Refunds of contributions to members	3,336	-	-
Group life payments	4,839	-	-
Administrative expenses	5,978	93	-
	<u>475,936</u>	<u>139,424</u>	<u>24,090</u>
Total deductions			
Change in net assets	(300,122)	79,395	6,526
Net assets - beginning of year	<u>7,359,494</u>	<u>-</u>	<u>53,876</u>
Net assets - end of year	<u>\$ 7,059,372</u>	<u>\$ 79,395</u>	<u>\$ 60,402</u>

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2008
(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	\$ 14	\$ 2,543	\$ 10,845	\$ 14,033	\$ 131	\$ 22,433	\$ 49,999
Cash and cash equivalents - restricted	-	16,233	384	13,206	-	1,379	31,202
Investments	41,268	-	-	-	2,486	29	43,783
Investments - restricted	-	-	-	1,237	6,004	-	7,241
Accounts and other receivables, net	27,360	2,020	699	7,925	-	43	38,047
Loans and notes receivable, net	16,462	-	-	-	-	-	16,462
Other post-employment benefits (OPEB) asset	67	-	-	-	-	-	67
Inventories	-	469	-	-	-	-	469
Prepaid items	3,003	531	32	-	-	-	3,566
Deferred bond issuance costs	549	-	-	-	-	23	572
Other restricted assets	-	-	-	361	32	-	393
Other current assets	-	-	-	-	-	47	47
Total current assets	88,723	21,796	11,960	36,762	8,653	23,954	191,848
Noncurrent assets:							
Long-term investments	108,349	-	1,382	-	-	-	109,731
Long-term investments - restricted	-	-	10,344	60,983	56	-	71,383
Accounts and other receivables, net	4,613	-	-	-	-	-	4,613
Loans and notes receivable, net	989,385	-	4,739	327	-	-	994,451
Capital assets - non-depreciable	4,723	32,630	100,739	29,366	-	4,866	172,324
Capital assets - depreciable, net	16,544	134,176	18,732	147,121	-	43,693	360,266
Deferred bond issuance costs	8,527	-	-	1,833	-	313	10,673
Other restricted assets	-	-	-	2,306	8,380	-	10,686
Other noncurrent assets	-	-	2,029	168	-	612	2,809
Total noncurrent assets	1,132,141	166,806	137,965	242,104	8,436	49,484	1,736,936
Total assets	1,220,864	188,602	149,925	278,866	17,089	73,438	1,928,784
LIABILITIES							
Current liabilities:							
Accounts payable	3,955	104	3,678	6,984	-	893	15,614
Accrued liabilities	137	2,266	19	7,475	12	7,614	17,523
Deferred revenue	88	121	73	2,633	-	31	2,946
Current portion - capital leases	-	-	-	-	-	26	26
Compensated absences	19	-	-	-	-	24	43
Escrow deposits	-	-	2	-	-	-	2
Notes payable	72	3,054	-	53	-	185	3,364
Current portion of revenue bonds	14,676	-	300	1,585	-	-	16,561
Current portion of other long- term debt	-	-	822	562	-	5,127	6,511
Total current liabilities	18,947	5,545	4,894	19,292	12	13,900	62,590
Noncurrent liabilities:							
Compensated absences	948	-	-	5,454	-	1,158	7,560
Escrow deposits	30,974	-	-	-	-	-	30,974
Notes payable	322	34,428	-	825	-	23,299	58,874
Revenue bonds	884,051	-	3,945	107,710	-	-	995,706
Long-term debt	-	-	10,900	-	-	9,586	20,486
Other noncurrent liabilities	566	-	-	325	-	4	895
Total noncurrent liabilities	916,861	34,428	14,845	114,314	-	34,047	1,114,495
Total liabilities	935,808	39,973	19,739	133,606	12	47,947	1,177,085
NET ASSETS							
Invested in capital assets, net of related debt	21,267	129,323	103,504	121,245	-	36,589	411,928
Restricted:							
Federal and state regulations	200,620	-	-	4,559	14,428	-	219,607
Bond covenants	34,026	-	-	-	-	-	34,026
Capital projects	-	16,233	10,344	871	-	-	27,448
Other	4,012	-	-	10,357	-	1,516	15,885
Unrestricted	25,131	3,073	16,338	8,228	2,649	(12,614)	42,805
Total net assets	\$ 285,056	\$ 148,629	\$ 130,186	\$ 145,260	\$ 17,077	\$ 25,491	\$ 751,699

* Fiscal year-end December 31, 2007

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**
(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	\$ 106,893	\$ 52,299	\$ 61,224	\$ 612
Diamond State Port Corporation	31,657	26,816	-	3,000
Riverfront Development Corporation	13,230	2,028	1,800	21,099
Delaware State University	103,728	44,821	27,443	4,811
Delaware Technical and Community College (DTCC) Educational Foundation	1,939	624	7,101	-
Delaware Charter Schools	83,810	9,778	5,546	72
Total component units	<u>\$ 341,257</u>	<u>\$ 136,366</u>	<u>\$ 103,114</u>	<u>\$ 29,594</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, 2007

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>\$ 7,242</u>						\$ 7,242
	<u>\$ (1,841)</u>					(1,841)
		<u>\$ 11,697</u>				11,697
			<u>\$ (26,653)</u>			(26,653)
				<u>\$ 5,786</u>		5,786
					<u>\$ (68,414)</u>	(68,414)
						<u>(72,183)</u>
-	-	-	29,599	-	70,370	99,969
11,551	(815)	969	(1,955)	420	1,050	11,220
-	4	(494)	-	-	-	(490)
<u>-</u>	<u>(60)</u>	<u>-</u>	<u>(6,394)</u>	<u>-</u>	<u>103</u>	<u>(6,351)</u>
<u>11,551</u>	<u>(871)</u>	<u>475</u>	<u>21,250</u>	<u>420</u>	<u>71,523</u>	<u>104,348</u>
18,793	(2,712)	12,172	(5,403)	6,206	3,109	32,165
266,263	151,341	118,014	150,663	10,871	22,382	719,534
<u>\$ 285,056</u>	<u>\$ 148,629</u>	<u>\$ 130,186</u>	<u>\$ 145,260</u>	<u>\$ 17,077</u>	<u>\$ 25,491</u>	<u>\$ 751,699</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 comprise 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.

Blended Component Unit

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 blended component unit and is shown in the financial statements as part of the primary government as a pension trust fund. The financial report of DPERS for the year ended June 30, 2008 may be obtained in writing to the State Board of Pension Trustees and Office of the Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

The Delaware OPEB Fund Trust (OPEB Trust) is a trust, which provides retirement medical coverage to pensioners and their eligible dependents in the State's Employees', Judiciary, New State Police, and Closed State Police pension plans. The OPEB Trust is a legally separate entity; however, it provides services and benefits almost exclusively to the primary government, the OPEB Trust is considered a blended component unit and is shown in the financial statements as part of the primary government as a OPEB trust fund.

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, 2007, each discretely presented component unit has a June 30, 2008 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. The DSPC's relationship with the State is such that exclusion of the DSPC from the State's basic financial statements would cause the statements to be misleading or incomplete.

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 seven of the 18 board members; however, seven 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, eight appointed by the Governor of Delaware and seven 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 (the Foundation) is a fiduciary-type component unit of Delaware Technical and Community College (DTCC), which is part of the primary government. The Foundation was established on November 13, 1968 by a trust agreement. On April 20, 1999, the Foundation revised the trust document incorporating all previous amendments to the previous trust document. The trust agreement stipulates that the activities of the 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 DTCC and providing financial assistance to qualified students. The Foundation has a fiscal year-end of December 31, 2007.

Delaware Charter Schools

Delaware's 18 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.

Related Organizations

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

The Governor appoints eight members of the governing board of the University of Delaware (the University). 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 (DRBA), 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.

DRBA is governed by 12 commissioners: six appointed by the State of Delaware and six appointed by the State of New Jersey. DRBA is autonomous from a day-to-day operations perspective and neither State is obligated for the DRBA's debt. DRBA 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 net assets measures not just current assets and liabilities, but also long-term assets and liabilities such as capital assets (including infrastructure assets) and general long-term debt. The difference between the State's assets and its liabilities is its net assets. Net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. There are no net assets that are restricted by enabling legislation at June 30, 2008. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

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 GASB. 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 State 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 DeIDOT fund are charges to customers for sales and services.

The Lottery fund 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:

DeIDOT Fund – The DeIDOT fund accounts for the activities relating to the operation of the State’s Department of Transportation, including 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 fiduciary funds account for assets held by the State in a trustee capacity or as an agency for other individuals or organizations. The fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting.

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 15). 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 financial report of DPERS for the year ended June 30, 2008 may be obtained 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 and for the Delaware OPEB Investment Trust.

OPEB Trust – The Delaware Other Post Employment Benefit Fund Trust (OPEB Trust) is a trust administered by DPERS. In addition to providing pension benefits, the State is statutorily required to provide health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the State's employees may become eligible for these benefits if they reach normal retirement age while working for the State. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the State and the retired employee. The State recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the year paid. During the year, approximately \$30.5 million was paid on behalf of 16,644 retirees and recorded as an expenditure in the general fund.

New Accounting Pronouncements

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Post Employment 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 OPEB plan assets, or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports. The State adopted this standard for the fiscal year ended June 30, 2008.

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 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 adopted this standard for the fiscal year ended June 30, 2008.

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. This statement was required to be implemented in fiscal year June 30, 2008. The State has determined that there is no affect of this statement.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*. This Statement amends previous guidance on disclosures for defined benefit pension plans and is intended to improve the transparency and usefulness of reported information about public pension plans. DPERS has complied with GASB Statement 50 by including additional disclosures on the current funding status of the pension plans within the notes to the financial statements. The State adopted this standard for the fiscal year ended June 30, 2008.

Impact of Future Accounting Pronouncements

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. The Statement identifies the obligating events which require a governmental entity to estimate the components of expected pollution remediation outlays and determine whether the outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired.

The requirements of this Statement were 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 periods presented. The future impact of this statement is currently being evaluated by the State.

(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 a cash equivalent. 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. 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.

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 restricted 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 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 State 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 future 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 “Budgetary 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 budgetary reserve account was \$186.4 million at June 30, 2008. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation. Per the Delaware Constitution, the General Assembly, by three-fifths vote of the members elected to each House, may appropriate from the budgetary 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. The State’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 \$12.8 million has been recorded pursuant to the settlement. The Master Settlement agreement receipts of \$29.7 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**Cash Management Policy and Investment Guidelines**

The State Treasurer maintains the majority of the deposits and investments of the primary government and uses professional money managers to invest the State's deposits according to guidelines set in the *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy) by the State's 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 DPERS and the OPEB Trust and money held under the State deferred compensation program. By law, all deposits and investments belonging to the State are under the control of the State Treasurer except for those that, by specific authority, are under the control of other agencies or component units, as determined by the Board in various pooled investment funds (State Investment Pool). The deposit and investment policies of those entities may differ from those of the State Treasurer. Typically, these agencies follow the deposit and investment policies of the State Treasurer in an effort to minimize deposit and investment risks.

As mandated by State statutes, the State's funds shall be invested pursuant to the prudent person standard as defined in the Policy. The prudent person standard allows the Board to establish investment policies based on investment criteria that it defines, and it allows the Board to delegate investment authority to investment professionals. This standard of care not only permits but also encourages diversifying investments across various asset classes.

The objectives and guidelines, as outlined in the Policy, apply to all cash and special purpose funds for which the State is financially accountable. These funds are categorized as outlined below:

- **Cash Accounts.** Cash accounts divide the State's available cash into three parts:
 - **Collection and Disbursement Accounts:** The State maintains an amount of cash in its general collection and disbursement accounts sufficient to meet its outstanding obligations.
 - **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 are 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 manages 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.

- Reserve Cash (Intermediate) Account: To the extent cash is not expected to be needed on short notice, the Board directs the funding of a third part. This account is 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 manages 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.
- Special Purpose Accounts. There are two primary types of special purpose accounts:
 - Endowment Accounts: Endowment accounts consist of funds set-aside for specified purposes.
 - 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 Policy specifies the types of investments these managers can make; the maximum percentage of assets that may be invested in particular instruments; the minimum credit quality of these investments; and the maximum length of time the assets can be invested. The Policy provides, 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. The following investments are permissible for all funds under the review of the Board, subject to percentage limitations of the account.

- U.S. government securities
- Government agency securities
- Certificates of deposit, time deposits, and bankers acceptances
- Corporate debt instruments
- Repurchase agreements
- Reverse repurchase agreements
- Money market funds
- Canadian treasury bills
- Canadian agency securities
- Mortgage-backed and asset-backed securities
- Municipal obligations

Additional permissible investments for special purpose accounts only:

- Guaranteed investment contracts
- Asset-backed securities and trust certificates

The primary government's accounts are categorized as "authority accounts". At June 30, 2008, investments of the primary government are primarily in commercial paper, corporate

obligations, government agency bonds and notes, and municipal obligations. All of these meet the objectives defined by the Policy.

The State's Cash Management Policy Board *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* is available on the Internet at http://treasurer.delaware.gov/information/cash_investment.shtml.

Risks

The following deposits and investments disclosure of the primary government excludes the OPEB Trust and DPERS which are described on pages 56-62.

Custodial Credit Risk

Deposits

For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party.

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:

- U.S. Government securities;
- U.S. Government agency securities;
- Federal Home Loan Board letters of credit;
- State of Delaware securities; or
- 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, 2008, the carrying amount of the primary government's deposits was \$806.5 million and the bank balance was \$925.8 million. Of the \$925.8 million bank balance, \$71.1 million was fully insured; \$164.4 million represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury; and the remaining

\$690.3 million was subject to custodial credit risk because they were uninsured and uncollateralized. Included in the primary government's deposits are agency funds. The carrying amount of the agency fund's deposits was \$30.8 million and the bank balance was \$37.8 million. Of the \$37.8 million bank balance, \$28.2 million was fully insured and the remaining \$9.6 million was subject to custodial credit risk because they were uninsured and uncollateralized, but were held at financial institutions that satisfied the State's collateralization requirement. The State does not require collateralization of amounts in excess of Federal Deposit Insurance Corporation (FDIC) limits.

Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the government's name.

At June 30, 2008, the primary government's investments were \$1,427.1 million. Of the primary government's investments, \$245.0 million was fully insured and collateralized. Included in the primary government's investments of \$1,427.1 million are agency funds. The amount of the agency funds' investments was \$17.2 million.

The following table provides information on \$1,182.1 million of the primary government's investments that are exposed to custodial credit risk; \$321,000 of this amount represents the agency funds' investments:

Investment Type	Fair Value (Expressed in Thousands)
Corporate obligations	\$ 299,372
Municipal obligations	139,114
U.S. government obligations	602,328
Other obligations	62,941
Commercial paper	45,132
Certificates of deposit	33,242
Total	\$ <u>1,182,129</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Also, the terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. The State manages interest rates using the segmented time distribution and effective duration methods. The State approves and contracts with different investment managers of fixed income securities in order to manage the exposure to interest rate risk with each different manager focusing on different goals of yield periods or duration

of maturities of their particular portion of the investment pool. The Policy provides either maturity or duration limitations for the various investment pools. The interest rate risk inherent in the portfolio is monitored by measuring the weighted average maturity and/or duration.

Effective duration measures the expected change in value of a fixed income security for a given change in interest rate. This method takes into account the likely timing and amounts of variable cash flows for bonds with call options and prepayment provisions.

The following table presents the fair value and effective duration of the primary government and agency fund investments by investment type at June 30, 2008:

Investment Type	Fair Value (Expressed in Thousands)	Effective Duration (in years)
Corporate obligations	\$ 299,372	0.94
Municipal obligations	139,114	3.01
U.S. government obligations	748,071	0.73
Other obligations	95,091	5.24
Commercial paper	111,546	0.13
Certificate of deposit	33,870	0.45
	\$ 1,427,064	

Although the Policy does not limit total portfolio maturities, it provides maximum maturity restrictions for each of the investment account types as described below:

- **Cash Account Investment.** The maximum maturity for any investment at the time of purchase for the cash account is one year.
- **Liquidity Accounts.** The maximum maturity for any investment at the time of purchase for the liquidity accounts is two years.
- **Reserve Cash (Intermediate) Account.** The maximum maturity for any investment at the time of purchase is 10 years. The maximum average maturity of the portfolio is seven years.
- **Endowment Accounts.** The maximum maturity for any investment at the time of purchase is 10 years. The maximum average maturity of the portfolio is 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 is 10 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.

As of June 30, 2008, the primary government and agency funds had the following debt investments and maturities:

	Investment Maturity (Expressed in Thousands)				
	Fair Value	Investment Maturities			
		Less Than 1	1 to 5	6 to 10	More than 10
<u>Long Term Investments</u>					
Corporate obligations					
Corporate bonds	\$ 238,644	\$ 106,984	\$ 125,327	\$ -	\$ 6,333
Asset-backed securities	60,728	1,673	30,008	-	29,047
Municipal obligations	139,114	7,247	76,054	25,230	30,583
U.S. government obligations					
U.S. Treasury bonds, notes	61,730	16,131	45,599	-	-
U.S. Agency bonds, notes	410,023	115,954	273,207	15,940	4,922
Other obligations					
Canadian	6,625	6,625	-	-	-
Foreign	25,838	5,042	20,796	-	-
Private placements	46,613	28,069	7,091	-	11,453
Pooled investments	16,015	16,015	-	-	-
<u>Short Term Investments</u>					
U.S. government obligations					
U.S. Treasury bonds, notes	16,309	10,067	6,242	-	-
U.S. Agency bonds, notes	260,009	216,780	37,770	5,459	-
Commercial paper	111,546	111,546	-	-	-
Certificate of deposit	33,870	24,229	9,641	-	-
Total Investments	\$ 1,427,064	\$ 666,362	\$ 631,735	\$ 46,629	\$ 82,338

Credit Risk

Credit risk of investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Policy requires that that the State's investments in asset-backed securities be rated AAA by a major rating agency. Corporate debt instruments must be rated by Standard and Poor's Ratings Services (S & P) and/or Moody's Investor Service (Moody's) and/or Fitch Ratings (Fitch) as follows:

<u>Investment</u>	<u>S & P</u>	<u>Moody's</u>	<u>Fitch</u>
Commercial paper	A-1	P-1	F1
Senior long-term debt	A	A	A
Corporate bonds	AA	Aa	AA

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

The following table presents the State's investments which were rated by S & P as of June 30, 2008. The ratings are presented using S & P's rating scale:

Credit Risk - Quality Ratings (Expressed in Thousands)							
Investment Type	TSY	AGY	AAA	AA	A	A-1	NR
<u>Long Term Investments</u>							
Corporate obligations							
Corporate bonds	\$ -	\$ -	\$ 45,290	\$ 153,669	\$ 3,572	\$ 28,768	\$ 7,345
Asset-backed securities	-	-	56,703	4,025	-	-	-
Municipal obligations	-	-	93,292	26,587	1,374	1,763	16,098
U.S. government obligations							
U.S. Treasury bonds, notes	30,422	-	31,308	-	-	-	-
U.S. Agency bonds, notes	-	132,857	277,166	-	-	-	-
Other obligations							
Canadian	-	-	-	6,625	-	-	-
Foreign	-	-	5,042	-	-	-	20,796
Private placements	-	-	7,333	39,280	-	-	-
Pooled investments	-	-	-	-	-	-	16,015
<u>Short Term Investments</u>							
U.S. government obligations							
U.S. Treasury bonds, notes	16,309	-	-	-	-	-	-
U.S. Agency bonds, notes	-	260,009	-	-	-	-	-
Commercial paper	-	-	-	-	-	96,248	15,298
Certificate of deposit	-	-	11,507	5,992	-	15,004	1,367
Total Investments	\$ 46,731	\$ 392,866	\$ 527,641	\$ 236,178	\$ 4,946	\$ 141,783	\$ 76,919

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the State's investments in a single issuer (5% or more of total investments). When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. The investments in obligations explicitly guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure.

The 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. Certificates of deposits, 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, 2008, the State's investments have met the requirement of all the State's laws and policies, when applicable. There were no obligations that represented 5% or more of the primary government's investments, except for U.S. government securities, pooled and mutual funds.

Foreign Currency Risk

Foreign currency risk is the risk that changes in the foreign exchange rate will adversely impact the fair value of an investment or deposit.

The Policy only permit investments denominated in U.S. dollars; therefore, the State's investments are not exposed to foreign currency risk.

Commitments

At June 30, 2008, the State did not enter into any commitment agreements with any investment managers for future funding of various asset classes.

Securities Lending

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

BNY/Mellon, acting as lending agent, lends the State's 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 received by the borrowers falls below the collateral requirement of the securities loaned, additional collateral is obtained from the borrowers. To the extent any loss arising out of approved investments results in a deficiency in the amount of collateral available for return to a borrower, the lender agrees to pay bank on demand cash in an amount equal to such deficiency. 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.

At June 30, 2008, 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 State'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, 2008 could be terminated immediately by either the lending agent or the borrower.

As of June 30, 2008, the fair value of loaned securities was \$114.9 million; the value of the cash collateral received was \$117.1 million; and the fair value of the cash collateral invested was \$116.0 million. Securities lending transactions at June 30, 2008 are as follows:

Securities Lent for Cash Collateral	Fair Value (Expressed in Thousands)
Corporate obligations	\$ 7,460
U.S. government obligations	107,418
Total	\$ 114,878

Cash Collateral Received	(Expressed in Thousands)
Corporate obligations	\$ 7,626
U.S. government obligations	109,452
Total	\$ 117,078

Cash Collateral Investment Value	Fair Value (Expressed in Thousands)
Corporate obligations	\$ 102,234
Money market	3,751
Certificate of deposit - floaters	9,999
Total	\$ 115,984

The following table presents the fair value and effective duration of the cash collateral invested at June 30, 2008:

Investment Type	Fair Value (Expressed in Thousands)	Weighted Average Days to Reprice	Effective Duration (in years)
Corporate obligations	\$ 102,234	34	0.092
Money market	3,751	1	0.003
Certificate of deposit - floaters	9,999	38	0.104
Total	\$ 115,984		

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

Investment Type	Fair Value (Expressed in Thousands)	Investment Maturities (in years)	
		Less than 1	1 to 5
Corporate obligations			
Bank note	\$ 34,025	\$ 19,037	\$ 14,988
Corporate floating rate	42,557	9,938	32,619
Asset-backed securities	25,652	9,830	15,822
Money market	3,751	3,751	-
Certificate of deposit - floaters	9,999	4,994	5,005
Total	\$ 115,984	\$ 47,550	\$ 68,434

The following table represents the credit risk characteristics of the investments held for securities lending as of June 30, 2008 (expressed in thousands):

Investment Type	AAA	AA	A	A-1
Corporate obligations				
Bank note	\$ -	\$ 9,992	\$ 4,997	\$ 19,037
Corporate floating rate	4,965	22,822	4,832	9,937
Asset-backed securities	25,652	-	-	-
Money market	3,751	-	-	-
Certificate of deposit - floaters	-	5,005	-	4,994
Total	\$ 34,368	\$ 37,819	\$ 9,829	\$ 33,968

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 Board as outlined below:

- 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, 2008, management of the System has operated in accordance with these policies, in all material respects.

Securities Lending

The System entered into a contract with its custodian during fiscal year 2007 to participate in its securities lending program. 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 the return earned on the investment of cash collateral. In December 2007, the Investment Committee and Board voted to withdraw from the securities lending program, primarily because of concern for current market conditions and counterparty risk. As of June 30, 2008, all loaned securities were returned to the custodied accounts, and no program

collateral was held. The System intends to return to the program at some time in the future when market conditions are deemed to be more favorable.

Cash collateral received was invested in a high-quality investment program provided by the custodian that emphasized the return of principal, maintained required daily liquidity, and ensured diversification across approved investment types. The Investment Committee regularly reviewed the status of the program, including the approved list of borrowers.

The program allowed the System securities to be loaned for cash, US government securities, and irrevocable letters of credit. Domestic securities were loaned for collateral valued at 102% of the market value of the securities plus any accrued interest. Non-US securities were loaned for collateral valued at 105% of the market value of the securities plus any accrued interest. For the first half of fiscal year 2008, the System earned \$1.6 million from the securities lending program.

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 as of June 30, 2008. It is the System's policy to classify corporate convertible bonds as equity securities on the Statement of Net Assets because those securities generally convert to preferred equity interests upon maturity. Corporate convertible bonds in the amount of \$732.3 million have been included in the chart below 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 - 6	6 - 10	10 +	Not Determined
Asset backed securities	\$ 28,146	\$ -	\$ 6,609	\$ 3,039	\$ 18,498	\$ -
Cash equivalents	293,974	293,974	-	-	-	-
Commercial mortgage-backed	45,820	-	597	-	45,223	-
Corporate bonds	364,094	11,289	81,499	90,640	180,666	-
Corporate convertible bonds	732,254	31,045	445,467	45,700	210,042	-
Government agencies	51,602	8,848	22,249	18,388	2,117	-
Government bonds	82,506	-	37,434	17,340	27,732	-
Government mortgage backed securities	142,424	-	106	2,007	113,056	27,255
Government issued commercial mortgage-backed	497	-	-	-	497	-
Municipal/provincial bonds	30,487	4,722	18,473	1,799	5,493	-
Non-government backed C.M.O.s	34,384	-	515	1,486	32,383	-
Pooled investments	830,859	-	254,764	312,491	178	263,426
Total	\$ 2,637,047	\$ 349,878	\$ 867,713	\$ 492,890	\$ 635,885	\$ 290,681

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, 2008, the System's fixed income investments and cash equivalents had the following credit 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	18.1%	\$ 1,284,354
BBB to B	6.3%	445,186
CCC to C	0.7%	47,494
Less than C	0.0%	1,244
U.S. Government Guaranteed	2.0%	144,622
Not Rated	10.1%	714,147
Total:	37.2%	\$ 2,637,047

Custodial Credit Risk

Of the System's \$382.2 million bank balance, there are two accounts which are uninsured and uncollateralized. Pooled deposits of \$671,000 are held by the State Treasurer's Office. The balance of \$381.5 million represents deposits in short-term investments held by The Northern Trust Co., the custodial bank as of June 30, 2008.

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

As of June 30, 2008, the System held no concentration of investments in an individual issuer in excess of 5% of the fair value of the System's net assets. The System did hold in excess of 5% of its fair value in the Mellon Capital Global Tactical Asset Allocation Fund, \$1,137.8 million, and the Mellon Capital Tactical Asset Allocation Fund, \$378.2 million.

Management Fees

The System paid \$20.1 million in management fees to the venture capital limited partnerships and transition managers for the fiscal year ended June 30, 2008. These fees are netted against investment income.

Investment Commitments

The System has commitments to invest up to an additional \$754.0 million in venture capital limited partnerships in varying amounts as of June 30, 2008, 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.

In addition, at the close of fiscal year 2008, the System established the First State Independence Fund I, LLC, a hedge fund-of-funds of which the System currently is the only member. On June 30, 2008, the System transferred \$123.5 million of cash to the fund managers for investment in fiscal year 2009.

Foreign Investments

Foreign investments include equity securities, bonds, cash, and cash equivalents. The following is a listing of the System's foreign assets as of June 30, 2008. The listing includes \$23.8 million of domestic issuers which have been classified as domestic on the statement of plan net assets, but are denominated in a foreign currency.

Investment Types
(Expressed in Thousands)

Currency	Fair Value in U.S. Dollars	Equities	Fixed Income	Cash and Equivalents
Australian Dollar	\$ 27,663	\$ 16,983	\$ 10,625	\$ 55
Brazilian Real	8,764	-	8,764	-
British Pound Sterling	86,963	84,074	1,568	1,321
Canadian Dollar	52,867	20,812	31,813	242
Danish Krone	12,387	12,387	-	-
Euro	346,661	328,606	14,966	3,089
Hong Kong Dollar	23,450	23,450	-	-
Iceland Krona	5,124	-	5,124	-
Indonesian Rupiah	3,747	-	3,747	-
Japanese Yen	122,452	122,335	-	117
Mexian Peso	9,976	-	9,546	430
New Zealand Dollar	13,360	-	13,360	-
Norwegian Krone	36,072	36,058	-	14
Singapore Dollar	24,117	11,442	12,674	1
South Korean Won	9,645	9,645	-	-
Swedish Krona	26,679	26,628	-	51
Swiss Franc	62,403	62,331	-	72
Thai Baht	6,146	-	6,146	-
United Arab Emirates Dirham	1,080	1,080	-	-
Total foreign currencies	\$ 879,556	\$ 755,831	\$ 118,333	\$ 5,392
Foreign issued investments				
Denominated in US dollars	496,818	463,861	32,957	-
Pooled international investments				
Denominated in US dollars	865,369	641,228	224,141	-
Total	\$ 2,241,743	\$ 1,860,920	\$ 375,431	\$ 5,392

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 2007 and reviewed during fiscal year 2008. Some 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 the experience deviates, the larger the impact on future financial statements.

COMPONENT UNITS

Diamond State Port Corporation (DSPC)

At June 30, 2008, the carrying value and the bank balances of the DSPC's deposits were \$18.8 million and \$19.0 million, respectively. Of the bank balances, \$100,000 is insured by the Federal Deposit Insurance Corporation (FDIC) and \$18.9 million 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 (RDC)

At June 30, 2008, the carrying value and bank balances of the RDC's deposits were \$11.2 million and \$11.6 million, respectively and of which \$1.5 million were held in the State Investment Pool. Deposits include \$383,737 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, \$407,600 is insured by the FDIC and \$10.8 million is uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

Delaware State University (DSU)

At June 30, 2008, the carrying value and bank balance of DSU's deposits were \$27.2 million and \$21.5 million, respectively. Of the bank balances, \$374,890 is insured by the FDIC and \$21.1 million is subject to custodial credit because it is uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization. An additional \$3.4 million of cash and cash equivalents related to unexpended State appropriations are held at the State Treasurer's office. The credit risk for these deposits depends on the investment decisions made by the State Treasurer's office.

Delaware Technical and Community College Educational Foundation (DTCC Foundation)

At December 31, 2007, the DTCC Foundation's carrying value and bank balance was \$130,997 and \$109,210 respectively. Of the bank balance, \$9,210 was uninsured and uncollateralized. The Foundation maintains cash balances at one financial institution located in Delaware. Accounts at the institution are insured by the FDIC up to \$100,000. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

Delaware Charter Schools

At June 30, 2008, the Delaware Charter Schools deposits carrying value was \$23.8 million. Deposits include \$21.6 million held in the State Investment Pool. Carrying value of the remainder of deposits was \$2.2 million. Bank balances totaled \$2.1 million, consisting of \$689,298 insured by FDIC and \$1.4 million uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

Delaware State Housing Authority (DSHA)**Investment Policies**

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

DSHA is allowed to invest in certain qualified investments as defined by amended Section 4013, 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 below lists investments and their maturities.

Investment Type	Fair Value	Investment Maturities (in Years)					
		(Expressed in Thousands)	Less than 1	1 - 5	5 - 10	10 - 20	20 - 30
U.S. treasury notes	\$ 869	\$ 191	\$ 399	\$ 53	\$ 467	\$ -	\$ -
U.S. treasury bonds	2,314	1,775	500	-	19	-	-
U.S. treasury bills	1,061	1,072	-	-	-	-	-
U.S. treasury strips	1,793	503	1,332	57	-	-	-
U.S. agencies	8,127	1,735	5,905	500	-	-	-
Commercial paper	2,289	2,310	-	-	-	-	-
Corporate note	5,713	1,769	3,961	-	-	-	-
Municipal bonds	2,254	410	1,935	-	-	-	-
Investment agreements	61,765	4,486	28,729	14,085	1,509	8,492	4,464
Money market savings acct.	330	330	-	-	-	-	-
Bank money market account	3,275	3,275	-	-	-	-	-
State of Delaware investment pool	59,827	59,827	-	-	-	-	-
Total Investments:	\$ 149,617	\$ 77,684	\$ 42,761	\$ 14,695	\$ 1,995	\$ 8,492	\$ 4,464

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:

- 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.
- Federal Program Funds: HUD funds held by the DSHA should have a maximum maturity of one year. HUD-related funds held by the DSHA (escrows, replacement reserves, residual receipts) shall have a maximum maturity of three years.
- 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

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. 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, 2008, DSHA's investments were rated as follows:

Ratings (S & P)
(Expressed in Thousands)

Investment Type	AAA	AA	AA+	AA-	A1+	A1
U.S. Agencies	\$ 8,366	\$ -	\$ -	\$ -	\$ -	\$ -
Corporate Notes	1,147	1,594	253	2,720	-	-
Municipal Bonds	278	-	-	1,975	-	-
Commercial Paper	-	-	-	-	1,045	1,244
Total	\$ 9,792	\$ 1,594	\$ 253	\$ 4,695	\$ 1,045	\$ 1,244

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, 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 \$149.6 million investment balance, \$61.8 million 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 DSHA, but the custodial credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the GIC provider whose rating must equal or exceed that of the bond rating. The bank and savings money markets must be collateralized at 102% or greater by

securities pledged and identified as held in DSHA's name. Although the State Investment Pool is not collateralized, the State's Cash Management Policy Board requires that investments meet certain ratings, investment types and maturity criteria. DSHA's investment policy does not limit the amount of securities that can be held by the counterparties.

Riverfront Development Corporation (RDC)

RDC's restricted investments totaling \$10.3 million consist of \$4.8 million of short-term investments (rated A1 or better) and \$5.5 million of government bonds (rated AAA). These investments are investments that are uninsured, unregistered and held by the counterparty's trust department or agent in 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
General Electric Capital Corp. note	\$ 600,000	5.8%
Federal Home Loan Bank bonds	4,500,840	43.5%
Federal Home Loan Mortgage Corp. note	998,825	9.7%

Delaware State University (DSU)

Investments of DSU totaled \$62.2 million stated at quoted market value, which consist of pooled investments where the University does own specific securities.

Delaware Technical and Community College Educational Foundation (DTCC Foundation)

Investments of the DTCC Foundation totaled \$8.5 million, stated at quoted market value. These investments consist of pooled investments where the DTCC Foundation does not own specific securities. An additional \$56,091 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 fund financial statements, receivables that will not be available within 60 days of year-end are recorded as deferred revenue. In the government-wide financial 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 at June 30, 2008. Uncollectibility for taxes receivable primarily results from identified assessment problems, inability to locate taxpayers, and accounts of decedents.

The State 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 Funds	Federal Funds	Local School District Funds	Total Receivables
Receivables:				
Taxes	\$ 204,212	\$ -	\$ 22,077	\$ 226,289
Interest	21	-	4	25
Accounts	868,708	109,030	506	978,244
Loans and notes	143,445	48,007	-	191,452
Intergovernmental	219	125,126	-	125,345
Total receivables	1,216,605	282,163	22,587	1,521,355
Allowance for doubtful accounts	(923,258)	(96,526)	(249)	(1,020,033)
Total receivables, net	\$ 293,347	\$ 185,637	\$ 22,338	\$ 501,322
Amounts not scheduled for collection during the subsequent year	\$ 183,499	\$ 44,416	\$ 15,783	\$ 243,698

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

	<u>Unemployment</u>	<u>Lottery</u>	<u>DelDOT</u>	<u>Total Receivables</u>
Receivables:				
Taxes	\$ 32,715	\$ -	\$ -	\$ 32,715
Interest	-	-	816	816
Accounts	10,984	15,665	12,996	39,645
Loans and notes	-	-	23,428	23,428
Intergovernmental	550	-	20,586	21,136
Total receivables	44,249	15,665	57,826	117,740
Allowance for doubtful accounts	(21,662)	(725)	-	(22,387)
Total receivables, net	\$ 22,587	\$ 14,940	\$ 57,826	\$ 95,353
Amounts not scheduled for collection during the subsequent year	\$ -	\$ -	\$ 22,262	\$ 22,262

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	\$ 30,492	\$ -	\$ -	\$ 38	\$ -	\$ 30,530
Accounts	1,279	2,069	699	11,715	43	15,805
Loans and Notes	1,006,412	-	6,507	327	-	1,013,246
Intergovernmental	203	-	-	-	-	203
Total receivables	1,038,386	2,069	7,206	12,080	43	1,059,784
Less: Allowance for doubtful accounts	(566)	(49)	(1,768)	(3,828)	-	(6,211)
Total receivables, net	<u>\$ 1,037,820</u>	<u>\$ 2,020</u>	<u>\$ 5,438</u>	<u>\$ 8,252</u>	<u>\$ 43</u>	<u>\$ 1,053,573</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 993,998</u>	<u>\$ -</u>	<u>\$ 4,739</u>	<u>\$ 327</u>	<u>\$ -</u>	<u>\$ 999,064</u>

Deferred Revenues

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	\$ 79,366
Non-tax receivables:	
Loans and notes receivables	189,508
Accounts receivables	62,206
Subtotal unavailable	<u>331,080</u>
Unearned	
Advance park reservation fees	928
Federal grant advance drawdowns	2,872
Subtotal unearned	<u>3,800</u>
Total deferred revenue	<u><u>\$ 334,880</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 at June 30, 2008, expressed in thousands, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Federal	\$ 31,871
	Local school district	<u>8,330</u>
	Subtotal	40,201
General	Lottery	<u>6,325</u>
	Total	<u><u>\$ 46,526</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 the Christina School District which were borrowed for general operating expenses and capital projects.

The amount due from the Lottery fund (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 Lottery fund as required by State law.

A schedule of transfers in and transfers out for the year ended June 30, 2008 is presented below (expressed in thousands):

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental funds		
General	\$ 434,605	\$ 27,049
Federal		25,457
Local school district	56,165	85,729
Capital projects	268	20,671
Proprietary funds		
Lottery		322,842
DelDOT	5,690	14,980
Total all funds	<u>\$ 496,728</u>	<u>\$ 496,728</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; 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 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 March 1, 2008, the State issued \$217.4 million in general obligation bonds. These serial bonds mature between March 1, 2009 and March 1, 2028. The Series A Bonds totaling \$45.0 million were sold to retail investors and bear coupons of 3% to 5%. The Series B Bonds totaling \$172.4 million were sold competitively to institutional investors and bear coupons of 4.75% to 5%. The proceeds of these bonds were used to provide financing for capital projects and to advance refund \$16.4 million of general obligation bonds. Investments and fixed earnings on the investments are sufficient to fully provide for all further debt service on the refunded bonds. The refunding resulted in an economic gain of \$687,193 and a debt service cash savings over the next seven years of \$715,382.

Bonds issued and outstanding totaled \$1,376.0 million at June 30, 2008. Of this amount, \$516.2 million is supported by property taxes collected by the local school districts. During fiscal year 2008, the local school district funds transferred \$52.0 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 \$270.4 million of general obligation bonds at June 30, 2008. Interest rates and maturities of the outstanding general obligation bonds are detailed as follows:

General Obligation Bonds

Sale #	Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding June 30, 2008 (Expressed in Thousands)
202	GO 2008B	4.75% - 5.00%	2025	\$ 172,375
201	GO 2008A	3.00% - 5.00%	2028	45,000
200	GO 2007A	4.00% - 5.00%	2027	178,575
199	GO 2006C	0%	2023	1,433
198	GO 2006B	4.00% - 5.50%	2027	147,015
197	GO 2006A	3.75% - 4.50%	2027	28,565
196	GO 2005D	3.50% - 5.00%	2024	114,800
195	GO Refunding 2005C	5.00%	2023	45,335
194	GO 2005B	2.625% - 5.00%	2024	72,620
193	GO 2005A	2.25% - 4.25%	2025	24,255
192	QZAB 2004B	0%	2021	224
191	GO + Refunding 2004A	3.00% - 6.00%	2024	163,890
190	QZAB 2003D	0%	2019	908
189	GO Refunding 2003C	4.00% - 6.00%	2024	76,000
188	GO Refunding 2003B	4.00% - 5.00%	2012	18,230
187	GO 2003A	2.625% - 5.00%	2022	60,800
186	QZAB 2002B	0%	2017	760
185	GO + Refunding 2002A	4.00% - 5.25%	2022	166,580
184	QZAB 2001B	0%	2012	649
183	GO + Refunding 2001A	4.00% - 4.75%	2016	30,210
182	GO 2000 A	5.00% - 5.50%	2010	15,000
181	GO 1999 A	4.00% - 4.625%	2016	11,000
170	GO 1992 B	4.70% - 6.10%	2012	1,771
Total				\$ 1,375,995

The following table sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2008.

Total General Obligation Bonds
(Expressed in Thousands)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 142,745	\$ 60,947	\$ 203,692
2010	137,795	54,330	192,125
2011	130,492	48,037	178,529
2012	126,163	43,990	170,153
2013	116,663	37,922	154,585
2014-2018	414,991	114,411	529,402
2019-2023	206,721	48,010	254,731
2024-2028	<u>100,425</u>	<u>10,484</u>	<u>110,909</u>
Totals	<u>\$ 1,375,995</u>	<u>\$ 418,131</u>	<u>\$ 1,794,126</u>

Changes in general obligation bonded debt during the year ended June 30, 2008 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. At June 30, 2008, a total of \$122.0 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 Delaware Transportation Authority (the Authority) is subject to oversight by the Department of Transportation and is included in the DelDOT fund. 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. Debt issued by the Authority 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 Authority payable solely from and secured by a pledge and assignment of certain tolls and revenues such as motor fuel tax revenue, motor vehicle document fees, and motor vehicle registrations. 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.

On June 11, 2008, the Trust Fund issued \$84.7 million of transportation system senior revenue bonds, 2008A Series to provide \$43.4 million in new proceeds for transportation projects and \$41.3 million for an advance refunding of the transportation system senior revenue bonds, 1998 Series.

The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of \$2.3 million and a reduction of \$2.4 million 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. At June 30, 2008, the amount of defeased debt outstanding amounted to \$195.0 million.

The Delaware Transportation Authority had a total of \$65.4 million in authorized but unissued bonds at June 30, 2008. Bonds outstanding at June 30, 2008 amounted to \$992.6 million and are presented as follows:

Delaware Transportation Authority Revenue Bonds

(Expressed in Thousands)

Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding At June 30, 2008
Transportation System Revenue Bonds - Series			
1997	5.00%	2017	\$ 3,885
1998	5.50%	2016	7,450
2000	5.50%	2020	11,160
2001	4.5% - 5.0%	2021	31,580
2002	5.00%	2008	5,790
2002 B	4.0% - 5.25%	2022	105,710
2003	4.5% - 5.0%	2023	202,295
2004	3.0% - 5.0%	2024	157,070
2005	4.0% - 5.0%	2025	148,000
2006	3.5% - 5.0%	2026	124,990
2007	4.0% - 5.0%	2027	87,685
2008	4.0% - 5.0%	2028	84,720
Transportation System Revenue Bonds - Series			
2002	4.375% - 5.0%	2009	24,240
Total, gross			994,575
Less: deferred amount on refunding			1,939
Total, net			992,636
Less: current portion of debt outstanding			73,213
Long term portion of debt outstanding			\$ 919,423

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>
2009	\$ 73,213	\$ 43,619	\$ 116,832
2010	74,090	41,795	115,885
2011	65,414	38,380	103,794
2012	66,074	35,101	101,175
2013	65,506	31,809	97,315
2014-2018	301,514	113,138	414,652
2019-2023	237,720	49,198	286,918
2024-2028	105,730	8,595	114,325
2029-2033	3,375	74	3,449
Totals	<u>\$ 992,636</u>	<u>\$ 361,709</u>	<u>\$ 1,354,345</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, 2008 for the trust funds, which is the segment of DelDOT that supports the revenue bonds, is presented on the next page.

Condensed Balance Sheets

(Expressed in Thousands)

Assets:	
Current assets	\$ 198,915
Capital assets	1,063,882
Other assets	<u>71,733</u>
Total assets	<u><u>1,334,530</u></u>
Liabilities:	
Current liabilities	122,626
Noncurrent liabilities	<u>943,457</u>
Total liabilities	<u><u>1,066,083</u></u>
Net Assets:	
Invested in capital assets, Net of related debt	56,797
Unrestricted	62,344
Restricted	<u>149,306</u>
Total net assets	<u><u>268,447</u></u>
Total liabilities and net assets	<u><u>\$ 1,334,530</u></u>

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

Operating revenues (pledged against bonds)	\$ 370,814
Other operating revenues	47,563
Depreciation expense	(190)
Other operating expenses	<u>(394,010)</u>
Operating loss	<u>24,177</u>
Nonoperating revenues (expenses):	
Investment income (pledging against bonds)	10,776
Other investment income (loss)	1,322
Interest expense	(38,305)
Transfer from DelDOT	5,093
Transfer from State General Fund	<u>5,690</u>
Change in net assets	8,754
Beginning net assets	<u>259,694</u>
Ending net assets	<u><u>\$ 268,447</u></u>

Condensed Statements of Cash Flows
(Expressed in Thousands)

Net cash provided by (used in):	
Operating activities	\$ 14,112
Noncapital financing activities	10,783
Capital and related financing activities	(116,492)
Investing activities	<u>93,941</u>
Net increase (decrease)	2,344
Beginning cash and cash equivalents	<u>7,472</u>
Ending cash and cash equivalents	<u><u>\$ 9,816</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 (DSHA)

The DSHA 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 DSHA.

The DSHA 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 DSHA 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 2.38% to 7.375% with maturities of such bonds up through July 1, 2048.

On August 29, 2007, the DSHA issued \$100.0 million of Single Family Mortgage Bonds, 2007 Series C. The proceeds of the sale were used to provide down payment assistance and low rate mortgages to first-time home buyers.

On November 14, 2007, the DSHA issued \$142.3 million of Single Family Mortgage Revenue Bonds, 2007 Series D. The proceeds, \$124.7 million, of the sale were used to provide down payment assistance and low rate mortgages to first-time home buyers. The remaining \$17.6 million was used to fully refund the Single Family Mortgage Revenue Bonds 1994 Series A and 1995 Series A. The outstanding mortgage loans in the 1994 Series A and 1995 Series A were transferred to the 2007 D issue.

Revenue bonds payable increased \$6.0 million due to accretion on capital appreciation bonds, netted by deferred amounts on refunding and bond forgiveness.

Outstanding bonds at June 30, 2008 amounted to \$898.7 million. Future debt service requirements for the DSHA's bonds are shown on the following table.

Delaware State Housing Authority Revenue Bonds
(Expressed in Thousands)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 14,676	\$ 45,462	\$ 60,138
2010	15,465	44,759	60,224
2011	18,080	43,898	61,978
2012	18,575	42,896	61,471
2013	18,705	41,896	60,601
2014-2018	96,095	194,525	290,620
2019-2023	117,916	167,579	285,495
2024-2028	143,182	135,295	278,477
2029-2033	170,476	95,763	266,239
2034-2038	217,601	42,046	259,647
2039-2043	25,135	10,461	35,596
2044-2048	32,778	3,828	36,606
2049	10,043	23	10,066
Total	\$ <u>898,727</u>	\$ <u>868,431</u>	\$ <u>1,767,158</u>

Riverfront Development Corporation (RDC)

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, 2008 was 5.125%. The bonds mature December 1, 2017. Debt service requirements are as follows:

Riverfront Development Corporation Revenue Bonds
(Expressed in Thousands)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 300	\$ 224	\$ 524
2010	320	206	526
2011	360	188	548
2012	385	167	552
2013	420	145	565
2014-2017	2,460	322	2,782
Total	\$ <u>\$4,245</u>	\$ <u>\$1,252</u>	\$ <u>\$5,497</u>

Delaware State University (DSU)

Revenue bonds payable at June 30, 2008 are as follows:

**Delaware State University
Revenue Bonds Payable
(Expressed in Thousands)**

Revenue Refunding Bonds	\$ 56,855
Student Housing Foundation Bonds	<u>52,440</u>
Total	<u>\$ 109,295</u>

In May 1999, the DSU issued revenue refunding bonds of \$15.9 million (par value) to advance refund the 1992 and 1996 series bonds with a total par value of \$14.6 million. These bonds are due on October 1, 2017. The Bond Trust Indenture requires the DSU 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 \$1.6 million. The bond ratings were not changed as a result of this substitution. In addition, the DSU 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 DSU Bonds are shown in the following schedule:

Delaware State University Revenue Refunding Bonds
(Expressed In Thousands)

Year Ending	Principal	Interest	Total
June 30	Principal	Interest	Total
2009	\$ 745	\$ 387	\$ 1,132
2010	775	356	1,131
2011	805	324	1,129
2012	835	290	1,125
2013	875	254	1,129
2014-2018	<u>4,980</u>	<u>601</u>	<u>5,581</u>
Total	9,015	\$ 2,212	\$ 11,227
Less:			
Unamortized			
Bond Discount	<u>(46)</u>	<u>-</u>	<u>(46)</u>
	<u>\$ 8,969</u>	<u>\$ 2,212</u>	<u>\$ 11,181</u>

On December 20, 2007 the DSU issued revenue bonds of \$47.6 million (par value) through the Delaware Economic Development Authority (Delaware EDA). The bonds are due on October 1, 2040 and are secured by un-appropriated gross revenues of the University. The 2007 bonds are being issued as “Additional Bonds” under the Indenture, secured equally and ratably with all other Bonds issued and outstanding under the Indenture and any Alternative Indebtedness as provided in the Indenture and in the Loan Agreement. Pursuant to the Indenture, the Delaware EDA issued for the benefit of the DSU, its \$15.9 million revenue refunding bonds (Delaware State University Project) Series 1999 to advance refund all other Bonds then outstanding under the Indenture. The 2007 bonds are insured by MBIA Insurance Corporation. The bonds were secured for the construction of a new student union, a swimming pool, and a student wellness/recreation center. The Union will include a student club area, book store, copy center, mail services, game room, study area, commuter lounge, meeting room, and administrative offices. The primary function of the pool is to provide a recreational environment. The student wellness/recreation center will service student athletes in restricted areas and the general student population will have recreational courts, fitness equipment, intramural sports, and an academic component for wellness and health programs.

Delaware Economic Development Authority Revenue Bonds

(Expressed In Thousands)

<u>Year Ending June 30</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total</u>
2009	4.00	\$ -	\$ 2,208	\$ 2,208
2010	4.00	-	2,208	2,208
2011	4.00	-	2,208	2,208
2012	4.00	-	2,208	2,208
2013	4.00	-	2,208	2,208
2014 - 2018	4.00	-	11,039	11,039
2019 - 2023	4.00 - 5.00	6,960	10,335	17,295
2024 - 2028	4.00 - 5.00	8,765	8,533	17,298
2029 - 2033	4.00 - 5.00	11,290	6,095	17,385
2034 - 2038	4.00 - 5.00	13,915	3,142	17,057
2039 - 2040	4.00 - 5.00	6,650	302	6,952
		<u>\$ 47,580</u>	<u>\$ 50,486</u>	<u>\$ 98,066</u>
Plus unamortized bond premium		306		
Total bonds payable at June 30, 2008		<u><u>47,886</u></u>		

The Delaware State University Student Housing Foundation (the Foundation), a component unit of DSU, is a non-profit corporation organized for the purpose of acquiring, developing, constructing, and operating student housing facilities primarily for students and faculty of DSU. The property is located in Dover, Delaware and the Foundation's development and construction project consists of three phases, collectively known as Phase I, II, and III. The Foundation has a fiscal year-end of May 31, 2008. The Foundation has issued student housing revenue bonds, secured by deed and payable solely from the revenues of the Foundation, for which bond proceeds were restricted to the development, construction, furnishing and equipping of the student housing facilities.

The Foundation obtained a loan payable in an aggregate amount of \$18.4 million funded with proceeds from the issuance of student housing revenue bonds, Series 2004A (for Phases I and II). Pursuant to the Trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004A Bonds are restricted to refunding prior outstanding 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 Foundation financed Phase III of the project with a loan payable in an aggregate amount of \$35.9 million funded with the proceeds from the issuance of variable rate demand student housing revenue bonds, Series 2004B. Pursuant to the trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004 Bonds are restricted to financing the construction, furnishing, and equipping Phase III of the Project, to defease in advance of their

maturities, the former Series 2000B and 2002B Bonds, to fund interest on the Series 2004 Bonds during construction, to fund a debt service reserve fund for the Series 2004B Bonds, and to pay a portion of the costs of issuance of the Series 2004 Bonds.

The liability of the 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, 2008 is \$405,744.

Management determined that it wanted to hedge the variable interest rate risk on the tax-exempt Series 2004B bonds. To accomplish this, management acquired an interest rate swap agreement in the notional amount of \$18.3 million (the "Swap").

The 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 Swap at May 31, 2008 is a liability of \$212,679.

For the fiscal year ended May 31, 2008, the net change in the fair value for the swap agreement is \$(741,387) and has been included in the statement of activities. 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, 2008 are presented in the following table.

Delaware State University Student Housing Foundation Revenue Bonds	
(Expressed in Thousands)	
Year Ending	
May 31	Tax-exempt
2009	\$ 840
2010	935
2011	1,040
2012	1,090
2013	1,140
2014 - 2018	6,485
2019- 2023	8,105
2024 - 2028	10,220
2029 - 2033	12,880
2034 - 2036	10,285
Subtotal	<u>\$ 53,020</u>
Less: bond discount (net of accumulated amortization)	<u>(580)</u>
Total	<u><u>\$ 52,440</u></u>

NOTE 7 LOANS AND NOTES PAYABLE**(a) Component Units****Delaware State Housing Authority (DSHA)**

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 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 in the following table.

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

Year Ending June 30	Principal	Interest	Total
2009	\$ 72	\$ 14	\$ 86
2010	71	10	81
2011	123	117	240
2012	69	116	185
2013	20	3	23
2014-2015	39	3	42
Total	<u>\$ 394</u>	<u>\$ 263</u>	<u>\$ 657</u>

Diamond State Port Corporation (DSPC)

Loan and notes payable of the DSPC at June 30, 2008 are shown below:

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

Transportation Trust Fund Loan	\$ 20,887
City of Wilmington Port Debt Service Notes	12,129
Delaware River and Bay Authority	3,797
Wilmington Trust Company	364
Bank of America	305
Total	<u>\$ 37,482</u>

Transportation Trust Fund Loan

On November 30, 2001, the DSPC entered into a loan agreement with DelDOT. The DSPC borrowed \$27.5 million. 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 Transportation Trust Fund 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 \$10.0 million 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 expense charged to operations in 2008 was \$964,623.

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

Transportation Trust Fund Loan
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2009	\$ 657	\$ 961	\$ 1,618
2010	687	931	1,618
2011	719	899	1,618
2012	753	865	1,618
2013	787	831	1,618
2014-2018	4,517	3,571	8,088
2019-2023	5,664	2,424	8,088
2024-2028	7,103	985	8,088
Total	<u>\$ 20,887</u>	<u>\$ 11,467</u>	<u>\$ 32,354</u>

City of Wilmington Note

In 1995, in consideration of the acquisition of the Port of Wilmington assets from the City of Wilmington (the City), Delaware, the DSPC issued to the City two separate notes consisting of a Port Deferred Payment Note in the amount of \$39.9 million and Port Debt Service Notes with an original face amount of \$51.0 million. 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 20, 2001, the City issued \$22.2 million of general obligation bonds with an average interest rate of 3.7% to advance refund \$21.3 million of outstanding 1992 A, B, and C Series general obligation bonds with an average interest rate of 6.16%. The DSPC related portions of the new bonds issued and old bonds redeemed were \$7.2 million and \$6.9 million, 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, 2008 was \$24,553.

On October 5, 2004, the City issued \$12.9 million of general obligation bonds with an average interest rate of 3.73% to advance refund \$11.7 million 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 \$4.0 million and \$3.6 million, respectively, passed through to the DSPC. 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 DSPC'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, 2008 was \$385,567.

On June 30, 2006, the State of Delaware paid the City on behalf of the DSPC, \$5.0 million in lieu of amounts due for the Port-related portions of the City's 1993B and 2004B bond payments due July 1, 2006 and July 1, 2007 totaling \$5.6 million, reducing the total amount owed to the City by \$5.6 million. The effect on the advance payment was a reduction of principal in the amount of \$308,844, and a resulting gain of \$396,233.

On June 26, 2008, the City of Wilmington refunded Series 1996B bonds, and those bonds were replaced by Series 2008A bonds, which the DSPC has correlating notes with the City. Overall, the DSPC will pay an additional \$60,000 in principal over the next nine years; however, the DSPC will save \$334,673 in interest during the same period. In summary, the Port will pay \$274,673 less on the City notes due to the refunding/financing.

Total deferred loss balance as of June 30, 2008 was \$410,120. The amortization of the deferred loss of \$19,734 is charged to interest expense.

Principal and interest payments made on the notes during 2008 were \$678,797 and \$426,431, respectively. Interest expense in 2008 was \$586,685.

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
2009	\$ 2,116	\$ 463	\$ 2,579
2010	2,460	365	2,825
2011	1,401	278	1,679
2012	1,449	224	1,673
2013	579	190	769
2014-2018	2,997	577	3,574
2019-2023	1,536	162	1,698
Subtotal	12,538	2,259	14,797
Deferred Loss on Refunding	(410)	-	(410)
Total	<u>\$ 12,128</u>	<u>\$ 2,259</u>	<u>\$ 14,387</u>

Delaware River and Bay Authority (DRBA) Obligation

On March 1, 2005, the DSPC entered into an agreement with the DRBA whereby the DSPC agreed to lease to the DRBA land and a warehouse, located at the Port, for twenty years. The rent for the entire twenty-year term of the lease was \$4.0 million, to be paid in advance. Simultaneously, the DSPC and the DRBA entered into an operating agreement in which the DSPC agreed to make guaranteed payments to the DRBA in the amount of \$21,786, at the beginning of each month, starting with the date upon which substantial completion has occurred, for a period of twenty years, totaling \$4.0 million plus interest, which ranges from 1.5% to 5.32%.

This transaction is accounted for as a loan from DRBA secured by revenue from warehouse operations. The DSPC began making guaranteed payments on July 1, 2007.

Interest expense incurred on the obligation was \$58,356 in 2008.

The future maturities of principal and interest payments on the DRBA obligation are as follows:

Delaware River and Bay Authority Obligation
(Expressed in Thousands)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 206	\$ 56	\$ 262
2010	209	52	261
2011	212	49	261
2012	215	46	261
2013	175	86	261
2014-2018	913	394	1,307
2019-2023	927	381	1,308
2024-2025	940	106	1,046
Total	<u>\$ 3,797</u>	<u>\$ 1,170</u>	<u>\$ 4,967</u>

Wilmington Trust Company (WTC) Loan

The DSPC entered into a loan agreement with WTC on August 17, 2007 for \$401,973 to purchase two 45,000 lbs. Hyster forklifts. Monthly payments to WTC of \$6,186 began on September 17, 2007. The loan is for seven years, and the interest rate is 7.4%.

Interest expense incurred on this obligation was \$24,751 during 2008.

The future maturities of principal and interest payments on the WTC obligation are as follows:

Wilmington Trust Company Loan
(Expressed in Thousands)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 48	\$ 26	\$ 74
2010	52	22	74
2011	56	18	74
2012	61	13	74
2013	65	9	74
2014-2018	82	3	85
Total	<u>\$ 364</u>	<u>\$ 91</u>	<u>\$ 455</u>

Bank of America Master (BOA) Lease

On May 2, 2008, the DSPC purchased nine 6,000 lbs. forklifts for \$188,881. On June 27, 2008, the DSPC purchased three 10,000 lbs. forklifts for \$118,788. The DSPC utilized the

State of Delaware's Master Lease program (as administered by BOA) to purchase the twelve forklifts for \$307,669. Both loans are for ten years at interest rates of 2.88% and 3.23%, respectively. Payments began one month after the purchase dates.

Interest expense incurred on this obligation was \$903 during 2008.

The future maturities of principal and interest payments on the BOA obligation are as follows:

Bank of America Master Lease
(Expressed in Thousands)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 27	\$ 9	\$ 36
2010	28	8	36
2011	29	7	36
2012	29	6	35
2013	30	5	35
2014-2018	<u>162</u>	<u>13</u>	<u>175</u>
Total	<u>\$ 305</u>	<u>\$ 48</u>	<u>\$ 353</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 \$11.7 million at June 30, 2008. Interest rates for the mortgages vary between 5.455% and 8.0% and mature between June 2009 and July 2012. Estimated future annual debt service requirements are shown below.

Riverfront Development Mortgage Debt
(Expressed in Thousands)

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 822	\$ 874	\$ 1,696
2010	6,865	575	7,440
2011	3,945	169	4,114
2012	45	5	50
2013	<u>45</u>	<u>4</u>	<u>49</u>
Total	<u>\$ 11,722</u>	<u>\$ 1,627</u>	<u>\$ 13,349</u>

Demand Note Payable and Advance Payable

RDC has available a line of credit in the amount \$500,000. When used, this line bears interest at 1.0% over prime (6.0% at June 30, 2008) and is due on demand. There was no outstanding balance on this line at June 30, 2008.

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 \$197.5 million, of which \$161.2 million relates to property leases and \$36.3 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 \$32.8 million were made by the General Assembly to meet the rental payments in fiscal year 2008, of which \$23.8 million was for office space and \$9.0 million was for equipment consisting mainly of computers, data processing equipment and fleet vehicles.

Significant annual equipment rentals include \$5.0 million for fleet vehicles and data processing equipment for the Office of Management and Budget and \$1.2 million for data processing equipment for the Department of Education. Significant annual real estate rentals include \$5.7 million for leases for Health and Social Services facilities, \$3.0 million for the Department of Labor, \$2.1 million for the Department of Services for Children, Youth and Their Families, and \$1.9 million for office space for the Department of Correction.

Future minimum lease commitments for operating leases as of June 30, 2008 are shown in the following table:

Lease Commitments	
(Expressed in Thousands)	
<u>Year Ending June 30</u>	<u>Operating Leases</u>
2009	\$ 31,296
2010	27,328
2011	23,424
2012	20,727
2013	17,358
2014-2018	46,020
2019-2023	19,729
2024-2028	9,592
2029-2033	<u>2,060</u>
Total	<u>\$ 197,534</u>

NOTE 9 OTHER LONG-TERM OBLIGATIONS

Compensated absences payable are reported in the government-wide financial statements and in the proprietary fund financial statements. 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, 2008. 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. \$146.8 million has been accrued for the Governmental Activities and \$13.8 million in the Business-type Activities for the total compensated absences liability. The current portion of the long-term obligation for compensated absences is \$11.3 million in the Governmental Activities and \$4.2 million in the Business-type Activities. Approximately \$123.5 million (84.1%) of the long-term obligation for compensated absences will be liquidated by the General Fund. Of the remainder, approximately \$9.5 million (6.5%) and \$13.8 million (9.4%) will be paid with Federal Funds and Local School District Funds, respectively.

The State has recorded \$40.0 million relating to the accrual of the obligation for escheated (abandoned) property of which \$8.0 million was recorded as the current portion.

The State has incurred obligations relating to scholarship and physician loan repayment programs, resulting in an additional long-term obligation of \$4.0 million, of which \$0.6 million was recorded as the current portion.

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, 2008:

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	\$ 1,307.5	\$ 217.4	\$ (151.7)	\$ 1,373.2	\$ 142.0
Bond issue premium, net of accumulated amortization	56.8	10.1	(6.3)	60.6	4.6
Notes payable	2.6	9.2	(3.2)	8.6	8.4
Physician and scholarship programs	3.5	1.1	(0.6)	4.0	0.6
Claims and judgments (notes 13 and 17)	98.2	43.2	(34.3)	107.1	29.9
Compensated absences	140.6	26.2	(20.0)	146.8	11.3
Net pension obligation (note 15)	104.8	13.1	(9.1)	108.8	-
Other postemployment benefits	-	265.6	-	265.6	-
Escheat payable	40.0	-	-	40.0	8.0
	<u>1,754.0</u>	<u>585.9</u>	<u>(225.2)</u>	<u>2,114.7</u>	<u>204.8</u>
Governmental Activities long-term liabilities					
	<u>\$ 1,754.0</u>	<u>\$ 585.9</u>	<u>\$ (225.2)</u>	<u>\$ 2,114.7</u>	<u>\$ 204.8</u>
Business-type Activities:					
Revenue bonds	\$ 1,018.8	\$ 82.8	\$ (109.0)	\$ 992.6	\$ 73.2
Bond issue premium, net of accumulated amortization	29.4	5.1	(6.1)	28.4	6.8
Liabilities payable from restricted assets	6.2	0.6	-	6.8	1.7
General obligation bonds	3.4	-	(0.6)	2.8	0.7
Compensated absences	13.6	0.2	-	13.8	4.1
Other postemployment benefits	-	25.9	-	25.9	-
Claims and judgments (notes 13 and 17)	4.8	3.2	(3.6)	4.4	1.9
	<u>1,076.2</u>	<u>117.8</u>	<u>(119.3)</u>	<u>1,074.7</u>	<u>88.4</u>
Business-type Activities long-term liabilities					
	<u>\$ 1,076.2</u>	<u>\$ 117.8</u>	<u>\$ (119.3)</u>	<u>\$ 1,074.7</u>	<u>\$ 88.4</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	\$ 4.5	\$	-	\$	(4.1)	\$	0.4	\$	0.1
Revenue bonds	735.0		248.3		(84.6)		898.7		14.7
Compensated absences	1.0		0.5		(0.5)		1.0		-
Escrow deposits	28.5		2.4		-		30.9		-
Other long-term obligations	0.3		0.3		-		0.6		-
Total long-term obligations	\$ 769.3	\$	251.5	\$	(89.2)	\$	931.6	\$	14.8
Diamond State Port Corporation									
Notes and loans payable	\$ 37.7	\$	0.8	\$	(1.0)	\$	37.5	\$	3.1
Total long-term obligations	\$ 37.7	\$	0.8	\$	(1.0)	\$	37.5	\$	3.1
Riverfront Development Corporation									
Revenue bonds	\$ 4.5	\$	-	\$	(0.3)	\$	4.2	\$	0.3
Long-term debt	9.7		4.1		(2.1)		11.7		0.8
Total long-term obligations	\$ 14.2	\$	4.1	\$	(2.4)	\$	15.9	\$	1.1
Delaware State University									
Other long-term obligations	\$ 1.4	\$	-	\$	(0.5)	\$	0.9	\$	0.6
Compensated absences	4.9		0.5		-		5.4		-
Notes payable	0.9		-		-		0.9		-
Revenue bonds	62.9		47.9		(1.5)		109.3		1.6
Total long-term obligations	\$ 70.1	\$	48.4	\$	(2.0)	\$	116.5	\$	2.2
Delaware Charter Schools									
Compensated absences	\$ 0.9	\$	0.3	\$	-	\$	1.2	\$	0.1
Long-term debt	38.5		3.7		(4.0)		38.2		5.3
Total long-term obligations	\$ 39.4	\$	4.0	\$	(4.0)	\$	39.4	\$	5.4

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

The State, 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, 2008 for these entities amounted to \$1,587.8 million and \$373.5 million, respectively.

NOTE 12 CAPITAL ASSETS

(a) Primary Government

Capital asset activities for the fiscal year ended June 30, 2008 were as follows:

Capital Assets (Expressed in Thousands)				
Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated				
Land	\$ 413,080	\$ 24,999	\$ (205)	\$ 437,874
Easements	117,997	27,896	-	145,893
Construction-in-progress	316,789	267,389	(248,067)	336,111
Total capital assets, not being depreciated	<u>847,866</u>	<u>320,284</u>	<u>(248,272)</u>	<u>919,878</u>
Capital assets, being depreciated				
Vehicles	82,203	11,933	(9,112)	85,024
Buildings	2,453,413	258,835	(1,323)	2,710,925
Equipment	85,410	3,492	(3,211)	85,691
Land Improvements	93,969	6,314	-	100,283
Total capital assets being depreciated	<u>2,714,995</u>	<u>280,574</u>	<u>(13,646)</u>	<u>2,981,923</u>
Less accumulated depreciation for:				
Vehicles	(58,839)	(10,399)	8,090	(61,148)
Buildings	(770,975)	(61,926)	1,655	(831,246)
Equipment	(60,708)	(5,072)	2,624	(63,156)
Land Improvements	(32,939)	(5,256)	153	(38,042)
Total accumulated depreciation	<u>(923,461)</u>	<u>(82,653)</u>	<u>12,522</u>	<u>(993,592)</u>
Total capital assets, being depreciated, net	<u>1,791,534</u>	<u>197,921</u>	<u>(1,124)</u>	<u>1,988,331</u>
Governmental activities capital assets, net	<u>\$ 2,639,400</u>	<u>\$ 518,205</u>	<u>\$ (249,396)</u>	<u>\$ 2,908,209</u>

Capital Assets
(Expressed in Thousands)

Business-type Activities	Beginning			Ending
Lottery	Balance	Increases	Decreases	Balance
Capital assets, being depreciated				
Computer equipment & software	\$ 1,395	\$ -	\$ -	\$ 1,395
Total capital assets being depreciated	1,395	-	-	1,395
Less accumulated depreciation	(1,388)	(2)	-	(1,390)
Total capital assets, being depreciated, net	\$ 7	\$ (2)	\$ -	\$ 5

Capital Assets
(Expressed in Thousands)

Business-type Activities	Beginning			Ending
DeIDOT	Balance	Increases	Decreases	Balance
Capital assets, not being depreciated				
Land	\$ 206,411	\$ 16,575	\$ -	\$ 222,986
Infrastructure	3,283,783	61,616	-	3,345,399
Construction-in-progress	21,240	-	(21,240)	-
Total capital assets, not being depreciated	3,511,434	78,191	(21,240)	3,568,385
Capital assets, being depreciated				
Buildings & improvements	55,051	22,502	(82)	77,471
Furniture & equipment	179,466	46,345	(7,205)	218,606
Total capital assets being depreciated	234,517	68,847	(7,287)	296,077
Less accumulated depreciation for:				
Buildings & improvements	(19,592)	(1,918)	56	(21,454)
Furniture & equipment	(95,272)	(15,144)	6,389	(104,027)
Total accumulated depreciation	(114,864)	(17,062)	6,445	(125,481)
Total capital assets, being depreciated, net	119,653	51,785	(842)	170,596
Total capital assets, being depreciated, net	\$ 3,631,087	\$ 129,976	\$ (22,082)	\$ 3,738,981
Business-type activities capital assets, net	\$ 3,631,094	\$ 129,974	\$ (22,082)	\$ 3,738,986

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

Depreciation Expense
(Expressed in Thousands)

Governmental activities:	
General government	\$ 16,817
Health and children's services	5,198
Judicial and public safety	11,777
Natural resources and environmental control	4,272
Labor	93
Education	44,496
	<hr/>
Total depreciation expense - governmental activities	\$ 82,653
	<hr/> <hr/>
Business-type activities:	
DeIDOT	\$ 17,062
Lottery	2
	<hr/>
Total depreciation expense - business-type activities	\$ 17,064
	<hr/> <hr/>

(b) Component Units

Capital asset activities for the fiscal year ended June 30, 2008 were as follows:

Component Units				
(Expressed in Thousands)				
	Beginning Balance	Increases	Decreases	Ending Balance
Delaware State Housing Authority				
Capital assets, not being depreciated	\$ 4,707	\$ 358	\$ 342	\$ 4,723
Capital assets, being depreciated	39,340	369	-	39,709
Accumulated depreciation	(21,610)	(1,555)	-	(23,165)
Total capital assets, net	<u>\$ 22,437</u>	<u>\$ (828)</u>	<u>\$ 342</u>	<u>\$ 21,267</u>
Diamond State Port Corporation				
Capital assets, not being depreciated	\$ 26,967	\$ 7,295	\$ 1,632	\$ 32,630
Capital assets, being depreciated	178,080	1,632	60	179,652
Accumulated depreciation	(40,214)	(5,311)	49	(45,476)
Total capital assets, net	<u>\$ 164,833</u>	<u>\$ 3,616</u>	<u>\$ 1,741</u>	<u>\$ 166,806</u>
Riverfront Development Corporation				
Capital assets, not being depreciated	\$ 79,158	\$ 45,964	\$ 24,383	\$ 100,739
Capital assets, being depreciated	43,470	338	-	43,808
Accumulated depreciation	(21,115)	(3,961)	-	(25,076)
Total capital assets, net	<u>\$ 101,513</u>	<u>\$ 42,341</u>	<u>\$ 24,383</u>	<u>\$ 119,471</u>
Delaware State University				
Capital assets, not being depreciated	\$ 21,905	\$ 7,461	\$ -	\$ 29,366
Capital assets, being depreciated	227,066	3,199	1,888	228,377
Accumulated depreciation	(74,634)	(7,668)	1,046	(81,256)
Total capital assets, net	<u>\$ 174,337</u>	<u>\$ 2,992</u>	<u>\$ 2,934</u>	<u>\$ 176,487</u>
Delaware Charter Schools				
Capital assets, not being depreciated	\$ 338	\$ 4,528	\$ -	\$ 4,866
Capital assets, being depreciated	52,407	458	-	52,865
Accumulated depreciation	(6,722)	(2,450)	-	(9,172)
Total capital assets, net	<u>\$ 46,023</u>	<u>\$ 2,536</u>	<u>\$ -</u>	<u>\$ 48,559</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.

The management of the State estimates that the amount of actual or potential claims against the State at June 30, 2008, for workers' compensation, automobile accident and health-care claim liabilities is \$139.5 million. The claim liabilities relating to health-care totaling \$33.6 million have been recorded as accrued liabilities in governmental activities. The liability for workers' compensation and automobile accident liabilities totaling \$105.9 million has been recorded in governmental activities as claims and judgments. The current portion of these claims totals \$29.9 million. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2008 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2008 and 2007 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
2007	\$ 132,851	\$ 469,857	\$ (467,227)	\$ 135,481
2008	135,481	482,689	(478,657)	139,513

DelDOT

The Delaware Transit Corporation (DTC) maintains coverage on auto insurance through both the retention of risk and the purchase of commercial insurance. The DTC has recorded \$4.4 million of claim liabilities as claims and judgments. Of this amount, \$1.9 million has been recorded as current.

NOTE 14 OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

On July 1, 2007, the Delaware OPEB Fund Trust (OPEB Trust) was established pursuant to Section 115 of the Internal Revenue Code and separate from the DPERS. The OPEB Trust is administered by the DPERS Board of Directors. Policy for and management of the OPEB benefits provided to retirees are the responsibility of the State. No stand-alone financial report is issued for the OPEB Trust.

The OPEB Trust is a single-employer defined benefit plan. The OPEB Trust provides retirement medical coverage to pensioners and their eligible dependents in the State Employees', Judiciary, New State Police, and Closed State Police pension plans. The State of Delaware has elected to assume the OPEB liability on behalf of employees who participate in the State's pension plan but are employed at outside agencies including Delaware State University, University of Delaware, Delaware State Housing Authority, Delaware Charter Schools and Delaware Solid Waste Authority. Due to this assumption, the State is a single employer defined benefit plan.

Membership of the plan consisted of the following at June 30, 2008:

Retirees and beneficiaries receiving benefits	16,644
Terminated plan members entitled to but not yet receiving the benefits	1,131
Active eligible plan members	<u>35,019</u>
Total	<u><u>52,794</u></u>

Substantially all State employees become eligible for post retirement benefits if they reach retirement age while working for the State. The costs of providing these benefits are shared between the State and the retired employee. The plan provisions are as follows:

Eligibility:

State Employees:

Early Retirement

Age 55 with 15 years of service or any age with 25 years of service

Normal Retirement:

Age 62 with 5 years of service or age 60 with 15 years of service or any age with 30 years of service

Benefits:

During the fiscal year ended June 30, 2008, the State provided health insurance options though several providers.

Spouse and Survivor Coverage:

Both are available under any of the plan options with similar retiree contributions.

Employee Contributions:

If hired prior to July 1, 1991, no contributions are required. If hired on or after July 1, 1991 (except disability pension), contributions depend on years of service.

Retiree Contributions (hired on or after 07/01/1991):

<u>Years of Service</u>	<u>Percent of Premium Paid by State</u>
Less than 10	0%
10 - 14	50%
15 - 19	75%
20 or more	100%

Funding Policy

The State of Delaware funds the OPEB for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. Additional funding has also been provided on an ad hoc basis. By State Statute Title 29 of the Delaware Code c.52, contribution requirements of plan members and the government are established and may be amended by the State Legislature. Funds are recorded in the OPEB Trust for the payment of retiree health care claims and administrative and investment expenses. Administrative costs are financed through investment earnings. State appropriations, other employer contributions, and retiree contributions for health care are recorded in the OPEB Trust. The funds available are invested under the management of the DPERS Board of Pension Trustees, which acts as the Board of Trustees for the OPEB Trust and is responsible for the financial management of the trust.

Contributions

The contribution rates for the employer and retiree are established annually by the budgeting process of the State. Those rates include an employer contribution based on projected pay-as-you-go financing requirements as a percent of covered payroll, with an additional amount to prefund benefits, which is not actuarially determined. The State department and agencies were required to contribute .54% of the annual covered salary of \$2,574.3 million in fiscal year 2008. For fiscal year 2008, the State contribution in relation to the annual required contribution (ARC) totaled \$183.2 million, which included an ad hoc payment of \$30.5 million from health care program savings.

Retiree contribution rates are affected by the retiree date of hire, with eligible retirees hired after June 30, 1991 paying a proportionately higher rate if their years of service total less than 20. Retiree contributions for health coverage totaled \$3.5 million. Additionally, during the fiscal year, the net amount of \$34.2 million was transferred to the OPEB Trust from the former State Employees' Health Insurance Premium Fund.

Annual OPEB Cost and Net OPEB Obligation

The State's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding

that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years. Amounts “required” but not actually set aside to pay for these benefits are accumulated as part of the net OPEB obligations. The following table shows the components of the State’s annual OPEB cost for the year, the amount actually contributed to the plan, and the State’s net OPEB obligation (dollar amounts in millions):

	Total	Governmental Activities	Business-Type Activities *
Net OPEB obligation at June 30, 2007	\$ -	\$ -	\$ -
Annual required contribution	475.4	439.2	36.2
Adjustment to annual required contribution	-	-	-
Annual OPEB Cost	<u>475.4</u>	<u>439.2</u>	<u>36.2</u>
Employer contributions	<u>(183.9)</u>	<u>(173.6)</u>	<u>(10.3)</u>
Net OPEB obligation at June 30, 2008	<u>\$ 291.5</u>	<u>\$ 265.6</u>	<u>\$ 25.9</u>

* This column includes DTC's OPEB activity found on pages 104-106.

The State’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2008 are as follows (dollar amounts in millions):

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	\$ 464.6	38%	\$ 281.4

Funded Status and Funding Progress

As of June 30, 2008, the most recent actuarial valuation date, the plan was 1.4% funded. The actuarial accrued liability for benefits was \$5,489.0 million, and the actuarial value of assets was \$79.4 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,410.0 million for the primary government. The covered payroll (annual payroll of active employees covered by the plan) was \$1,770.0 million, and the ratio of the UAAL to the covered payroll was 306%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding

progress, presented as required supplementary information following the notes to the financial statements, will present information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. This schedule will be expanded in future years to provide multi-year trend data.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the OPEB plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2008 actuarial valuation, the entry age normal actuarial cost method was used. Investments are valued at market rates. The actuarial assumptions included a 5.0 percent investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the State's own investments calculated based on the funded level of the plan at the valuation date, and an initial medical inflation rate of 9.0 percent with an ultimate rate of 5.0 percent. The UAAL is being amortized as a level percentage of projected payroll on a level percent open basis over 30 years using a 3.75 percent rate of salary increase.

Delaware Transit Corporation (DTC)

In adopting the requirement of GASB Statement No. 45 during the year ended June 30, 2008, DTC recognizes the cost of post-employment healthcare in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on DTC's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

Plan Description

DTC provides continuation of medical insurance coverage to employees that retire. Based on collective bargaining agreements, any full-time employee is eligible to participate in the plan if the employee retires after meeting the eligibility requirements, which are: 1) age 65 with 5 years of service or after working for 25 years for contract employees or 2) age 55 with 10 years of service or age 62 with five years of service for noncontract employees. Disabled employees must reach eligibility. Surviving spouses of participants are allowed access to the plan and receive the same subsidy as retirees.

DTC subsidizes the medical premium. The subsidized percentage is 90% of published rates for retirees less than age 65 and 100% for retirees age 65 or greater. DTC subsidizes 100% of the dental and vision coverage for noncontract employees. Contract employees are allowed to access to dental and vision coverage, but must pay the full premium.

Life insurance is provided to retirees. Retirees under age 70 receive \$6,000 in coverage. Once the participant reaches age 70, the coverage drops to \$5,000. Each participant must contribute \$0.43 per month per \$1,000 of coverage to receive the benefit.

The number of participants are 718 active employees and 105 retirees as of May 1, 2008, the effective date of the other post-employment benefit (OPEB) actuarial valuation report.

Funding Policy

DTC currently pays for post-employment health care benefits on a pay-as-you-go basis. Although DTC is studying the establishment of a trust that would be used to accumulate and invest assets necessary to pay the accumulated liability, these financial statements assume that the pay-as-you-go funding will continue. The cash basis costs associated with these benefits were \$723,447 and \$612,415 for the fiscal years ended June 30, 2008 and 2007 respectively.

Annual OPEB Cost and Net Obligation

DTC's annual OPEB cost (expense) is calculated based upon the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of DTC's OPEB cost for the year, the amount actually contributed to the plan, and changes to DTC's net OPEB obligation (expressed in thousands):

Annual required contribution	\$ 10,767
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>10,767</u>
Contributions made	<u>(724)</u>
Increase in net OPEB obligation	10,043
Net OPEB obligation - beginning of year	-
Net OPEB obligation - end of year	<u><u>\$ 10,043</u></u>

DTC's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows (expressed in thousands):

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	\$ 10,767	6.7%	\$ 10,043

Funded Status and Funding Progress

As of June 30, 2008, the plan was zero percent funded. The actuarial accrued liability was \$76.1 million which is equivalent to the unfunded actuarial accrued liability. The covered payroll (annual payroll of active employees covered by the plan) was \$29.5 million and the ratio of the UAAL to the covered payroll was 258%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the May 1, 2008 actuarial valuation, the projected unit credit method was used with linear pro-ration to assumed benefit commencement. The actuarial assumptions included a 4% investment rate of return, 4% payroll growth rate, a 3.2% inflation rate, and a healthcare cost trend rate of 9% initially, reduced by decrements to 7.1% after 10 years. The ultimate healthcare cost trend rate will remain constant at 5.2% after 2080. The unfunded liability is being amortized as a level percentage of payroll over a 30-year amortization period.

NOTE 15 PENSIONS

(a) Primary Government

Pension Plans

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

- State Employees' Pension Plan;

- Special Fund;
- New State Police Pension Plan;
- Judiciary Pension Plans (Closed and Revised);
- County & Municipal Police and Firefighters' Pension Plans (FICA and Non-FICA);
- County & Municipal Other Employees' Pension Plan;
- Delaware Volunteer Firemen's Fund;
- 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's General Assembly is responsible for setting benefits and contributions and amending plan provisions; administrative rules and regulations are adopted and maintained by the Board. The Board of Directors for the Diamond State Port Corporation is responsible for setting benefits and contributions and amending their plan provisions.

The individual plans and funds 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 and funds, with the exception of the Closed State Police Pension Plan, are pooled and invested in a common DPERS Master Trust Fund (Master Trust). Each of the plans or funds shares in the Master Trust based on funds contributed and earnings or losses allocated. Individual investments in the Master Trust are not specifically identified to the various plans or funds.

Additionally, the following non-DPERS funds, described below, have been established under the custody of the Board for investment purposes only.

- County & Municipal Police and Firefighters' COLA Fund;
- Post-Retirement Increase Fund;
- 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 & Municipal Police and Firefighters' 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 & Municipal Police and Firefighters' pension plans. This mechanism allows the State to appropriate funds relating to a cost of living adjustment (COLA) to a separate County & Municipal Police and Firefighters' 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 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 in 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. For the fiscal year ended June 30, 2008, \$47.4 million was transferred to the appropriate plans in DPERS.

No post-retirement increase was granted by the General Assembly in fiscal year 2007 or 2008. As of June 30, 2008, previously granted post-retirement increases have outstanding liabilities totaling \$79.6 million, which will be funded by the State and transferred to the appropriate plans over the next three fiscal years as follows:

<u>Fiscal Year</u>	<u>(Expressed in Thousands)</u>
2009	\$ 39,334
2010	26,457
2011	<u>13,825</u>
Total	<u>\$ 79,616</u>

The Board adopts actuarially determined funding for the Post-Retirement Increase Fund. Funding for fiscal year 2008 was 2.52% of covered payroll. Funding for fiscal year 2009 will be 2.20%.

Local Government Retirement Investment Pool

In June 1996, the State passed legislation that established the Delaware Local Government Retirement Investment Pool (DEL RIP) in the custody of the Board to allow local governments the option to pool their pension assets with the Delaware Public Employees' Retirement System. The DEL RIP is an external investment pool that allows local governments to potentially maximize their rate of return and reduce administrative expenses related to the investment of funds. Participation in the pool is totally voluntary. There were four participating entities in DEL RIP as of June 30, 2008, which comprise the pool in its entirety.

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 legally 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.

State Employees' Post-Retirement Health Insurance Premium Fund

On July 1, 2007, a separate trust fund for OPEB, the Delaware OPEB Fund Trust, was created by the State 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 (aggregating \$34.2 million) were transferred out of the System and into the Delaware OPEB Fund Trust during fiscal year 2008. Fiscal year 2008 funding was 0.54% of covered payroll. Funding for fiscal year 2009 will range between 0.54% and 0.81% of covered payroll. These funding rates are not actuarially determined, but determined in the budget process.

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.

State Employees' Pension Plan

Plan Description and Eligibility:

The State Employees' Pension Plan is a cost-sharing single 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.

Burial Benefit: \$7,000 per member.

Special Fund

Plan Description and Eligibility:

The Special Fund provides certain benefits granted to individuals 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.

Burial 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 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, 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.

Burial 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 50% of pension (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:
 - 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.

Burial Benefit: Not applicable.

County & Municipal Police and Firefighters’ Plans (FICA & Non-FICA)

Plan Description and Eligibility:

County & Municipal Police and Firefighters’ Plans, both FICA and Non-FICA, are cost-sharing multiple-employer defined benefit plans that cover police officers and firefighters employed by a county or municipality of the State which has become part of the Plan.

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.

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.

Burial Benefit: Not applicable.

County and Municipal Other Employees' Pension Plan

Plan Description and Eligibility:

County and 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, subject to maximum limitations. For this plan, final average monthly compensation is the monthly average of the 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, then eligible survivor receives 50% of pension; if the 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 - 3% of earnings in excess of \$6,000

Burial Benefit: Not applicable.

Delaware Volunteer Firemen's Fund

Plan Description and Eligibility:

The Delaware Volunteer Firemen's Fund is a cost-sharing length of service award plan that covers all actively participating volunteers of fire departments, ladies auxiliaries, or ambulance organizations within the State.

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.

Burial 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 which 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 (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, the eligible survivor receives 50% of pension; if employee 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.

Burial 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 monthly salary. Non-Duty – Same as Service Benefits.

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.

Burial 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 Pension Plan for the fiscal years ended June 30, 2008, 2007, and 2006 are as follows:

Net Pension Obligation (NPO)

(Expressed in Thousands)

	Fiscal Year Ended June 30, 2008	Fiscal Year Ended June 30, 2007	Fiscal Year Ended June 30, 2006
Annual Required Contribution	\$ 26,017	\$ 25,479	\$ 24,623
Interest on Net Pension Obligation	8,380	7,921	7,641
Adjustment to Annual Required Contribution	<u>(9,060)</u>	<u>(8,487)</u>	<u>(8,122)</u>
Annual Pension Cost	25,337	24,912	24,142
Less Contributions Made	<u>(21,269)</u>	<u>(19,159)</u>	<u>(20,655)</u>
Increase in Net Pension Obligation	4,068	5,753	3,487
Net Pension Obligation, Beginning of Year	<u>104,755</u>	<u>99,002</u>	<u>95,515</u>
Net Pension Obligation, End of Year	<u>\$ 108,823</u>	<u>\$ 104,755</u>	<u>\$ 99,002</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	6/30/2008	\$ 101,660	\$ 101,660	100.00%	\$ -
	6/30/2007	97,000	97,000	100.00%	-
	6/30/2006	91,013	91,013	100.00%	-
County & Municipal Police & Firefighters	6/30/2008	\$ 6,246	\$ 6,246	100.00%	\$ -
	6/30/2007	5,780	5,780	100.00%	-
	6/30/2006	5,488	5,488	100.00%	-
County & Municipal Other Employees'	6/30/2008	\$ 1,492	\$ 1,492	100.00%	\$ -
	6/30/2007	820	820	100.00%	-
	6/30/2006	734	734	100.00%	-
Delaware Volunteer Firemen's Fund	6/30/2008	\$ 1,045	\$ 1,553	67.30%	\$ 2,161
	6/30/2007	978	1,528	64.01%	1,682
	6/30/2006	899	1,464	61.41%	1,150
Judiciary	6/30/2008	\$ 2,644	\$ 2,644	100.00%	\$ -
	6/30/2007	2,495	2,495	100.00%	-
	6/30/2006	2,002	2,002	100.00%	-
New State Police	6/30/2008	\$ 6,643	\$ 6,643	100.00%	\$ -
	6/30/2007	6,334	6,334	100.00%	-
	6/30/2006	5,276	5,276	100.00%	-
Closed State Police	6/30/2008	\$ 21,267	\$ 25,337	83.94%	\$ 108,823
	6/30/2007	19,159	24,912	76.91%	104,755
	6/30/2006	20,655	24,623	83.88%	99,002
Diamond State Port Corporation	6/30/2008	\$ 715	\$ 715	100.00%	\$ -
	6/30/2007	626	626	100.00%	-
	6/30/2006	703	703	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 the Required Supplementary Information on pages 124-136.

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

Three-Year Trend Information

(Expressed in Dollars)

	<u>Plan Year Ended</u>	<u>Contribution Made</u>	<u>Annual Pension Cost</u>	<u>Percent Of APC Contributed</u>	<u>Net Pension Asset</u>
DTC Pension Plan	6/30/2008	\$ 800,040	\$ 768,204	104.14%	\$ 31,836
	6/30/2007	707,897	707,897	100.00%	-
	6/30/2006	626,894	626,894	100.00%	-
Contributory Pension	12/31/2007	\$ 879,154	\$ 440,338	199.65%	\$ 1,415,091
	12/31/2006	835,280	547,899	152.45%	976,275
	12/31/2005	748,661	542,133	138.10%	688,884

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 Match Plan was suspended by the State Legislature for fiscal year 2009. The State contribution totaled \$3.0 million to the Match Plan for the year ended June 30, 2008.

NOTE 16 AFFILIATED ORGANIZATIONS

State Lottery

Multi-State Lottery Association

The 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, 2008, was \$2.1 million. This amount is reported by the Lottery as a liability on 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, 1701 48th Street, Suite 210, West Des Moines, IA 50266-6723.

NOTE 17 COMMITMENTS

Primary Government

The State has entered into various contractual commitments that contracts for services and for construction of various highway, capital, and lottery 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 \$329.3 million are shown on the balance sheet as encumbrances. Commitments of the proprietary fund include \$268.4 million for DelDOT and \$180.4 million for Lottery.

Component Units

Diamond State Port Corporation (DSPC)

DSPC 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, 2008, DSPC had commitments totaling \$16.2 million.

Riverfront Development Corporation (RDC)

The RDC has an outstanding letter of credit in the amount of approximately \$4.26 million which expires on November 2012. RDC is required to maintain a letter of credit sufficient to redeem the aggregate outstanding principal amount of the bonds payable plus 39 days of interest. The letter of credit is secured by certain real property owned by RDC and assignment of the lease between RDC and National Railroad Passenger Corporation.

The RDC has entered into construction contracts for various projects. As of June 30, 2008, the RDC had construction commitments totaling \$10.7 million.

NOTE 18 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 \$13.5 million. The State recognized \$1.2 million in governmental activities as claims and judgments liabilities for pending litigation

settlements estimated to be probable as of June 30, 2008. 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, 2008 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 \$4.7 million at June 30, 2008) in the event that the annuity issuers default on their obligations.

The DSHA has amounts received or receivable from grant agencies that are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the DSHA expects such amounts, if any, to be immaterial.

NOTE 19 SUBSEQUENT EVENTS

(a) Primary Government

On January 28, 2009, the State issued \$236.0 million of general obligation bonds maturing between January 1, 2010 and January 1, 2029. Series 2009A Bonds totaling \$115.0 million were sold to retail investors and bear coupons between 3.375% and 5.0%. Series 2006B bonds totaling \$121.0 were sold competitively and bear coupons between 3.0% and 5.0%. The proceeds of the bonds were used to provide funds for capital improvements to various State and local school facilities.

(b) Component Units

Delaware State Housing Authority (DSHA)

On July 1, 2008, the DSHA issued \$69.4 million 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.

On October 15, 2008, the DSHA issued \$104.7 million 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.

Riverfront Development Corporation (RDC)

On July 2008, the RDC purchased land in the amount of \$2.85 million and in conjunction with this purchase issued a mortgage payable to PNC Bank in the amount of \$2.85 million.

Also in July 2008, RDC sold its interest in Shipyard Dining, LLC to another member of the LLC for a price of \$600,000.

NOTE 20 PRIOR PERIOD ADJUSTMENTS

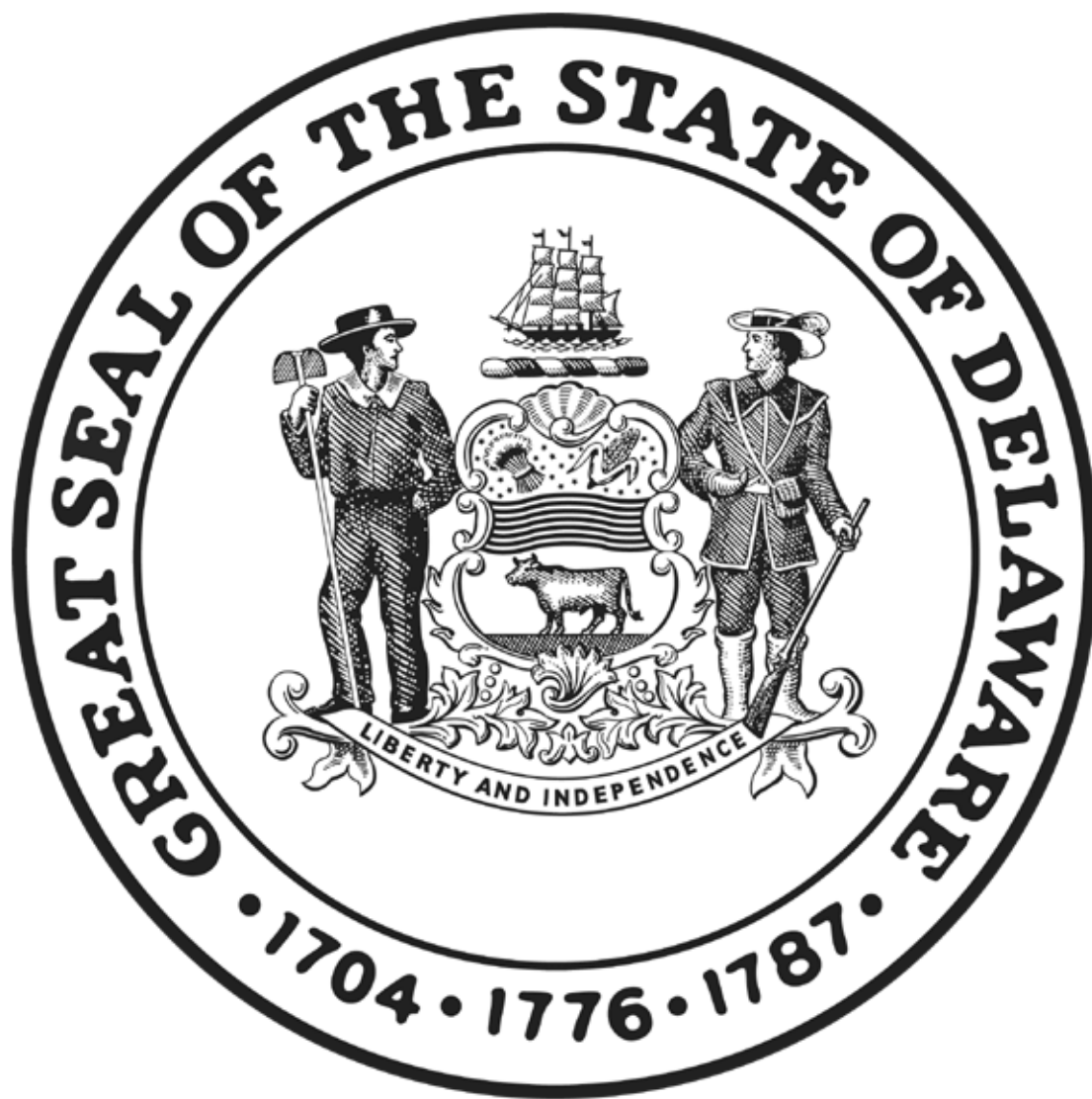
(a) Component Units

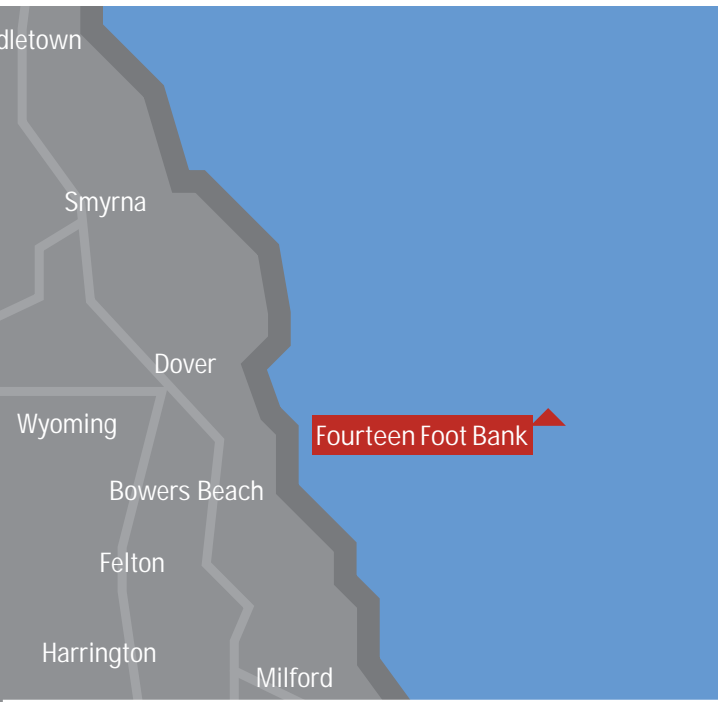
Delaware State University

The net assets of the Delaware State University Foundation, Inc. as of July 1, 2007 have been restated to correct an error in the accounting for depreciation. The effect of the restatement was to increase the change in net assets for the fiscal year ended June 30, 2007 and increase net assets as of July 1, 2007 in the amount of \$52,707.

Delaware Technical and Community College Education Foundation

Certain reclassifications have been made to the prior year's financial statements in order to conform to the current year presentation. The reclassifications did affect the previously reported results of operations.





Required Supplementary Information

FOURTEEN FOOT BANK The Fourteen Foot Bank Light looks like a storybook light sitting off Bowers Beach in the Delaware Bay. The cast-iron and concrete caisson light is named for the 14-foot shoal where ships ran aground before the lighthouse and its foghorn warned them of the sudden shallow water. The classic revival tower was first lighted in 1888. The lighthouse's original Fresnel lens is on display in Lewes and the lighthouse now features a solar-powered optic.



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 General Assembly may also enact supplement appropriation or special appropriation bills after it completes action on the State's budget.

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. 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. 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.

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, 2008, and do not include encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year. GAAP requires 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 2008, 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 \$526.0 million budgetary general fund balance at June 30, 2008, \$186.4 million is reserved for the budgetary reserve account and \$234.8 million is designated as continuing and encumbered appropriations. The \$104.8 million of undesignated fund balance, for the most part, is not available for new spending as these funds have been committed based on State statutes which are subject to review and change by the Legislature.

**Budgetary Comparison Schedule-General Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2008
(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	\$ 1,055.2	\$ 1,010.5	\$ 1,005.3	\$ (5.2)
Business taxes	1,517.1	1,534.7	1,492.7	(42.0)
Other taxes	177.9	202.3	201.3	(1.0)
License, permits, fines and fees	258.0	256.3	255.9	(0.4)
Interest earnings	26.7	32.9	32.9	-
Lottery sales	262.8	254.0	252.5	(1.5)
Other non-tax revenue	67.7	75.4	116.1	40.7
Total Revenue	<u>3,365.4</u>	<u>3,366.1</u>	<u>3,356.7</u>	<u>(9.4)</u>
Expenditures				
Legislature	15.2	18.0	14.0	4.0
Judicial	89.1	95.1	92.3	2.8
Executive	144.5	292.5	161.1	131.4
Department of Technology & Information	39.0	38.7	36.9	1.8
Other Elective Offices	57.8	81.2	79.4	1.8
Legal	43.8	45.1	44.8	0.3
Department of State	35.2	41.0	31.9	9.1
Department of Finance	20.8	35.3	33.4	1.9
Department of Health & Social Services	907.1	962.3	918.7	43.6
Department of Services for Children, Youth and Their Families	130.7	139.9	135.3	4.6
Department of Corrections	253.2	275.3	263.2	12.1
Department of Natural Resources and Environmental Control	43.2	93.4	66.7	26.7
Department of Safety & Homeland Security	121.3	129.3	126.5	2.8
Department of Transportation	-	-	-	-
Department of Labor	7.4	8.9	8.1	0.8
Department of Agriculture	8.7	9.5	8.9	0.6
Department of Elections	4.1	5.7	5.1	0.6
Fire Prevention Commission	4.8	5.4	5.3	0.1
Delaware National Guard	4.8	4.9	4.2	0.7
Advisory Council for Exceptional Citizens	0.2	0.2	0.2	-
Higher Education	241.7	257.9	253.0	4.9
Department of Education	1,113.0	1,207.4	1,132.6	74.8
Total expenditures	<u>3,285.6</u>	<u>3,747.0</u>	<u>3,421.6</u>	<u>325.4</u>
Excess (deficiency) of revenue over expenditures	79.8	(380.9)	(64.9)	316.0
Budgetary fund balance, beginning of year	<u>590.9</u>	<u>590.9</u>	<u>590.9</u>	<u>-</u>
Budgetary fund balance, end of year	<u>\$ 670.7</u>	<u>\$ 210.0</u>	<u>\$ 526.0</u>	<u>\$ 316.0</u>
Budgetary fund balance				
Designated:				
Budgetary reserve account			\$ 186.4	
Continuing and encumbered appropriations			234.8	
Undesignated			<u>104.8</u>	
Total			<u>\$ 526.0</u>	

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

Budgetary Comparison Schedule-Special Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2008
(Expressed in Millions)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Personal income taxes	\$ -	\$ -	\$ 2.1	\$ 2.1
Business taxes	32.8	32.8	15.8	(17.0)
Other taxes	4.1	4.1	15.6	11.5
License, permits, fines and fees	81.1	81.1	109.6	28.5
Rentals and sales	7.3	7.3	27.2	19.9
Interest earnings	37.8	37.8	12.3	(25.5)
Grants	30.2	30.2	35.0	4.8
Other non-tax revenue	632.8	632.8	474.7	(158.1)
Total revenue	826.1	826.1	692.3	(133.8)
Expenditures				
Legislature	0.1	0.1	-	0.1
Judicial	9.6	10.6	7.7	2.9
Executive	125.6	126.0	82.9	43.1
Department of Technology & Information	28.9	37.2	25.2	12.0
Other Elective Offices	71.2	73.0	69.8	3.2
Legal	5.5	6.4	5.0	1.4
Department of State	32.2	44.1	28.0	16.1
Department of Finance	60.4	66.0	59.5	6.5
Department of Health & Social Services	87.3	102.2	69.6	32.6
Department of Services for Children, Youth and Their Families	19.6	24.2	18.6	5.6
Department of Corrections	4.1	5.6	3.4	2.2
Department of Natural Resources and Environmental Control	84.3	92.8	47.7	45.1
Department of Safety & Homeland Security	10.0	13.4	10.1	3.3
Department of Transportation	351.0	365.2	225.1	140.1
Department of Labor	17.6	19.1	16.1	3.0
Department of Agriculture	6.1	6.7	4.6	2.1
Department of Elections	-	-	-	-
Fire Prevention Commission	2.8	2.8	2.4	0.4
Delaware National Guard	0.0	0.0	0.0	0.0
Department of Education	4.3	8.1	6.1	2.0
Total expenditures	920.6	1003.5	681.8	321.7
Excess (deficiency) of revenue over expenditures	(94.5)	(177.4)	10.5	187.9
Budgetary fund balance, beginning of year	350.7	350.7	350.7	-
Budgetary fund balance, end of year	\$ 256.2	\$ 173.3	\$ 361.2	\$ 187.9

(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, 2008 (Expressed in Millions)

Budget basis general and special fund revenue for fiscal year 2008		\$4,049.0
Non-appropriated revenue by category:		
Other revenue	163.0	
License, fees, permits, and fines	48.1	
Personal, business, and other taxes	69.1	
Federal government	13.2	
Rentals and sales	8.4	
Interest and other investment income	20.3	
Adjustments and accruals:		
DelDOT fund revenue	(245.4)	
Lottery sales	(323.1)	
Local school districts	(52.8)	
Interfund revenue	(112.2)	
Other accruals and adjustments	(123.9)	
Total general fund revenues for fiscal year 2008		\$3,513.7
Federal fund revenue	1,076.3	
Local school district fund revenue	471.1	
Capital projects fund revenue	0.1	
		<u>1,547.5</u>
Total GAAP basis governmental funds revenue for fiscal year 2008		<u><u>\$5,061.2</u></u>

Budget vs. GAAP Expenditures Reconciliation
For the Year Ended June 30, 2008
(Expressed in Millions)

Total budget basis general and special fund expenditures for fiscal year 2008		\$4,103.4
Non-appropriated expenditures by function:		
General government	\$474.4	
Health & children's services	22.7	
Judicial & public safety	13.3	
Natural resources & environmental control	44.4	
Labor	8.9	
Education	64.4	
Transportation	11.3	
Adjustments and accruals:		
Tax refunds	(291.8)	
Component units	(2.0)	
Interfund expenses	(86.3)	
Other accruals and adjustments	(327.2)	
Total general fund expenditures for fiscal year 2008		\$4,035.5
Federal fund expenditures	1,004.6	
Local school district fund expenditures	380.6	
Capital projects fund expenditures	278.2	
		1,663.4
Total GAAP basis governmental funds expenditures for fiscal year 2008		\$5,698.9

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 1,457 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, 2008 is not available. The last assessment was as of December 31, 2007. At that time, 91.3% of the roadway condition assessments were in the fair or better category. 91.3% of the bridge structures were in the good or better category, and 97.9% of the bridge deck ratings were in the good or better category.

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

		2007		2006		2005	
BCR Condition		Number	Percent	Number	Percent	Number	Percent
Good	6-9	1,131	77.6	1,112	78.5	1,048	76.3
Fair	5	261	17.9	245	17.3	243	17.7
Poor	0-4	65	4.5	60	4.2	83	6
Totals		1,457	100	1,417	100	1,374	100

Deck Rating Numbers and Percentages for Bridges

Calendar Year Ended December 31

		2007		2006		2005	
OPC Condition		Square Feet	Percent	Square Feet	Percent	Square Feet	Percent
Good	6-9	6,809,939	93.4	6,860,141	94.4	6,808,227	94.0
Fair	5	450,384	6.2	383,680	5.3	390,978	5.4
Poor	0-4	29,590	0.4	24,111	0.3	42,604	0.6
Totals		7,289,913	100	7,267,932	100	7,241,809	100

Center-Line Mile Numbers and Percentages for Road Pavement

Calendar Year Ended December 31

		2007		2006		2005	
OPC Condition		Center-Line Mile	Percent	Center-Line Mile	Percent	Center-Line Mile	Percent
Good	3.0-5.0	3,071	68.9	3,055	68.6	3,070	69.0
Fair	2.5-3.0	935	21.0	933	20.9	914	20.5
Poor	Below 2.5	448	10.1	466	10.5	469	10.5
Totals		4,454	100	4,454	100	4,453	100

Comparison of Estimated-to-Actual Maintenance/Preservation*

(Expressed In Thousands)

Fiscal Year Ended June 30

	2008	2007	2006	2005	2004
Estimated	\$197,301	\$129,138	\$135,991	\$138,517	\$122,662
Actual	\$271,333	\$256,571	\$211,347	\$311,397	\$133,765

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

Required Supplementary Information – Pension

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)	(5)	(6)
				Unfunded AAL AAL (UAAL) (Excess of Assets over Liabilities) (2) - (1)	Funded Ratio (1) / (2)	Annual Covered Payroll	UAAL/ (Excess) as % of Covered Payroll (3) / (5)
State Employees *	6/30/08	\$ 6,751,949	\$ 6,549,856	\$ (202,093)	103.1%	\$ 1,711,473	(11.8%)
	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%)
Special	6/30/08	\$ 614	\$ 492	\$ (122)	124.8%	N/A	N/A
	6/30/07	673	530	(143)	127.0%	N/A	N/A
	6/30/06	758	704	(54)	107.7%	N/A	N/A
Closed State Police +	6/30/08	\$ 618	\$ 299,912	\$ 299,294	0.2%	\$ 1,152	25,980.4%
	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%
New State Police *	6/30/08	\$ 216,368	\$ 214,921	\$ (1,447)	100.7%	\$ 47,971	(3.0%)
	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%
Judiciary*	6/30/08	\$ 47,209	\$ 55,856	\$ 8,647	84.5%	\$ 9,689	89.2%
	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%
Diamond State Port Corporation	6/30/08	\$ 13,391	\$ 14,139	\$ 748	94.7%	\$ 10,270	7.3%
	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%
County & Municipal Police Firefighters	6/30/08	\$ 102,423	\$ 103,911	\$ 1,488	98.6%	\$ 49,328	3.0%
	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%
County and Municipal Other Employees	6/30/08	\$ 12,980	\$ 14,308	\$ 1,328	90.7%	\$ 18,632	7.1%
	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%
Volunteer Firemen	6/30/08	\$ 12,972	\$ 25,719	\$ 12,747	50.4%	Active Member ++ 5,066	Cost per Active Member ++ 2,516
	6/30/07	12,225	24,809	12,584	49.3%	5,170	2,434
	6/30/06	11,340	23,925	12,585	47.4%	5,160	2,439

* Excludes liability and amortization payments due to cost-of-living 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.

N/A – Not Applicable

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, 2008.

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

Plan	State Employees'	Special	Closed State Police	New State Police	Judiciary
Annual Pension Cost	\$ 101,660	N/A	\$ 25,337	\$ 6,643	\$ 2,644
Actuarial Valuation Date	6/30/08	6/30/08	6/30/08	6/30/08	6/30/08
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	20 years	N/A	29 years	20 years	14.1 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 Increases ¹	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 adjustments	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	\$ 715	\$ 6,246	\$ 1,492	\$ 1,553
Actuarial Valuation Date	6/30/08	6/30/08	6/30/08	6/30/08
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 Closed
Remaining Amortization Period	16 years	10 years	10 years	20 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 ¹	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

¹ Excludes liability and amortization payments due to cost-of living adjustments. This liability is funded from the Post-Retirement Increase Fund. Each COLA is funded over 5 years.

N/A: Not applicable

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 (Expressed in Dollars)

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	07/01/2007	\$ 10,533,449	\$ 10,873,946	\$ (340,497)	96.87%	\$ 9,993,019	(3.40%)
	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%)
Contributory Plan	1/1/2008	\$ 26,949,255	\$ 27,608,650	\$ (659,395)	97.61%	\$ 18,689,331	(3.53%)

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

Plan	DTC Pension Plan	Contributory Pension Plan
Contribution Rates:		
Employer	Actuarially Determined	5.00%
Participants	N/A	5.00%
Annual Pension Cost	\$ 768,204	\$ 440,338
Contributions Made	\$ 800,040	\$ 879,154
Actuarial Valuation Date	7/01/07	01/01/08
Actuarial Cost Method	Frozen Initial Liability	Entry Age Normal
Remaining Amortization Period	18	15
Asset Valuation Method	Market	Five-Year Smoothed Market
Actuarial Assumptions:		
Investment rate of return	7.50%	7.00%
Projected Salary Increases	4.50%	4.00%

Note: For the contributory pension plan valuation dated January 1, 2008, the actuarial cost method was changed from the aggregate method to the entry age normal method. In addition, the asset valuation method was changed to the five-year smoothed market method.

N/A: Not applicable

Required Supplementary Information – OPEB Trust

The following table presents additional information related to funding status and progress. 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.

OPEB Trust

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.

OPEB Trust Schedule of Funding Status and Progress (Expressed in Millions)

		(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Liabilities (UAAL) (2) - (1)	Funded Ratio (1) / (2)	Covered Payroll	UAAL as a % of Covered Payroll (3) / (5)	
7/1/2006	\$ 25	\$ 4,656	\$ 4,631	0.5%	\$ 1,644	282%	
7/1/2008	79	5,489	5,410	1.4%	1,770	306%	

Valuation Date	July 1, 2008
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent Open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	5.00%
Rate of Salary Increases	3.75%
Ultimate Rate of Medical inflation	5.00%
Initial Rate of Medical Inflation	9.00%

	Total	Governmental Activities	Business Type Activities
Net OPEB obligation at June 30, 2007	\$ -	\$ -	\$ -
Annual required contribution	464.6	439.2	25.4
Adjustment to annual required contribution	-	-	-
Annual OPEB cost	464.6	439.2	25.4
Employer contributions	(183.2)	(173.6)	(9.6)
Net OPEB obligation at June 30, 2008	\$ 281.4	\$ 265.6	\$ 15.8

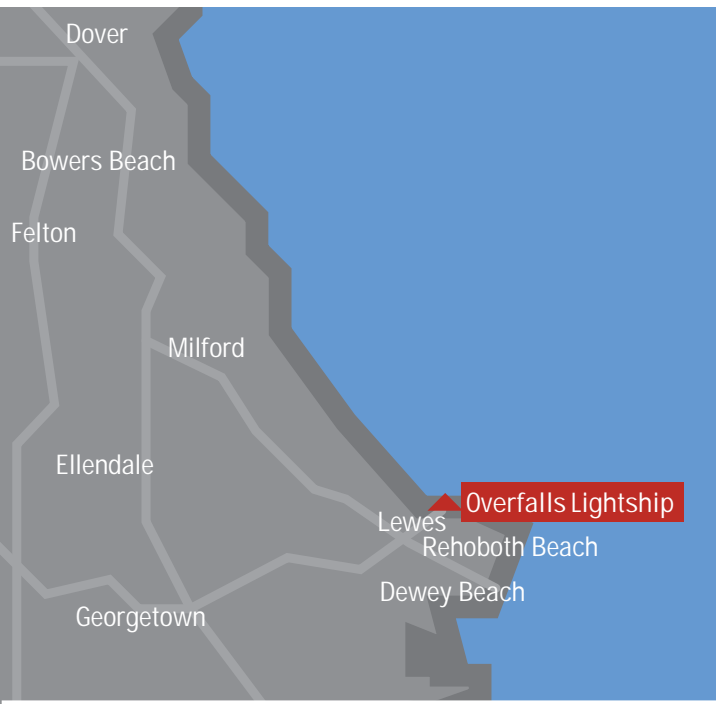
The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2008 are as follows (dollar amounts in millions):

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	\$ 464.6	38%	\$ 281.4

Delaware Transit Corporation – OPEB

As of June 30, 2008, Delaware Transit Corporation's OPEB plan was zero percent funded. The actuarial accrued liability was \$76,135,000, which is equivalent to the unfunded actuarial accrued liability. The covered payroll (annual payroll of active employees covered by the plan) was \$29,535,214, and the ratio of the UAAL to the covered payroll was 258%.

In the May 1, 2008 actuarial valuation, the projected unit credit method was used with linear pro-rata to assumed benefit commencement. The actuarial assumptions included a 4% investment rate of return, 4% payroll growth rate, a 3.2% inflation rate, and a healthcare cost trend rate of 9% initially, reduced by decrements to 7.10% after ten years. The ultimate healthcare cost trend rate will remain constant at 5.2% after 2080. The unfunded liability is being amortized as a level percentage of payroll over a 30-year amortization period.



Supplementary Information Combining Statements

OVERFALLS LIGHTSHIP This is one of 17 remaining lightships in the United States and it is located in Lewes, Delaware. The Overfalls was restored by a group of volunteers to keep this piece of history alive for all to see. It is listed on the National Register of Historic Places. The Overfalls Lightship was built in 1938 by the United States Lighthouse Service as a state of the art lightship design. Originally there were 179 of these ships built from 1820 to 1952.

The Overfalls was stationed at three different lightship stations: first, at Cornfield Point off the coast of Connecticut, then at the Cross Rip Station off the coast of Massachusetts, and finally the Boston Station just off Cape Cod. In 1973 it was donated to the Lewes Historical Society. This ship is open to the public to tour and learn about the history and duties of the lightships.



STATE OF DELAWARE
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2008
(Expressed in Thousands)

	State Employees' Pension Plan	Special Fund	New State Police Plan	Judiciary Pension Plans	Delaware Volunteer Firemen's Fund
Assets					
Cash and cash equivalents	\$ 345,755	\$ 32	\$ 10,999	\$ 2,382	\$ 13,083
Receivables:					
Accrued interest	16,158	2	514	122	-
Investment sales pending	9,884	1	315	75	-
Employer contributions	6,113	-	405	148	-
Member contributions	3,197	-	198	18	-
Total receivables	35,352	3	1,432	363	-
Investments at fair value:					
Domestic fixed income	612,325	57	19,480	4,233	-
Domestic equities	1,133,160	105	36,049	7,834	-
Pooled equity and fixed income	2,130,391	198	67,773	14,727	-
Alternative investments	1,202,383	112	38,251	8,312	-
Foreign fixed income	119,623	11	3,806	827	-
Foreign equities	1,144,613	106	36,413	7,913	-
Total investments	6,342,495	589	201,772	43,846	-
Total assets	6,723,602	624	214,203	46,591	13,083
Liabilities					
Investment purchases payable	74,366	7	2,367	561	-
Benefits payable	553	-	3	9	10
Accrued investment expenses	5,022	-	160	38	-
Accrued administrative expenses	619	-	20	5	-
Total liabilities	80,560	7	2,550	613	10
Assets held in trust for pension benefits and pool participants	\$ 6,643,042	\$ 617	\$ 211,653	\$ 45,978	\$ 13,073

<u>Diamond State Port Corporation Plan</u>	<u>County and Municipal Police and Firefighters' Plans</u>	<u>County and Municipal Police and Firefighters' Cola Fund</u>	<u>County and Municipal Other Employees' Plan</u>	<u>DPERS Post Retirement Increase Fund</u>	<u>SEPP Post Retirement Health Insurance Premium Fund</u>	<u>Closed State Police Plan</u>	<u>Totals</u>
\$ 674	\$ 5,170	\$ 624	\$ 657	\$ 218	\$ -	\$ 679	\$ 380,273
32	242	29	31	10	-	-	17,140
19	148	18	19	6	-	-	10,485
59	512	-	90	2,455	-	-	9,782
17	263	-	37	-	-	1	3,731
127	1,165	47	177	2,471	-	1	41,138
1,194	9,157	1,105	1,164	385	-	-	649,100
2,209	16,945	2,046	2,154	713	-	-	1,201,215
4,153	31,858	3,846	4,050	1,341	-	-	2,258,337
2,344	17,980	2,171	2,286	757	-	-	1,274,596
233	1,789	216	227	75	-	-	126,807
2,231	17,116	2,066	2,176	720	-	-	1,213,354
12,364	94,845	11,450	12,057	3,991	-	-	6,723,409
13,165	101,180	12,121	12,891	6,680	-	680	7,144,820
145	1,113	134	141	47	-	-	78,881
-	9	-	-	-	-	-	584
10	75	9	10	3	-	-	5,327
1	9	1	1	-	-	-	656
156	1,206	144	152	50	-	-	85,448
<u>\$ 13,009</u>	<u>\$ 99,974</u>	<u>\$ 11,977</u>	<u>\$ 12,739</u>	<u>\$ 6,630</u>	<u>\$ -</u>	<u>\$ 680</u>	<u>\$ 7,059,372</u>

STATE OF DELAWARE
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	State Employees' Pension Plan	Special Fund	New State Police Plan	Judiciary Pension Plans	Delaware Volunteer Firemen's Fund
Additions					
Contributions:					
Employer contributions	\$ 101,660	\$ -	\$ 6,643	\$ 2,644	\$ 1,045
Transfer of assets from post-retirement increase fund	46,856	-	210	350	-
Transfer of assets from outside the system	-	-	-	-	-
Member contributions	45,761	-	3,221	338	200
Other	-	-	37	-	-
Total contributions	<u>194,277</u>	<u>-</u>	<u>10,111</u>	<u>3,332</u>	<u>1,245</u>
Investments:					
Investment income	102,413	10	3,179	736	176
Net increase (decrease) in fair value	<u>(193,188)</u>	<u>(3)</u>	<u>(6,308)</u>	<u>(1,775)</u>	<u>140</u>
Total investment income (loss)	<u>(90,775)</u>	<u>7</u>	<u>(3,129)</u>	<u>(1,039)</u>	<u>316</u>
Less investment manager/ advisor/custody fees	(20,706)	(2)	(643)	(150)	(35)
Less investment administrative expenses	<u>(473)</u>	<u>-</u>	<u>(15)</u>	<u>(3)</u>	<u>(1)</u>
Net investment income (loss)	<u>(111,954)</u>	<u>5</u>	<u>(3,787)</u>	<u>(1,192)</u>	<u>280</u>
Securities lending income	18,348	2	570	132	31
Less borrower rebates	(16,494)	(2)	(512)	(119)	(28)
Less bank fees	(369)	-	(12)	(3)	(1)
Total securities lending expense	<u>(16,863)</u>	<u>(2)</u>	<u>(524)</u>	<u>(122)</u>	<u>(29)</u>
Net securities lending income	<u>1,485</u>	<u>-</u>	<u>46</u>	<u>10</u>	<u>2</u>
Total additions	<u>83,808</u>	<u>5</u>	<u>6,370</u>	<u>2,150</u>	<u>1,527</u>
Deductions:					
Transfer of assets from post-retirement increase fund	-	-	-	-	-
Transfer of assets outside the system	-	-	-	-	-
Pension payments	348,070	91	2,882	2,340	1,393
Refunds of contributions to members	2,955	-	14	-	62
Burial benefit payments	4,735	13	7	-	-
Administrative expenses	<u>5,613</u>	<u>4</u>	<u>72</u>	<u>9</u>	<u>38</u>
Total deductions	<u>361,373</u>	<u>108</u>	<u>2,975</u>	<u>2,349</u>	<u>1,493</u>
Change in net assets	(277,565)	(103)	3,395	(199)	34
Net assets held in trust for pension benefits:					
Balance - beginning of year	<u>6,920,607</u>	<u>720</u>	<u>208,258</u>	<u>46,177</u>	<u>13,039</u>
Balance - end of year	<u>\$ 6,643,042</u>	<u>\$ 617</u>	<u>\$ 211,653</u>	<u>\$ 45,978</u>	<u>\$ 13,073</u>

<u>Diamond State Port Corporation Plan</u>	<u>County and Municipal Police and Firefighters' Plans</u>	<u>County and Municipal Police and Firefighters' Cola Fund</u>	<u>County and Municipal Other Employees' Plan</u>	<u>DPERS Post Retirement Increase Fund</u>	<u>SEPP Post Retirement Health Insurance Premium Fund</u>	<u>Closed State Police Plan</u>	<u>Totals</u>
\$ 715	\$ 6,246	\$ -	\$ 1,492	\$ 43,492	\$ -	\$ 21,267	\$ 185,204
-	-	-	-	-	-	-	47,416
-	-	2,905	-	-	-	-	2,905
203	3,270	-	451	-	-	24	53,468
-	-	-	-	-	-	1	38
<u>918</u>	<u>9,516</u>	<u>2,905</u>	<u>1,943</u>	<u>43,492</u>	<u>-</u>	<u>21,292</u>	<u>289,031</u>
193	1,458	184	180	55	-	98	108,682
<u>(378)</u>	<u>(2,776)</u>	<u>(373)</u>	<u>(328)</u>	<u>3,973</u>	<u>-</u>	<u>-</u>	<u>(201,016)</u>
<u>(185)</u>	<u>(1,318)</u>	<u>(189)</u>	<u>(148)</u>	<u>4,028</u>	<u>-</u>	<u>98</u>	<u>(92,334)</u>
(39)	(295)	(37)	(36)	(11)	-	-	(21,954)
<u>(1)</u>	<u>(7)</u>	<u>(1)</u>	<u>(1)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(502)</u>
<u>(225)</u>	<u>(1,620)</u>	<u>(227)</u>	<u>(185)</u>	<u>4,017</u>	<u>-</u>	<u>98</u>	<u>(114,790)</u>
35	261	33	32	10	-	-	19,454
(31)	(235)	(29)	(29)	(9)	-	-	(17,488)
(1)	(5)	(1)	(1)	-	-	-	(393)
<u>(32)</u>	<u>(240)</u>	<u>(30)</u>	<u>(30)</u>	<u>(9)</u>	<u>-</u>	<u>-</u>	<u>(17,881)</u>
<u>3</u>	<u>21</u>	<u>3</u>	<u>2</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>1,573</u>
<u>696</u>	<u>7,917</u>	<u>2,681</u>	<u>1,760</u>	<u>47,510</u>	<u>-</u>	<u>21,390</u>	<u>175,814</u>
-	-	-	-	47,416	-	-	47,416
-	-	3,078	-	-	34,171	-	37,249
267	836	-	133	-	-	21,106	377,118
16	267	-	22	-	-	-	3,336
-	-	-	-	-	-	84	4,839
<u>35</u>	<u>96</u>	<u>-</u>	<u>53</u>	<u>-</u>	<u>-</u>	<u>58</u>	<u>5,978</u>
<u>318</u>	<u>1,199</u>	<u>3,078</u>	<u>208</u>	<u>47,416</u>	<u>34,171</u>	<u>21,248</u>	<u>475,936</u>
378	6,718	(397)	1,552	94	(34,171)	142	(300,122)
<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>
<u>\$ 13,009</u>	<u>\$ 99,974</u>	<u>\$ 11,977</u>	<u>\$ 12,739</u>	<u>\$ 6,630</u>	<u>\$ -</u>	<u>\$ 680</u>	<u>\$ 7,059,372</u>

STATE OF DELAWARE
COMBINING STATEMENT OF NET ASSETS
INVESTMENT TRUST FUNDS
JUNE 30, 2008
(Expressed in Thousands)

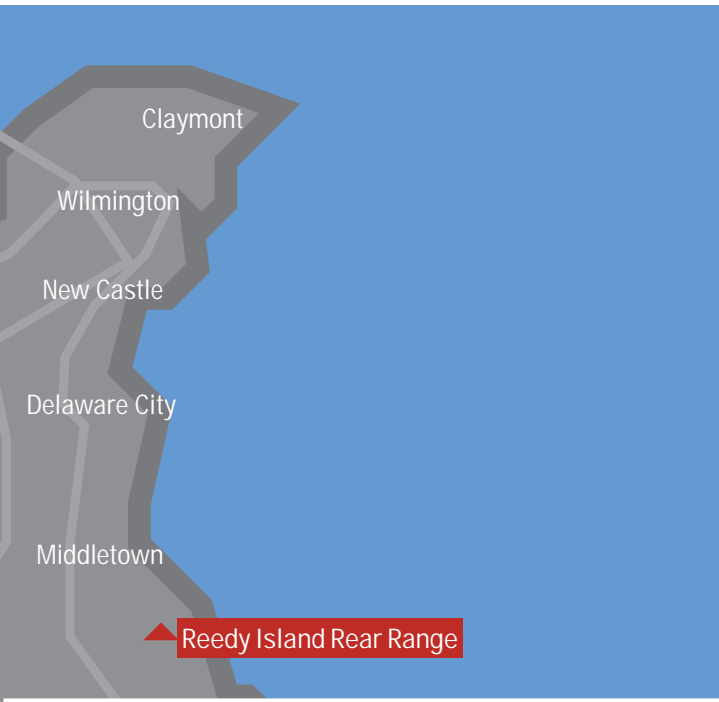
	Delaware Local Government Retirement Investment Pool	Delaware Local Government OPEB Investment Trust	Total Investment Trust Funds
Assets:			
Cash and cash equivalents	\$ 1,914	\$ 479	\$ 2,393
Receivables:			
Accrued interest	90	-	90
Investment sales pending	55	-	55
Investments, at fair value:			
Domestic fixed income	3,391	9,464	12,855
Domestic equities	6,275	8,991	15,266
Pooled equity and fixed income	11,797	-	11,797
Alternative investments	6,658	-	6,658
Foreign fixed income	662	-	662
Foreign equities	6,338	4,732	11,070
	<u>37,180</u>	<u>23,666</u>	<u>60,846</u>
Total assets			
Investment purchase payable	412	-	412
Accrued investment expense	28	1	29
Accrued administrative expenses	3	-	3
	<u>443</u>	<u>1</u>	<u>444</u>
Total liabilities			
Net assets:			
Assets held in trust for pension benefits and pool participants	<u>\$ 36,737</u>	<u>\$ 23,665</u>	<u>\$ 60,402</u>

STATE OF DELAWARE
COMBINING STATEMENT OF CHANGES IN NET ASSETS
INVESTMENT TRUST FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

	Delaware Local Government Retirement Investment Trust Funds	Delaware Local Government OPEB Investment Trust	Total Investment Trust Funds
Additions:			
Contributions:			
Transfer of assets from outside the trust	\$ 7,287	\$ 23,666	\$ 30,953
Total contributions	<u>7,287</u>	<u>23,666</u>	<u>30,953</u>
Investments:			
Investment earnings	828	-	828
Net increase (decrease) in fair value of investments	<u>(1,006)</u>	<u>-</u>	<u>(1,006)</u>
Total investment earnings (loss)	(178)	-	(178)
Less investment manager/advisor/custody fees	(166)	(1)	(167)
Less investment administrative expenses	<u>(4)</u>	<u>-</u>	<u>(4)</u>
Net investment earnings	<u>(348)</u>	<u>(1)</u>	<u>(349)</u>
Securities lending income	147	-	147
Less borrower rebates	(132)	-	(132)
Less bank fees	<u>(3)</u>	<u>-</u>	<u>(3)</u>
Total securities lending expense	<u>(135)</u>	<u>-</u>	<u>(135)</u>
Total net securities lending income	<u>12</u>	<u>-</u>	<u>12</u>
Total additions	<u>6,951</u>	<u>23,665</u>	<u>30,616</u>
Deductions:			
Transfer of assets outside the trust	<u>24,090</u>	<u>-</u>	<u>24,090</u>
Total deductions	<u>24,090</u>	<u>-</u>	<u>24,090</u>
Change in net assets	(17,139)	23,665	6,526
Net assets - beginning of year	<u>53,876</u>	<u>-</u>	<u>53,876</u>
Net assets - end of year	<u>\$ 36,737</u>	<u>\$ 23,665</u>	<u>\$ 60,402</u>

STATE OF DELAWARE
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

Child Support Collection	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Assets				
Cash and cash equivalents	\$ 1,735	\$ 283,725	\$ 284,110	\$ 1,350
Investments	-	1,826	1,826	-
Receivables, net	357	3,657	233	3,781
Total assets	<u>2,092</u>	<u>289,208</u>	<u>286,169</u>	<u>5,131</u>
Liabilities				
Accounts payable	2,092	289,208	286,169	5,131
Total liabilities	<u>2,092</u>	<u>289,208</u>	<u>286,169</u>	<u>5,131</u>
Court Fines and Restitution	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Assets				
Cash and cash equivalents	18,539	24,619	25,696	17,462
Investments	1,264	5,995	5,604	1,655
Receivables, net	27,158	10,652	7,020	30,790
Total assets	<u>46,961</u>	<u>41,266</u>	<u>38,320</u>	<u>49,907</u>
Liabilities				
Accounts payable	46,961	41,266	38,320	49,907
Total liabilities	<u>46,961</u>	<u>41,266</u>	<u>38,320</u>	<u>49,907</u>
All Other Agency Funds	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Assets				
Cash and cash equivalents	11,959	38,408	38,372	11,995
Investments	17,334	23,302	25,048	15,588
Receivables, net	104	-	104	-
Total assets	<u>29,397</u>	<u>61,710</u>	<u>63,524</u>	<u>27,583</u>
Liabilities				
Accounts payable	29,397	61,710	63,524	27,583
Total liabilities	<u>29,397</u>	<u>61,710</u>	<u>63,524</u>	<u>27,583</u>
Totals - All Agency Funds	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Assets				
Cash and cash equivalents	32,233	346,752	348,178	30,807
Investments	18,598	31,123	32,478	17,243
Receivables, net	27,619	14,309	7,357	34,571
Total assets	<u>78,450</u>	<u>392,184</u>	<u>388,013</u>	<u>82,621</u>
Liabilities				
Accounts payable	78,450	392,184	388,013	82,621
Total liabilities	<u>\$ 78,450</u>	<u>\$ 392,184</u>	<u>\$ 388,013</u>	<u>\$ 82,621</u>



Statistical Section

REEDY ISLAND RANGE The Reedy Range Lighthouse is a skeletal, cast-iron tower. It was first lighted in 1910 to guide ships at the mouth of the Delaware River. The lighthouse is still operating and the current light is solar-powered.



Statistical Section

This part of the State 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 State's overall financial health.

	<u>Pages</u>
Financial Trends Information.....	147-152
These schedules contain trend information to assist the reader in understanding how the State's financial performance and fiscal health have changed over time.	
Revenue Capacity Information.....	153-156
These schedules contain information to assist the reader in assessing the State's most significant source of revenue, personal income taxes.	
Debt Capacity Information.....	157-160
These schedules present information to assist the reader in assessing the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.	
Demographic and Economic Information.....	161-164
These schedules offer demographic and economic indicators to assist the reader in understanding the environment in which the State's financial activities take place.	
Operating Information.....	165-167
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.	

Source: Unless otherwise noted, the information in these schedules is derived from the State's Comprehensive Annual Financial Report for the relevant fiscal year. In fiscal year 2002, the State implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; schedules presenting government-wide information include information beginning in that year. Fund schedules are presented for the last ten years, except where noted.

STATE OF DELAWARE
Net Assets by Component
Last Seven Fiscal Years

(Accrual basis of accounting, expressed in thousands)

	2002	2003	2004	2005	2006	2007	2008
Governmental activities							
Invested in capital assets, net of related debt	\$ 680,717	\$ 762,239	\$ 767,977	\$ 983,693	\$ 1,244,073	\$ 1,385,413	\$ 1,515,272
Restricted	128,930	136,460	148,150	161,050	175,365	182,750	186,430
Unrestricted	676,829	734,589	1,112,774	1,159,119	1,089,100	1,183,671	900,562
Total governmental activities net assets	<u>\$ 1,486,476</u>	<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>	<u>\$ 2,602,264</u>
Business-type activities							
Invested in capital assets, net of related debt	\$ 2,651,025	\$ 2,464,049	\$ 2,561,502	\$ 2,530,183	\$ 2,616,971	\$ 2,653,221	\$ 2,731,901
Restricted	310,619	256,792	219,844	341,895	358,547	342,263	308,738
Unrestricted	1,53,418	299,855	172,428	75,335	76,907	89,806	67,442
Total business-type activities net assets	<u>\$ 3,115,062</u>	<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>	<u>\$ 3,108,081</u>
Primary government							
Invested in capital assets, net of related debt	\$ 3,331,742	\$ 3,226,288	\$ 3,329,479	\$ 3,513,876	\$ 3,861,044	\$ 4,038,634	\$ 4,247,173
Restricted	439,549	393,252	367,994	502,945	533,912	525,013	495,168
Unrestricted	830,247	1,034,444	1,285,202	1,234,454	1,166,007	1,273,477	968,004
Total primary government net assets	<u>\$ 4,601,538</u>	<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>	<u>\$ 5,710,345</u>

Source: Delaware Comprehensive Annual Financial Reports (fiscal years 2002-2008)

Note: The State implemented GASB Statement No. 34 in fiscal year 2002. Therefore, ten years of data is not available, but will be accumulated over time

STATE OF DELAWARE
Changes in Net Assets
Last Seven Fiscal Years

(Accrual basis of accounting, expressed in thousands)

	2002	2003	2004	2005	2006	2007	2008
Expenses							
Governmental activities:							
General government	\$ 477,142	\$ 341,054	\$ 339,945	\$ 404,190	\$ 480,490	\$ 513,326	\$ 549,263
Health and children's services	1,240,332	1,363,289	1,399,354	1,450,505	1,619,176	1,699,475	1,869,754
Judicial and public safety	389,806	422,921	442,345	477,691	539,365	574,809	640,380
Natural resources and environmental control	111,443	100,171	113,189	95,622	114,287	173,331	164,446
Labor	60,650	59,521	61,963	61,360	61,013	74,194	68,172
Education	1,410,708	1,422,820	1,422,046	1,592,035	1,719,901	1,774,528	2,031,009
Payment to component unit:							
General government	-	10,107	1,952	-	-	-	-
Education	-	64,670	73,361	73,279	81,575	89,945	99,969
Interest	31,576	42,000	50,201	44,003	46,051	50,560	52,224
Total governmental activities expenses	3,721,657	3,826,553	3,904,356	4,198,685	4,661,858	4,950,168	5,475,217
Business-type activities:							
Lottery	380,084	353,840	357,011	388,062	408,997	424,111	419,223
Transportation	448,839	505,409	506,351	526,234	485,169	504,466	535,150
Unemployment	116,538	125,270	114,136	92,284	92,025	108,851	113,955
Total business-type activities expenses	945,461	984,519	977,498	1,006,580	986,191	1,037,428	1,068,328
Total primary government expenses	4,667,118	4,811,072	4,881,854	5,205,265	5,648,049	5,987,596	6,543,545
Program Revenues							
Governmental activities:							
Charges for services:							
General government	348,378	166,077	131,470	130,493	148,056	223,600	172,093
Health and children's services	108,695	142,245	138,056	117,708	83,445	110,168	99,438
Judicial and public safety	41,417	49,809	42,086	55,026	46,762	49,535	53,803
Natural resources and environmental control	20,662	53,009	36,491	20,806	66,354	56,559	47,374
Labor	77	4,726	3,241	2,910	-	10,918	-
Education	10,450	96,179	76,862	78,577	65,552	40,317	28,235
Operating grants and contributions	718,815	772,470	894,779	905,737	959,567	1,001,981	1,094,610
Capital grants and contributions	-	-	-	5,000	3,334	1,740	16,142
Total governmental activities program revenues	1,248,494	1,284,515	1,322,985	1,316,257	1,373,070	1,494,818	1,511,695

STATE OF DELAWARE
Changes in Fund Balances, Governmental Funds:
Last Ten Fiscal Years

(Modified accrual basis of accounting, expressed in thousands)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues										
Taxes (1)	\$ 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	\$ 3,366,308
Licenses, fees, permits and fines (9)	642,081	733,851	728,414	228,599	241,663	296,238	296,011	319,768	339,347	355,604
Rentals and sales	107,609	118,422	333,747	49,576	43,461	51,793	57,246	51,047	59,547	34,294
Federal government	621,069	790,201	664,263	731,918	775,725	913,880	929,703	976,143	1,016,215	1,111,247
Interest and other investment income	66,148	81,843	111,374	58,624	73,911	36,109	35,624	49,577	82,701	84,313
Other revenues (9)	329,515	231,997	153,234	230,241	260,270	293,087	266,657	340,827	313,765	109,385
Total revenues	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	5,061,151
Expenditures										
General government (2) (9)	857,308	865,673	938,328	466,848	413,096	422,785	503,097	633,784	681,609	568,408
Health and children's services (3)	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	1,880,828
Judicial and public safety (4)	327,254	372,274	398,293	407,608	410,084	439,640	472,406	543,684	580,707	585,648
Natural resources and environmental control	123,479	128,222	128,272	125,301	116,399	165,960	160,840	192,706	212,296	174,823
Labor (6)	-	45,347	49,228	60,572	59,500	62,716	68,156	66,646	66,785	65,656
Transportation (7)	380,667	429,447	293,358	-	-	-	-	-	-	-
Education (5)	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	1,836,092
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	99,969
Other (6)	126,077	-	-	-	-	-	-	-	-	-
Capital outlay (8)	-	-	-	168,418	189,713	162,154	173,561	223,779	220,635	277,754
Debt service:										
Principal (7)	108,175	115,961	120,281	79,757	84,079	94,522	107,890	113,781	116,617	151,650
Interest (7)	68,895	67,881	70,012	34,134	33,676	39,246	46,160	49,037	50,609	57,673
Costs of issuance of debt (10)	-	-	-	-	-	515	533	343	764	415
Total expenditures	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	5,698,916
Revenues over (under) expenditures	(274,756)	(274,808)	(371,150)	(522,985)	(439,270)	(105,335)	(297,960)	(428,873)	(458,874)	(637,765)

STATE OF DELAWARE
Fund Balances, Governmental Funds
Last Ten Fiscal Years

(Modified accrual basis of accounting, expressed in thousands)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund										
Reserved	\$ 220,084	\$ 272,137	\$ 315,386	\$ 341,391	\$ 305,592	\$ 286,755	\$ 314,533	\$ 331,388	\$ 383,719	\$ 369,058
Unreserved	659,729	640,218	447,175	580,248	643,461	929,157	999,231	1,039,370	956,073	856,479
Total General Fund	\$ 879,813	\$ 912,355	\$ 762,561	\$ 921,639	\$ 949,053	\$ 1,215,912	\$ 1,313,764	\$ 1,370,758	\$ 1,339,792	\$ 1,225,537
All other governmental funds:										
Unreserved, reported in:	\$ 91,153	\$ 83,388	\$ 121,893	\$ 125,936	\$ 129,226	\$ 178,201	\$ 156,212	\$ 196,502	\$ 224,018	\$ 189,794
Federal fund	1,894	23,095	8,268	(33,705)	(47,878)	(43,422)	(40,172)	(60,841)	(41,060)	14,000
Local school district fund	125,945	112,559	114,232	110,560	101,445	101,361	101,052	74,206	106,083	168,077
Debt service fund	96,617	102,365	107,904	-	-	-	-	-	-	-
Capital projects fund	58,363	117,096	72,499	(189,822)	(149,345)	(62,942)	(86,660)	(205,898)	(62,353)	(108,940)
Total all other governmental funds	\$ 373,972	\$ 438,503	\$ 424,796	\$ 12,969	\$ 33,448	\$ 173,198	\$ 130,432	\$ 3,969	\$ 226,688	\$ 262,931

Source: Delaware Comprehensive Annual Financial Reports (fiscal years 1999-2008)

Note: The State changed its fund structure when it implemented GASB Statement No. 34 in fiscal year 2002. Prior to fiscal year 2002, the State considered federal and local school district funds to be special revenue funds.

STATE OF DELAWARE
Personal Income by Industry
Last Ten Calendar Years
(Expressed in Millions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Farm earnings	\$ 139.1	\$ 122.1	\$ 183.5	\$ 138.9	\$ 206.4	\$ 242.3	\$ 267.9	\$ 164.3	\$ 200.0	\$ 207.0
Agricultural/forestry, fishing and other	32.2	28.1	-	18.2	20.5	19.2	20.4	20.8	21.7	22.0
Mining	13.1	16.4	-	17.7	17.2	22.8	N/A	29.3	32.2	38.0
Construction/utilities	1,453.2	1,517.5	1,541.0	1,609.4	1,640.4	1,854.8	244.3	2,227.2	2,093.5	2,022.0
Manufacturing	2,675.3	2,640.5	2,420.0	2,466.3	2,756.7	2,747.9	2,661.5	2,879.7	3,113.5	3,029.0
Wholesale trade	725.7	842.6	867.2	922.4	1,044.5	1,158.1	1,207.0	1,379.4	1,329.1	1,310.0
Retail trade	1,325.7	1,373.6	1,403.0	1,471.6	1,545.0	1,614.4	1,697.2	1,745.4	1,794.7	1,802.0
Transportation and warehousing	455.2	455.6	484.7	477.8	477.7	570.4	592.4	609.6	630.9	631.0
Information	451.4	509.4	524.5	483.5	480.5	477.5	496.8	522.1	550.6	589.0
Finance, insurance and real estate	2,537.5	2,815.4	3,811.3	3,810.2	3,776.9	4,018.4	4,717.4	4,753.6	4,517.3	4,528.0
Professional and business services	2,160.8	2,246.7	2,222.9	2,229.4	2,248.0	4,637.3	4,754.7	4,974.1	5,177.3	5,468.0
Education and health services	1,792.6	1,961.6	2,117.2	2,267.3	2,429.1	2,657.6	2,866.0	3,013.6	3,251.4	3,449.0
Entertainment, accommodation, food service	695.9	736.5	613.1	590.3	828.6	887.2	924.0	976.6	1,017.6	1,039.0
Federal, civilian	346.2	372.7	372.6	382.4	375.8	408.9	417.4	438.3	472.8	473.0
Military	266.5	276.1	297.2	371.0	439.4	458.2	469.6	442.4	467.5	511.0
State and local government	1,978.8	2,102.9	2,194.7	2,456.5	2,549.6	2,729.3	2,936.1	3,109.4	3,252.7	3,428.0
Other	3,680.4	4,314.5	4,272.6	4,538.1	4,511.2	4,826.6	4,720.0	5,902.6	6,717.9	7,478.0
Total personal income	\$ 20,729.6	\$ 22,332.2	\$ 23,325.5	\$ 24,251.0	\$ 25,347.5	\$ 29,330.9	\$ 28,992.7	\$ 33,188.4	\$ 34,640.7	\$ 36,024.0

Source: U.S. Bureau of Economic Analysis, U.S. Department of Commerce

Notes: Other includes dividends, interest, rental income, residence adjustment, government transfers to individuals, and deductions for social insurance.

All amounts were updated with most current amount totals as of October 27, 2008.

Fiscal Year 2008 totals were rounded by source.

N/A - Data is not available at this time.

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Personal income tax revenue (1)	\$770.6	\$732.8	\$718.3	\$713.8	\$711.3	\$782.4	\$878.2	\$1,013.2	\$1,012.8	\$1,008.7
Personal income (2)	\$21,964.5	\$23,316.3	\$24,979.5	\$26,104.8	\$26,828.0	\$29,330.9	\$28,992.7	\$33,188.4	\$34,640.7	\$36,024.0
Average effective rate (3)	3.51%	3.14%	2.88%	2.73%	2.65%	2.67%	3.03%	3.05%	2.92%	2.80%

Tax Rates on the Portion of Taxable Income in Ranges

Tax Year	1999-2001	2002	2003	2004	2005	2006
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Income Bracket (in thousands)	\$0-2	\$0-2	\$0-2	\$0-2	\$0-2	\$0-2
Tax Rate	2.6%	4.3%	5.2%	5.6%	5.95%	6.4%
Income Bracket (in thousands)	\$2-5	\$5-10	\$10-20	\$20-25	\$25-60	\$60+
Tax Rate	2.2%	3.9%	4.8%	5.2%	5.55%	5.95%
Income Bracket (in thousands)	\$2-5	\$5-10	\$10-20	\$20-25	\$25-60	\$60+

As an example, for tax years 2002-2008, 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: Delaware Division of Revenue state tax tables and the Bureau of Economic Analysis, U.S. Department of Commerce

Notes: (1) Personal income tax revenue includes income tax collections and refunds, on a cash basis, for the fiscal year.

(2) Personal income is reported on a calendar basis.

(3) The total direct rate for personal income is not available. Average effective rate equals personal income tax revenue divided by personal income.

State of Delaware
Personal Income Tax Filers and Liability by Income Level
Calendar Year 2006 and Nine Years Prior

		Tax Year 1997				Tax Year 2006				
Taxpayer Percentile	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	Total Liability	Percentage of Total
From: 0	10	3,133	0.9%	-	-	48,705	3,908	0.7%	86,198	-
10	20	7,825	2.1%	-	-	48,706	10,411	1.9%	1,932,061	0.2%
20	30	12,595	3.4%	7,612,517	1.2%	48,706	16,936	3.2%	8,402,991	0.9%
30	40	17,361	4.7%	18,046,640	2.8%	48,705	23,391	4.4%	18,022,019	2.0%
40	50	22,327	6.1%	28,524,309	4.3%	48,706	29,953	5.6%	31,865,070	3.6%
50	60	27,717	7.6%	40,362,258	6.2%	48,706	37,223	7.0%	48,315,271	5.4%
60	70	34,122	9.3%	54,336,717	8.3%	48,706	45,870	8.6%	66,054,298	7.3%
70	80	42,027	11.5%	71,959,966	11.0%	48,705	57,443	10.7%	89,331,421	9.9%
80	90	54,676	14.9%	100,225,993	15.3%	48,706	76,558	14.3%	126,788,196	14.1%
90	95	75,964	10.4%	75,429,685	11.5%	24,353	108,482	10.1%	98,919,939	11.0%
95	99	124,593	13.6%	111,515,027	17.0%	19,482	189,046	14.1%	159,866,330	17.7%
99	100	562,767	15.4%	148,218,427	22.6%	4,871	1,035,329	19.4%	251,802,484	27.9%
			100.0%		100.0%			100.0%		100.0%

Source: Delaware Division of Revenue

Notes: Information for 2007 not yet available.

Due to confidentiality issues the names of the ten largest personal income tax payers are not available. The categories presented above are intended to provide alternative information regarding the sources of the State's individual income tax revenues.

The number of filers is equal for each 10 percentile.

Percentage of total is that of Delaware AGI by class for fiscal year 2005 forward.

STATE OF DELAWARE
Franchise Taxes
Last Ten Calendar Years

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Franchise tax (in millions)	\$ 425.2	\$ 471.5	\$ 533.6	\$ 492.5	\$ 448.2	\$ 515.8	\$ 508.1	\$ 524.8	\$ 539.7	\$ 566.3
Number of filers	228,993	241,029	254,538	240,618	243,564	240,304	239,106	239,824	231,376	233,447
Average amount per filer	\$ 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	\$ 2,425.8

Notes:

As a group, business taxes are the largest single category of income for the State. However, business taxes consist of several categories with different tax basis 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 1999-2002	Tax Year 2003-2007	Tax Year 2008
3000 shares or less, minimum tax	\$30.00	\$35.00	\$75.00
3001-5000 shares	\$50.00	\$62.50	\$75.00
5001-10000 shares	\$90.00	\$112.50	\$150.00
Each additional 10,000 shares, add	\$50.00	\$62.50	\$150.00
Maximum yearly tax	\$150,000	\$165,000	\$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)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Governmental Activities										
General obligation bonds	\$ 720,171	\$ 738,176	\$ 653,701	\$ 709,958	\$ 854,262	\$ 1,012,544	\$ 1,026,947	\$ 1,045,166	\$ 1,307,487	\$ 1,373,212
Revenue bonds	1,583	940	515	408	-	-	-	-	-	-
Notes payable	-	-	-	-	-	-	4,754	3,746	4,882	8,563
Total governmental activities	721,754	739,116	654,216	710,366	854,262	1,012,544	1,031,701	1,048,912	1,312,369	1,381,775
Business-type Activities										
General obligation bonds	618,990	669,685	634,385	675,735	863,145	815,505	861,710	953,265	1,018,815	2,783
Revenue bonds	-	-	-	-	-	-	40,000	-	-	992,636
Notes payable	-	-	-	-	-	-	-	-	-	-
Total business-type activities	618,990	669,685	634,385	675,735	863,145	815,505	901,710	953,265	1,022,198	995,419
Total primary government	\$ 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	\$ 2,377,194
Personal income	\$22,416,280	\$24,276,962	\$25,537,078	\$26,509,465	\$27,672,043	\$29,330,872	\$30,834,023	\$33,188,309	\$34,640,684	\$36,024,000
Debt as a percentage of personal income	5.98%	5.80%	5.05%	5.23%	6.21%	6.23%	6.27%	6.03%	6.74%	6.60%
Population	775	786	795	806	818	830	844	853	864	N/A
Amount of debt per capita (expressed in thousands)	\$1,730	\$1,791	\$1,620	\$1,720	\$2,100	\$2,202	\$2,292	\$2,347	\$2,702	N/A

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

Notes: Details regarding the State's outstanding debt can be found in the notes to the financial statements.
Personal income information has been updated for prior years to adjust for tax returns received.
N/A - Data is not available at this time.

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Estimated General Fund Revenue	\$ 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	\$ 3,366.1
Projected New Tax-Supported Debt Authorizations (5%)	\$ 105.8	\$ 110.7	\$ 117.2	\$ 118.2	\$ 118.2	\$ 125.7	\$ 138.3	\$ 150.3	\$ 163.8	\$ 168.3

Source: Delaware State Senate 144th General Assembly

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 1.5% 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 Seven Fiscal Years
(Expressed in Millions)

	2002	2003	2004	2005	2006	2007	2008
General obligation debt supported by budgetary general fund revenue							
State facilities	\$ 415.8	\$ 482.1	\$ 490.6	\$ 428.3	\$ 373.8	\$ 360.9	\$ 334.1
School facilities (state share)	124.3	124.2	247.1	260.6	264.8	464.0	522.5
Miscellaneous	3.4	4.2	-	-	-	-	-
Subtotal	543.5	610.5	737.7	688.9	638.6	824.9	856.6
General obligation debt supported by budgetary special fund revenue							
Highway and other transportation improvements	5.2	3.3	3.7	4.8	4.2	3.4	2.8
School facilities (local share)	158.8	240.2	270.6	332.6	401.8	482.1	516.2
Housing authority loans	2.4	0.3	0.6	0.6	0.6	0.5	0.4
Subtotal	166.4	243.8	274.9	338.0	406.6	486.0	519.4
Total general obligation debt outstanding	\$ 709.9	\$ 854.3	\$ 1,012.6	\$ 1,026.9	\$ 1,045.2	\$ 1,310.9	\$ 1,376.0
Population (in thousands)	806	818	830	844	853	864	N/A
Debt per capita (in thousands)	0.88	1.04	1.22	1.22	1.23	1.52	N/A

Source: State Treasurer's Office

Notes: This table reflects the portion of general obligation debt supported by budgetary general fund and budgetary special fund revenue.

Population and Debt per capita line added to conform to GFOA comments and suggestions.

N/A - Data is not available at this time.

The State implemented GASB Statement No. 34 in fiscal year 2002. Therefore, ten years of data is not available, but will be accumulated over time.

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenue Bonds - DelDOT										
Revenue - Turnpike and Motor Vehicles	\$ 272,398	\$ 284,167	\$ 299,962	\$ 297,894	\$ 298,536	\$ 314,205	\$ 324,962	\$ 337,350	\$ 346,954	\$ 381,590
Debt Service:										
Principal	\$ 33,300	\$ 35,330	\$ 35,315	\$ 39,565	\$ 41,490	\$ 47,640	\$ 53,920	\$ 58,445	\$ 61,370	\$ 67,640
Interest	32,718	30,809	37,537	35,269	44,957	38,176	39,370	40,573	45,534	46,210
Debt Service Requirements	\$ 66,018	\$ 66,139	\$ 72,852	\$ 74,834	\$ 86,447	\$ 85,816	\$ 93,290	\$ 99,018	\$ 106,904	\$ 113,850
Coverage	4.13	4.30	4.12	3.98	3.45	3.66	3.48	3.41	3.25	3.35
Revenue Bonds - DSU										
Revenue - Student tuition and fees	\$ 26,262	\$ 29,899	\$ 28,858	\$ 32,170	\$ 34,504	\$ 39,191	\$ 43,695	\$ 50,551	\$ 51,836	\$ 56,381
Less: Operating expenses	(20,203)	(14,757)	(14,689)	(15,447)	(20,992)	(24,104)	(26,227)	(32,089)	(40,683)	(41,855)
Net available revenue	\$ 6,059	\$ 15,142	\$ 14,169	\$ 16,723	\$ 13,512	\$ 15,087	\$ 17,468	\$ 18,462	\$ 11,153	\$ 14,526
Debt Service:										
Principal	580	280	785	965	990	1,653	1,617	2,078	1,440	1,480
Interest	849	584	761	649	622	737	763	505	2,279	2,814
Debt Service Requirements	\$ 1,429	\$ 864	\$ 1,546	\$ 1,614	\$ 1,612	\$ 2,390	\$ 2,380	\$ 2,583	\$ 3,719	\$ 4,294
Coverage	4.24	17.53	9.16	10.36	8.38	6.31	7.34	7.15	3.00	3.38
Revenue Bonds - DSHA										
Gross Revenues	\$ 80,079	\$ 94,532	\$ 68,718	\$ 151,538	\$ 103,713	\$ 150,211	\$ 89,697	\$ 81,632	\$ 82,689	\$ 134,059
Less: Operating expenses	(1,546)	(2,015)	(1,864)	(2,030)	(6,355)	(1,794)	(1,995)	(1,137)	(660)	(849)
Net available revenue	\$ 78,533	\$ 92,517	\$ 66,854	\$ 149,508	\$ 97,358	\$ 148,417	\$ 87,702	\$ 80,495	\$ 82,029	\$ 133,210
Debt Service:										
Principal	52,314	44,427	42,460	107,463	66,189	128,665	73,964	58,956	51,517	84,578
Interest *	25,647	24,513	24,535	23,868	22,597	18,929	\$ 16,163	18,120	28,791	45,172
Debt Service Requirements	\$ 77,961	\$ 68,940	\$ 66,995	\$ 131,331	\$ 88,786	\$ 147,594	\$ 90,127	\$ 77,076	\$ 80,308	\$ 129,750
Coverage	1.01	1.34	1.00	1.14	1.10	1.01	0.97	1.04	1.02	1.03

Sources: Delaware Department of Transportation
Delaware State University
Delaware State Housing Authority

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 (DelDOT), Delaware State University (DSU), Delaware State Housing Authority (DSHA)

Debt Service for Delaware State University includes Delaware State University Student Housing Foundation beginning in years 2004 through current.

* 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)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Population										
State	763	775	786	796	806	818	830	844	853	864
Percentage change	1.3%	1.6%	1.4%	1.3%	1.3%	1.5%	1.5%	1.7%	1.1%	1.3%
National	275,854	279,040	282,193	285,108	287,985	290,850	293,657	296,410	299,398	301,621
Percentage change	1.2%	1.2%	1.1%	1.0%	1.0%	1.0%	1.0%	0.9%	1.0%	0.7%
Total personal income										
State (in millions)	\$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	\$34,640.6
Percentage change	4.4%	3.9%	8.3%	5.2%	3.9%	3.6%	7.1%	6.2%	6.4%	4.1%
National (in billions)	\$7,416	\$7,796	\$8,422	\$8,717	\$8,873	\$9,151	\$9,717	\$10,225	\$10,967	\$11,631
Percentage change	6.1%	5.1%	8.0%	3.5%	1.8%	3.1%	6.2%	5.2%	7.3%	6.1%
Per capita personal income										
State	\$28,264	\$28,924	\$30,887	\$32,082	\$32,916	\$33,613	\$35,487	\$37,063	\$39,022	\$40,058
Percentage change	2.9%	2.3%	6.8%	3.9%	2.6%	2.1%	5.6%	4.4%	5.3%	2.7%
National	\$26,883	\$27,939	\$29,845	\$30,574	\$30,809	\$31,463	\$33,090	\$34,496	\$36,276	\$38,564
Percentage change	4.6%	3.9%	6.8%	2.4%	0.8%	2.1%	5.2%	4.2%	5.2%	6.3%
Resident civilian labor force and employment										
Civilian labor force	397,300	401,100	416,500	418,700	420,500	424,500	428,900	438,000	440,300	442,700
Employed	383,300	387,800	402,800	404,100	403,800	406,700	411,600	419,500	424,500	427,800
Unemployed	14,000	13,300	13,700	14,600	16,700	17,800	17,300	18,500	15,800	14,900
Unemployment rate	3.5%	3.3%	3.3%	3.5%	4.0%	4.2%	4.0%	4.2%	3.6%	3.4%

Sources: U.S. Department of Commerce, Bureau of Economic Analysis
Delaware Department of Labor

STATE OF DELAWARE
Largest Private Employers
Latest Completed Calendar Year and Nine Years Prior

	1998			2006		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
MBNA America Bank	10,900	2	2.98%	9,117	1	2.06%
Bank of America	12,950	1	3.54%	8,869	2	2.00%
E. I. duPont	5,500	3	1.50%	7,289	3	1.66%
Christina Care, Inc	2,800	5	0.77%	5,147	4	1.16%
J.P. Morgan Chase & Co.				4,759	5	1.07%
AstraZeneca, Inc.				3,932	6	0.89%
Wal-Mart Inc.				3,513	7	0.79%
Mountaineer Farms of Delmarva				2,929	8	0.66%
Dover Downs				2,745	9	0.62%
Alfred I. duPont Institute	2,300	8	0.63%	2,672	10	0.60%
Perdue Farms, Inc	3,000	4	0.82%			
Chrysler Corporation	2,700	6	0.74%			
General Motors	2,500	7	0.68%			
Wilmington Trust Company	1,900	10	0.52%			
First USA Bank	2,200	9	0.60%			
Connectiv Power Delivery	46,750		12.78%	50,972		11.51%
Total						

Source: Delaware Department of Labor

Note: Fiscal year 2006 is the most recent data available.

STATE OF DELAWARE
Largest Public Employers
Latest Completed Calendar Year and Nine Years Prior

	1998			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 is the most recent data available.

STATE OF DELAWARE
State Employees by Function
Last Seven Fiscal Years

	2002	2003	2004	2005	2006	2007	2008
Full-Time Employees							
General Government	1,868	1,850	1,885	1,956	1,989	2,162	2,170
Health and Children's Services	5,895	5,536	5,552	5,770	5,888	6,000	6,113
Judicial and Public Safety	5,433	5,133	5,121	5,164	5,325	5,517	5,849
Natural Resources and Environmental Control	1,200	1,174	1,221	1,238	1,293	1,348	855
Transportation	1,618	1,793	1,839	1,950	1,997	1,994	1,843
Department of Labor	469	455	470	457	426	439	516
Education	15,075	15,259	15,538	15,940	16,493	16,555	16,655
State total	31,558	31,200	31,626	32,475	33,411	34,015	34,001

Source: Delaware Payroll Human Resources Statewide Technology System

Note: Includes employees of Local School Districts but not those of Charter Schools.

The State implemented GASB Statement No. 34 in fiscal year 2002. Therefore, ten years of data is not available, but will be accumulated over time.

STATE OF DELAWARE
Operating Indicators by Function
Last Six Fiscal Years

Department/Agency	2003	2004	2005	2006	2007	2008
Children, Youth and Their Families						
Number of Youths in Care	7,949	8,130	7,885	8,882	9,129	8,115
Corrections						
Average Daily Inmate Population	6,568	6,672	6,655	6,837	7,088	7,156
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	4,812,961
Education						
Public School Enrollment, Grades K-12	116,288	117,777	119,109	120,491	121,856	123,615
Delaware State University - Students enrolled	3,367	3,270	3,270	3,722	3,690	3,756
Delaware Technical & Community College - enrolled	17,501	18,783	19,462	19,593	19,565	20,349
Health and Social Services						
Medicaid eligibles	118,775	130,411	136,885	142,515	143,386	148,827
Prescription assistance program	5,150	5,837	6,609	9,065	8,515	7,003
Childcare caseloads	13,334	13,813	13,926	14,769	15,039	14,009
Client visits to Service Centers	610,190	538,503	612,170	406,487	441,196	452,554
Judicial						
Court of Common Pleas - filings	82,719	87,834	85,867	90,964	99,345	128,372
Superior Court - civil case filings	10,696	10,922	10,878	11,041	12,869	13,177
Labor						
Workers' compensations petitions filed	6,609	7,031	7,488	7,619	7,414	7,545
Safety and Homeland Security						
Number of criminal histories requested	29,027	29,770	38,382	35,263	37,321	38,289
Calls to 911 centers	209,388	617,769	346,044	605,194	395,701	434,562
Transportation						
Licensed Drivers	591,713	604,124	614,410	619,877	622,027	632,304
Registered Motor Vehicles	778,016	803,942	821,716	847,692	862,473	871,010
Bus Ridership - Fixed Routes	7,493,214	7,792,570	8,052,452	8,472,093	8,313,800	8,628,149
Train Ridership - Newark to Philadelphia	732,210	783,663	838,578	974,890	1,028,631	1,073,296

Source: Delaware Office of Management and Budget

Notes: Transportation - Licensed drivers and registered motor vehicles are tracked on a calendar year.
 N/A - Data is not available at this time.

Ten years of data is not available, but will be accumulated over time.

STATE OF DELAWARE
Capital Asset Statistics by Function
Last Six Fiscal Years

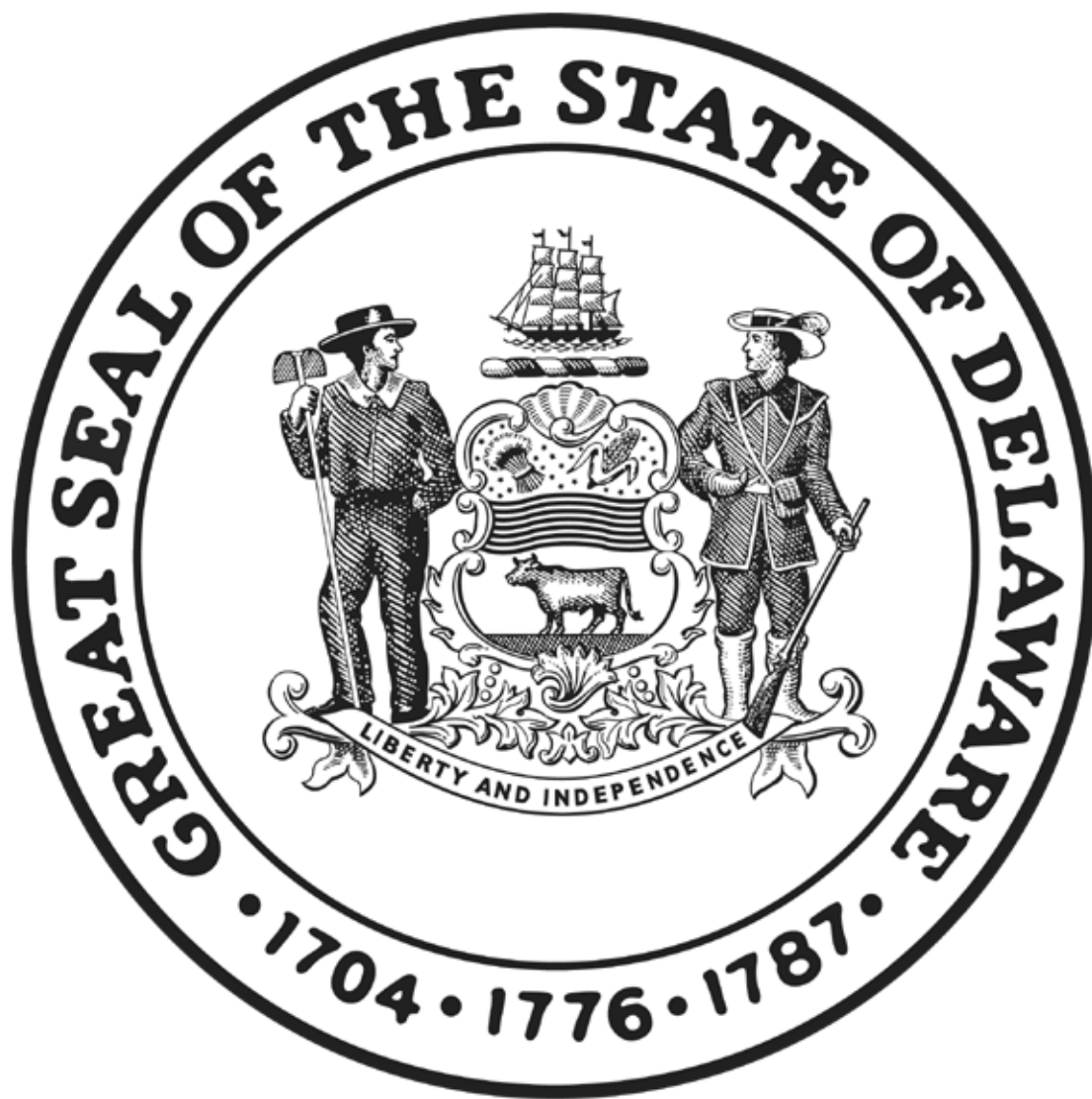
	2003	2004	2005	2006	2007	2008
General Government						
Acres of farmland permanently preserved	5,886	5,360	2,770	3,216	1,094	2,948
Health and Children's Services						
Hospitals	5	5	5	5	5	6
Service centers	14	14	14	14	14	15
Natural Resources and Environmental Control						
Acres of wildlife habitat actively managed	6,817	6,910	7,250	7,975	8,911	8,150
Transportation						
Centerline miles	4,464	4,464	4,453	4,454	4,454	N/A
Centerline miles rated good	3,459	3,296	3,070	3,055	3,071	N/A
Number of bridges	1,360	1,371	1,374	1,417	1,457	N/A
Structural rating of good	1,012	1,029	1,048	1,112	1,131	N/A
Square feet of bridge deck	7,145,202	7,163,000	7,241,809	7,267,932	7,289,913	N/A
Square feet of bridge deck rated good	6,932,464	6,731,463	6,808,227	6,860,141	6,809,939	N/A
National Guard						
Number of armory facilities	15	14	14	14	14	13
Education						
Local school districts						
Number of elementary schools	101	102	102	105	105	108
Number of middle schools	31	33	33	35	35	36
Number of high schools	29	29	31	33	33	32
Number of special schools	14	14	14	14	14	14
Number of administration buildings	19	19	19	19	19	19

Source: Delaware Department of Transportation

Notes: Data presented is for the calendar year.

N/A - Data is not available at this time.

Ten years of data is not available, but will be accumulated over time.





State of Delaware Comprehensive Annual Financial Report
FISCAL YEAR ENDED JUNE 30, 2008

DOC. ID# 25-05-01-08-07-01