Ratings: Fitch "AAA"
Moody's "Aaa"
S&P "AAA"

NEW ISSUE

In the opinion of Bond Counsel, interest on the Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions, subject to the condition described in "Tax Matters" herein, and interest on the Bonds is not treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the "Code") for purposes of the individual and corporate alternative minimum taxes. However, under the Code, such interest may be subject to certain other taxes affecting corporate holders of the Bonds. Under existing statutes, interest on the Bonds is exempt from personal and corporate income tax imposed by The State of Delaware. For a more complete discussion, see "Tax Matters" herein.

$205,310,000

THE STATE OF DELAWARE
General Obligation Bonds-Series 2004A

Dated: January 1, 2004 **Due: January 1, as shown below**

The Bonds are general obligations of the State. The full faith and credit of the State will be pledged for the payment of the principal of and interest on the Bonds.

Interest on the Bonds is payable semiannually on January 1 and July 1 of each year commencing July 1, 2004.

Bonds maturing on or after January 1, 2013 are subject to redemption prior to maturity in whole or in part at any time and from time to time, at the option of the State, in any order of maturity selected by the State, beginning January 1, 2012, at a redemption price of 100% of the principal amount thereof, plus accrued interest as set forth more fully herein.

MATURITIES, AMOUNTS, RATES AND YIELDS

Maturity January 1	Principal Amount ($)	Interest Rate (%)	Yield (%)	CUSIP Number
2005	$12,300,000	3.000%	1.050%	246380 XD6
2006	9,700,000	6.000	1.400	246380 XE4
2007	9,710,000	5.000	1.800	246380 XF1
2008	9,710,000	5.000	2.160	246380 XG9
2009	12,815,000	5.000	2.440	246380 XH7
2010	15,595,000	5.000	2.690	246380 XJ3
2011	26,070,000	5.000	2.940	246380 XK0
2012	32,990,000	5.000	3.170	246380 XL8
2013	15,420,000	5.000	3.350*	246380 XM6
2014	18,575,000	3.500	3.540	246380 XN4
2015	9,350,000	3.500	3.680	246380 XP9
2016	3,675,000	3.750	3.810	246380 XQ7
2017	3,675,000	4.000	3.940*	246380 XR5
2018	3,675,000	4.000	4.040	246380 XS3
2019	3,675,000	4.125	4.140	246380 XT1
2020	3,675,000	4.200	4.220	246380 XU8
2021	3,675,000	4.125	4.280	246380 XV6
2022	3,675,000	4.125	4.330	246380 XW4
2023	3,675,000	4.250	4.400	246380 XX2
2024	3,675,000	4.250	4.450	246380 XY0

* These bonds are priced to the January 1, 2012 call date.

The Bonds will be issued in book-entry form as fully registered bonds in denominations of $1,000 and integral multiples thereof. The investor will not receive physical delivery of Bond certificates. Principal and interest payments on the Bonds will be paid to The Depository Trust Company or its nominee as record owner of the Bonds and the investors should look for payment to the institution from which their Bonds were purchased.

The Bonds are offered when, as and if issued and received by the Underwriters subject to prior sale, to withdrawal or modification of the offer without notice, and subject to the approving legal opinion of Saul Ewing LLP, Bond Counsel, Wilmington, Delaware, and certain other conditions. It is expected that the Bonds will be available through the facilities of The Depository Trust Company for delivery in New York, New York, on or about January 21, 2004.

The date of this Official Statement is January 7, 2004.

No dealer, broker, salesperson or other person has been authorized by The State of Delaware or by the Underwriters to give any information or to make any representation in connection with the Bonds or the matters described herein, other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied on as having been authorized by the State or by the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date thereof. Only the statements and information contained herein should be considered in making an investment decision with respect to the Bonds. This Official Statement is distributed in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

All estimates and assumptions herein have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates or assumptions are correct or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Neither the Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the holders of the Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

of

THE STATE OF DELAWARE

$205,310,000 General Obligation Bonds-Series 2004A

INTRODUCTION

This Official Statement (the "Official Statement"), which includes the cover page and the appendices, has been prepared by The State of Delaware (the "State") and provides certain information about the State and its $205,310,000 General Obligation Bonds-Series 2004A (the "Bonds").

Brief descriptions of the State, the authorizing Resolution (as defined below) of the State's Issuing Officers (as defined below), and the Bonds are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Resolution and the Bonds are qualified in their entirety by reference to such documents. All such descriptions are further qualified in their entirety by reference to laws relating to or affecting generally the enforcement of creditors' rights and general principles of equity. Copies of such documents are available for inspection at the offices of the Secretary of Finance of the State.

DESCRIPTION OF THE BONDS

General Information

The Bonds are general obligations of the State to be issued pursuant to a resolution adopted on January 7, 2004, (the "Resolution") by the Governor, the Secretary of Finance, the Secretary of State and the State Treasurer (the "Issuing Officers"). The Bonds will contain a pledge of the State's full faith and credit for the payment of the principal of and interest on the Bonds. The Bonds will be dated, bear interest, mature and are payable as described on the cover page of this Official Statement. The Bonds will be issued as fully registered bonds in denominations of $1,000 and integral multiples thereof.

Optional Redemption

The Bonds maturing on or after January 1, 2013, are subject to redemption at the option of the State on or after January 1, 2012, and prior to maturity, in whole or in part at any time and from time to time, in any order of maturity selected by the State, at 100% of the principal amount of the Bonds to be redeemed, plus interest accrued and unpaid to the redemption date.

Notice of Redemption

Notice of redemption will be mailed to registered owners of Bonds not less than 30 days nor more than 60 days prior to any optional redemption date in the manner and upon the terms and conditions set forth in the Resolution. The State, so long as a book-entry system is used for determining ownership of Bonds, will send the notice of redemption to The Depository Trust Company ("DTC"). Any failure of DTC to mail such notice to any DTC participant will not affect the validity of the redemption of the Bonds.

Authorization and Purpose

The Bonds are issued pursuant to the State Constitution, statutes of the State, including acts of the General Assembly (the "General Assembly") authorizing the issuance of the Bonds (the "Authorization Acts") and the Resolution. A portion of the proceeds of the Bonds will be applied to pay for various capital facilities of the State and to provide financing for other capital projects, as authorized by the Authorization Acts. The remaining portion of the proceeds of the Bonds will be applied to refund the general obligation bonds of the State identified below (the "Refunded Bonds"):

Schedule of Refunded Bonds

Series	Maturities	Principal Amount	Date of Optional Call	Redemption Price
1994A	2005-2010	$ 6,400,000	March 1, 2004	102%
1998A	2009-2011	7,500,000	February 1, 2008	100%
1999A	2010-2015	16,500,000	March 1, 2009	100%
2000A	2011-2012	5,000,000	April 1, 2010	100%
2001A	2010-2014	26,424,000	August 1, 2009	100%
2002A	2011, 2013	12,800,000	July 1, 2010	100%

In order to provide for the refunding of the Refunded Bonds, the State will use a portion of the proceeds of the Bonds, together with certain other available moneys, to purchase United States Treasury Obligations, State and Local Government Series, or other direct obligations of, or obligations the principal of and the interest on which are unconditionally guaranteed by, the United States Government (the "Government Securities"), the principal of which together with interest payable thereon will be sufficient to pay when due the interest on the Refunded Bonds on or prior to the call date and to redeem on such call date Refunded Bonds which become due after such date. Neither the maturing principal of the Government Securities nor the interest thereon will secure or be available for the payment of principal of, interest or redemption premium, if any, on any obligations of the State other than the Refunded Bonds.

The Government Securities are to be held in a trust fund (the "Escrow Fund") by U.S. Bank Trust National Association (the "Escrow Agent") pursuant to an escrow agreement dated as of January 1, 2004 (the "Escrow Agreement") between the State and the Escrow Agent for the benefit of the holders of the Refunded Bonds.

The State will allocate the debt service with respect to the new money portion of the Bonds to various capital facilities as follows:

Purpose	**Ten-Year Bonds**	**Twenty-Year Bonds**	**Total**
		(in millions)	
Public Education Facilities	$49.0	$70.5	$119.5
State Offices and Facilities	9.5	0.0	9.5
Higher Education Facilities	1.5	3.0	4.5
Total	$60.0	$73.5	$133.5

Although all of such Bonds are authorized to be sold as twenty-year bonds, the State has chosen to sell only $73.5 million as twenty-year bonds and the remaining $60.0 million as ten-year bonds. This rapid amortization is consistent with an effective strategy to reduce the State's overall indebtedness.

The State Constitution provides that any money borrowed by the State shall be used exclusively for the purpose for which it is borrowed, but that if any borrowed money remains after a project has been completed or abandoned, such money may be expended according to law. The Delaware Code provides that any funds borrowed pursuant to an Authorization Act and not expended for the purposes set forth therein shall be deposited in a special fund and applied with the approval of the Issuing Officers to the remaining costs of any project authorized by any prior Authorization Act.

SOURCES AND USES OF FUNDS

Except for any accrued interest on the Bonds, which will be applied to the payment of interest on the first interest payment date for such Bonds, the sources and uses of funds to accomplish the purposes of the Bonds are expected to be as follows:

Sources:

Principal Amount of Bonds	$205,310,000
Net Original Issue Premium	15,230,705
Certain Available Amounts	1,423,075
Total Sources	$221,963,780

Uses:

Deposit to Escrow Fund	$ 79,881,813
Capital Project/General Fund	141,676,758
Certain Financing Expenses (including Underwriter's Discount)	405,209
Total Uses	$221,963,780

SECURITY FOR BONDS

The Bonds are direct obligations of the State to which the full faith and credit of the State will be pledged. The payment of principal of and interest on debt obligations of the State is made pursuant to appropriations by the General Assembly of the State. The State has always appropriated funds for and paid the principal of and interest on its debt obligations as they have come due.

If the State fails to make sufficient provision to pay the principal of and interest on the Bonds, or, at the time such amount is payable, sufficient funds are unavailable for such payment, a sufficient sum to pay such principal and interest is required by State law to be set apart by the State Treasurer from the first revenues thereafter received by the State. The State Treasurer may be required to set apart and apply such revenue to the payment of such principal and interest at the suit of any holder of the Bonds.

In the event the State fails to make timely payment of the principal of or interest on the Bonds, the owner of the Bond on which default in payment has occurred may also sue the State for breach of contract. In the opinion of the Attorney General of the State, the State may not successfully invoke the defense of sovereign immunity in an action alleging breach of contract by the State, and in the further opinion of the Attorney General, the Bonds pertaining thereto are such contracts. Any judgment against the State obtained in such an action, however, must be paid solely from funds appropriated by the General Assembly for the purpose of such payment.

DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements of general obligation bonds of the State, prior to and after giving effect to the issuance of the Bonds.

General Obligation Debt Service[1]
(in millions)

Fiscal Year Ending June 30	Prior to Issuance of the Bonds: Principal	Interest	Debt Service	Total Principal Amount Outstanding	After Issuance of the Bonds: Principal	Interest	Debt Service	Total Principal Amount Outstanding
2004	$94.3	$40.6	$135.0	$881.9	$ 94.3	$ 40.6	$135.0	$1,012.5
2005	98.9	40.2	139.2	782.9	107.9	46.2	154.1	904.7
2006	95.3	35.6	130.8	687.7	104.4	41.3	145.7	800.2
2007	90.3	30.9	121.2	597.3	99.5	36.0	135.5	700.8
2008	81.2	26.7	107.9	516.1	90.3	31.4	121.7	610.5
2009	75.0	22.7	97.7	441.1	84.6	26.9	111.6	525.8
2010	69.4	19.1	88.5	371.7	79.1	22.8	101.9	446.7
2011	62.2	15.7	77.9	309.5	71.7	19.1	90.9	375.0
2012	58.1	14.6	72.6	251.4	67.4	17.7	85.1	307.6
2013	48.2	12.2	60.4	203.3	57.9	14.4	72.3	249.7
2014	34.8	8.3	43.1	168.5	44.5	10.1	54.6	205.2
2015	28.3	6.9	35.2	140.2	31.9	8.4	40.3	173.3
2016	26.2	5.8	32.0	114.1	29.8	7.2	37.0	143.5
2017	24.4	4.8	29.2	89.7	28.1	6.0	34.0	115.4
2018	20.0	3.8	23.8	69.6	23.7	4.9	28.6	91.7
2019	18.4	2.9	21.3	51.2	22.1	3.8	25.9	69.6
2020	14.8	2.1	16.9	36.5	18.4	2.9	21.3	51.2
2021	12.3	1.5	13.8	24.2	16.0	2.1	18.0	35.2
2022	12.3	0.9	13.2	11.9	16.0	1.4	17.3	19.3
2023	8.9	0.4	9.3	3.0	12.6	0.7	13.3	6.7
2024	3.0	0.1	3.1	0.0	6.7	0.2	6.9	0.0
	$976.2	$295.8	$1,271.9		$1,106.9	$344.2	$1,451.0	

(1) Totals may not add due to rounding.

BONDED INDEBTEDNESS OF THE STATE

Authorization of General Obligation Debt

General obligation bonds and bond anticipation notes of the State are issued and the proceeds thereof appropriated to various purposes pursuant to Authorization Acts of the General Assembly. The General Assembly consists of the Senate and House of Representatives. Under the State Constitution, Authorization Acts become law upon the approval of three-quarters of all the elected members of each house of the General Assembly and the concurrence of the Governor. The Governor may veto a bill by returning the bill to the house of the General Assembly in which the bill originated within ten days of receipt, Sunday excepted. The General Assembly may override the Governor's veto by a three-fifths vote of all members in each house. No bill becomes law after final adjournment of the General Assembly unless previously approved by the General Assembly and approved by the Governor within 30 days after such adjournment. The Governor has veto power over line item appropriations.

Once an Authorization Act is enacted, the Issuing Officers are authorized by State law to issue bonds and bond anticipation notes thereunder. Bond anticipation notes may be issued for a term of one year and may be renewed, but all such renewal notes must mature not later than four years after the date of original issuance of such notes. No bond anticipation notes have been outstanding since fiscal 1978. Bonds are required to mature within 20 years from their date, may not provide for principal payments higher in later years than earlier years (except for refunding bonds, capital appreciation bonds and qualified zone academy bonds) and may have such other terms as the Issuing Officers may determine, subject to the limitations of the Authorization Acts and other provisions of law.

The Issuing Officers are authorized to issue bonds to refund bonds in advance of maturity provided that the refunding results in a present value savings to the State.

The Issuing Officers may also issue revenue anticipation notes, in an amount they determine necessary, to meet a casual deficiency of revenue in the budgetary General Fund to pay budgetary General Fund obligations or to pay existing debts. Revenue anticipation notes may be issued at any time and from time to time prior to June 25 in any State fiscal year. There has not been a State issue of revenue anticipation notes since fiscal 1977. If at any time during the fiscal year prior to June 15 there is a casual deficiency of revenue in the budgetary General Fund to pay budgetary General Fund obligations or to pay existing debts, the State may draw upon available balances in the State's budgetary Special Funds to pay such obligations or debts. Such draws are required to be reimbursed to the appropriate budgetary Special Funds as soon as sufficient budgetary General Fund monies become available, and in any case, the budgetary General Fund cannot evidence a negative balance after June 15 of such fiscal year.

Debt Limits

There is no Constitutional debt limit of the State.

In 1991, the State enacted legislation to replace the previous statutory debt limits with a three-part debt limit, effective July 1, 1991, as follows:

First, the aggregate principal amount of new "tax-supported obligations of the State" (hereinafter defined) which may be authorized in any one fiscal year (excluding refunding bonds) may not exceed 5% of estimated net budgetary General Fund revenue for that fiscal year, as determined by a Joint Resolution approved by a majority of the members elected to each house of the General Assembly and signed by the Governor in conjunction with the adoption of the annual Budget Appropriation Bill for that fiscal year (the "5% Rule"). The June 2003 budgetary General Fund revenue estimate for fiscal 2004 was $2,514.0 million; thus a total of $125.70 million of new general obligation debt was available to be authorized under the 5% Rule for fiscal 2004. For fiscal 2004, $125.88 million was authorized (including $180,000 from deauthorized amounts). The authorization for the issuance of the Bonds consists of authorizations from fiscal 2004 as well as prior years.

The level of new tax-supported debt authorization permitted under the 5% Rule is set out in the following chart. The fiscal 2005 and fiscal 2006 estimates incorporate the Delaware Economic and Financial Advisory Council's ("DEFAC") December 2003 estimates. Fiscal 2007 and fiscal 2008 are based on the long-term growth rates adopted by DEFAC at its September 2003 meeting. Fiscal 2009 is based on a net budgetary General Fund growth rate of 5.0%. See "STATE FINANCIAL OPERATIONS - Revenue and Expenditure Forecasting" and "- Revenue Summary - Fiscal 2003 - Fiscal 2005E."

The 5% Rule
(in millions)

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Estimated Net Budgetary General Fund Revenue......................	$2,742.6	$2,836.4	$2,958.4	$3,079.7	$3,233.6
Projected New Tax-Supported Debt Authorizations	$ 137.1	$ 141.8	$ 147.9	$ 154.0	$ 161.7

Second, no "tax-supported obligations of the State" and no "Transportation Trust Fund ("Trust Fund" or "TTF") debt obligations" (hereinafter defined) of the Delaware Transportation Authority may be incurred if the aggregate maximum annual payments on all such outstanding obligations exceed 15% of the estimated aggregate budgetary General Fund revenue, plus Trust Fund revenue for the fiscal year following the fiscal year in which such obligation is incurred (the "15% Test"). The Bonds comply with this test, as calculated in the following table:

The 15% Test
(in millions)

	Fiscal 2005[1]
General Obligation Debt Service	$154.1
Less: Excluded Debt Service [2]	(31.4)
Other Tax-Supported Debt Service [3]	20.4
Total Tax-Supported Debt Service	$143.1
Delaware Transportation Authority (TTF)	
Debt Service	$ 93.5
Total Debt Service	$236.6
Estimated Aggregate Budgetary General Fund	
and TTF Revenue [4]	$3,070.5
Total Debt Service as Percent of	
Total Revenue	7.7%

(1) Year of maximum annual debt service.

(2) Portion of general obligation debt service to be reimbursed by local school districts, the Trust Fund and the Delaware State Housing Authority.

(3) Includes projected payments on lease obligations of the State.

(4) Based upon December 2003 revenue projections of DEFAC. See "STATE FINANCIAL OPERATIONS - Revenue and Expenditure Forecasting."

Third, no general obligation debt (with certain exclusions) 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 such obligation is incurred (the "Cash Balances Test"), as estimated by the Secretary of Finance. The Bonds also comply with the Cash Balances Test, as calculated below:

The Cash Balances Test
(in millions)

	Fiscal 2005[1]
General Obligation Debt Service	$154.1
Less: Excluded Debt Service [2]	(31.4)
Net General Obligation Debt Service	$122.7
Projected Cumulative Cash Balances [3]	$390.0

(1) Year of maximum annual debt service.

(2) Portion of general obligation debt service to be reimbursed by local school districts, the Trust Fund and the Delaware State Housing Authority.

(3) As estimated by the Secretary of Finance based upon December 2003 budgetary General Fund revenue projections by DEFAC.

"Tax-supported obligations of the State" include a) all obligations of the State or any agency or authority thereof to which the State's full faith and credit is pledged; and b) all obligations of the State or any agency or authority thereof extending beyond one year with respect to the lease, occupancy or acquisition of property which are incurred in connection with debt financing transactions (for example, certificates of participation), and which are payable from taxes, fees, permits, licenses and fines imposed or approved by the General Assembly. Tax-supported obligations do not include a) obligations incurred to acquire a like principal amount of full faith and credit obligations issued by a local school district to the extent such local school district obligations are not in default; b) any obligations of the Delaware Transportation Authority; c) any tax or other revenue anticipation notes or bonds of the State; or d) obligations to the extent that the debt service with respect thereto is reasonably expected to be offset (as determined by the Secretary of Finance) by lease payments, user fees, federal grants or other payments from a non-budgetary General Fund source.

"Transportation Trust Fund debt obligations" include all debt obligations of the Delaware Transportation Authority, including all obligations extending beyond one year with respect to the lease, occupancy or acquisition of property which are incurred in connection with debt financing transactions (for example, certificates of participation), and which in any case are payable from the Trust Fund. Trust Fund debt obligations do not include any obligations to the extent that the debt service with respect thereto is reasonably expected to be offset (as determined by the Secretary of Finance) by lease payments, user fees, federal grants or other payments from a non-State source.

General Obligation Debt

On June 30, 2003, the outstanding general obligation debt of the State, a portion of which was supported by budgetary General Fund revenue and a portion of which was supported by budgetary Special Funds, was as follows:

Outstanding General Obligation Debt
(in millions)

General Obligation Debt Supported by Budgetary General Fund Revenue

State Facilities	$482.1
School Facilities (State Share)	124.2
Miscellaneous	4.2
Subtotal	$610.5

General Obligation Debt Supported by Budgetary Special Funds

Highways and Other Transportation Improvements	$ 3.3
School Facilities (Local Share)	240.2
Housing Authority Loans	0.3
Subtotal	$243.8
Total General Obligation Debt Outstanding	$854.3

The Trust Fund reimburses the budgetary General Fund for the payment of debt service on previously issued transportation-related general obligation debt and Division of Motor Vehicle debt assumed as of July 1, 2003. As of June 30, 2003, $3.3 million of transportation-related general obligation debt was outstanding. No new general obligation debt for transportation purposes is contemplated.

The State pays between 60% and 80% of the cost of capital improvements for public school districts upon approval of such cost by the State Board of Education. The school districts pay the remaining percentage. The State issues bonds for 100% of the cost of approved school district projects pursuant to Authorization Acts and the school districts issue their own bonds to the State for their 20% to 40% share of capital costs at an interest rate not exceeding 1/4 of 1% above the interest rate on the corresponding State bonds. As debt service payments on the State's bonds become due, school districts are required to pay their share from their tax receipts into the State's budgetary General Fund, and the State pays the total debt service from its budgetary General Fund appropriation. No school district has ever defaulted on any such obligation to the State. This policy allows the local school districts to borrow capital funds at very competitive rates and to lessen the associated costs of issuance and market access.

Authorized but Unissued General Obligation Debt

After the issuance of the Bonds, statutory authorization will exist for the issuance of additional general obligation debt of the State in the principal amount of $182.9 million.

Contingent General Obligation Debt

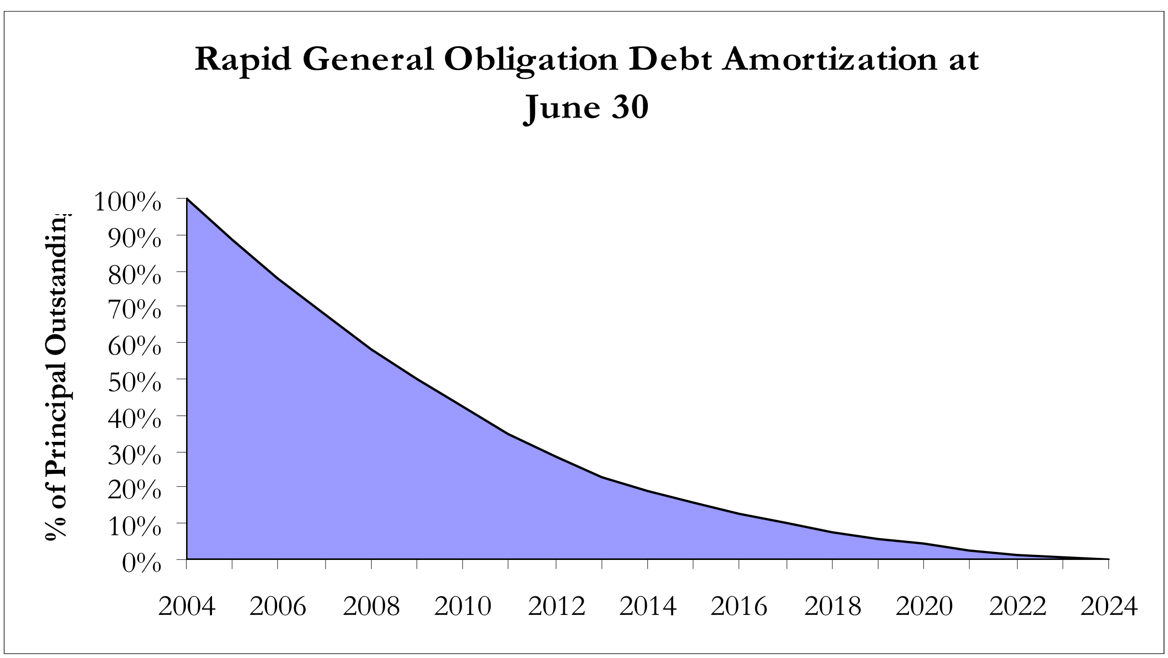
The full faith and credit of the State has also been pledged to the payment of the principal of and interest on certain industrial development revenue bonds which have been issued by the Delaware Economic Development Authority or its predecessors. However, as of October 1, 2003, there were no such bonds still outstanding, and there are no current plans to issue additional such bonds.

General Obligation Note Debt

There are no outstanding State general obligation notes or any notes of any authority or agency for whose debt the State has a contingent liability as of the date of this Official Statement.

Debt Burden Comparisons

The State's general obligation debt outstanding was $854.3 million on June 30, 2003 with approximately 80% scheduled to mature within ten years and approximately 94% scheduled to mature within fifteen years. The following chart further demonstrates the State’s commitment to the rapid retirement of its general obligation debt.



Delaware's debt burden reflects the centralized role of the State government in financing capital projects that are typically funded by local governments in other states, such as schools and correctional facilities. Fiscal 2000 data from the U.S. Bureau of the Census ranked Delaware 5th in terms of the percentage of overall debt that is concentrated at the state level. According to the U.S. Department of Education's National Public Education Financial Survey (2000-2001), on average, the burden of school funding is split equally between state government and local schools. However, in Delaware the state government assumes a greater responsibility by bearing approximately two-thirds of combined state and local public school funding. As of June 30, 2003, 28.1% of the State's outstanding debt was issued on behalf of local school districts. This debt is fully collateralized by the property tax revenues of those districts.

The State has instituted a number of measures designed to manage and reduce its indebtedness, as outlined below.

- **Aggressive Retirement of General Obligation Debt**: The State voluntarily retires its general obligation debt rapidly. Approximately 80% of current general obligation debt is scheduled to mature within ten years, as noted above.

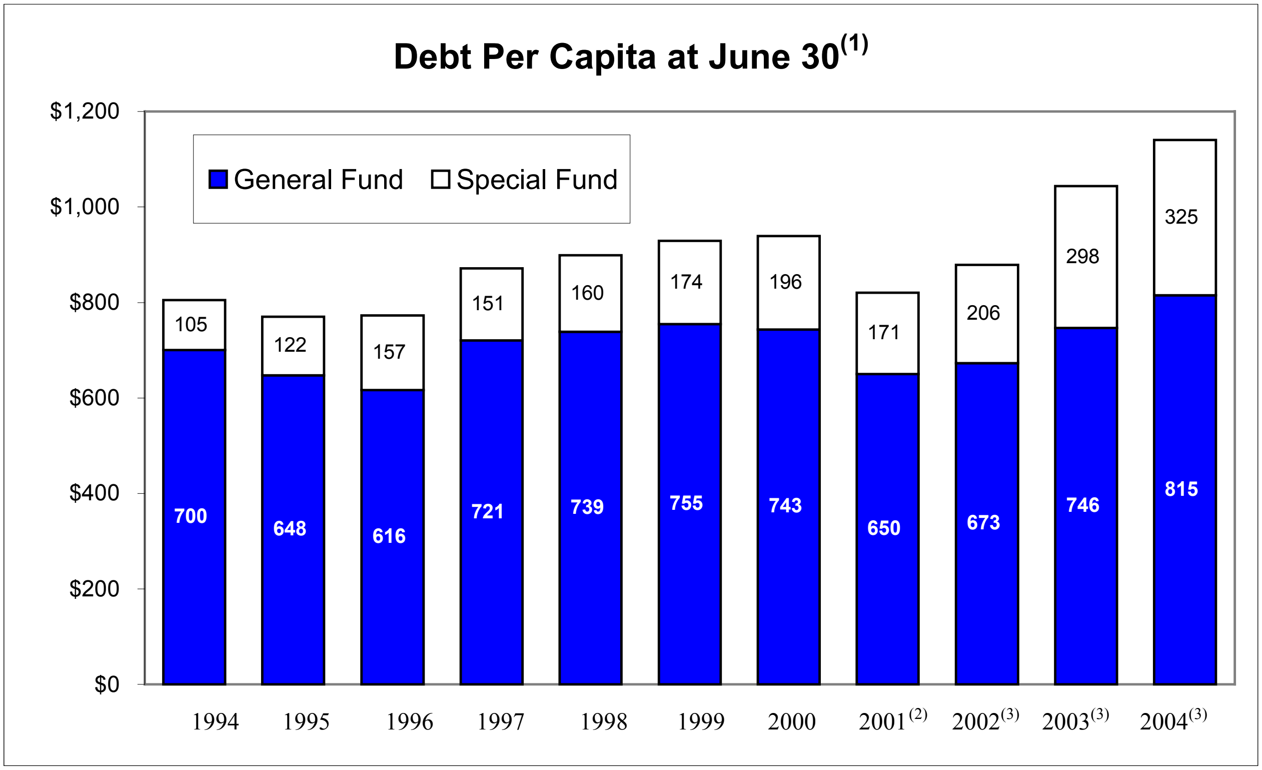
- **Strict Debt Limitations**: In 1991, the State instituted new debt limits, one of which restricts new debt authorizations to 5% of budgetary General Fund revenue as projected on June 30 for the next fiscal year. Should revenue collections increase during the fiscal year, no additional authorizations are made. The debt limit also effectively eliminates the use of any "off balance sheet" financing instruments, such as certificates of participation. See "Bonded Indebtedness of the State - Debt Limits" for further information concerning the State's debt limits.

- **Significant "Pay-As-You-Go" Financing**: Over the years, whenever revenues have permitted, the State has appropriated surplus cash for "pay-as-you-go" financing. Extraordinary revenue surpluses in the period from fiscal 1993-2001 allowed the State to appropriate cash on average at a rate of 52.6% of capital expenditures. With more modest revenue growth, the fiscal 2002 and 2003 pay-as-you-go financing levels were $11.0 million and $19.2 million. For fiscal 2004, the pay-as-you-go financing level is $142.0 million. This level reflects Delaware's commitment to pay-as-you-go financing.

- **Debt Reduction**: During the period of 1995-2001, the State implemented a substantial debt reduction plan as extraordinary surpluses permitted. Tighter revenues in fiscal 2002, 2003 and 2004 precluded additional debt reduction efforts, but the State remains committed to debt reduction as a policy initiative as revenues allow.

- **Numerous Bond Refundings**: The State has undertaken a series of bond refundings which have lowered the overall debt service on outstanding State general obligation debt. The State refunded $132.7 million of its general obligation bonds in August 2002 for a combined savings of over $6.4 million, and refunded $34.5 million of its general obligation bonds in April 2003 for a combined savings of $2.3 million. The State will continue to monitor opportunities to refund its outstanding bonds to lower future debt service requirements.

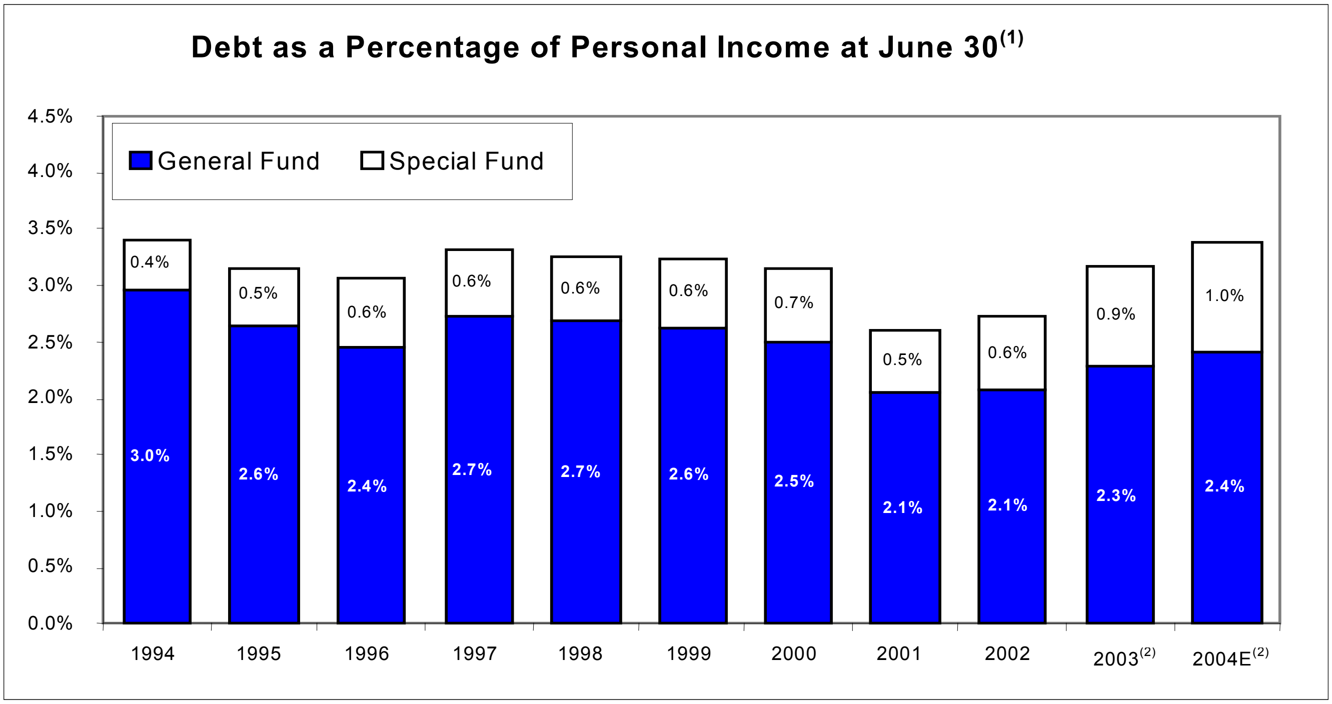
The result of these initiatives has been to reduce the rate of growth in Delaware's debt burden, as depicted on a fiscal year basis in the following three charts.



(1) Shaded area represents portion of general obligation debt funded by the budgetary General Fund. The remainder is funded by budgetary Special Funds.

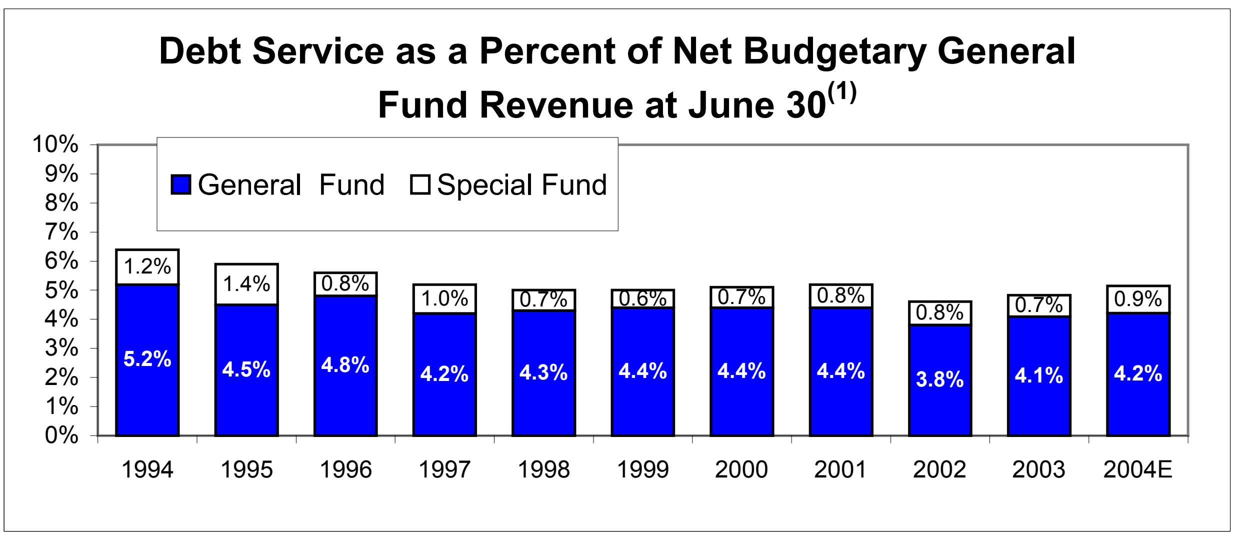
(2) Decrease in 2001 due to a shift in timing of bond sale to fiscal 2002.

(3) Assumes a population growth rate of 1.0%.



(1) Shaded area represents portion of general obligation debt funded by the budgetary General Fund. The remainder is funded by budgetary Special Funds.

(2) Personal Income estimates provided by Global Insight and Delaware Department of Finance.



(1) Shaded area represents portion of general obligation debt funded by the budgetary General Fund. The remainder is funded by budgetary Special Funds.

Qualified Zone Academy Bonds

The State issued $649,000 Qualified Zone Academy Bonds ("QZAB") in fiscal 2002 and $760,000 Qualified Zone Academy Bonds in fiscal 2003. The fiscal 2003 QZAB proceeds funded the renovation of the Charlton School in the Caesar Rodney School District, Kent County, Delaware. The fiscal 2002 QZAB proceeds assisted in the renovation of Georgetown and Showell elementary schools in the Indian River School District, Sussex County, Delaware.

The State issued $908,000 QZABs in fiscal 2004 to finance the continued renovation of the Charlton School in the Caesar Rodney School District, Kent County, Delaware. The QZABs are general obligation bonds backed by the full faith and credit of the State for the repayment of principal, primarily through the use of a sinking fund with a bullet maturity.

The QZAB proceeds are used in conjunction with the State's general obligation bond proceeds. The State provides 60-80% of the capital funding to local school districts in the form of non-repayable appropriations. The QZABs will assist in funding this commitment.

State Revenue Debt

There is currently no State revenue debt outstanding, nor any plans to authorize any State debt other than State general obligation debt.

Lease Obligations

The State has entered into long-term operating and capital leases with terms in excess of one year. Aggregate remaining lease payments total approximately $135.7 million (with $81.6 million payable through fiscal 2008). Real estate rentals account for 81.3% of the aggregate payments and equipment rentals account for the remainder. All payments are subject to annual appropriation. The State may not be held contractually liable for the payments in the event that such appropriations are not made. See "Appendix B - Notes to the Financial Statements - #8, Lease Commitments." Lease obligations are subject to one of the State's debt limits, the 15% Test. See "BONDED INDEBTEDNESS OF THE STATE - Debt Limits" for a complete explanation.

INDEBTEDNESS OF AUTHORITIES, UNIVERSITY OF DELAWARE AND POLITICAL SUBDIVISIONS

Oversight responsibility for the issuance of debt by the State and authorities deemed to be part of the State's financial reporting entity is centralized under the Secretary of Finance. The following section sets forth certain indebtedness of State authorities, Delaware State University, the University of Delaware and political subdivisions of the State. The State is not directly or contingently liable for debt service for any of the following indebtedness.

Authorities

Delaware Transportation Authority

The Delaware Transportation Authority (the "Authority") is a body corporate and politic constituting an instrumentality of the State. The Authority acts by resolution of the Secretary of the Department of Transportation (the "Department"), the Director of Finance of the Department and the Transportation Trust Fund Administrator. The Department has overall responsibility for coordinating and developing comprehensive, multi-modal transportation planning and policy for the State. The Authority assists in the implementation of this policy and has the power to develop a unified system of air, water, vehicular, public and specialized transportation in the State, subject to oversight by the Department and the State as hereinafter described.

To assist the Authority in financing a unified transportation system, the State created the Transportation Trust Fund (the "Trust Fund" or "TTF") within the Authority in 1987 to receive revenue and receipts of the Authority. The primary sources of funding of the Trust Fund are motor fuel taxes, motor vehicle document fees, motor vehicle registration fees, and other transportation-related fees, all of which are imposed and collected by the State and transferred to the Trust Fund. The State has irrevocably pledged, assigned and continuously appropriated these taxes and fees to the Trust Fund. The other major source of funding for the Trust Fund is toll and concession revenue of the Delaware Turnpike and the Route 1 Toll Road. The Authority may apply Trust Fund revenue for transportation projects, subject to the approval of the State, and may pledge any or all of this revenue to secure financings for these projects.

As of June 30, 2003, the Delaware Transportation Authority had outstanding $782.7 million in Transportation System Senior Revenue Bonds and $80.5 million in Transportation System Junior Revenue Bonds. The Authority may issue bonds to refund prior Authority obligations.

Additional bonds secured on parity with the Senior Bonds or secured on parity with the Junior Bonds may be issued subject to the satisfaction of debt service coverage tests and certain other requirements. Under certain circumstances, additional revenue may be pledged by the Authority to secure its bonds, in which case such revenue may be taken into account in determining satisfaction of these debt service coverage tests. The Authority may also incur additional debt, which has a lien on revenue subordinate to the lien of other bonds. See "Appendix B - Notes to the Financial Statements - #6, Revenue Bonds."

In addition to debt service coverage tests and certain other requirements, future debt issues of the Authority are subject to one of the debt limits of the State. The debt limit mandates that the aggregate maximum annual payments on the State's tax-supported obligations and the TTF debt obligations of the Authority (plus certain lease obligations) may not exceed 15% of total budgetary General Fund revenue, plus Trust Fund revenue for the fiscal year following the fiscal year in which such debt is issued. See "BONDED INDEBTEDNESS OF THE STATE - Debt Limits" for a complete explanation.

The bonds of the Authority do not constitute a debt of the State or a pledge of the general taxing power or the faith and credit of the State or any political subdivision, agency or instrumentality thereof other than the Authority. The State's pledge and assignment to the Authority of motor fuel tax revenue, motor vehicle document fees, motor vehicle registration fees and other revenue pursuant to State law creates an obligation of the State, until there are no longer any Authority bonds remaining outstanding, to continue to impose and collect these taxes and fees at least at the rates in effect on the date of issuance of the Authority bonds and to transfer this revenue to the Authority. The State, however, has no obligation to increase these taxes or fees to provide sufficient revenue to meet payments of debt service on the Authority bonds.

Delaware State Housing Authority

The Delaware State Housing Authority, created in 1968, had outstanding on June 30, 2003, $369.9 million of tax-exempt revenue bonds and $9.7 million of taxable revenue bonds. Approximately $296.9 million of the outstanding tax-exempt bonds were issued to finance the purchase of single-family homes, and the remainder was issued to finance multi-family housing. In addition, the Authority recently issued $32.2 million of single family mortgage revenue bonds. The security for these bonds is mortgage loan repayments, capital reserve funds, bond proceeds and other revenue. The taxable bonds have been issued primarily to finance second mortgages, providing down payment and closing cost assistance to eligible first-time homebuyers. See "Appendix B - Notes to the Financial Statements - #6, Revenue Bonds."

Authority bonds do not constitute a debt or liability of the State. The enabling legislation, however, provides that the General Assembly may, but is not obligated to, make appropriations to restore the Authority's capital reserve fund if such fund is drawn upon to meet debt service payments on certain of the Authority's bonds. As of June 30, 2003, there were no Authority bonds outstanding which are entitled to the benefit of the capital reserve fund. To date, the General Assembly has not been requested to make any such "moral obligation" appropriations. The statutory debt limit of the Authority is $350.0 million in bonds carrying the moral obligation of the State.

Delaware Economic Development Authority

The Delaware Economic Development Authority and its predecessors had outstanding $1.9 billion in economic development revenue bonds on June 30, 2003, none of which are backed by the full faith and credit of the State. See "BONDED INDEBTEDNESS OF THE STATE - Contingent General Obligation Debt" for a discussion of certain other obligations of the Delaware Economic Development Authority which are backed by a pledge of the State's full faith and credit.

Delaware State University

There were outstanding on June 30, 2003, $13.1 million of revenue bonds issued by the Delaware State University. These bonds are secured by the University's pledge of certain of its net operating revenue and net non-operating revenue.

The following two Authorities are not part of the State's financial reporting entity. The State, however, exercises oversight regarding their debt activities.

Delaware Solid Waste Authority

The Delaware Solid Waste Authority was created in 1975 and is the sole entity in the State responsible for the planning and administration of a comprehensive statewide program for the management, storage, collection, transportation, utilization, processing (including resource recovery), and disposal of solid waste and sewage sludge. On June 30, 2003, the Authority had no outstanding solid waste revenue bonds.

Delaware Health Facilities Authority

The Delaware Health Facilities Authority, established in 1973, is authorized to issue revenue bonds and notes to finance projects for health care facilities located in the State. As of June 30, 2003, there were outstanding $310.9 million of revenue bonds issued for the benefit of these facilities. The Authority has no taxing power and no source of funds other than from the contractual obligations of participating health care facilities.

University of Delaware

There were outstanding on June 30, 2003, $107.1 million of revenue bonds issued by the University of Delaware for housing, dining and other auxiliary facilities. These bonds are secured by revenue generated by the facilities.

Political Subdivisions

The approximate aggregate principal amount of general obligation bond indebtedness of the three counties, the City of Wilmington, the other cities and towns and the school districts of the State is outlined in the table which follows, as of June 30, 2003.

General Obligation Debt of Political Subdivisions
(in millions)

New Castle County	$132.0
Sussex County	100.1
Kent County	12.9
Wilmington	193.1(1)
Other Cities and Towns	87.2(2)
School Districts	240.2(3)
Total	$ 765.5

(1) Of this total, $28.38 million is supported by payments from the Diamond State Port Corporation, an instrumentality of the State (see "ECONOMIC BASE – The Port of Wilmington"). Excludes $22.3 million of Wilmington Parking Authority bonds guaranteed by the City of Wilmington.

(2) Excludes $44.7 million of revenue bonds and anticipation notes of governmental issuers for various water/sewer and electric facilities, which are deemed to be self-supporting.

(3) Represents local shares sold by the State on behalf of the school districts (as reported in the earlier chart entitled "Outstanding General Obligation Debt").

Source: Chief fiscal officers of respective governmental entities.

Indebtedness of counties, towns, and cities, other than the City of Wilmington, has been incurred primarily for water and sewer projects and general municipal purposes, subject to various debt limits. The State is not liable for any of this indebtedness. Unlike most other states, the State, rather than the local governments, is principally responsible for capital expenditures for schools and correctional facilities.

School districts may not issue bonds (including bonds sold to the State by school districts to fund the 20% to 40% share of capital costs), except to refund outstanding bonds, in an aggregate amount causing bonded debt of the district, less sinking funds on hand for payment of such bonded debt, to exceed 10% of the assessed value of the real property in the district.

ECONOMIC BASE

The State is located on the eastern seaboard of the United States and is bordered by the Atlantic Ocean and the Delaware Bay, as well as by the states of New Jersey, Pennsylvania and Maryland. It has a land area of 1,955 square miles, ranking 49th in area in the United States. The State is 96 miles long and varies from 9 to 35 miles wide, with elevations ranging from sea level to 442 feet. As the first state to ratify the United States Constitution on December 7, 1787, Delaware is known as "The First State."

Recent History

In recent years, Delaware's economic performance has largely mirrored national trends. Delaware participated fully in the late 1990's economic expansion and followed the nation, too, through the economic doldrums of the past few years. Despite its ties to the national economy, throughout the recent business cycle, Delaware consistently posted lower unemployment rates than the United States. Most recently, Delaware's labor markets have begun to stabilize and its economy, like the nation's, has shown signs of sustainable recovery. (For a summary of Delaware's most recent economic forecast, see "STATE FINANCIAL OPERATIONS – Economic Projections.")

Much of the State's success in maintaining a healthy economy over the last decade can be attributed to its increasingly diverse economy. Delaware was once regarded as a "manufacturing state" with a particularly high concentration of employment in chemicals and automobile manufacturing. While manufacturing remains an important part of the economy, the rise in the State's banking and service sectors has given Delaware a much broader and varied economic base. In 2000, according to data derived from the Standard Industrial Classification System, 14% of

Delaware jobs were in manufacturing, which was equal to the figure for the U.S. as a whole for the same period.[1]

Since the adoption of the Financial Center Development Act in 1981, diversifying Delaware's economy has consistently ranked among State policymakers' highest priorities. The ongoing success of these efforts is evidenced by how well Delaware's economic diversity compares with other states. According to Economy.com, as of June 2003, the State, despite its small size, enjoys a higher level of economic diversity than 15 states, most of which are significantly larger than Delaware. In addition, Delaware's economic diversity has increased over the past decade, rising over 10% from 1992 to 2002. This ongoing and fundamental change in the economic base enabled the State to weather the recessions of the early 1990's and 2000's with limited impact and is expected to diminish the State's vulnerability to cyclical downturns.

Delaware is aggressively pursuing high technology industries, including life sciences research and development, pharmaceuticals, agricultural biotechnology, human biotechnology and information technology. The State has made a significant investment to establish the Delaware Biotechnology Institute, a partnership involving State government, Delaware's higher education institutions and the private sector. The Institute is designed to expand the State's scientific base and create opportunities for the development of new technologies in the emerging life sciences field.

Population

Historically associated with a strong employment and income base, population growth is one of the most important indicators of the strength of a state's economy. Delaware experienced above-average population growth through the 1990's, outperforming both the mid-Atlantic region and the nation. Between 2001 and 2002, Delaware's population increased 1.4% to 807,385 inhabitants, compared to 0.6% growth for the region and 1.1% growth for the nation. As in past years, net in-migration continues to account for a significant share of the population growth.

The following table presents population trends of the State, the mid-Atlantic region and the United States for 1998 through 2002.

[1] Data from the North American Industry Classification System for the first ten months of 2003 shows 8% of Delaware jobs in manufacturing, compared to 11% for the U.S.

Population
(in thousands)

	Delaware		Mid-Atlantic Region (1)		United States	
	Population	**Change**	**Population**	**Change**	**Population**	**Change**
1998................	763	1.6%	45,256	0.5%	275,854	1.2%
1999................	775	1.6	45,535	0.6	279,040	1.2
2000................	787	1.5	45,818	0.6	282,224	1.1
2001................	797	1.3	46,081	0.6	285,317	1.1
2002................	807	1.4	46,348	0.6	288,368	1.1

(1) Mid-Atlantic region consists of Maryland, New Jersey, Pennsylvania, New York and Delaware.

Source: U.S. Department of Commerce.

Major Political Subdivisions

The State has three counties: Kent, New Castle, and Sussex. All of the cities and towns in the State are independent, incorporated municipalities. There are three major cities: Wilmington, the largest city, with a 2002 estimated population count of 72,503; Dover, the State capital and the site of a major U.S. Air Force base, with a 2002 estimated population count of 32,581 residents; and Newark, the site of the University of Delaware, with a 2002 estimated population count of 29,798.

The following table shows the population of the State's three counties for the years 1998 through 2002. Nearly 63% of the State's population lives in New Castle County, the northernmost county. Sussex County, the southernmost county, continues to show very strong growth, twice that experienced by New Castle County and more than 17.0% greater than that experienced by Kent County.

Population by County

	New Castle	Change	Kent	Change	Sussex	Change
1998	490,382	1.1%	124,054	1.3%	148,897	3.5%
1999……	496,079	1.2	125,611	1.3	153,300	2.9
2000	500,265	0.8	126,697	1.7	156,638	2.2
2001	507,085	1.4	128,822	1.7	160,692	2.6
2002	512,370	1.0	131,069	1.7	163,946	2.0

Source: U.S. Department of Commerce.

Personal Income

Personal income figures reflect income received from participation in production, as well as from government and business transfer payments. It is widely used as a measure of residents' economic well-being. The State's total personal income grew 1.8% from 2001 to 2002, compared with 1.9% for the mid-Atlantic region and 2.5% for the nation. Total State personal income in 2002 was $26.1 billion.

The following table provides per capita personal income comparisons for 1998 through 2002. (Per capita personal income is the annual total personal income of State residents divided by the population.) Per capita personal income of Delaware residents grew 0.4% from 2001 to 2002. State per capita personal income was 105% of U.S. per capita personal income in 2002. Delaware per capita personal income growth was below that of the mid-Atlantic region and the United States for that same year.

Per Capita Personal Income

	Delaware	Change	Mid-Atlantic Region	Change	United States	Change	Delaware as Percent of the United States
1998...............	$28,662	6.9%	$30,249	6.0%	$26,893	5.8%	107%
1999…………	29,312	2.3	31,253	3.3	27,880	3.7	105
2000…………	31,092	6.1	33,537	7.3	29,760	6.7	104
2001…………	32,166	3.5	34,540	3.0	30,413	2.2	106
2002...............	32,307	0.4	35,073	1.5	30,832	1.4	105

Source: U.S. Department of Commerce.

Unemployment Rates

The State's average unemployment rate for the first ten months of 2003 was 4.0%, lower than the regional rate of 5.2% and the national rate of 6.0%. The following table presents the average annual unemployment rates for Delaware, the region and the U.S. from 1999 through October 2003.

Unemployment Rates

	Delaware	Mid-Atlantic Region	United States
1999	3.5%	4.2%	4.2%
2000	3.9	4.0	4.0
2001	3.4	4.2	4.7
2002	4.2	5.2	5.8
2003(1)	4.0	5.2	6.0

(1) Reflects a ten month average.
Sources: U.S. Department of Labor and Delaware Department of Labor.

According to data released by the U.S. Bureau of Labor and Statistics, Delaware's October 2003 unemployment rate of 4.0% was tied for 6th lowest in the nation. Oregon had the highest rate in the nation at 7.6%, while South Dakota had the lowest rate, 3.1%. The average unemployment rate for Delaware's neighboring states was 5.1% in October 2003. The following table shows the October 2003 unemployment rates and ranking for Delaware, its neighboring states and the United States.

	Oct. 2003 Unemployment Rate	National Ranking
Delaware	4.0%	6th (tied)
Maryland	4.1	8th
New Jersey	5.7	37th (tied)
Pennsylvania	5.4	27th (tied)
United States	6.0	--

Source: U.S. Bureau of Labor and Statistics.

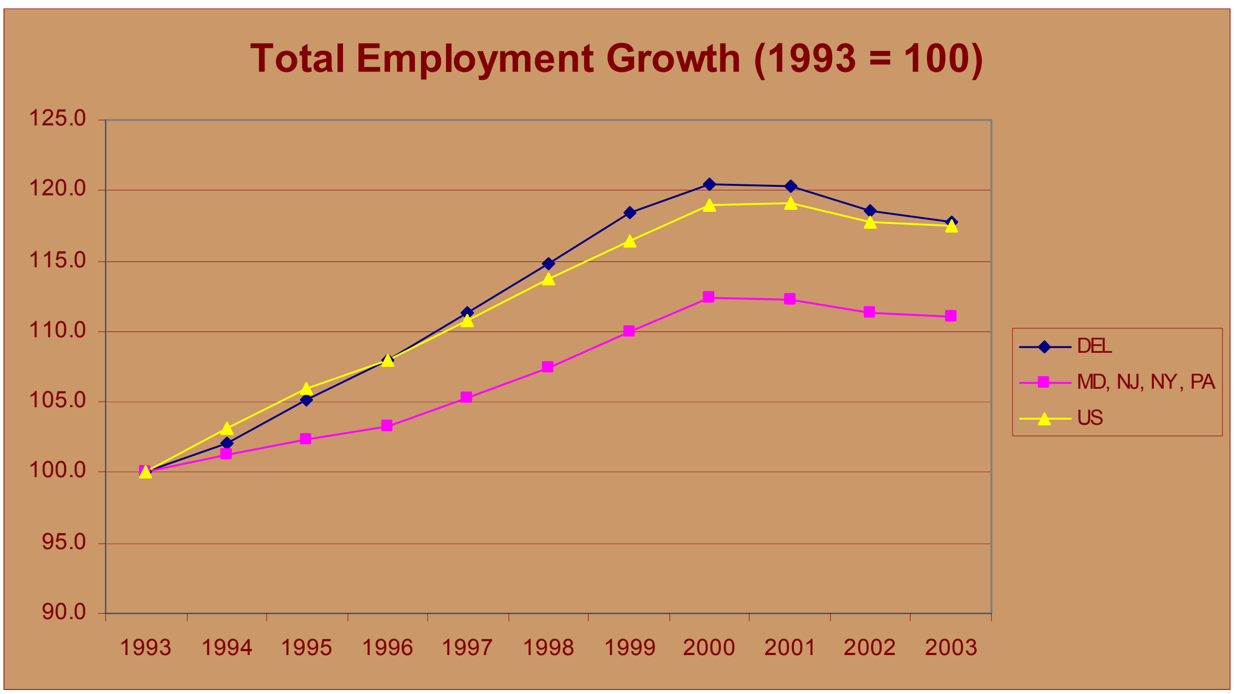
Employment

For the first ten months of 2003, the State experienced a decrease of 0.6% in non-agricultural employment. Despite this decline, the pace of job loss slowed in the second half of 2003 and a modest increase in jobs is projected for 2004. The following table and graph compare growth rates in this sector.

Non-Agricultural Employment Growth Rates

	Delaware	Mid-Atlantic Region	United States
1999	3.2%	2.4%	2.4%
2000	1.7	2.2	2.2
2001	(0.1)	(0.2)	0.0
2002	(1.5)	(0.9)	(1.1)
2003(1)..........................	(0.6)	(0.2)	(0.3)

(1) Reflects a ten month average.
Sources: U.S. Department of Labor and Delaware Department of Labor.



Source: Delaware Department of Labor

Despite the drop in total non-agricultural jobs, some sectors experienced stable employment or even some gains during the first ten months of 2003 as described herein. Construction employment for the first ten months of 2003 remained unchanged at 24,200. Wholesale and Retail Trade had a net gain of 400 jobs, an increase of 0.6% over the prior year.

Delaware's lack of a sales tax has helped this sector to continue to expand even during difficult economic times. Given the increase in consumer confidence, the outlook is good for this sector.

Employment was unchanged in the Transportation, Warehouse and Utilities sectors at 12,300. The Information sector continued to provide 7,800 jobs.

Education and Health Services gained 800 jobs, an increase of 1.6% over 2002. Due to the aging of the population, health care is expected to continue to have rapid job growth for the balance of the decade. Like the nation as a whole, the demand for workers (e.g., nurses) has exceeded supply.

Other Services include industries such as repair services, personal care services, and civic and social agencies. This sector rose by 200 jobs in the first ten months of 2003.

Overall, the largest employment sectors are within various service industries. The largest major sector is Professional and Business Services with 67,900 jobs. Included in this area are such industries as Professional, Scientific and Technical Services, Management of Companies, and Administrative and Support Services.

Recent trends in employment in the State by major categories for 1999 through October 2003 are shown in the following table.

Employment
(in thousands)

	1999	2000	2001	2002	2003[3]
Civilian Labor Force Data					
Employed[1]	376.0	399.9	414.4	405.3	403.7
Unemployed	13.7	16.4	14.8	17.9	16.9
Total	389.7	416.3	429.2	423.2	420.6
NAICS Data					
Construction and Mining	24.7	24.6	24.5	24.2	24.2
Manufacturing	44.0	41.5	39.4	36.8	34.3
Wholesale Trade	12.4	13.2	13.4	13.5	13.6
Retail Trade	50.9	51.4	50.6	51.0	51.3
Transportation, Warehousing and Utilities	14.6	14.2	12.8	12.3	12.3
Information	7.8	8.1	8.1	7.8	7.8
Financial Activities	39.1	39.0	39.6	38.5	38.1
Professional and Business Services	69.2	73.5	73.1	68.6	67.9
Education and Health Services	43.9	45.5	47.4	48.9	49.7
Leisure and Hospitality	34.7	35.8	36.4	37.7	37.6
Other Services	15.9	15.9	17.3	17.8	18.0
Government	55.1	56.6	56.9	56.1	55.6
Non-Agricultural Employment Total[2]	412.9	420.0	419.4	413.0	410.4

(1) This indicator reflects the number of Delaware residents, 16 years of age or older, who worked at least one hour for pay or profit, and includes employment in agriculture, proprietors, self-employed, unpaid family workers and domestic workers.

(2) Based on reconstructed and restated data complying with the North American Industry Classification System (NAICS) (see discussion below). This indicator includes persons on Delaware non-agricultural establishment payrolls, regardless of their place of residence, and does not include proprietors, self-employed, unpaid family workers, domestic workers and military personnel. The total may not add due to rounding.

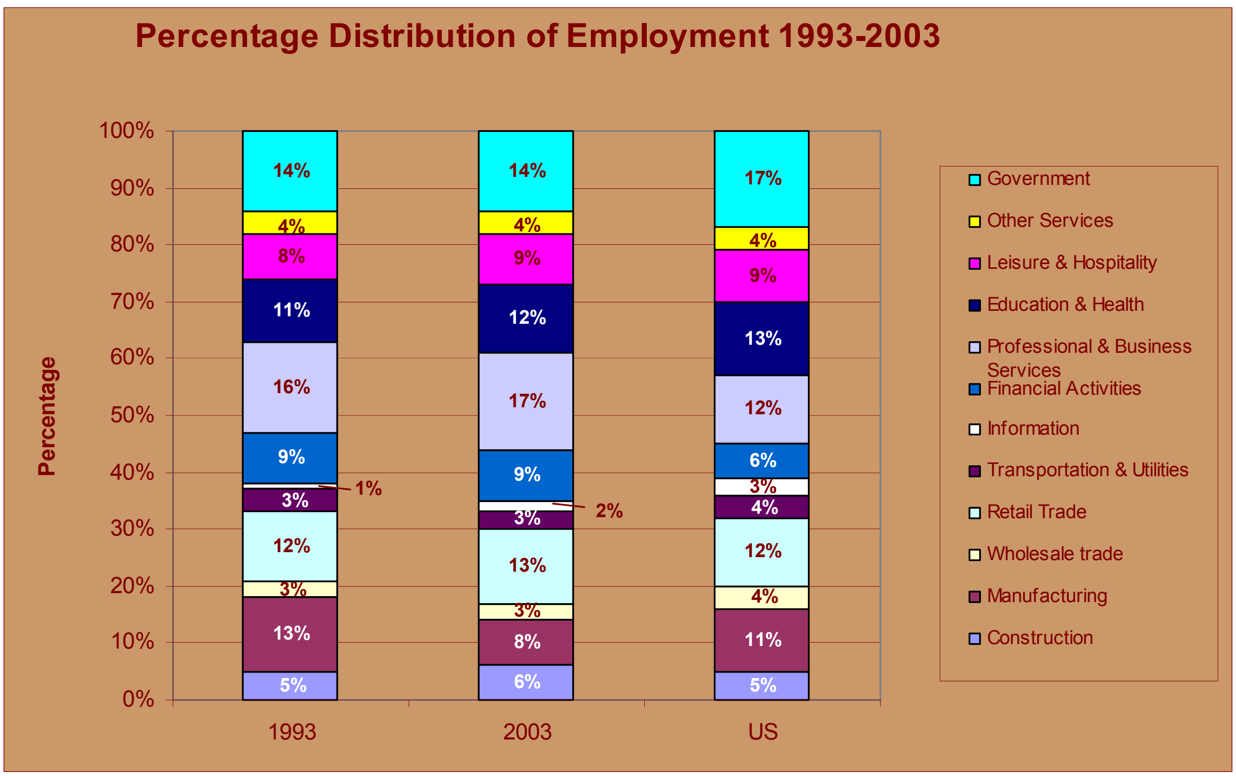
(3) Through October 2003.

Source: Delaware Department of Labor.

In 2003, Delaware, along with all other U.S. states and territories, implemented a new way of gathering and reporting economic data. The Standard Industrial Classification (SIC) System, which had been in place since the 1930's, has been replaced by the North American Industry Classification System (NAICS). NAICS is considered an improvement over SIC because NAICS was designed with the nation's modern economy in mind. NAICS differs from SIC in that it more fully recognizes the rise in the economy's service and information bases. Additionally, whereas SIC classified all employees working in a particular firm under a single code, NAICS makes distinctions within each firm. For example, within the same firm, production workers are classified under "manufacturing" but the CEO would be recognized separately as "headquarters" staff.

Clearly, the change in the classification systems means that any comparisons of current NAICS based data with SIC based data is likely to produce unreliable results. Delaware, along with the U.S. Bureau of Labor and Statistics, have undertaken the difficult task of reconstructing and restating industry data since 1990 in NAICS format. Accordingly, readers should be aware that such data is not based upon an actual historical series and reliance thereon should be limited.

Over the past ten years, Delaware's employment has grown in most industries. Once heavily reliant on the manufacturing base, Delaware has experienced large gains in several of the service industries. Since 1993, the following sectors have had an increase in the percentage of Delaware jobs: Construction; Retail Trade; Information; Professional and Business Services; Education and Health; and Leisure and Hospitality. Professional and Business Services made up 17% of Delaware jobs, compared to 12% for the U.S. The diversification of the State's economic base will help Delaware to continue to weather the economic downturns and strengthen the State's economic position in future years.



The following chart lists the private employers in the State with at least 900 positions, as of March 31, 2003:

Name	Nature	Approx. Number of Employees
Financial Services		
MBNA America Bank	Commercial banking	11,400
J.P. Morgan Chase & Co.	Commercial banking	3,000
Bank One	Commercial banking	2,500
Wilmington Trust Company	Commercial banking	2,200
Greenwood Trust (Discover Card Services)	Commercial banking	1,600
PFPC Inc.	Financial services	1,200
Household	Financial services	1,100
CitiGroup	Commercial banking	900
Manufacturing		
E.I. du Pont de Nemours & Co., Inc	Chemicals and energy; corporate headquarters	9,800
AstraZeneca	Pharmaceuticals and specialty chemicals; corporate headquarters	4,200
DaimlerChrysler	Automotive assembly	2,200
General Motors Corporation	Automotive assembly	2,100
Dade International Inc	Electromedical apparatus	1,200
Playtex Manufacturing, Inc	Manufacturer	900
Hospitals and Health Services		
Christiana Care Health Services	Hospital complex and home healthcare subsidiary	7,200
Alfred I. du Pont Institute	Children's health care facility	2,600
Bay Health Medical Center	Hospital complex	2,200
Beebe Hospital	Hospital complex	1,500
St. Francis Hospital	Hospital complex	1,200
Agribusiness		
Mountaire Farms of Delmarva, Inc.	Food processor	3,300
Perdue Farms, Inc.	Broilers, feed and grains	2,400
Retail		
Wal-Mart Inc.	Retail chain	2,700
Happy Harry's Inc.	Retail chain	2,000
Acme Markets	Retail groceries	1,500
Sears	Retail chain	1,200
Home Depot	Retail chain	1,000
K-Mart Corp	Retail chain	900

Food Lion	Retail groceries	900
Wawa Inc.	Retail chain	900

Other Service

Dover Downs	Racetrack and video lottery	1,500
Computer Sciences Corp.	Computer processing	1,400
Delaware Park	Racetrack and video lottery	1,300
YMCA of Delaware	Membership organization	1,200
Comcast Cable	Cable network	1,100

Source: Delaware Department of Labor.

The following table presents trends in manufacturing employment and distribution by industry sector for 1999 through October 2003.

Manufacturing Employment by Sector(1)
(in thousands)

	1999	2000	2001	2002	2003(2)
Number of employees	44.0	41.5	39.4	36.8	34.3
Distribution by Industry Sector					
Total Non-Durable Goods	25.4	22.7	22.1	20.7	20.0
Total Durable Goods	18.6	18.8	17.3	16.1	14.3

(1) Based on reconstructed and restated data complying with the North American Industry Classification System (NAICS) (see discussion above pertaining to table entitled "Employment" under "ECONOMIC BASE – Employment").

(2) Through October 2003.

Source: Delaware Department of Labor.

Chemical Industry

The importance of the chemical industry to Delaware's economy stems historically from the fact that two large companies - E.I. du Pont de Nemours & Co., Inc. ("DuPont") and Hercules Incorporated ("Hercules"), maintain their global headquarters within the State. In 1999, AstraZeneca Inc. ("AstraZeneca"), one of the largest pharmaceutical companies in the world, selected Delaware as its U.S. headquarters. All three of these companies are engaged in corporate management, finance, research, engineering and related activities in support of their worldwide operations.

Founded in 1802, DuPont is a science company and the State's second largest private employer, with approximately 9,800 employees in Delaware as of March 31, 2003. DuPont's primary industry segments include chemicals, fibers, polymers, and diversified businesses, including agricultural and medical products. In November 2003, DuPont announced that it had agreed to sell its nylon, polyester and Lycra business (INVISTA) to Koch Industries, Inc. INVISTA employs 1,100 people in Delaware, 600 of whom work at the nylon plant in Seaford. Koch Industries, Inc. has not yet disclosed its plans for the ongoing location of either its headquarters, which is currently located in Wilmington, or the Seaford plant. On December 1, 2003, DuPont announced that the anticipated sale of its INVISTA division will ensure its global competitiveness as a more focused, science-based company and enhance its potential for higher growth and profitability. DuPont expects its aggressive productivity and organizational actions to yield $450 million of cost improvements in 2004 and $900 million in 2005.

Hercules reported a net income for the quarter ending September 30, 2003 of $19 million or $0.17 per diluted share. This compares to a loss of $35 million or a loss of $0.32 per diluted share for the same period in 2002.

AstraZeneca is one of the world's leading pharmaceutical companies, formed in April 1999 after the merger between Sweden's Stockholm-based Astra AB and Britain's London-based Zeneca Group PLC. That same year, AstraZeneca decided its consolidated U.S. corporate headquarters should be located in Wilmington, Delaware, adjacent to the former Zeneca's U.S. headquarters. Wilmington is also the global home for the Central Nervous System therapy team, which includes both the commercial and research and development groups. The majority of the work done by the research and development group focuses on lead informatics, compound management and automation, and assay development and high throughput screening.

As of March 31, 2003, AstraZeneca employed 4,200 in Delaware and is expected to employ an additional 2,500 by the end of 2005. On May 5, 2003, AstraZeneca won FDA approval for Iressa, a once-a-day pill designed to provide benefits to advanced lung cancer patients. At its annual business review meeting in October 2003, AstraZeneca reported that Crestor, a newly developed cholesterol reducer that has FDA approval, had already captured a one percent share of the new prescriptions in the US statin market in the first full week of launch, ending September 19, 2003, with a total prescription volume of 18,000. More recent data has shown over two percent market share of new prescriptions with 25,000 total prescriptions. It is estimated that AstraZeneca has a product pipeline that will be worth $7.2 billion by 2008.

Life Sciences

Delaware's economy has long been a source of innovation and technological growth. Some of the state's most prominent firms, such as Agilent, AstraZeneca, DuPont and W. L. Gore and Associates, are world renowned for their technical breakthroughs and resulting commercial success. Because of the presence of these firms and others like them, as well as its highly capable research universities, Delaware has the second highest concentration of scientists and engineers in the United States. In addition, Delaware is ranked among the top states in the nation when it comes to the number of patents issued per capita. This high quality workforce and innovative research and development environment provide excellent opportunities for technology-based business growth. The State also provides a variety of technology resource programs to foster commercialization.

The University of Delaware's outstanding reputation for research in cooperation with industry is well recognized in many areas. The University's innovative research efforts are illustrated through its partnerships with industry in composite materials, information science, biotechnology, alternative energy, virology and development of genetically engineered vaccines, and agrigenetics, including plant tissue culture research. Through its seven colleges, institutes and various centers, including the Center for Composite Materials, Center for Catalytic Science and Technology, and Center for Climatic Research, the University has fostered growth and development in the chemical, computer, energy, food, agricultural and marine sciences industries.

The University's Institute of Energy Conversion, one of the world's largest thin-film solar cell laboratories performing research and process development for industry, has been designated by the U.S. Department of Energy as a national center of excellence in photovoltaic research and education. The University of Delaware's Center for Composite Materials is one of three partners in an Army Research Laboratory Materials Center of Excellence.

The Delaware Technology Park (DTP) in Newark houses over 35 start-up high technology companies. It has created more than 500 jobs and has generated more than $200 million in revenue, since it opened in 1992. From 1999 to 2002, DTP added four new buildings totaling 240,000 square feet, and the expansion is expected to result in the creation of 1,500 more jobs and $800 million in additional revenue to Delaware's economy by 2010.

The Delaware Biotechnology Institute (DBI), located in the Delaware Technology Park, is a partnership among government, academia and industry to help establish Delaware as a center of excellence in biotechnology and the life sciences. DBI's mission is to build a biotechnology network of people and facilities to enhance academic and private sector research, catalyze unique cross-disciplinary research and education initiatives and to foster the entrepreneurship that creates high quality jobs. DBI's 72,000 square foot research facility is designed to house 170 faculty and student researchers and features 38 laboratories, 6 state-of-the-art research instrumentation centers, and several large and small conference areas.

DBI led Delaware's effort towards gaining Experimental Program to Stimulate Competitive Research (EPSCoR) status with the National Science Foundation's Experimental Program Status Competitive Research. EPSCoR status provides Delaware and 22 other qualifying states and U.S. territories with a better chance for federal funding dollars. Eight federal agencies participate in this program with the National Institutes of Health (NIH) and the National Science Foundation (NSF), two of the most prominent agencies.

Leading-edge interdisciplinary research is at the core of DBI's work. Successful partnerships are already underway involving biology, biochemistry, engineering, marine, materials science and computational biology. Encompassing 12 academic departments at the University of Delaware alone, collaborations are also state-wide, national and international, with the participation of scientists from Delaware State University, Delaware Technical & Community College, and Wesley College. DBI-affiliated researchers are principal investigators in a growing portfolio of federal research grants from NSF, NIH, the U.S. Department of Agriculture (USDA) and numerous other government agencies and private foundations.

Delaware's industry, academia and state government led an effort to recruit the new Fraunhofer Center for Molecular Biotechnology to Delaware in 2001. This has resulted in the construction and fitout of labs at the Delaware Technology Park to pursue the development of vaccines from plants and the development of enzymes from plants. The pursuit of the production of pharmaceuticals and industrial enzymes from plants is an emerging growth sector in the bio/pharma world.

In October 2003, DuPont and the U.S. Department of Energy’s National Renewable Energy Laboratory (NREL) announced a joint research agreement for the development of the world’s first integrated “bio-refinery” that uses corn or other renewable resources, rather than traditional petrochemicals, to produce a host of valuable fuels and value-added chemicals. The $7.7 million Cooperative Research and Development Agreement is a collaborative venture for DuPont and NREL to develop, build and test a bio-refinery pilot process that will make fuels and chemicals from the entire corn plant. The agreement is part of the larger $38 million DuPont-led consortium known as the Integrated Corn-Based Bioproducts Refinery (ICBR) project. This project was awarded $19 million in matching funds from the U.S. Department of Energy in 2002 to design and demonstrate the feasibility and practicality of alternative energy and renewable resource technology.

The Applied Optics Center located at Delaware State University focuses on developing and commercializing different applications of new laser technology. The Center concentrates on laser spectroscopy technology and laser diode-based devices. Core competencies include time and frequency-based laser spectroscopy and nonlinear and laser optics. Dade Behring, a major instruments maker whose research and development headquarters are located in Glasgow, Delaware, is the major industrial sponsor. Research with Dade includes enhanced detection of trace atoms and molecules in liquids and a laser-based spectrometer for various medical applications. An American Dental Association project includes laser curing of photo-polymers. The Center is working with NASA in measuring greenhouse gas emissions by generating ultra-violet pulses through laser amplification.

Financial Services Industry

Banks and other financial institutions have been a major focus of Delaware's economic development activity since 1981. In that year, landmark legislation was passed that opened Delaware to interstate banking, modernized the State's banking laws, and permitted the creation of new types of special purpose intermediaries. The 1981 Financial Center Development Act created strong economic incentives for the banking industry in Delaware, including a favorable state tax structure and a market based approach to lending that eliminated restrictive usury caps. These laws continue to create a favorable economic environment for banking. The State subsequently enacted additional legislation in order to sustain the State's competitive advantage in banking. In 1989, the Bank and Trust Company Insurance Powers Act was signed into law which allowed state-chartered banks and trust companies to underwrite and sell various types of insurance. In response to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, the State enacted legislation in 1995 to keep Delaware's banking community competitive and to maintain Delaware's role as a financial services center. Additionally, in 1995 the State Bank Commissioner issued the "Incidental Powers Regulation", which is designed to keep Delaware competitive by allowing state-chartered banks and trust companies to exercise additional powers incident to a banking corporation.

As of December 31, 2002, there were 64 banks and trust companies in Delaware including full-service commercial banks, credit card banks, non-deposit and limited purpose trust companies, wholesale banks, and federal and state savings banks. Credit cards have become a major industry in the State. Prominent credit card issuers in Delaware include MBNA America Bank, N.A., Bank One Delaware, N.A., Chase Manhattan Bank (USA) (currently known as J.P. Morgan Chase & Co.), N.A., and Discover Bank.

MBNA, the largest independent credit card issuer in the world, is the State's largest private employer, with 28,000 company-wide and approximately 11,400 employees in Delaware, as of March 31, 2003. The bank specializes in affinity credit cards (i.e., those linked to non-profit organizations, universities, clubs or hobbies with high consumer loyalty) and co-branded cards (i.e., partnerships with for-profit companies). MBNA managed $112.8 billion of loans as of September 30, 2003, a $10.0 billion or 9.7% increase over September 30, 2002. Net income for the first nine months of 2003 reached $1.6 billion, an increase of 33.3% over the prior year, reflecting growth in MBNA's customer base (8 million new customers were added during the first nine months of 2003), as well as in loan activity.

Construction

In 2002, total housing permits in Delaware increased by 6.9% over 2001, compared to a 7.6% decrease in the mid-Atlantic region and a 6.7% increase in the U.S. overall.

Delaware's housing production during 2002 totaled 7,459 units, a 13% increase over 6,603 units in 2001. Single family construction increased by 27.5% to 6,065 units, while multi-family starts decreased by 70.5%. The sale of mobile homes increased by 20% to 1,128 units.

The following table outlines total housing production in the State by county for 1998 through 2002. Housing production includes single and multifamily, public and private housing, as well as mobile homes. In 2002, single family housing (including condominiums) represented 81% of total production, multifamily units represented 4%, and mobile homes represented 15%.

Production of Housing Units

	1998	1999	2000	2001	2002
New Castle County	2,663	2,330	1,893	2,546	2,255
Kent County	765	905	817	1,088	1,452
Sussex County	2,110	2,186	2,194	2,029	2,624
Mobile Homes	1,203	1,379	1,151	940	1,128
Total	6,741	6,800	6,055	6,603	7,459

Source: Delaware State Housing Authority.

In 2002, Delaware experienced an increase in construction contracts of 7.0% over 2001.

Value of Construction Contracts
(in millions)

	Delaware	Change	United States	Change
1998	$ 892	(4.5%)	$375,263	6.5%
1999	1,036	16.1	444,080	18.3
2000	1,342	29.5	470,800	6.0
2001	1,338	(0.003)	494,449	5.0
2002	1,431	7.0	N/A	N/A

Sources: F.W. Dodge Division, McGraw-Hill and the Statistical Abstract of the United States.

Automotive Industry

The State is home to two major automotive assembly plants. Employment at the two plants totals 4,300 jobs or 1.0% of the total jobs in Delaware. In October 2003, DaimlerChrysler began production of a newly designed Dodge Durango, its sport utility vehicle, at the Newark assembly plant, the only plant manufacturing the Durango. The Chrysler Group invested approximately $180 million in the Newark plant in preparation for production of the new vehicle. Through flexible manufacturing strategies and reusing existing plant equipment, the company has been able to reduce capital expenditures by 30 percent. The new Durango was available in dealerships across the country in mid-November 2003.

General Motors' Boxwood Road assembly plant near Newport began production of the new L-Series Saturn in mid-1999, the only site producing the midsize sedans and station wagons. Sales of this product have not met expectations, producing uncertainty. State officials are working with General Motors to identify alternative products to manufacture at this plant, should the L-Series product line be discontinued.

Gross State Product

In May 2003, the U.S. Department of Commerce published the comprehensive Gross State Product (GSP) estimates for 2001. The series reflects the market value of the goods and services produced in each state and is often considered the state counterpart to the nation's GDP. Delaware ranks second nationally, based on gross state product per capita. In 2001, the State's gross state product equaled $40.5 billion, 0.4% of the value of the U.S. total production. Delaware's gross state product grew 8.8% from 2000 to 2001, compared with 3.2% for the mid-Atlantic region and 2.5% for the U.S.

An industry's GSP is referred to as its "value added" which is equivalent to its gross output minus intermediate inputs. The proportion of Delaware's total output consisting of finance, insurance and real estate, and non-durable manufactured goods was higher than both the mid-Atlantic regional average and the national average. The wholesale and retail trade sectors, transportation and public utilities, government, services, mining, construction and the cyclically-sensitive durable manufactured goods represented a smaller proportion of Delaware's total output than the mid-Atlantic regional average and the national average. The following table indicates the percent of total output produced by each of the major sectors in 2001.

Percentage Distribution of Gross State Product
2001

	Delaware	Mid-Atlantic Region	United States
Farms and Agricultural Services	1.0%	0.7%	1.4%
Mining	0.0	0.2	1.4
Construction	3.9	4.1	4.7
Manufacturing			
Durable	3.5	4.8	8.0
Non-Durable	9.4	6.7	6.0
Transportation and Public Utilities	4.7	8.0	8.1
Trade			
Wholesale	3.9	6.7	6.7
Retail	6.6	7.9	9.2
Finance, Insurance and Real Estate	43.1	28.5	20.5
Services	15.4	23.7	22.0
Government			
Federal Civilian	1.2	2.2	2.3
Federal Military	0.9	0.4	1.0
State and Local Government	6.3	8.7	8.7
Total	100.0%(1)	100.0%(1)	100.0%

(1) Does not equal the sum of its components due to rounding of actual amounts.

Source: U.S. Department of Commerce.

Incorporations

Total domestic incorporations in the State at the end of 2002 were 307,907. The State continues to be the corporate home of over half of all publicly-traded firms in the United States. Delaware is also the legal domicile of more than 58% of the companies listed in the "Fortune 500". Since 1989, Delaware has ranked within the top five states in the number of new incorporations. Delaware has also become a leader in the formation of alternative types of business entities such as limited liability companies.

Since 1985, significant changes have been made to Delaware's corporate laws, specifically in such important areas as directors' liability and corporate takeovers. In addition to the option of forming a Delaware corporation, the Delaware Code enables businesses to form as general partnerships, limited partnerships, limited liability companies and statutory trusts. Businesses may also qualify as limited liability partnerships or limited liability limited partnerships. These changes, combined with a well-developed body of case law; prompt resolution of commercial and corporate disputes by Delaware's Court of Chancery; and efficient and friendly service from the Delaware Division of Corporations have resulted in significant business formation activity. For example, in 1994, when legislation took effect authorizing the formation of limited liability companies in the State, 2,689 were formed. By the close of 2002, there were more than 196,000 limited liability companies registered in Delaware with 47,526 formed in 2002 alone.

In order to sustain its competitive edge over other states and countries, Delaware continues to adopt statutes that respond to changing business conditions. A 1994 law provides, under certain circumstances, for expedited summary proceedings for commercial disputes involving at least $1.0 million. A 2003 law extends the corporate jurisdiction of the Court of Chancery to include jurisdiction over commercial technology disputes. The 2003 law also allows the Court to mediate many types of complex business disputes, providing a more cost-effective, confidential, and consensual method for resolving litigable controversies. Recent laws simplify the process of converting from one type of business entity to another type of entity. The Division of Corporations continues to enhance its services by offering 1-hour processing service and enabling legal entities to file annual taxes via the Internet. All of these enhancements provide further incentives for entrepreneurs, businesses and investors to make Delaware their legal home.

Effective July 1, 2001, the Division of Corporations allowed for the filing of Uniform Commercial Code information via the Internet. In fiscal 2003, the Division processed 163,000 filings with total revenue of $16.4 million.

Agriculture

Agriculture comprises an important segment of Delaware's economy. According to statistics published by the U.S. Department of Agriculture, 45% of Delaware's land area is used for farming. In 2002, Delaware farmers earned $724.8 million in cash receipts from all commodities, a decrease of 14.1% over the prior year. Lower value for broiler chicken and milk production and significantly lower production of soybeans and corn due to drought accounted for the decline, more than offsetting a slight increase in value of vegetable production.

Delaware had 2,400 farms in 2002, a decrease of 100 from a year earlier. Farms averaged 233 acres for a total of 560,000 acres in farms. In 2002, the total market value of agricultural land and buildings was $1.7 billion and the average value per operating unit was $687,000. The average market value per acre of farmland and buildings in Delaware was $2,950, more than twice the average value nationally. Only six states had higher values per acre.

Delaware's gross farm income decreased in 2002 by 13.2%. This was mainly a result of the 14.1% decline in cash receipts. Delaware's broiler chicken production (pounds liveweight) increased in 2002 by over 3%, but value per pound declined significantly to lower value of production to $494 million, a 17% decline.

The cash receipts from Delaware farms as compared to the U.S. total in 1998-2002 are outlined in the table below. Federal government payments to Delaware farmers have averaged 2.5% of cash receipts from all commodities over the five-year period.

Farm Cash Receipts
(in millions)

	Delaware				United States	
	Livestock & Livestock Products	Crops	Total Cash Receipts	Change from Previous Year	Total Cash Receipts	Change from Previous Year
1998	$609	$173	$782	1.6%	$196,173	(5.6%)
1999	566	159	725	(7.3)	187,612	(4.4)
2000	558	177	735	1.4	191,977	2.3
2001	658	186	844	14.8	193,799	0.9
2002	546	179	725	(14.1)	192,948	(0.4)

Sources: Delaware Department of Agriculture and National Agricultural Statistics Services/USDA.

The Port of Wilmington

The Port of Wilmington (the "Port") is the largest importer of bananas in the U.S. and is a significant East Coast handler of imported fruit, juice and produce, particularly winter Chilean fruit, juice from Argentina, and New Zealand apples and kiwi. Other significant food items include frozen meat and pet food from Australia and New Zealand. The Port also handles import and export vehicles (General Motors, Volkswagen and Audi use the Port as either a point of entry into the United States, or a point of consolidation for export), steel, lumber, paper, dry bulk and liquid petroleum products. During fiscal year 2003, the Port added a state-of-the-art dedicated auto berth for auto trade clients. On time and under budget, the new $22.5 million auto berth became operational in August 2002.

The Port has a central location on the East Coast and excellent access to rail and highway transportation systems. Warehouse facilities include 250,000 square feet of dry and 669,000 square feet of modern temperature controlled refrigerated space. The combination of relatively new facilities, operational experience, proximity to transportation networks and a skilled customer service and labor force have made the Port among the most successful ports in the very competitive mid-Atlantic and Northeast region.

Founded in 1923, the Port is owned and operated by the Diamond State Port Corporation ("DSPC"). In June 1995, the General Assembly authorized the creation of the DSPC, a membership corporation with the Department of State as the sole member, for the purpose of acquiring and operating the Port. On September 1, 1995, DSPC acquired substantially all of the Port's assets from the City of Wilmington. Under the terms of that agreement, DSPC agreed to make payments to the City equal to $39.9 million over a 30-year period and to pay amounts equal to total debt service on approximately $50.0 million of indebtedness incurred by the City for Port related assets. In fiscal 2002, DSPC prepaid the City of Wilmington approximately $8 million to discharge $20.4 million in payments for the Port's purchase. The funds for this prepayment were acquired through the Delaware Transportation Authority's Transportation Trust Fund on a 20-year repayment term. In addition, DSPC used funds borrowed from the Transportation Trust Fund to prepay commercial loans to Wilmington Trust and the Delaware River and Bay Authority. DSPC does not have the power to pledge the credit of the State.

The Port is part of the State's financial reporting entity and is considered an enterprise fund for the State's GAAP financial reporting purposes. See "Appendix B - Notes to the Financial Statements - #6, Revenue Bonds."

In fiscal 2003, break bulk tonnage of fruit, juice, meat and lumber totaled 487,000, an increase of 5% from the previous year. Total containerized cargo increased from 1.41 million to 1.46 million tons. Roughly 192,000 tons of vehicles were imported and exported through the Port in fiscal 2003, 8,000 tons fewer than fiscal 2002. Compared to the previous year, there was a sharp decline in steel imports of 112,000 tons and gypsum imports, typically 290,000 tons, were eliminated due to the shutdown of a drywall manufacturing plant. At 2.9 million tons, revenue tonnage declined in fiscal 2003 from fiscal 2002. Operating revenue for fiscal 2003 was $26.8 million, a $1.1 million increase from fiscal 2002. Earnings before interest, taxes, depreciation and amortization were $4.7 million in fiscal 2003, equaling fiscal 2002.

Over $100.0 million has been appropriated by the General Assembly to date for Port infrastructure improvements, including $5.0 million in fiscal 2004, $17.0 million in fiscal 2002 and $12.5 million in fiscal 2001. There was no appropriation in fiscal 2003. The Port is not required to repay these funds.

Dover Air Force Base

The federal government maintains a major U.S. Air Force base (the "Base") in Dover, Delaware. The fifty-eight year old, 3,900 acre base is the nation's busiest military cargo terminal, a key airlift center and home to the 436th Airlift Wing. The 436th Airlift Wing provides command and support functions for assigned airlift operations, permitting worldwide movement of outsized cargo (including the military's largest tanks and heaviest weapons and equipment) and personnel. The unit flies 36 Lockheed C-5 Galaxy transport planes, known as "the free world's largest airlifter". Demand for the C-5 transports, maintenance staff and cargo expertise remain at record levels. In April 2002, the Air Force announced plans to base 12 new C-17 planes at Dover and invest $90.0 million in construction funding to accommodate the new aircraft by 2008. The C-17 planes will replace the C-5 transports which could result in the loss of 123 jobs. In addition, the Base is the only joint services mortuary on the East Coast. The Base employs approximately 4,248 active duty personnel, 1,832 reservists and an additional 1,741 civilians and contract workers. Total direct job annual payroll is approximately $240.6 million.

STATE FINANCIAL OPERATIONS

The State controls and records its financial transactions on a cash basis of accounting for its day-to-day operations in accordance with the various budgets and statutes passed by the General

Assembly and approved by the Governor. See "FINANCIAL STRUCTURE - Budgetary Control and Financial Management Systems". The State's audited June 30, 2003 Basic Financial Statements as set forth in Appendix B, were prepared in accordance with accounting principals generally accepted in the United States of America (GAAP) using both the modified accrual basis and full accrual basis of accounting. The following discussion of State finances relates to the budgetary General and budgetary Special Funds of the State, as more fully set out in the financial statements included under Appendix A hereto.

Revenue and Expenditure Forecasting

The Delaware Economic and Financial Advisory Council ("DEFAC"), created in 1977, is comprised currently of 36 members appointed by the Governor. Current members of DEFAC include five cabinet-level officials, the State Treasurer, the Controller General, one other governmental official, five legislators, and 23 private citizens from the business, financial and academic communities.

DEFAC is mandated by executive order to submit to the Governor and the General Assembly budgetary General Fund and Transportation Trust Fund revenue forecasts 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 forecast for the current fiscal year and the succeeding four fiscal years is generated once each year, not later than October 1. Budgetary General Fund and Transportation Trust Fund expenditure forecasts are generated for the current fiscal year in December, March, April, May and June. The various DEFAC forecasts contained in this Official Statement were provided as of December 15, 2003.

These revenue and expenditure forecasts are used in the State budget process to ensure compliance with the State's constitutional limits on spending and statutory debt limitations. See "FINANCIAL STRUCTURE - Appropriation Limit" and "BONDED INDEBTEDNESS OF THE STATE - Debt Limits." The subcommittees of DEFAC are the Expenditure and Revenue subcommittees which meet prior to the DEFAC meetings. The full DEFAC meetings are open to the public and provide a general forum for members of the private and public sectors to exchange views on matters of economic and fiscal concern for the State.

DEFAC relies on projections of national economic trends, Global Insight, Inc. (formerly DRI-WEFA), the Department of Finance's econometric model, projections generated by the Department of Transportation, its members' knowledge of the State's particular economic strengths, and its members' understanding of the structure of the State's revenue system. The comparison of DEFAC's forecasts of budgetary General Fund revenue with actual year-end revenue are reviewed in the following table. These forecasts were generated 18 months and 9 months prior to the end of each fiscal year. DEFAC does not project the revenue impact of legislation until after its enactment.

DEFAC Budgetary General Fund Revenue Projections
(in millions)

	1999	2000	2001	2002	2003
18 Months Before Year-End...............	$2,038.8	$2,178.5	$2,329.3	$2,432.6	$2,361.8
9 Months Before Year-End.................	2,160.2	2,214.9	2,329.1	2,348.6	$2,269.1
Actual Year-End Revenue	2,190.7	2,279.0	2,329.0	2,425.7	$2,436.4

Economic Projections

Based upon national forecasts by Global Insight, Inc. (December 2003), the State is expected to show continued economic growth. The following chart compares forecasted population, employment and personal income growth rates for fiscal 2004 through 2006 for Delaware and the United States, considered by DEFAC in making its revenue forecasts as presented herein.

Projected Economic Growth Rates

	Delaware			United States		
	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2004	Fiscal 2005	Fiscal 2006
Population Growth...........................	1.3%	1.3%	1.3%	0.9%	0.9%	0.9%
Employment Growth........................	0.5	2.5	1.8	0.3	2.5	1.9
Personal Income Growth.................	4.7	5.5	5.5	4.1	5.6	5.5

Sources: Delaware Department of Finance and Global Insight, Inc.

Revenue Summary - Fiscal 2003 - Fiscal 2005E

The following table and chart include fiscal 2003 budgetary General Fund revenue from all sources as well as DEFAC's December 15, 2003 forecasts of budgetary General Fund revenue from all sources for fiscal 2004 and fiscal 2005. The estimates reflect the adjusted growth rates of 4.1%, and 5.2%, respectively, for fiscal 2004 and fiscal 2005, after adjusting for one-time events and State tax law changes. See "Fiscal Year Ended June 30, 2003", "Fiscal Year Ending June 30, 2004" and "Fiscal Year Ending June 30, 2005."

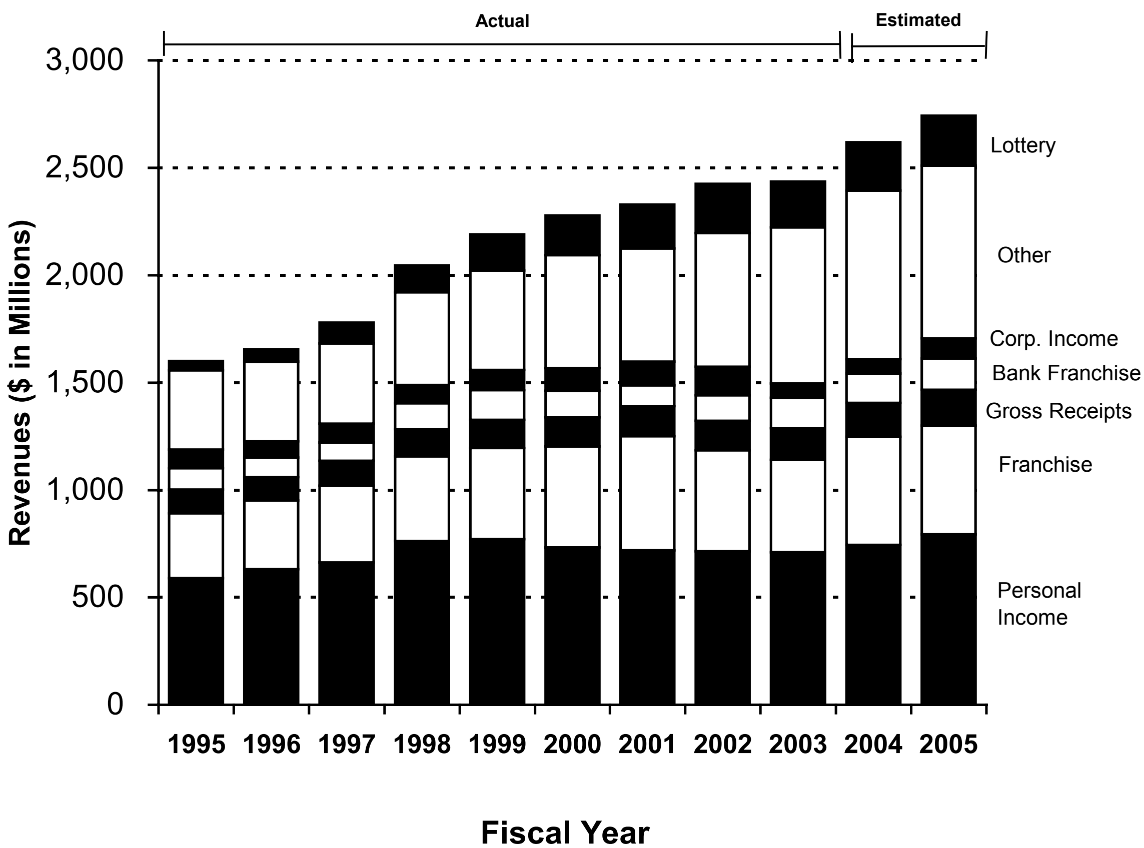
Budgetary General Fund Revenue
(in millions)

	Fiscal 2003		DEFAC Forecasts as of December 15, 2003 Fiscal 2004		Fiscal 2005	
	Actual	Change	Forecast	Change	Forecast	Change
Personal Income Tax	$839.9	(0.1%)	$878.9	4.6%	$935.7	6.5%
Less: Refunds	(129.6)	1.7%	(135.2)	4.3%	(142.0)	5.0%
PIT Less Refunds	710.3	(0.5%)	743.7	4.7%	793.7	6.7%
Franchise Tax	431.2	(9.0%)	505.3	17.2%	506.2	0.2%
Corporate Fees	39.2	(10.5%)	47.5	21.1%	50.7	6.7%
Limited Partnerships & LLC's	25.0	13.8%	51.4	105.7%	56.5	9.9%
Corporation Income Tax	108.5	(39.8%)	109.4	0.8%	128.4	17.4%
Less: Refunds	(42.2)	(11.0%)	(42.5)	0.7%	(35.0)	(17.6%)
CIT Less Refunds	66.3	(50.1%)	66.9	0.9%	93.4	39.6%
Uniform Commercial Code	16.4	22.2%	13.5	(17.6%)	13.8	(2.2%)
Bank Franchise Tax	141.5	19.5%	136.1	(3.8%)	146.2	7.4%
Gross Receipts	147.6	7.0%	157.5	6.7%	167.0	6.0%
Lottery	213.0	(7.4%)	223.6	5.0%	232.1	3.8%
Abandoned Property	231.5	48.3%	245.0	5.9%	245.0	0.0%
Hospital Board and Treatment	81.9	(0.5%)	80.7	(1.5%)	79.2	(1.9%)
Dividends and Interest	20.8	(32.0%)	17.0	(18.2%)	17.6	3.5%
Realty Transfer Tax	66.0	31.5%	78.0	18.2%	78.0	0.0%
Estate Tax (Inheritance)	39.3	(5.3%)	16.7	(57.5%)	9.2	(44.9%)
Insurance Taxes	53.6	(3.1%)	53.6	0.1%	55.3	3.2%
Public Utility Tax	32.8	12.0%	33.0	0.7%	34.2	3.6%
Cigarette Taxes	36.7	31.7%	71.0	93.4%	80.8	13.8%
Other Revenue by Dept.	118.3	33.1%	100.4	(15.1%)	103.8	3.4%
Less: Other Refunds	(34.8)	74.2%	(22.3)	(36.0%)	(20.1)	(9.9%)
Total[1]	$2,436.4	0.4%	$2,618.6	7.5%	$2,742.6	4.7%
Adjusted Growth Rate [2]	(0.7%)		4.1%		5.2%	

[1] Does not equal the sum of its components due to the rounding of actual amount.
[2] After adjusting for State tax law changes and other one-time events.

The following chart shows both the growth in and source of budgetary General Fund revenues since 1995 and provides estimates for fiscal 2004 and 2005.

Budgetary General Fund Revenue at June 30



Source: For fiscal 2004 and 2005, DEFAC Report, December 15, 2003.

Expenditure Summary - Fiscal 1999 - Fiscal 2004E

The following table compares total budgetary General Fund expenditures by major departments for the past five fiscal years and provides estimates for fiscal 2004. These figures include supplemental appropriations for capital projects and debt reduction, as described below. See also "BUDGETARY GENERAL FUND SUMMARIES - Budgetary General Fund Disbursements by Category of Expense."

Budgetary General Fund Expenditures
(in millions)

	Fiscal 1999[1]	Change	Fiscal 2000[1]	Change	Fiscal 2001[1]	Change	Fiscal 2002[1]	Change	Fiscal 2003[1]	Change	Fiscal 2004[2]	Change
Correction	$142.0	17.8%	$160.5	13.0%	$181.6	13.1%	$179.2	(0.4%)	$185.5	3.5%	$182.3	(1.7%)
Health and Social Services	484.9	6.8	521.3	7.5	570.5	9.4	617.6	8.2	639.4	3.5	632.6	(1.1)
Higher Education	196.6	12.1	211.5	7.5	219.2	3.6	213.7	(2.5)	205.2	(4.0)	203.5	(0.8)
Public Education	654.2	4.5	698.4	6.8	807.0	15.5	852.3	5.6	839.9	(1.5)	941.7	12.1
Safety & Homeland Security	89.2	13.0	91.1	2.1	93.7	2.9	96.1	2.6	99.7	3.6	100.7	1.0
Services to Children, Youth & Their Families	81.2	3.1	88.8	9.4	91.6	3.2	91.8	0.2	92.9	1.2	98.3	5.8
Other Expenditures	504.4	37.9	474.7	(5.9)	465.4	(2.0)	403.0	(13.4)	391.5	(2.9)	447.7	14.4
Total[1]	$2,152.5	13.3%	$2,246.2	4.4%	$2,429.0	8.1%	$2,453.8	1.0%	$2,454.1	0.0%	$2,606.8	6.2%

(1) Expenditures for fiscal 1999 through fiscal 2004 include certain one-time expenditure initiatives, certain "pay-as-you-go" capital projects, and/or debt deauthorization and defeasance.

(2) Based on fiscal 2004 budget.

Due to the strong performance of the State's economy and revenues over the past few years, the State has elected to dedicate substantial budgetary General Funds to "one-time" expenditures, as opposed to increasing the size of the base operating budget. Since 1997, $2.5 billion of budgetary General Funds has been appropriated for capital projects and an additional $154.8 million has been appropriated for debt reduction initiatives. These appropriations are reflected as supplemental appropriations in the chart below. The expected result of these substantial supplemental appropriations is a distortion in the actual budgetary General Fund expenditure pattern reflected in the chart above.

The table below depicts trends in State expenditures by the three major components; i.e., modest expenditure growth in the budgetary General Fund base budget for operations, significant growth in supplemental appropriations for one-time capital projects and debt reduction through fiscal 1999, and the effect of the carryover of these unspent capital funds on the overall spending levels. The nature of capital projects tends to delay the actual expenditure of capital funds to years subsequent to the year in which they were appropriated.

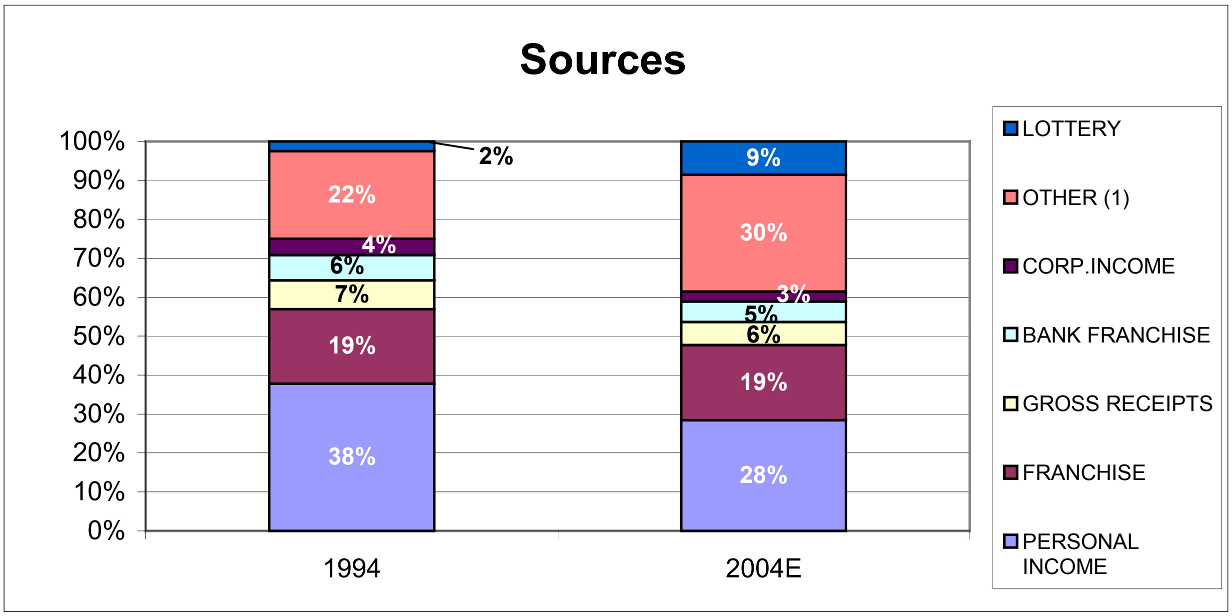
Adjusted Budgetary General Fund Expenditures
(in millions)

	1999	Change	2000	Change	2001	Change	2002	Change	2003	Change
Base Budget...............	$1,801.8	6.7%	$1,928.8	7.0%	$2,079.8	7.8%	$2,195.0	5.5%	$2,264.1	3.1%
Supplemental Appropriations......	201.6	99.2	170.1	(15.6)	136.2	(19.9)	45.1	(66.9)	50.9	12.9
Prior Year Carryover..................	149.1	36.3	147.3	(1.2)	213.1	44.7	213.8	0.3	139.1	(34.9)
Total	$2,152.5	13.3%	$2,246.2	4.4%	$2,429.1	8.1%	$2,453.9	1.0%	$2,454.1	.01%

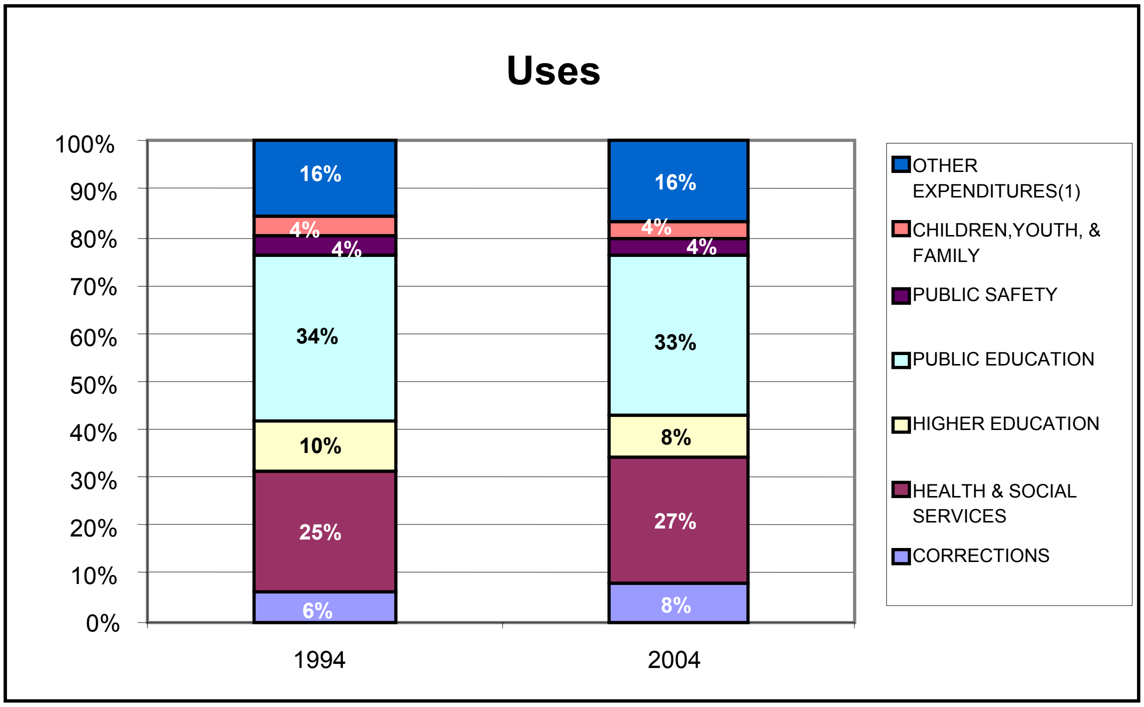
Sources and Uses of State Funds

The distribution of budgetary General Fund revenues and appropriations is shown in the following bar charts which compare fiscal 2004 with ten years earlier.

SOURCES AND USES OF STATE FUNDS



(1) Other sources include interest, public utility, cigarette, inheritance, abandoned property, alcoholic beverage, and insurance taxes.



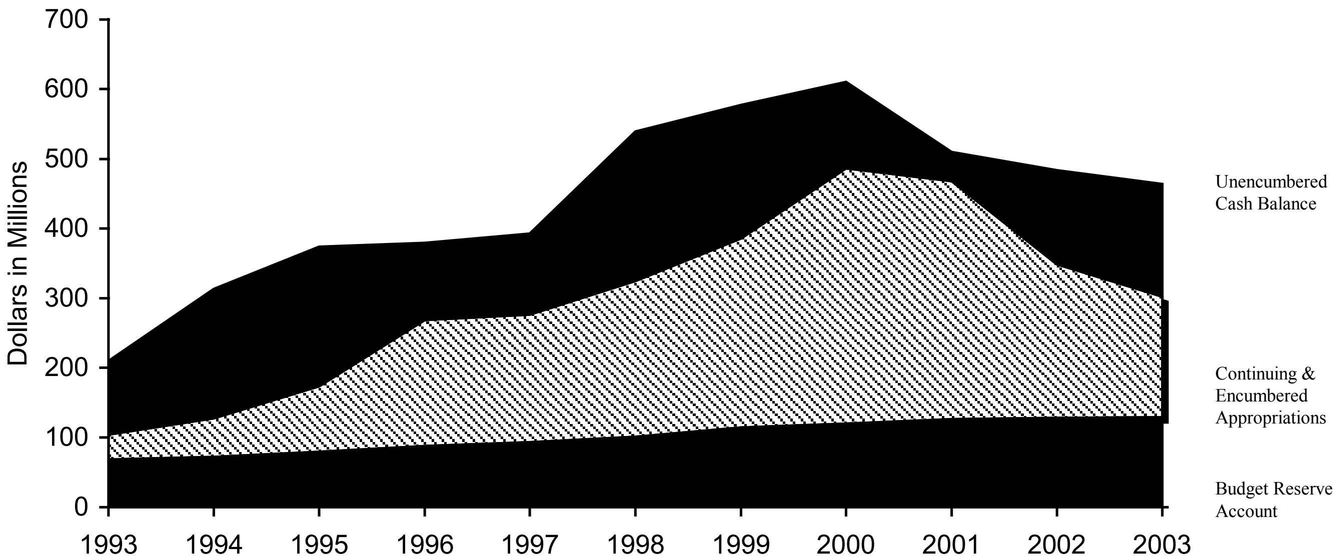
(1) Other uses include administrative services, fire prevention, National Guard, natural resources and environmental control, other elective offices, legislative and executive branches, and agriculture.

FISCAL YEAR ENDED JUNE 30, 2003

The State ended fiscal 2003 with a cumulative cash balance of $464.0 million. This balance represented 18.9% of the State's expenditures for the year. The Budget Reserve Account remained fully funded at the 5% level for the fiscal year, totaling $128.9 million. An additional $173.3 million was set aside for continuing and encumbered appropriations resulting in an unencumbered cash balance on June 30, 2003 of $161.8 million.

The following graph reflects growth in the Budget Reserve Account and the changes in continuing and encumbered appropriations and the cumulative cash balances from fiscal 1993 to fiscal 2003.

Budgetary General Fund Cumulative Cash Balances at June 30



Revenue

Net budgetary General Fund revenue for fiscal 2003 totaled $2,436.4 million, a 0.7% decrease from fiscal 2002 when adjusted for tax law changes and other one-time events. The unadjusted growth rate was 0.4%

Personal income taxes, after refunds, totaled $710.3 million. The unadjusted growth rate was –0.5% compared to fiscal 2002.

Franchise taxes, after refunds, totaled $431.2 million, a 9.0% decrease from fiscal 2002. **Corporate fees** reached $39.2 million, a 10.5% decrease from fiscal 2002.

Corporate income taxes, after refunds, were $66.3 million, a 50.1% decrease from fiscal 2002.

Bank franchise taxes totaled $141.5 million, 19.5% growth over fiscal 2002.

Business and occupational gross receipts taxes totaled $147.6 million, an increase from fiscal 2002 of 7.0%.

Lottery revenue totaled $213.0 million, a 7.4% decrease from fiscal 2002. The decrease is largely attributable to the national economic slowdown and the adoption of a ban on smoking in public facilities.

Abandoned property revenue totaled $231.5 million, a 48.3% increase from fiscal 2002.

Expenditures

Budgetary General Fund expenditures for fiscal 2003 totaled $2,454.1 million, a 0.0% increase over fiscal 2002. The fiscal 2003 budgetary General Fund operating budget totaled $2,392.2 million, a 2.5% increase from fiscal 2002. Grants-in-aid appropriations of $38.5 million and the budgetary General Fund contribution to the capital budget of $19.3 million brought appropriations to $2,450.0 million. This appropriation package was within the constitutionally-prescribed limit of 98% of estimated revenues.

Balances

The following table outlines revenue, expenditures and remaining cash balances for fiscal 2003.

Actual Budgetary General Fund Balances - Fiscal 2003
(in millions)

Revenue				$2,436.4
Expenditures				
Budget	$2,392.2			
Grants	38.5			
Supplemental	19.3			
Total appropriations		$2,450.0		
Continued and encumbered (prior years)		216.6		
Total spending authorizations			$2,666.6	
Less: Continued and encumbered (present year)			(173.3)	
Less: Reversions			(39.3)	
Total expenditures				$2,454.1
Operating balance				($17.7)
Prior year cash balance				481.8
Cumulative cash balance				$ 464.0
Less: Continued and encumbered (present year)				(173.3)
Less: Budget Reserve Account				(128.9)
Unencumbered cash balance				$ 161.8[1]

(1) Does not equal the sum of its components due to rounding of actual amounts.

FISCAL YEAR ENDING JUNE 30, 2004

Based upon the December 2003 DEFAC revenue forecasts, net budgetary General Fund revenue for fiscal 2004 is projected to total $2,618.6 million, a 7.5% increase over fiscal 2003.

Revenue

Personal income taxes, after refunds, are projected to total $743.7 million, an increase of 4.7% over fiscal 2003.

Franchise taxes, after refunds, are projected to total $505.3 million, a 17.2% increase from fiscal 2003. **Corporate fees** are projected to reach $47.5 million, a 21.1% increase from fiscal 2003.

Corporate income taxes, after refunds, are estimated at $66.9 million, a 0.9% increase from fiscal 2003.

Bank franchise taxes are projected to total $136.1 million, a 3.8% decrease from fiscal 2003.

Business and occupational gross receipts taxes are projected to total $157.5 million, an expected increase of 6.7% over fiscal 2003.

Lottery revenue is projected to total $223.6 million, 5.0% growth over fiscal 2003.

Abandoned property revenue is projected to total $245.0 million, a 5.9% increase from fiscal 2003.

Federal Flexible Aid is estimated to be $50.0 million in fiscal 2004. Pursuant to legislation enacted in June 2003, the federal flexible aid is set aside in a separate fund and not recognized as budgetary General Fund revenue.

Appropriations

The fiscal 2004 budgetary General Fund operating budget totaled $2,445.1 million, a 2.2% increase over fiscal 2003. Grants-in-aid appropriations of $38.4 million and the budgetary General Fund contribution to the capital budget of $142.1 million bring total appropriations to $2,625.6 million. This appropriation package is within the constitutionally-prescribed limit of 98% of estimated revenues.

Highlights of the fiscal 2004 operating budget include $6.6 million for education enrollment growth, $22.0 million to fully fund the State's obligation to the Medicaid program and $1.0 million to move disabled Delawareans into community settings. In addition, the budget eliminates 431 General Fund positions and carries over $15 million in savings from the fiscal 2003 budget. This budget also includes the movement of the Division of Motor Vehicles into the Department of Transportation and establishes a new Department of Safety and Homeland Security.

The fiscal 2004 capital budget totals $576.6 million. Of that amount, $253.9 million is allocated for general obligation capital projects, $307.7 million is allocated for the capital program of the Department of Transportation funded through the Transportation Trust Fund and $15.0 million is for General Fund support to the Transportation Trust Fund. Of the allocation for general obligation capital projects, $130.3 million is programmed for public school construction and renovation, $3.8 million is for public library construction and $10 million is for the Delaware Strategic Fund.

Balances

The following table outlines estimated revenue, expenditures and remaining cash balances for fiscal 2004.

Forecast Budgetary General Fund Balances - Fiscal 2004
(in millions)

Revenue				$2,618.6[(1)]
Expenditures				
Budget	$2,445.1			
Grants	38.4			
Supplemental	142.1			
Total appropriations		$2,625.6		
Continued and encumbered (prior years)		173.3		
Total spending authorizations			$2,798.9	
Less: Continued and encumbered (present year)			(155.5)	
Less: Reversions			(36.5)	
Total expenditures				$2,606.8
Operating balance				11.8
Prior year cash balance				464.0
Cumulative cash balance				$475.8
Less: Continued and encumbered (present year)				(155.5)
Less: Budget Reserve Account				(136.5)
Unencumbered cash balance				$ 183.8

(1) Per December 15, 2003, DEFAC projection.

FISCAL YEAR ENDING JUNE 30, 2005

Based upon the December 2003 DEFAC revenue forecasts, net budgetary General Fund revenue for fiscal 2005 is projected to total $2,742.6 million, a 4.7% increase over fiscal 2004.

Revenue

Personal income taxes, after refunds, are projected to total $793.7 million, an increase of 6.7% over fiscal 2004.

Franchise taxes, after refunds, are projected to total $506.2 million, a 0.2% increase over fiscal 2004. **Corporate fees** are projected to reach $50.7 million, 6.7% growth over fiscal 2004.

Corporate income taxes, after refunds, are estimated at $93.4 million, a 39.6% increase from fiscal 2004.

Bank franchise taxes are projected to total $146.2 million, a 7.4% increase from fiscal 2004.

Business and occupational gross receipts taxes are projected to total $167.0 million, an expected increase of 6.0% over fiscal 2004.

Lottery revenue is projected to total $232.1 million, a 3.8% increase over fiscal 2004.

Abandoned property revenue is projected to total $245.0 million, reflecting no change from fiscal 2004.

Proposed Budget

During the fall of 2003, the Governor and her staff began developing the fiscal 2005 budget, which will be submitted to the General Assembly in January 2004. The Joint Finance Committee and the Capital Improvements (Bond Bill) Committee of the General Assembly will hold hearings in the spring of 2004. Passage of the fiscal 2005 budget is expected to occur in June 2004. By law, the State is required to pass a budget within the 98% appropriation limit of revenues projected from the June 2004 DEFAC estimates (unless revenue adjustments are subsequently enacted and recognized in the Revenue Resolution).

TOBACCO SETTLEMENT

A coalition of State Attorneys General negotiated an agreement to settle various states' lawsuits against tobacco manufacturers, in order to recover state funds expended on health care for smokers, consumer fraud and other claims. The master settlement agreement (the "Agreement") entered into by the State and participating tobacco manufacturers in late 1998 could result in significant payments to the State through the year 2025. The size of payments to Delaware is subject to a number of possible offsets and adjustments outlined in the Agreement. Such offsets include, but are not limited to, the reduction in sales of products from participating manufacturers.

The State created a special fund called the "Delaware Health Fund" into which proceeds received as a result of the Agreement are deposited. The General Assembly and the Governor could authorize expenditure of these monies to expand access to health care and health insurance, make long-term investments in State-owned health care infrastructure, promote healthy lifestyles including tobacco, alcohol, and drug prevention, and promote preventive health care for Delawareans. The fund would require annual appropriation by the General Assembly and be administered by the Secretary of Finance. As of October 1, 2003, approximately $115.1 million has been received by the State from participating manufacturers. The State has not elected to securitize future tobacco settlement payments.

FINANCIAL STRUCTURE

General

The State budgets and controls its financial activities on the cash basis of accounting for its fiscal year (July 1 to June 30). 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 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 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 the tax or other revenue allocated to such fund and is charged with the related disbursements. Specific uses of the budgetary Special Funds include State parks operations and fees charged by the Public Service Commission and Division of Professional Regulation. Federal payments and unemployment compensation are examples of non-appropriated budgetary Special Funds. Some budgetary 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.

The Basic Financial Statements in Appendix B hereof have been prepared to conform to the standards of financial reporting set forth by the Governmental Accounting Standards Board (GASB) in its various statements and interpretations. GAAP (as defined below) reporting standards allow the accurate assessment of financial condition and enable the State to present its total fiscal operation in conformity with accounting principles generally accepted in the United States of America (GAAP).

In GAAP reporting, operations of the primary government and component units are recorded under three main fund types - Governmental, Proprietary and Fiduciary, as defined by GASB. The fund types and account groups are described in Note 1 of the accompanying GAAP

Basic Financial statements in Appendix B. A reconciliation of budgetary General and Special Funds to GAAP is found in the Required Supplementary Information Section of the financial statements in Appendix B.

Capital assets are defined by the State as assets which have a cost of $15,000 or more at the date of acquisition and have an expected useful life of one or more years. All land and buildings are capitalized regardless of cost. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation.

The State has elected to use the "modified approach" to account for certain infrastructure assets, as provided by GASB Statement No. 34. 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. Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

Budget Process

As noted earlier, all disbursements from the budgetary General Fund and certain budgetary Special Funds must be authorized by appropriation of the General Assembly. In the fall of the fiscal year, each State agency submits to the Budget Office a request for operating and capital funds for the ensuing fiscal year. Public hearings on the requests are subsequently conducted. The Governor's proposed operating and capital budgets for the budgetary General Fund and budgetary 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, respectively. As amended, the budgets are expected to be passed prior to July 1 and signed by the Governor shortly thereafter.

State agencies currently participate in a uniform budgeting process whereby each agency submits with its budget request a department mission, key objectives, background and accomplishments, and activities and performance measures. This fully integrated budget submission provides much information to the public as well as to State decision-makers.

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

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 year. An appropriation exceeding 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, but no appropriation may be made exceeding 100% of estimated budgetary General Fund revenue plus the unencumbered budgetary General Fund balance from the previous fiscal year. In June 2003, the General Assembly authorized appropriations of $2,625.6 million for fiscal 2004, consistent with the projected 98% appropriation limit.

Budget Reserve Account

The Budget Reserve Account is designed to provide a cushion against unanticipated revenue shortfalls. The State Constitution provides that the excess of any unencumbered budgetary General Funds at the end of a fiscal year must be placed in a reserve account (the "Budget Reserve Account") within 45 days following the end of the fiscal year, provided that the amount of funds in the Budget Reserve Account does not exceed 5% of the estimated budgetary General Fund revenue used to determine the appropriation limit for that fiscal year. Transfers are made in August based on June revenue projections, with consideration given to year-end operating results of the previous fiscal year. Transfers of $136.5 million have been made which funded the Budget Reserve Account for fiscal 2004. Money from the Budget Reserve Account may be appropriated only with the approval of a three-fifths vote of the members of each house of the General Assembly and only to fund an unanticipated budgetary General Fund deficit or to provide funds required as a result of the enactment of legislation reducing revenue. No funds have been withdrawn from the Budget Reserve Account since its inception.

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. Any tax or license fee increase or the imposition of any new tax or license fee must be passed by a three-fifths vote of each house of the General Assembly, rather than by a simple majority vote, except 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. The amendment requires the State to appropriate, prior to each fiscal year of the State, sums sufficient to meet debt service in the following fiscal year, a practice the State has always followed.

Internal Control Structure

The State has established and maintains an internal control structure designed to ensure that the assets of the State are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that evaluation of costs and benefits requires estimates and judgments by State officials. Determination as to the adequacy of the internal control structure is made within the above framework. State officials believe the State's internal control structure adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

Disbursements from State funds are controlled by an encumbrance accounting system that is designed to provide information on the actual extent of the State's obligations (as determined by purchase orders issued) and to guard against over-committing available funds. Disbursements are controlled through the encumbrance system in such a way that purchase orders issued for goods and services cause a reduction in available appropriations. As a result, the amount of budgetary General Fund cash disbursements plus unliquidated encumbrances cannot exceed the amount appropriated by the General Assembly for any budget line.

"Available" funds may be set aside through the use of properly issued and approved purchase orders. "Available" funds for the budgetary General Fund means that the funds must be appropriated, and, in general, for budgetary Special Funds means that the cash must be on hand, except for federal grants, the Transportation Trust Fund and bond authorizations. For administrative reasons, certain types of transactions such as salary and fringe benefit expenses, debt service, certain budgetary Special Fund expenses, and purchases under $2,500 do not require a formal encumbrance of funds as a prerequisite to processing expenditure documents.

At fiscal year end, cash is reserved to pay outstanding encumbrances (orders for goods and services not yet received or for which payment has not been made). Budgetary General Fund encumbrances are carried over as encumbered appropriations and paid out and recorded as disbursements in the succeeding fiscal year. All obligations created by purchase orders (encumbered amounts) are liquidated upon satisfactory receipt of goods and services. Budgetary General Fund appropriations, which have not been disbursed, continued or encumbered at fiscal year end, lapse. Such lapsed appropriations are referred to as reversions in the State's financial reports.

The State restricts commitments for budgetary General Fund expenditures by State agencies. Commitments to incur expenditures in excess of an appropriation (to be funded from unused funds appropriated to other agencies) must be approved by the Budget Director and the Controller General.

Although the majority of the State's financial transactions are processed through the accounting system, certain budgetary Special Funds have financial activity, such as investments, outside the system. For example, the Transportation Trust Fund, the Delaware State Housing Authority, the deferred compensation programs and Delaware State University all maintain certain financial activity outside the system. This activity is governed in adherence to legislative regulations as well as guidelines established by their respective boards. In addition, these entities are audited annually and produce published financial reports.

The Auditor of Accounts is required to make audits of all agencies collecting State revenue or expending State funds in excess of $500,000 each year, and, to the extent possible, to make annual audits of the financial transactions of all other State agencies. The Auditor of Accounts also reviews certain records of the Secretary of Finance and State Treasurer on a quarterly basis to reconcile the State's bank accounts to such records.

Tax Collection Procedures

Most of the State's taxes are collected under a self-assessing system. Taxpayers prepare the tax forms and pay the amounts they determine are due. When the State determines that a payment is less than the amount due, assessments may be made which can include applicable penalties and interest as allowed by law.

The State has continually instituted procedures to identify non-filers and increase compliance with its tax statutes. The procedures include comparing federal income tax records with State income tax records, comparing State records for various years, and cross-referencing the license tax files to licensee lists from the State's various regulatory boards.

Through the Attorney General's Office, the State employs legal procedures to effect payment of past due balances. These procedures include filing actions in the Justice of the Peace, Common Pleas and Superior Courts on bad checks received. Procedures have been instituted for the garnishment of wages and bank accounts and the sale of personal property through the County Sheriffs.

By statute, the State's accounts receivable may be removed from current active accounts only if the account is more than six years old and is determined to be uncollectible or if the potential recovery or administrative costs of collection would not warrant further collection efforts. Newly enacted legislation allows the Division of Revenue to write off the accounts of those who are deceased or bankrupt.

Risk Management

The State is exposed to various risks and losses related to employee health and accident, worker's compensation, environmental and a portion of property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks because of excessive cost. Instead, the State covers all such claim settlements and judgments out of its budgetary General Fund. The State continues to carry commercial insurance for other risks of loss.

Cash Management

Investment of State funds is the responsibility of the Cash Management Policy Board (the "Board"). Created by State law, the Board establishes policies for the investment of all money belonging to the State or put on deposit with the State by its political subdivisions, except money in any State pension fund and money held for individuals under the State deferred compensation program. The Board is comprised of nine members, including the Secretary of Finance, the Secretary of State, the State Treasurer, the Controller General (all serving ex officio), and five members from the private sector appointed by the Governor and confirmed by the State Senate. The current members of the Board are:

John V. Flynn, Jr. (Chairman)......................	Managing Director, Banister International
David W. Singleton......................................	Secretary of Finance
Harriet Smith Windsor................................	Secretary of State
J. Douglas Hazelton.....................................	Executive Vice President & CRA Officer, MBNA America Bank
Margaret A. Iorii..	Asst. Vice President, Merrill Lynch
Russell T. Larson..	Controller General
David F. Marvin	Partner, Marvin & Palmer Associates, Inc.
Jack A. Markell	State Treasurer
Harold Slatcher..	President & CEO, County Bank

The investment guidelines, adopted by the Board in January 1982 and most recently revised in 2001, provide, among other things, that no more than 10% of the portfolio may be invested in obligations of any one issuer other than the U.S. Government or agencies thereof.

The State has instituted a number of measures to augment its dividend and interest earnings. Among these are the implementation of a commercial bank lockbox for collection of corporate franchise taxes, bank franchise taxes and insurance premium taxes. In addition, the State is also receiving tax payments electronically for the following taxes on a voluntary basis: employer withholding taxes, corporate franchise taxes and bank franchise taxes. The State's motor fuel/special fuels tax is collected electronically on a mandatory basis.

BUDGETARY GENERAL FUND SUMMARIES

Principal Receipts by Category

All revenue derived by the State, unless otherwise provided by law, is credited to the budgetary General Fund. The principal receipts not credited to the budgetary General Fund are unemployment insurance taxes, transportation-related taxes for the Transportation Trust Fund, certain taxes on insurance companies and property taxes levied by local school districts. Such taxes are deposited in budgetary Special Funds of the State. The State does not levy *ad valorem* taxes on real or personal property and does not impose a general sales or use tax.

In addition to a lack of a general sales tax, Delaware’s revenue structure is unique in that a significant portion of the revenues collected by the State are actually paid by other states’ citizens. Delaware, in other words, “exports” a large portion of its revenue burden. While estimates vary, there is a general consensus that upwards of 1/3 of the State’s budgetary General Fund revenues are borne by non-Delawareans. The Tax Foundation, for example, concluded that over 36% of Delaware’s state and local government revenues were paid by nonresidents.

Most of Delaware’s ability to export its revenue burden is due to the State’s position as a center for corporate governance. In order to benefit from Delaware’s superior corporate legal environment, companies with little tangible presence in Delaware pay annual taxes and fees to the State. In addition, Delaware’s position as a banking center has positioned the State as a net exporter of its Bank Franchise Tax. More recently, Delaware has been able to successfully export significant portions of its Abandoned Property and Lottery revenue streams.

The Lottery represents a significant source of revenue to the State. The Lottery consists of traditional lottery products in the form of daily drawings, lotto, instant tickets, and the multi-state Powerball. The video lottery is state-operated using video lottery machines or a network of linked video lottery machines restricted in operation to those locations authorized by statutes. In June 2003, legislation was enacted to revise the video lottery distribution formula to increase the State's share of the video lottery proceeds in order to increase State revenues. The estimated increase in revenue for fiscal 2004 is $15.9 million. At least 30.0% of the revenue generated from the traditional lottery and video lottery games is contributed to the budgetary General Fund.

The taxes summarized below produce most of the budgetary General Fund revenue.

Personal Income Tax: Delaware's rates on taxable income range from zero on the first $2,000 of net taxable income, to 5.95% on taxable income in excess of $60,000. Taxable income consists of federal adjusted gross income, with certain modifications, less itemized deductions (or a standard deduction in lieu thereof). After the application of the rates to taxable income, a $110 non-refundable personal tax credit is subtracted for each taxpayer and dependent claimed, providing a direct dollar-for-dollar reduction in final tax liability.

Since 1992, non-resident taxes have been computed as if the taxpayer were a State resident, multiplied by the ratio of Delaware income to total income. Tax returns and payments are due April 30.

Employers maintaining an office or transacting business within the State and making payment of any wages or other remuneration subject to withholding under the United States Internal Revenue Code are required to withhold State income tax on such wages or remuneration at prescribed rates. Filing frequency is determined based on the amount of an employer's withholdings between July 1 and June 30, immediately preceding the calendar year: under $3,600 file quarterly; from $3,600 to $20,000 file monthly; and over $20,000 file eight times per month.

Corporation Franchise Tax: An annual franchise tax is levied on business corporations organized under State laws, excepting banks and building and loan associations. The tax levy is based on either the corporation's total number of authorized shares of capital stock or on its gross assets. The basis yielding the lesser tax revenue is applied. Effective January 1, 2003, applying the authorized share basis, the tax is levied at a rate of $35 for the first 3,000 authorized shares to $112.50 for 10,000 authorized shares, plus $62.50 for each additional 10,000 shares or fractional part thereof. Applying the gross assets basis, the tax is levied at a rate of $250 for each $1.0 million or fractional part thereof of the corporation's gross assets per authorized share. The maximum annual franchise tax is $165,000 and the minimum tax is $35. Tax payments for any corporation whose annual franchise taxes exceed $5,000 are required to be made quarterly. Other companies pay once each year, on March 1.

Corporation Income Tax: This tax is levied at the rate of 8.7% on net taxable income of both foreign and domestic corporations derived from sources within the State. Investment and holding companies, insurance companies and domestic international sales corporations, among others, are exempt. Fifty percent of the estimated tax for the taxpayer's current tax year and the balance due from the prior year is payable on the first day of the fourth month of the taxpayer's tax year, 20% of such estimated tax is payable on the 15th day of the sixth month, 20% on the 15th day of the ninth month and 10% on the 15th day of the twelfth month. Corporations with taxable income of $200,000 or more in any of the last three years must pay 80% of their current year's estimated tax on a current basis.

Business and Occupational Gross Receipts Tax: The State imposes license requirements and related taxes on most occupations and businesses. License fees and taxes consist of a basic annual fee of $75 (in some cases an additional $25 per establishment is levied) plus a tax on gross receipts. Tax rates include 0.624% for contractors (with a monthly deduction from gross receipts of $50,000); 0.384% for wholesalers (with a monthly deduction of $50,000); 0.18% for manufacturers (with a monthly deduction of $1,000,000); 0.192% for food processors (with a monthly deduction of $50,000); 0.096% for commercial feed dealers and farm machinery retailers (with a monthly deduction of $50,000); 0.72% for general retailers (with a monthly deduction of $50,000); 0.624% for restaurants (with a monthly deduction of $50,000); and 0.384% of aggregate gross receipts on most occupational licenses (with a monthly deduction of $50,000). A use tax on leases of tangible personal property is levied on the lessee at the rate of 1.92% of lease rentals and on the lessor at the rate of 0.288% of rental payments received. Lessors are allowed a quarterly deduction of $150,000.

Public Utility Tax: Gross receipts from the sale of telephone, telegraph, gas, electricity, and cable television services are subject to tax. Receipts from services sold to residential users are excluded, except for receipts from residential cable television services. Generally, public utilities are subject to a tax rate of 4.25%. Several exemptions/reductions apply. Receipts from sales of electricity to manufacturers, and agribusiness/food processors are taxed at 2.0%. Certain electrochemical processors and receipts from sales of electricity and gas to automobile manufacturers are exempt from the tax. Cable television service is taxed at 2.125%.

Cigarette Tax: Until June 30, 2003, the State levied an excise tax of 24 cents per package of 20 cigarettes. Effective August 1, 2003, the rate increased to 55 cents per package of 20 cigarettes. Other tobacco products are taxed at 15% of the wholesale price.

Inheritance and Estate Tax: Effective January 1, 1999, the inheritance tax was eliminated. Since the inheritance tax was eliminated, the State has continued to levy its estate tax. Delaware's estate tax, sometimes referred to as a "pick up" tax, applies only to those estates required to pay the federal estate tax. Recent changes in federal law, however, will effectively cause a phase-out by 2005 of Delaware's estate tax.

Realty Transfer Tax: Generally, the State levies a realty transfer tax at a rate of 1.5% of the consideration paid for any real property transferred. (Local governments are permitted to levy an additional 1.5%.) A 1% tax is levied on the value of construction in excess of $10,000 where the underlying property was acquired by the owner less than 12 months prior to the commencement of construction.

Alcoholic Beverage Tax: The State imposes an excise tax on the distribution of alcoholic beverages. Beer is taxed at the rate of $4.85 per barrel; wine at 97 cents per gallon; liquor containing 25% or less alcohol by volume at $2.50 per gallon; and liquor containing more than 25% at $3.75 per gallon.

Insurance Tax: The State levies a tax of 1.75%, plus an additional 0.25% for the benefit of fire and police, on gross premiums, less dividends and returned premiums on cancelled policies, for most types of insurance. An annual privilege tax is levied on domestic insurers based upon annual gross receipts and subject to credits for payroll compensation for employee services performed in the State.

Bank Franchise Tax: The State levies a tax on banks at 8.7% on the first $20 million of taxable income, 6.7% on such income between $20 and $25 million, 4.7% on such income between $25 million and $30 million, 2.7% on such income between $30 million and $650 million, and 1.7% on taxable income in excess of $650 million.

Budgetary General Fund Disbursements by Category of Expense

The following table summarizes the budgetary General Fund disbursements of the State for fiscal years ended June 30, 2000 through 2003 and provides estimates for fiscal 2004, as projected by DEFAC in December 2003. See "STATE FINANCIAL OPERATIONS - Expenditure Summary - Fiscal 1999 - Fiscal 2004E" for a detailed explanation of the expenditure figures.

Budgetary General Fund Disbursements
(in millions)

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004(E)
Salaries	$844.7	$914.5	$956.0	$966.3	$977.1
Debt Service	115.0	118.5	112.1	116.2	134.2
Contractual Services	209.3	216.0	226.3	216.1	218.5
Fringe Benefits, except Pensions	151.0	189.1	207.4	221.2	228.9
Pensions	89.7	84.2	98.1	106.3	125.2
Welfare and Assistance Grants	281.4	317.2	352.5	375.3	423.6
Other Grants	278.7	255.2	191.7	196.2	242.7
Other	275.6	334.3	309.8	256.5	256.6
Total Disbursements	$2,246.2(1)	$2,429.0(1)	$2,453.9(1)	$2,454.1(1)	$2,606.8(1)

(1) Increases in expenditures reflect in part one-time initiatives, cash for capital projects and debt reduction initiatives.

Budgetary General Fund Disbursements by Purpose

The State assumes substantial financial responsibility for a number of programs often funded by local units of government in other states, including public and higher education, social service programs and the correctional system. In addition, the State builds and maintains all roads and highways within the State except certain local streets within a municipality's corporate boundaries and certain private streets. See "INDEBTEDNESS OF AUTHORITIES, UNIVERSITY OF DELAWARE AND POLITICAL SUBDIVISIONS - Authorities - Delaware Transportation Authority" for additional information. The major State programs are described in more detail below.

Public Education

The State finances its public school operations from a combination of State, federal and local funds. In fiscal 2001, the State provided 65.2%, the federal government 9.0% and localities 25.8% of the cost for current operations and debt service. For fiscal 2001, the U.S. Department of Education, National Center for Educational Statistics reported that Delaware was exceeded only by four other states in terms of the percentage of public school revenues financed by the State. Public education base salary scales are set by State law, but the base salary may be supplemented by local funds. The local supplements vary in each school district in the State, depending on each district's contractual obligations with its employees and the district's ability and willingness to tax its constituents. For the 2003-2004 school year, the average State-local funded classroom teacher's salary is \$51,222, of which \$33,775 is paid from State funds and the balance paid from federal or local funds. The State share of public education costs is allocated to the school districts, subject to a number of formulae based primarily on enrollment. The State funds between 60% and 80% of school construction costs, based on an index of an individual district's ability to generate local share funding. The State also funds fringe benefits for school personnel in approximate proportion to the budgetary General Fund contribution to salaries, with the exception of health insurance which is 100% State funded for the basic plan. School districts reimburse the State for fringe benefit costs for personnel hired and paid under federally-funded programs and for the proportion of salary paid from local funds.

Budgetary General Fund expenditures for public education in fiscal 2003 totaled \$781.6 million. Appropriations of \$816.6 million have been made for fiscal 2004.

The following table sets forth public school enrollment (elementary and secondary), in September of the years indicated.

Public School Enrollment[1]

	Enrollment	Change
1998	112,160	1.0%
1999	112,262	0.4
2000	113,699	0.9
2001	114,693	0.9
2002	115,566	0.8
2003	117,055	1.3

(1) Excludes children of military personnel living on Dover Air Force Base who attend Base schools and whose education is federally-funded.

Higher Education

The State's higher education system consists of eight institutions, which enrolled 48,842 students in the 2002-2003 academic school year based upon fall student headcount (31,028 on a full time equivalent ("FTE") basis). The three State-supported institutions are Delaware Technical and Community College which enrolled 12,688 students (8,768 FTE); Delaware State University, a land grant college located in Dover which enrolled approximately 3,367 students (3,148 FTE); and the University of Delaware, a land grant college located in Newark, which enrolled 21,289 students (19,112 FTE). The five privately supported institutions of higher education in the State enrolled an additional 10,529 students in 2002-2003 (6,760 FTE).

Budgetary General Fund expenditures for higher education in fiscal 2003 were $204.7 million. The State provides approximately 20% of the operating budget of the University of Delaware, 57% of the budget of Delaware Technical and Community College, and 41.6% of the budget of Delaware State University. Appropriations of $200.6 million have been made for fiscal 2004, including $108.7 million for the University of Delaware, $56.4 million for Delaware Technical and Community College and $33.9 million for Delaware State University.

Social Services

The principal social service programs administered by the State are: (1) Temporary Assistance to Needy Families ("TANF"); (2) General Assistance to low-income single individuals and children living with non-relatives who do not qualify for Supplemental Security Income (“SSI”) or TANF payments ("General Assistance Program"); (3) service programs for qualified individuals including child care, employment and training services and work transportation; and (4) direct medical assistance to qualifying individuals ("Medicaid").

Since January 1974, the SSI Program has been administered and funded by the federal government. Beginning with fiscal 1975, the State elected to supplement federal SSI payments for individuals who received the State equivalent of SSI payments prior to January 1974.

Delaware's Medicaid program is funded at the federal financial participation ("FFP") rate of 50%. However, during the period from April 1, 2003 through June 30, 2004, the FFP will be increased to 52.95% pursuant to Title IV of the Jobs and Growth Tax Relief Reconciliation Act of 2003. Delaware's TANF program is funded by a federal capped block grant and State budgetary General Funds. The State is required under federal law to maintain a prescribed level of historic State expenditures for benefits and services to individuals eligible for TANF. The State submits a quarterly budget of total quarterly anticipated expenditures for the Medicaid program to the U.S. Department of Health and Human Services. Upon approval of the budget, the U.S. Department of Health and Human Services issues a letter of credit against which the State may draw to meet its quarterly obligations. Adjustments based on actual expenditures are made in the ensuing quarter. General Assistance Program grants are entirely funded by the State.

The portion of the expenditures for the foregoing programs paid by the federal government is accounted for by the State through the non-appropriated budgetary Special Funds. The portion paid by the State is accounted for through the budgetary General Fund.

Since 1994, welfare caseloads in Delaware have dropped by more than 50%. The average wage of those who have moved from welfare to work is $7.48 per hour. The State provides health care, childcare and transportation to work for participants in the State's welfare reform program and provides transitional health care and subsidized childcare to income eligible individuals who have left the welfare rolls. The percentage of Delaware's population receiving cash assistance is 1.8%.

While welfare caseloads and income maintenance expenditures have decreased since fiscal 1995, because of the State's provision of health and childcare to the eligible welfare to work population -- as well as other changes in Medicaid eligibility, enrollment and costs -- expenditures for child care and Medicaid have had a corresponding increase. The following table indicates the trends of selected State social services expenditures for fiscal 1999 through fiscal 2003 and provides estimates for fiscal 2004.

Social Services Expenditures
(dollars in millions)

	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004E
AFDC/TANF						
Number of Recipients/month...	16,728	15,645	13,598	13,564	14,111	14,669
Total Expenditures/year	$20.6	$20.0	$18.0	$18.4	$18.8	$19.4
State Share..............................	$5.5	$3.3	$2.8	$2.8	$2.8	$2.8
GENERAL ASSISTANCE						
Number of Recipients/month...	1,700	1,900	1,892	2,040	2,106	2,200
Total Expenditures/year	$2.6	$2.6	$2.6	$2.8	$3.0	$3.0
State Share..............................	$2.6	$2.7	$2.6	$2.8	$3.0	$3.0
SSI						
Number of State Subsidized Recipients/month..................	606	615	642	676	732	750
State Share..............................	$0.9	$0.9	$1.0	$1.0	$1.1	$1.1
FOSTER CARE						
Number of Children/month	765	807	791	738	646	650
Total Expenditures/year	$8.3	$8.2	$8.2	$8.0	$7.9	$8.4
State Share..............................	$5.8	$6.2	$6.2	$6.2	$7.2	$7.3
DAY CARE						
Number of Children/month	10,200	11,300	12,613	13,010	13,400	13,700
Total Expenditures/year	$29.1	$33.3	$35.8	$37.9	$38.4	$39.6
State Share..............................	$15.7	$19.6	$21.3	$21.3	$23.7	$23.7
MEDICAID						
Number of Eligibles/month	83,650	92,475	100,249	108,040	118,575	128,000
Total Expenditures/year	$399.2	$511.0	$575.0	$644.7	$702.8	$787.5
State Share..............................	$199.6	$255.5	$286.4	$322.4	$346.1	$370.5
COMMUNITY HEALTH						
State Expenditures/year...........	$22.8	$23.6	$25.8	$25.5	$25.0	$24.9

Children's Services

The Department of Services for Children, Youth and Their Families provides integrated service delivery for children and their families in its efforts to promote family stability through a child-centered, family-focused continuum of care. The Division of Family Services serves abused, neglected and dependent children, assisting approximately 4,400 children annually. The State spent $27.1 million in fiscal 2002 and $28.7 million in fiscal 2003 and has budgeted $28.5 million in fiscal 2004 for family services. The Division of Youth Rehabilitative Services handles delinquent youth in both pre- and post-adjudication through an array of alternative placements and State-owned secure facilities. The Division serves approximately 2,400 youth annually. Fiscal 2002 expenditures totaled $34.3 million. Fiscal 2003 expenditures totaled $34.0 million, and $35.1 million has been budgeted for fiscal 2004. The Division of Child Mental Health Services provides programs for about 500 mentally ill or emotionally disturbed children and adolescents each year for which the State spent $21.7 million in fiscal 2002 and $22.3 million for fiscal 2003 and has budgeted $21.0 million for fiscal 2004. The total Department budgetary General Fund budget for fiscal 2004 is $94.1 million.

Corrections

The State is responsible for all adult correctional services. Sentencing in the State has evolved with the passage of Sentencing Accountability (SENTAC) legislation whereby all offenders are sentenced to one of five levels ranging from Level I (administrative supervision) to Level V (incarceration). This structure allows the State flexibility to match offenders with the most appropriate sentence. Total budgetary General Fund expenditures for corrections in fiscal 2003 were $189.2 million. The budget for fiscal 2004 is $189.3 million. The Department of Correction is currently responsible for over 6,500 incarcerated offenders and over 19,000 offenders in the community (probation or parole).

The Department of Correction (DOC) population has been growing at a steady rate in recent years, which has prompted the need to evaluate the current sentencing practices and code limitations. In May and June 2003, legislation was enacted to control the rate of growth in the DOC population. House Bill 210 modified sentencing practices by reducing sentences for certain drug and motor vehicle offenses so as to provide additional prison space for the most violent offenders. Senate Bill 50 placed limitations on probation sentences, except to ensure public safety or to promote effective substance abuse treatment services, thereby reducing the number of defendants incarcerated for violations of probation. Both pieces of legislation should have a significant positive impact on Delaware's rate of incarceration and will enable the Department of Correction to focus on the most violent offenders in order to protect public safety and to provide treatment and supervision for those offenders most in need of their services.

BUDGETARY SPECIAL FUNDS SUMMARIES

Each budgetary Special Fund is created by statute or administrative action for a specific purpose. The appropriate Fund is credited with the specific revenue or receipts allocated to such Fund. Disbursements from budgetary Special Funds increasingly require specific appropriation by the General Assembly.

In general, money in budgetary Special Funds is not available for disbursement or encumbrance until funds are deposited therein with the result that disbursements plus outstanding encumbrances cannot exceed the available funds (except for federal funds and the Transportation Trust Fund). In the case of bond funds, total disbursements plus encumbrances cannot exceed authorizations. At fiscal year end, the available fund balance plus outstanding encumbrances are carried over into the succeeding fiscal year.

Local School Property Taxes and Assessed Valuation

These taxes are levied by local school districts upon the assessed value of real estate in the district, as determined for county taxation purposes, for the local share of school operating costs and debt service on capital improvements. All tax receipts of a district are credited to the appropriate budgetary Special Fund and operating expenses are disbursed from such Fund upon the presentation of warrants or drafts to the State Treasurer by the school board of the district. The State's share of operating and debt service costs are appropriated and disbursed from the budgetary General Fund.

The following table outlines the assessed and estimated full valuation of all taxable real property in the State as of July 1, 2003.

Real Property Valuations
(in millions)

County	Assessed Valuation[1]	Estimated Full Valuation
New Castle..........................	$16,782.5 [2]	$43,222.4
Kent....................................	2,502.6[3]	8,028.9
Sussex	2,026.7 [4]	17,735.6
Total	$21,311.8	$68,986.9

(1) Net of all legal exemptions.

(2) Based on 100% of 1983 appraised value, as of the date of the most recent assessment which occurred in 1985.

(3) Based on 60% of appraised value, as of the date of the most recent assessment which occurred in 1987.

(4) Based on 50% of appraised value, as of the date of the most recent assessment which occurred in 1974.

Source: Delaware Department of Education.

Unemployment Compensation

Money deposited in the Unemployment Compensation Fund consists of employers' contributions and has previously included advances from the federal government necessary to meet the excess of unemployment compensation benefits paid over the employers' contributions. The

Unemployment Compensation Fund had a balance of $273.4 million as of May 31, 2003, and includes no federal advances. The State has not borrowed any federal funds since 1979 and anticipates that no borrowing will be necessary in fiscal 2004.

Federal Grants, Benefits and Reimbursements

All grants and reimbursements of money received from the federal government by the State are credited to budgetary Special Funds. The money is disbursed to the appropriate agency to be used for the purpose stated in the grant application and without any further authority from the General Assembly. A committee representing the legislative and executive branches of government reviews State agency applications for federal funds and no agency may expend federal funds without approval by that committee.

The following charts indicate the amount and distribution of federal funds awarded to the State in the fiscal years indicated below.

Total Federal Funds
(in millions)

	Amount	**Change**
1996	$823.2	6.8%
1997	825.3	0.3
1998	879.6	6.5
1999	920.4	4.6
2000	972.3	5.6
2001	1,001.5	3.0
2002[1]	1,041.6	4.0

(1) Estimated.

Distribution of Federal Funds by Department

	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002
Health & Social Services	41.9%	43.1%	47.3%	48.6%	49.4%
Transportation	12.0	15.1	14.5	14.2	14.1
Public Education	8.9	9.3	10.2	11.0	9.8
Housing Authority	4.4	3.5	3.4	3.3	6.1
Labor	3.7	3.4	3.0	3.0	3.1
Higher Education	7.0	19.0	14.2	12.6	9.0
Natural Resources	1.7	1.5	2.3	2.1	3.3
Other	20.4	5.1	5.1	5.2	5.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Pension Fund Receipts

State pension contributions are appropriated by the General Assembly in the annual budget to cover the liability on budgetary General Fund salaries and are disbursed each month from the budgetary General Fund. Each monthly disbursement is recorded as a receipt of the appropriate budgetary Special Fund and is disbursed from such budgetary Special Fund to meet pension benefits and operating costs. The balance is disbursed from the budgetary Special Fund and invested as part of the State pension plan. See "STATE PENSION PLAN" for additional information. Employee pension contributions are also recorded as budgetary Special Fund receipts and are disbursed together with the State's share of pension costs. Pension costs paid by the federal government for employees paid under federal programs are also recorded as budgetary Special Fund receipts and disbursements.

Social Security Fund Receipts

All Social Security contributions by State departments and agencies and political subdivisions are recorded as a receipt to the Social Security Fund and are remitted on a semi-monthly basis. Contributions are submitted to the U.S. Department of the Treasury semi-monthly, at which time a disbursement is recorded.

Bond and Note Sales

All proceeds received from the sale of bonds or bond anticipation notes are recorded as a receipt in a special account designated as the State Treasurer's Bond Account. The withdrawal of proceeds is recorded as a budgetary Special Fund disbursement. The principal and interest on the State's general obligation bonds are paid as a budgetary General Fund disbursement.

DEFERRED COMPENSATION PROGRAM

State employees may elect to participate in a deferred compensation plan. The plan is an eligible plan under Section 457 of the Internal Revenue Code (the "Code").

In accordance with federal law, the annual limit on a participant's pre-tax contributions was increased to $12,000 in 2003, and will increase by $1,000 per year to $15,000 in 2006. The percentage of income limit was also raised to 100% of taxable salary. An additional, phased-in catch up contribution has been added for use by those age 50 and older. Those who meet the age requirement may contribute an additional $2,000 in 2003. This amount will increase by $1,000 each year to $5,000 in 2006. After 2006, the "over 50" catch up amount will be indexed in increments of $500 per year.

The State also provides a $10 per-pay employer match to contributions by Deferred Compensation Program participants, which began on January 1, 2001. The plan is approved under Section 401(a) of the Code.

Assets purchased through the State's plan include a managed income portfolio, money market funds and a variety of mutual funds. The total market value of plan assets as of June 30, 2003 was $179.7 million.

STATE PENSION PLAN

The State of Delaware Employees Pension Plan (the "Plan"), established by the General Assembly, covers approximately 31,877 active employees and approximately 16,964 retired employees. All State employees (except State police and State judges) and all local school district employees who qualify as full-time and regular part-time employees participate in the Plan. The other plans funded by the State include the original State Police Pension Plan (for officers hired prior to July 1, 1980) which covers 32 active officers and 556 retirees, the new State Police Pension Plan which covers the 579 officers hired after July 1, 1980 and 24 retirees, and the State Judiciary Pension Plan which covers 51 active employees and 39 retirees. The Plan and the other plans collectively are known as the Delaware Public Employees Retirement System (the "Fund").

The Fund is managed by a Board of Pension Trustees (the "Board") composed of five members from the private sector appointed by the Governor, and the Secretary of Finance and the Director of the State Personnel Office serving as ex-officio members. The current members of the Board are:

Ralph Adkins (Chairman)	Chairman, Chesapeake Utilities Corp.
Robert W. Allen	President, Allen Petroleum
David W. Singleton	Secretary of Finance
Helen Foster Parson, J.D.	Sr. Managing Director, Metropolitan Wilmington Urban League
Jan M. King	Retired Treasurer, Hercules, Inc.
Nancy Shevock	Former Director, Delaware Transit Corp.
Lisa Blunt-Bradley	Director, State Personnel Office

The custodian of the Fund's assets is Mercantile Safe Deposit and Trust Company, Baltimore, Maryland. The Fund's assets are managed by professional investment management firms. The total return on the Fund in fiscal 2003 was 3.13% compared to –.2% for the Standard & Poor's 500.

The Plan provides retirement, disability and survivor benefits. In general, recipients are entitled to receive a service pension at various times during their years of credited service, i.e.: (1) age 65 with 5 years of credited service; or for employees who terminate on or after June 30, 1988, at age 62 with 5 years of credited service; (2) age 60 with 15 years of credited service; (3) a reduced service pension at age 55 with 15 years of credited service; (4) a reduced service pension at any age with 25 years of credited service; or (5) at any age with 30 years of credited service. The qualification requirement for disability or survivor benefits is 5 years of credited service.

Benefit payments are computed using the average monthly compensation for the 36 months of highest monthly compensation. This average is then multiplied by 1.85% for each year of credited service after January 1, 1997 to determine the actual monthly benefit. Retirees with credited service before December 31, 1996 get a multiplier of 2.00.

The Plan is funded on an actuarially sound basis, as determined by the Board, on the basis of actuarial analyses undertaken by Milliman USA, Inc. on an annual basis. The most recent valuation (as of June 30, 2003) was completed in September 2003. As of January 1, 1998, all employees contribute 3% of annual compensation above $6,000. The State makes annual contributions to the Plan in amounts sufficient to meet both the normal cost of the Plan and to amortize the accrued unfunded liability of the Plan. The normal cost of the Plan is the amount of contributions required each year, with respect to each employee, to accumulate the reserves needed to meet the cost of earned benefits over the employee's working lifetime. The unfunded accrued liability of the Plan is the amount of contributions required to meet unpaid past normal costs.

Prior to July 1970, the State appropriated annually the amounts required to meet pension benefits payable in the year of appropriation. During the five year period from July 1, 1970 to July 1, 1975, the State increased its annual contributions to the Plan and replaced that financing practice with a statutory policy of fully funding the Plan on an actuarial reserve basis. Since July 1, 1975, the State's annual contribution to the Plan has been equal to the sum of the normal cost of each year and the annual payment required to amortize the unfunded accrued liability over 40 years from July 1, 1975. Each year the Board certifies the required State contribution rate as a percentage of covered payroll, based on the results of the actuarial valuations of the Plan.

The unfunded accrued liability on an actuarial basis for the last five fiscal years is outlined in the table below. The Plan was overfunded in the amount of $330.5 million as of June 30, 2003.

Unfunded Accrued Liability
(in millions)

June 30, 1999	($538.7)
June 30, 2000	($639.5)
June 30, 2001	($526.8)
June 30, 2002	($434.4)
June 30, 2003	($330.5)

The new State Police Pension Plan (for all persons hired after June 30, 1980) and the State Judiciary Pension Plan also are funded on an actuarial reserve basis as determined by the Board, on the basis of annual actuarial analyses undertaken by Milliman USA, Inc. The new State Police Pension Plan was overfunded in the amount of $14.2 million on June 30, 2003. The State Judiciary Pension Plan showed an unfunded accrued liability on June 30, 2003 of $685,000. Benefits paid through the original State Police Pension Plan (for officers hired before July 1, 1980) are funded from current appropriations. As of June 30, 2003, this plan had an unfunded accrued liability of $316.0 million.

Payment of each annual contribution is subject to appropriation by the General Assembly. In each year since fiscal 1971, the General Assembly has appropriated the contribution amounts recommended by the Board. The State contribution to the State Employees Plan in fiscal 2003 was $40.1 million.

The following table sets forth certain information concerning the Plan for the fiscal years set forth below.

State Employees Pension Plan
(in millions)

	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003
Income					
Employee Contributions	$ 26.9	$ 29.6	$ 31.8	$ 33.4	$ 35.1
State Contributions (budgetary General Fund and budgetary Special Funds)	77.8	76.9	58.7	50.1	66.0
Investment Income	473.2	791.0	(275.6)	(300.5)	141.8
Total Income	$577.9	$897.5	$(184.9)	$(217.0)	$242.9
Disbursements					
Pension Benefits Paid	$145.4	$159.1	$175.3	$194.8	217.1
Refunds	2.5	2.4	2.5	2.4	2.6
Other Disbursements	7.1	7.6	8.2	8.4	9.0
Total Disbursements	$155.0	$169.1	$186.1	$205.7	$228.7
Excess of Income over Disbursements	$422.9	$728.3	$(371.1)	$(422.6)	$ 14.2
Total Plan Assets	$4,700.6	$5,428.9	$5,057.8	$4,635.3	$4,649.5

The growth in investment income in certain years as a percentage of total plan income has permitted changes in the actuarial assumptions and the reduction of employee contributions and has provided the ability to fund increases to pensioners. State pensioners have received eleven pension increases averaging a total of 35.1% since July 1984, based on date of retirement.

Additionally, the State provides comprehensive health coverage to its pensioners on a pay-as-you-go basis. Such coverage is not a mandated benefit of the State's pension plans. Pursuant to current accounting standards, that liability is not presently included in the State's financial statements. Although the State has not determined with any assurance the degree of its liability, it is likely that such liability is substantial.

EMPLOYEE RELATIONS

The State currently has 28,317.8 full-time equivalent (FTE) positions, a decrease of 88.2 FTEs from fiscal 2003. There are 16,417.7 positions in the executive branch, 10,980.2 in the public schools, and 919.9 in institutions of higher learning (excluding approximately 3,652 employees of the University of Delaware, which is not considered part of the State's financial reporting entity).

Since July 1966, virtually all State employees have had the right to organize for the purpose of collective bargaining. Classification of bargaining units is determined by the Public Employee

Relations Board ("PERB"). Collective bargaining in the executive branch is conducted by the Office of State Personnel on behalf of departments and agencies. With respect to non-merit system employees, such bargaining may include all terms and conditions of employment, including wages, hours and benefits. With respect to the merit system employees, individual bargaining units may not bargain wages, most benefits, classification plans or hiring practices. These agreements are subject to approval by the Governor and binding to the extent sufficient appropriations are made by the General Assembly. At present, approximately 7,000 of the State's merit system employees are organized and covered by collective bargaining agreements.

Employees of institutions of higher education, certified professional employees of the State public school system (teachers) and certain public school support personnel have the right to organize for the purpose of collective bargaining. Bargaining units representing such employees negotiate with their respective school districts regarding all matters relating to salaries, employee benefits and certain working conditions. Virtually all of these school employees are covered by collective bargaining agreements.

State employees in Delaware do not have the legal right to strike. Few work stoppages have occurred. As of January 2003, approximately two-thirds of employees eligible for union representation were covered by collective bargaining agreements. All payment contracts reached under such agreements are subject to appropriation by the General Assembly, except for the locally funded portion of school district employees' salaries and benefits.

In 1982, a State law was enacted establishing the PERB to oversee the conduct of labor negotiations between public school teachers and their boards of education. There are provisions for mediation and binding arbitration of collective bargaining disputes. Strikes, slow-downs and walkouts are prohibited, but, if they occur, school boards are required to seek injunctive relief. In 1986, legislation was enacted which extended the PERB's jurisdiction to police officers and firefighters. The PERB's jurisdiction was further expanded in 1994 to include all public employees in the State. In the same year, a State law was enacted establishing the Merit Employee Relations Board to address grievances and related issues of merit system employees.

GOVERNANCE

The chief executive officer of the State is the Governor, who is elected for a term of four years. The State Constitution limits any Governor to two terms, whether or not consecutive. The Governor appoints all members of the State judiciary, the cabinet, and the boards and councils. The Governor reports to the General Assembly at the start of each annual session in January on the "State of the State," recommends changes in legislation, and follows this report with an annual budget message and financial accounting of the State.

In addition to the Executive Office of the Governor (which includes the offices of Budget, Economic Development, Technology and Information and State Personnel), there are fourteen cabinet departments, as reflected in the table which follows. They include the following: the Department of State, which administers the Division of Corporations and the Division of Cultural and Historical Affairs; the Department of Finance, which performs financing, accounting, bond finance, revenue collection, fiscal policy functions and administers the State lottery; the Department of Administrative Services, which manages State facilities; the Department of Health and Social Services; the Department of Services for Children, Youth and Their Families; the Department of Natural Resources and Environmental Control; the Department of Labor; the Department of Transportation, which oversees the Division of Motor Vehicles; the Department of Safety and Homeland Security, which oversees the state police; the Department of Correction; the Department of Agriculture; the Department of Education; Delaware State Housing Authority; and the Delaware National Guard. Delaware is unusual in that the State government (as opposed to county or municipal governments) funds and administers substantially all correctional, public health, welfare, and transportation services for its residents.

Other elected officers include the Lieutenant Governor who presides over the Senate and the Board of Pardons; the State Treasurer, who is one of four Issuing Officers, signs all state checks and oversees the management of the State's bank accounts; the Auditor who audits all State agencies' financial transactions; the Insurance Commissioner; and the Attorney General who is the chief legal officer of the State. All of the elected officers serve terms of four years.

The State's General Assembly is bicameral and consists of a 21-member Senate and a 41-member House of Representatives. The entire House stands for re-election every two years, while Senators are elected to four year staggered terms. Regular sessions of the General Assembly convene in January and adjourn by June 30th. Between regular sessions, the Governor or the presiding officers of either house may call special sessions. Proposed legislation is usually assigned to a standing committee for review. It may then receive consideration on the floor of both houses.

The judicial branch of the government includes a Supreme Court, which acts primarily as an appeals court, and the Court of Chancery, an equity court which has jurisdiction over corporate matters, trusts, estates, and other matters involving equitable jurisdiction. The Superior Court has jurisdiction over criminal and civil cases, except equity cases. The Family Court administers justice in cases involving domestic relations or dependent juveniles. The Court of Common Pleas is a court of limited jurisdiction over civil and criminal matters which the Superior Court would otherwise handle. The Justice of the Peace Courts handle criminal matters and civil cases where the amount in controversy is less than $5,000.

The following is a list of certain elected officials, cabinet positions and other appointed officials.

<u>Statewide Elected Officials</u>

Governor	Ruth Ann Minner
Lieutenant Governor	John C. Carney, Jr.
Attorney General	M. Jane Brady
State Treasurer	Jack A. Markell
State Auditor	R. Thomas Wagner, Jr.
Insurance Commissioner..	Donna Lee Williams

Cabinet Positions and Other Appointed Officials

Administrative Services	Gloria W. Homer
Agriculture	Michael T. Scuse
Budget	Jennifer W. Davis
Correction	Stanley W. Taylor, Jr.
Delaware Economic Development Office	Judy McKinney-Cherry
Education	Valerie A. Woodruff
Finance	David W. Singleton
Health and Social Services	Vincent P. Meconi
Housing	Saundra R. Johnson
Technology and Information	Thomas M. Jarrett
Labor	Harold E. Stafford
Natural Resources and Environmental Control	John Hughes
National Guard	Frank D. Vavala
Personnel	Lisa Blunt-Bradley
Safety and Homeland Security	James L. Ford, Jr.
Services for Children, Youth and Their Families	Cari DeSantis
State	Harriet Smith Windsor
Transportation	Nathan Hayward, III

LITIGATION

The State is a defendant in various suits involving contract/construction claims, tax refunds claims, allegations of wrongful discharge and/or other employment-related claims, use of excessive force, civil rights violations, and automobile accident claims. Although the State believes it has valid defenses to these actions, the State has a potential aggregate exposure which could exceed $5.1 million.

THE BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions and defaults. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC [nor its nominee] or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization and issuance of the Bonds are subject to the approval of Saul Ewing LLP, Wilmington, Delaware, Bond Counsel, whose approving legal opinion, substantially in the form set forth in Appendix D, will be available at the time of the delivery of the Bonds. Bond Counsel has not verified the accuracy, completeness or fairness of the statements contained in the Official Statement and will not express an opinion as to the accuracy, completeness, or fairness of the statements contained in the Official Statement.

TAX MATTERS

Tax Exemption-Opinion of Bond Counsel

The Internal Revenue Code of 1986, as amended (the "Code") contains provisions relating to the tax-exempt status of interest on obligations issued by governmental entities which apply to the Bonds. These provisions include, but are not limited to, requirements relating to the use and investment of the proceeds of the Bonds and the rebate of certain investment earnings derived from such proceeds to the United States Treasury Department on a periodic basis. These and other requirements of the Code must be met by the State subsequent to the issuance and delivery of the Bonds in order for interest thereon to be and remain excludable from gross income for purposes of federal income taxation. The State has made covenants to comply with such requirements.

In the opinion of Bond Counsel, interest (including accrued original issue discount) on the Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion of Bond Counsel is subject to the condition that the State comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon continues to be excluded from gross income. Failure to comply with certain of such requirements could cause the interest on the Bonds to be so includable in gross income retroactive to the date of issuance of the Bonds. The State has covenanted to comply with all such requirements. Interest on the Bonds is not treated as an item of tax preference under Section 57 of the Code for purposes of the individual and corporate alternative minimum taxes; however, under the Code, to the extent that interest on the Bonds is a component of a corporate holder's "adjusted current earnings", a portion of that interest may be subject to the corporate alternative minimum tax. Bond Counsel expresses no opinion regarding other federal tax consequences relating to the Bonds or the receipt of interest thereon. See discussion of "Alternative Minimum Tax", "Branch Profits Tax", "S Corporations with Passive Investment Income", "Social Security and Railroad Retirement Benefits", "Deduction for Interest Paid by Financial Institutions to Purchase or Carry Tax-Exempt Obligations", "Property or Casualty Insurance Company" and "Accounting Treatment of Original Issue Discount and Amortizable Bond Premium" below.

In the opinion of Bond Counsel under existing statutes, interest on the Bonds is exempt from personal and corporate income tax imposed by the State.

Alternative Minimum Tax

The Code includes, for purposes of the corporate alternative minimum tax, a preference item consisting of, generally, seventy-five percent of the excess of a corporation's "adjusted current earnings" over its "alternative minimum taxable income" (computed without regard to this particular preference item and the alternative tax net operating loss deduction). Thus, to the extent that tax-exempt interest (including interest on the Bonds) is a component of a corporate holder's "adjusted current earnings", a portion of that interest may be subject to the alternative minimum tax.

Branch Profits Tax

Under the Code, foreign corporations engaged in a trade or business in the United States will be subject to a "branch profits tax" equal to thirty percent (30%) of the corporation's "dividend equivalent amount" for the taxable year. The term "dividend equivalent amount" includes interest on tax-exempt obligations.

S Corporations with Passive Investment Income

Section 1375 of the Code imposes a tax on the income of certain small business corporations for which an S Corporation election is in effect, and that have "passive investment income". For purposes of Section 1375 of the Code, the term "passive investment income" includes interest on the Bonds. This tax applies to an S Corporation for a taxable year if the S Corporation has Subchapter C earnings and profits at the close of the taxable year and has gross receipts, more than twenty-five percent (25%) of which are "passive investment income". Thus, interest on the Bonds may be subject to federal income taxation under Section 1375 of the Code if the requirements of that provision are met.

Social Security and Railroad Retirement Benefits

Under Section 86 of the Code, certain Social Security and Railroad Retirement benefits (the "benefits") may be includable in gross income. The Code provides that interest on tax-exempt obligations (including interest on the Bonds) is included in the calculation of "modified adjusted gross income" in determining whether a portion of the benefits received are to be includable in gross income of individuals.

Deduction for Interest Paid by Financial Institutions to Purchase or Carry Tax-Exempt Obligations

The Code, subject to limited exceptions not applicable to the Bonds, denies the interest deduction for indebtedness incurred or continued to purchase or carry tax-exempt obligations, such as the Bonds. With respect to banks, thrift institutions and other financial institutions, the denial to such institutions is one hundred percent (100%) for interest paid on funds allocable to the Bonds and any other tax-exempt obligations acquired after August 7, 1986.

Property or Casualty Insurance Company

The Code also provides that a property or casualty insurance company may also incur a reduction, by a specified portion of its tax-exempt interest income, of its deduction for losses incurred.

Accounting Treatment of Original Issue Discount and Amortizable Bond Premium

The Bonds maturing on January 1, 2014 through 2016, inclusive, and on and after January 1, 2018 are herein referred to as the "Discount Bonds". In the opinion of Bond Counsel, under existing law, the difference between the initial public offering price of the Discount Bonds set forth on the cover page and the stated redemption price at maturity of each such Bond constitutes "original issue discount", all or a portion of which will, on the disposition or payment of such Bonds, be treated as tax-exempt interest for federal income tax purposes. Original issue discount will be apportioned to an owner of the Discount Bonds under a "constant interest method", which utilizes a periodic compounding of accrued interest. If an owner of a Discount Bond who purchases it in the original offering at the initial public offering price owns that Discount Bond to maturity, that Bondholder will not realize taxable gain for federal income tax purposes upon payment of the Discount Bond at maturity. An owner of a Discount Bond who purchases it in the original offering at the initial public offering price and who later disposes of the Discount Bond prior to maturity will be deemed to have accrued tax-exempt income in a manner described above; amounts realized in excess of the sum of the original offering price of such Discount Bond and the amount of accrued original issue discount will be taxable gain.

Purchasers of Discount Bonds should consider possible state and local income, excise or franchise tax consequences arising from original issue discount on the Discount Bonds. Prospective purchasers of the Discount Bonds should consult their tax advisors regarding the Delaware tax treatment of original issue discount.

The Bonds maturing on January 1, 2005 through 2013, inclusive, and on January 1, 2017 are hereinafter referred to as the "Premium Bonds". An amount equal to the excess of the initial public offering price of a Premium Bond set forth on the cover page over its stated redemption price at maturity constitutes premium on such Premium Bond. A purchaser of a Premium Bond must amortize any premium over such Premium Bond’s term using constant yield principles, based on the purchaser’s yield to maturity. As premium is amortized, the purchaser’s basis in such Premium Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed.

Purchasers of any Premium Bonds, whether at the time of initial issuance or subsequent thereto, should consult their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning Premium Bonds.

OPINIONS AND CERTIFICATES AVAILABLE ON DELIVERY OF THE BONDS

Upon delivery of the Bonds, the State will make available the following opinions and certificates dated the date of delivery of the Bonds: (1) the opinion of Saul Ewing LLP, Bond Counsel, Wilmington, Delaware, substantially in the form set forth in Appendix D, to the effect that the Bonds are legal and valid general obligations of the State to which the State has pledged its full faith and credit; (2) the opinion of the Attorney General or a Deputy Attorney General to the effect that no litigation is pending or known to be threatened to restrain or enjoin the issuance of the Bonds, or in any manner questioning the validity of any proceedings authorizing the issuance of the Bonds, or the levy or collection of any material portion of taxes or other revenues of the State, or contesting the completeness, accuracy or fairness of the Official Statement; and that neither the corporate existence of the State nor the titles of the officials of the State signatories hereto to their respective offices is being contested; (3) a certificate of the Issuing Officers certifying as genuine the signatures of the Issuing Officers signing the Bonds; (4) a certificate of the State Treasurer acknowledging receipt of payment for the Bonds; (5) a certificate executed by the State Treasurer relating to federal tax matters under the Internal Revenue Code of 1986, and regulations promulgated thereunder; and (6) a certificate of the Issuing Officers stating: (a) that the Official Statement, as of the date of the Official Statement, did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (b) as of the date of delivery of and payment for the Bonds there has been no material adverse change in the condition, financial or otherwise of the State, from the date of the sale of the Bonds to the date of delivery of the Bonds and from that set forth in the Official Statement.

FINANCIAL ADVISOR

Public Financial Management, Inc. has been appointed financial advisor to the State and is acting in that capacity in connection with the sale of the Bonds.

RATINGS

Fitch Ratings, Moody's Investors Service and Standard & Poor's rate the general obligation bonds of the State. The current rating of all outstanding general obligation bonds of the State assigned by Fitch Ratings is AAA, the rating assigned by Moody's Investors Service is Aaa and the rating assigned by Standard & Poor's is AAA. Fitch Ratings, Moody's Investors Service and Standard & Poor's have assigned the Bonds the ratings which appear on the cover hereof.

Such ratings reflect only the respective views of such organizations. An explanation of the significance of such ratings may be obtained from the respective organizations. There is no assurance that such ratings will continue for any period of time or that they will not be revised or withdrawn. A downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds. Neither rating assures the market value of the Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of the mathematical computations of (i) the adequacy of the maturing principal of and interest earned on the escrow securities together with other available funds held in the escrow account, to provide for the payment of the Refunded Bonds; and (ii) the “yield” on the escrow securities and on the Bonds, will be examined by Causey, Demgen & Moore, Inc., a firm of independent certified public accountants.

The computations will be based upon information and assumptions supplied by the financial advisor on behalf of the State. Causey, Demgen & Moore, Inc. has restricted its procedures to examining the arithmetical accuracy of the computations and has not evaluated or audited the assumptions or information used in the computations.

CONTINUING DISCLOSURE UNDERTAKING

Rule 15c2-12 under the Securities Exchange Act of 1934, as amended, (the "Rule") prohibits an underwriter from purchasing or selling municipal securities, such as the Bonds, unless it has determined that the issuer of such securities and/or other persons deemed to be "obligated persons" have committed to provide (i) on an annual basis, certain financial information, including financial information and operating data ("Annual Reports"), to each Nationally Recognized Municipal Securities Information Repository (a "NRMSIR") and the relevant state information repository (if any) and (ii) notice of various events described in the Rule, if material ("Event Notices"), to the Municipal Securities Rulemaking Board (the "MSRB") and to any such state information repository.

The State will agree with the purchasers of the Bonds, by executing a supplement to the Continuing Disclosure Agreement executed in connection with the issuance of its General Obligation Bonds - Series 1996A prior to the issuance of the Bonds, to provide Annual Reports with respect to itself to each NRMSIR and to any Delaware information repository that is formed. The State has determined that there currently is not any other obligated person for the purposes of the Rule. The State will provide Event Notices to the MSRB and to any Delaware information repository. The Continuing Disclosure Agreement appears as Appendix C to this Official Statement. Under the provisions of the State's Continuing Disclosure Agreement, the State is required to provide its Annual Report by May 1 of each year. While the Annual Report was timely prepared in 1998, due to an administrative inadvertency, it was not filed with the NRMSIRs until approximately two weeks after the due date. The State is currently in full compliance with its obligations under the Continuing Disclosure Agreement and has instituted additional administrative procedures to insure timely filings in the future.

The execution and distribution of the Official Statement in connection with the sale of the Bonds has been duly authorized by the State.

THE STATE OF DELAWARE

RUTH ANN MINNER, Governor

DAVID W. SINGLETON, Secretary of Finance

HARRIET SMITH WINDSOR,
Secretary of State

JACK A. MARKELL, State Treasurer

APPENDIX A

SUMMARY OF CASH BASIS FINANCIAL STATEMENTS
For Fiscal Years 1999 Through 2003

THE STATE OF DELAWARE

BUDGETARY GENERAL FUND
RECEIPTS, DISBURSEMENTS AND CASH BALANCES

	Fiscal Years Ended June 30				
	1999 (1)	**2000** (1)	**2001** (1)	**2002** (1)	**2003**(1)
Receipts			(in thousands)		
Tax Revenue					
Personal Income...............................	882,495	850,393	837,805	841,090	839,879
Franchise.....................................	425,549	471,515	533,593	492,490	448,160
Corporation Income............................	122,133	135,204	139,392	180,383	108,522
Gross Receipts................................	130,893	133,407	110,370	137,865	147,556
Public Utility................................	22,847	80,612	30,422	29,246	32,762
Cigarette.....................................	24,711	26,540	27,386	27,869	36,714
Pari-Mutual...................................	206	225	207	198	203
Inheritance and Estate........................	27,477	40,928	41,150	41,552	39,339
Realty Transfer...............................	39,669	38,507	39,208	50,192	65,980
Alcoholic Beverage............................	11,155	10,932	11,611	11,739	12,239
Insurance Taxes...............................	35,461	37,477	40,228	55,275	53,559
Bank Franchise................................	139,061	106,793	96,675	118,383	141,462
All Other.....................................	143,983	116,527	189,623	185,815	264,633
Total Taxes................................	**2,005,642**	**2,049,060**	**2,097,670**	**2,172,096**	**2,191,008**
Revenue Refunds...........................	181,266	180,124	208,930	215,627	223,604
Net Taxes..................................	*$1,824,375*	*$1,868,938*	*$1,888,740*	*$1,956,469*	*$1,967,405*
Other Revenue					
Fees..	59,691	70,261	69,806	80,237	78,020
Interest Earnings.............................	26,816	37,663	38,223	30,538	20,777
Sales (2)	244,235	266,275	287,956	312,607	308,556
Grants, Donations and Special Income..........	1,609	2,440	2,718	5,718	6,055
Licenses......................................	6,767	7,303	7,164	7,207	8,115
Other Revenue.................................	2,659	2,573	3,265	3,019	2,693
Non-Revenue and Transfers.....................	24,533	23,498	31,156	29,921	44,736
Total Other Revenue........................	**$366,310**	**$410,013**	**$440,287**	**469,247**	**$468,952**
Total Receipts............................	**$2,190,685**	**$2,278,951**	**$2,329,026**	**$2,425,716**	**$2,436,358**
Disbursements					
Legislative...................................	9,675	9,770	10,314	10,798	10,951
Judicial......................................	54,512	56,887	61,344	65,184	66,414
Executive.....................................	97,965	108,028	105,000	97,454	84,334
Technology and Information	0	0	0	494	6,410
Other Elective Offices........................	46,612	38,100	42,049	42,649	45,177
Legal...	21,302	23,511	26,002	28,713	29,765
Department of State...........................	13,085	35,024	20,196	18,113	16,765
Department of Finance.........................	131,558	76,155	56,921	16,936	15,508
Department of Administrative Services..........	67,869	60,104	71,733	55,347	50,269
Department of Health and Social Services........	484,886	521,335	570,467	617,553	639,425
Department of Children, Youth and Their Families	81,213	88,843	91,569	91,782	92,901
Department of Correction.......................	142,031	160,530	181,610	179,228	185,493
Department of Natural Resources and Env. Contro	41,327	44,479	45,981	43,574	40,967
Department of Public Safety....................	89,230	91,135	93,733	96,102	99,730
Department of Transportation...................	1	0	0	0	0
Department of Labor............................	4,832	5,900	5,832	5,991	5,967
Other..	15,623	16,594	20,041	17,711	18,833
Total Departments..........................	$1,301,719	$1,336,395	$1,402,791	$1,387,629	$1,408,911
Higher Education...............................	196,576	211,464	219,189	213,705	205,233
Public Education...............................	654,215	698,373	807,046	852,541	839,948
Total Education............................	$850,791	$909,836	$1,026,235	$1,066,246	$1,045,181
Total Disbursements........................	**$2,152,510**	**$2,246,231**	**$2,429,026**	**$2,453,875**	**$2,454,092**
Receipts Over (Under) Disbursements	38,174	32,721	(100,000)	(28,162)	(17,734)
Cash Balance--Beginning of Period.........	539,018	577,192	609,914	509,914	481,752
General Fund Advances to Other Funds......	0	0	0	0	0
Cash Balance......................................	**$577,192**	**$609,913**	**$509,914**	**$481,752**	**$464,018**

(1) Unaudited because the State has audited GAAP financial statements for these years.
(2) Consists primarily of payments for board and treatment at State institutions, lottery receipts and tuition at Delaware Technical and Community College.

Source: Department of Finance.

THE STATE OF DELAWARE
BUDGETARY SPECIAL FUND
RECEIPTS, DISBURSEMENTS AND CASH BALANCES

	Fiscal Years Ended June 30				
	1999 (1)	2000 (1)	2001 (1)	2002 (1)	2003 (1)
Receipts					
Taxes					
Insurance...........................	15,856	15,547	17,085	19,354	18,730
Local School Property................	223,473	230,078	221,641	238,949	258,229
All Other...........................	216,323	228,994	270,427	273,199	285,845
Total Taxes......................	455,652	474,619	509,153	531,502	562,805
Other Revenue					
Federal Grants and Reimbursements....	724,773	774,093	862,064	886,232	958,421
Pension Fund Receipts................	104,561	100,374	80,053	79,840	100,875
Interest Earnings....................	41,323	42,641	48,308	35,853	28,330
All Other...........................	342,567	384,164	461,177	556,845	582,092
Total Other Revenue.............	1,213,224	1,301,272	1,451,602	1,558,770	1,669,717
Non-Revenue and Transfer					
Sale of Bonds........................	110,238	100,844	0	155,827	395,455
Receipts from Pension Fund...........	385,172	374,037	399,415	379,836	404,237
All Other...........................	488,824	553,245	540,123	595,891	566,043
Total Non-Revenue and Transfer...	$984,234	$1,028,126	$939,538	1,131,554	$1,365,735
Total Receipts..........................	2,653,110	2,804,017	2,900,293	3,221,826	3,598,257
Total Disbursements.....................	2,548,056	2,768,535	2,987,257	3,229,914	3,371,434
Receipts Under (Over) Disbursements......	$105,054	$35,482	($86,964)	(8,088)	$226,823
Operating Cash Balance-Beginning of Perioc	785,101	890,811	922,686	841,324	831,193
Operating Cash Balance-End of Period......	$890,155	$926,293	$835,722	833,236	$1,058,016
Other Cash					
Payroll Withholding Payable [2].........	656	(3,608)	5,602	(2,043)	(13,003)
Cash Balance.............................	$890,811	$922,685	$841,324	831,193	$1,045,013

(1) Payroll withholdings are no longer considered budgetary Special Funds; however, they are accounted for in the General Ledger as liabilities
(2) Unaudited because the State has audited GAAP financial statements for these years.

Source: Department of Finance.

THE STATE OF DELAWARE
COMBINED BUDGETARY GENERAL AND SPECIAL FUNDS
RECEIPTS, DISBURSEMENTS AND CASH BALANCES

	Fiscal Years Ended June 30				
	1999 (1)	**2000**(1)	**2001** (1)	**2002** (1)	**2003** (1)
	(in thousands)				
Receipts					
Taxes..................................	2,280,027	2,343,557	2,397,891	2,487,972	2,530,209
Interest Earnings.............................	68,139	80,304	86,531	66,392	49,107
Grants, Donations and Special Income...........	683,623	737,567	815,670	852,829	902,424
Licenses......................................	9,810	9,903	10,519	10,350	11,905
Fees..	127,285	153,801	154,033	166,613	174,080
Sales...	281,910	306,444	336,237	369,452	343,556
Other Revenue.................................	460,743	492,012	552,441	632,080	705,991
Total Revenue...............................	$3,911,537	$4,123,588	$4,353,322	$4,585,693	$4,717,273
Non-Revenue and Transfers....................	932,257	959,382	875,998	1,061,848	1,317,341
Total Receipts..............................	$4,843,794	$5,082,970	$5,229,320	$5,647,541	$6,034,614
Total Disbursements.............................	4,700,566	5,014,766	5,416,282	5,683,298	5,814,997
Receipts Over (Under) Disbursements.............	$143,228	$68,204	($186,962)	(35,757)	$219,617
Cash Balance--Beginning of Period................	1,324,120	1,468,004	1,532,600	1,351,238	1,312,945
General Fund Advances to Other Funds............	0	0	0	0	0
Cash Balance--End of Period.....................	$1,467,348	$1,536,208	$1,345,638	$1,315,483	$1,532,562
Other Cash					
Payroll Withholding Payable (2)...............	656	(3,608)	5,600	2,043	(13,003)
Total Cash Balance..............................	$1,468,004	$1,532,600	$1,351,238	$1,313,438	$1,519,560

(1) Unaudited because the State has audited GAAP financial statements for these years.

(2) Payroll withholdings are no longer considered a State budgetary Special Fund. They are a General Ledger liability entry starting in fiscal 1987.

Source: Department of Finance.

THE STATE OF DELAWARE
CONSOLIDATED BALANCE SHEET
Fiscal Years Ended June 30

	1999 (1)	2000(1)	2001 (1)	2002 (1)	2003 (1)
			(in thousands)		
Current Assets					
Cash					
General Fund................................	$539,018	$577,192	$609,913	$509,914	$464,019
Special Funds..............................	785,101	890,811	922,686	841,324	$1,045,012
Total Cash................................	$1,324,119	$1,468,003	$1,532,599	$1,351,238	$1,509,031
Investments					
Permanent School Fund.........................	$259	$259	$259	$259	$259
Trust Accounts...............................	100	100	100	100	100
Due From Special Funds.......................	1,677	1,677	0	0	0
Board of State Employees Pension Trustees Fund	4,424,860	4,898,115	5,663,841	5,280,617	4,870,134
Deferred Compensation	0	0	0	0	0
Total Investments.........................	$4,426,896	$4,900,151	$5,664,200	$5,280,976	$4,870,493
Total Current Assets and Investments......	$5,751,015	$6,368,154	$7,196,799	$6,632,214	$6,379,524
Amount to be Provided From Future Revenue for Retirement of Bonded Indebtedness...........	579,913	599,567	595,926	520,725	$614,069
Amount to be Provided From Various Local and Special School Districts for Retirement of Bonded Indebtedness.........................	106,203	120,604	142,250	132,976	$240,193
Total to be Provided for Retirement of Bonded Indebtedness......................	$686,116	$720,171	$738,176	$653,701	$854,262
Capital Assets					
Land and Buildings(2)	1,123,711	1,192,450	1,350,172	1,587,604	5,344,233
Equipment.....................................	212,338	232,153	256,130	263,756	273,568
Easements(3)...................................					66,822
Total Capital Assets......................	$1,336,049	$1,424,603	$1,606,302	$1,851,360	$5,684,623
Total Assets and Amounts to be Provided for Retirement of Bonded Indebtedness..........	**$7,773,180**	**$8,512,928**	**$9,541,277**	**$9,137,275**	**$12,918,409**
Current Liabilities					
Continuing Balances..........................	190,213	238,571	330,177	302,040	140,157
Encumbered Balances..........................	33,735	33,337	36,603	39,870	33,103
Payroll Withholding Payable..................	12,805	13,461	9,853	15,456	13,003
Total Current Liabilities.................	$236,753	$285,369	$376,633	$357,365	$186,264
Other Liabilities and Surplus					
Advances Due to General Funds................	1,677	1,677	0	0	0
Special Fund Accounts........................	772,296	877,350	912,833	825,869	1,032,009
Permanent School Fund........................	259	259	259	259	259
Trust Accounts...............................	100	100	100	100	100
Board of State Employees Pension Trustees Fund	4,424,860	4,898,115	5,663,841	5,280,617	4,870,134
Unencumbered General Fund Balance (4).........	315,070	305,284	243,133	168,004	290,758
Deferred Compensation........................	0	0	0	0	0
Total Other Liabilities and Surplus.......	$5,514,262	$6,082,785	$6,820,166	$6,274,849	$6,193,260
Total Liabilities and Surplus...........	$5,751,015	$6,368,154	$7,196,799	$6,632,214	$6,379,524
Bonded Indebtedness............................	686,116	720,171	738,176	653,701	854,262
Capital Surplus................................	1,336,049	1,424,603	1,606,302	1,851,360	5,684,623
Total Liabilities and Surplus............	**$7,773,180**	**$8,512,928**	**$9,541,277**	**$9,137,275**	**$12,918,409**

(1) Unaudited because the State has audited GAAP financial statements for these
(2) Lands and Buildings reevaluated due to GASB 34
(3) Easements included due to GASB 34
(4) Includes money in Budget Reserve Account

Source: Department of Finance.

APPENDIX B

BASIC FINANCIAL STATEMENTS
For The Year Ended June 30, 2003

Appendix B

State of Delaware

Basic Financial Statements

For the Year Ended June 30, 2003

KPMG

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, 2003, 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, certain major funds, and certain fiduciary funds as disclosed in Note 1(c). 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG

The management's discussion and analysis on pages 4 through 17, the budgetary comparison schedules for the general fund and special fund on pages 108 through 113, and the information about infrastructure assets reported using the modified approach on pages 114 through 115 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors 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 and the other auditors did not audit the information and express no opinion on it.

KPMG LLP

November 26, 2003

Management's Discussion and Analysis

The following is a discussion and analysis of the State of Delaware's financial activities for the fiscal year ended June 30, 2003. 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-ix of this report.

These financial statements have been prepared using the new financial accounting model adopted by the Governmental Accounting Standards Board (GASB). This new model represents the biggest change in the history of governmental accounting and financial reporting. This is the second year of implementation in Delaware for these new standards.

Financial Highlights

- The assets of the State exceeded its liabilities at the close of the most recent fiscal year by $4.7 billion (net assets). Component units reported net assets of $525.2 million, an increase of $5.8 million from the previous year.
- The primary government's total net assets increased by $50.1 million (1.1%) in fiscal year 2003. Net assets of governmental activities increased by $146.8 million (9.9%) while net assets of the business-type activities decreased $96.7 million (3.1%).
- As of the close of the current fiscal year, the State's governmental funds reported combined ending fund balances of $982.5 million, an increase of $47.9 million (5.1%) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was $643.5 million, or 21.9% of total general fund expenditures. For the most part, the unreserved fund balance is not available for new spending. These funds have been committed based on State statutes.
- The State's total general obligation debt increased during the fiscal year to $854.3 million, an increase of $144.4 million (20.3%). Approximately 80.9% of new money bonds issued during fiscal year 2003 will be allocated to public and higher education facilities. The remaining 19.1% will be spent on State offices and other facilities.

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 this MD&A and other required supplementary information, in addition to the basic financial statements.

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

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

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

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

The government-wide financial statements include not only the State (known as the primary government), but also legally separate entities for which the State of Delaware is financially accountable. These entities include the Delaware State Housing Authority, the Diamond State Port Corporation, the Riverfront Development Corporation, the Delaware State University and 13 charter schools. Financial information for these component units are reported separately from the financial information presented for the primary government. The government-wide financial statements can be found on pages 20-21 of this report.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances 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 fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for these funds.

The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories – the General Fund or the Special Fund. References to these funds in this report include the terms “budgetary” or “budgetary basis” to differentiate them from the GAAP funds of the same name which encompass different funding categories. The State of Delaware adopts an annual appropriated budget for its budgetary general fund. A budgetary comparison statement has been provided for the budgetary general fund to demonstrate compliance with this budget. The statement can be found on page 110 of this report.

The basic governmental fund financial statements can be found on pages 24-27 of this report.

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

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 State Lottery, Unemployment Trust Fund and the Department of Transportation, all of which are considered to be major funds of the State.

The basic proprietary fund financial statements can be found on pages 30-32 of this report.

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

The basic fiduciary fund financial statements can be found on pages 34-40 of this report.

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 49-106 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the status of the State's legally adopted budget and the maintenance of the State's infrastructure. Required supplementary information can be found on pages 108-115 of this report.

Statewide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the State of Delaware, assets exceeded liabilities for the primary government by $4.7 billion at the close of the most recent fiscal year.

The largest portion of the State's net assets (69.3%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. 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 8.5% 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 (22.2%), may be used at the State's discretion, but, for the most part, these funds have been appropriated based on State statutes.

Net Assets as of June 30, 2003
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other non-current assets	$ 1,557,734	$ 1,456,111	$ 735,976	$ 604,535	$ 2,293,710	$ 2,060,646
Capital assets	1,639,195	1,391,083	3,362,818	3,326,760	5,002,013	4,717,843
Total assets	3,196,929	2,847,194	4,098,794	3,931,295	7,295,723	6,778,489
Long-term liabilities outstanding	1,071,017	900,354	885,926	655,340	1,956,943	1,555,694
Other liabilities	492,624	460,364	122,646	158,527	615,270	618,891
Total liabilities	1,563,641	1,360,718	1,008,572	813,867	2,572,213	2,174,585
Net assets:						
Invested in capital assets, net of related debt	762,239	680,717	2,464,049	2,645,902	3,226,288	3,326,619
Restricted	136,460	128,930	256,792	310,619	393,252	439,549
Unrestricted	734,589	676,829	299,855	160,907	1,034,444	837,736
Total net assets	$ 1,633,288	$ 1,486,476	$ 3,020,696	$ 3,117,428	$ 4,653,984	$ 4,603,904

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year.

Changes in Net Assets - Primary Government
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	$ 512,045	$ 506,860	$ 994,052	$ 1,047,300	$ 1,506,097	$ 1,554,160
Operating grants and contributions	772,470	718,815		26,415	772,470	745,230
Capital grants and contributions			115,502	106,938	115,502	106,938
General revenues:						
Taxes:						
Personal income taxes	706,277	718,672			706,277	718,672
Business taxes	1,180,281	1,153,025			1,180,281	1,153,025
Other taxes	201,115	167,258			201,115	167,258
Real estate taxes	267,177	238,574			267,177	238,574
Investment earnings	73,911	58,624	25,073	26,915	98,984	85,539
Gain (Loss) on sale of assets	13,536		(287)	(60)	13,249	(60)
Total revenues	3,726,812	3,561,828	1,134,340	1,207,508	4,861,152	4,769,336
Expenses:						
General Government	341,054	445,502			341,054	445,502
Health and Children's Services	1,363,289	1,240,332			1,363,289	1,240,332
Judicial and Public Safety	422,921	389,806			422,921	389,806
Natural Resources and Environmental Control	100,171	111,443			100,171	111,443
Labor	59,521	60,650			59,521	60,650
Education	1,422,820	1,370,137			1,422,820	1,370,137
Payment to Component Unit - General Government	10,107	8,821			10,107	8,821
Payment to Component Unit - Education	64,670	40,571			64,670	40,571
Interest Expense	42,000	31,576			42,000	31,576
Lottery			353,840	380,084	353,840	380,084
Transportation			504,463	446,473	504,463	446,473
Payment to Component Unit			946		946	0
Unemployment			125,270	116,538	125,270	116,538
Total expenses	3,826,553	3,698,838	984,519	943,095	4,811,072	4,641,933
Increase (Decrease) in net assets before transfers	(99,741)	(137,010)	149,821	264,413	50,080	127,403
Transfers	246,553	266,090	(246,553)	(266,090)	0	0
Increase (decrease) in net assets	146,812	129,080	(96,732)	(1,677)	50,080	127,403
Net assets - Beginning of Year	1,486,476	1,357,396	3,117,428	3,119,105	4,603,904	4,476,501
Net assets - End of Year	$ 1,633,288	$ 1,486,476	$ 3,020,696	$ 3,117,428	$ 4,653,984	$ 4,603,904

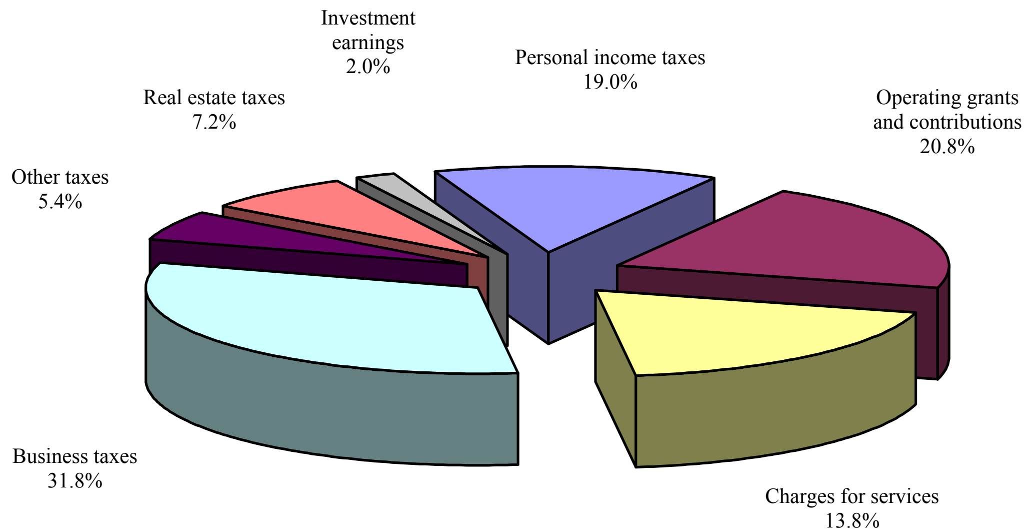
Governmental activities. Governmental activities increased the State's net assets by $146.8 million. The decrease by the business-type activities of $96.7 million is explained on the following page. A comparison of the cost of services by function for the State's governmental activities is shown in the 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 $92.6 million (4.0%) based on growth primarily in realty transfer tax of $28.6 million (12.0%) and abandoned property increases of $75.4 million (48.4%). For a second consecutive year, the realty transfer tax grew due to low mortgage rates and a continued building boom throughout the State. Growth in abandoned property was due to a large settlement ($45.0 million) and a strong enforcement program. Personal income tax decreased $12.4 million (1.8%) due to a sluggish economy, declines in capital gain income and weak wage growth.

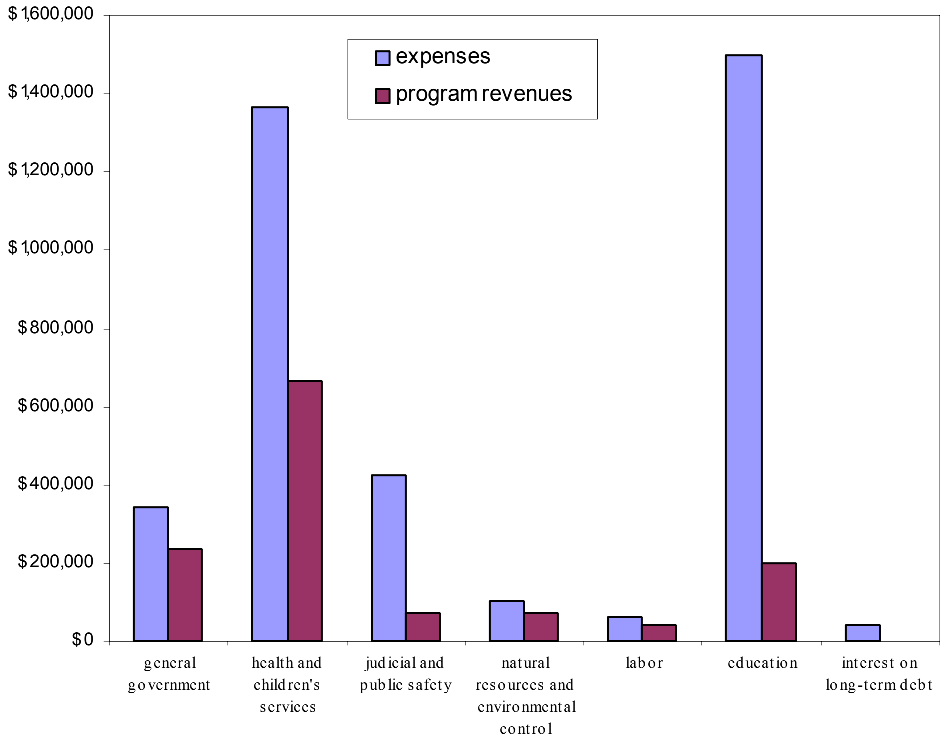
Charges for services and operating grants and contributions increased by $58.8 million (4.8%). This increase was due primarily to increases in grant revenues at the Department of Health and Social Services ($32.8 million) and the Department of Education ($9.6 million).

Expenses for governmental activities increased during fiscal year 2003 by $127.7 million (3.5%). Of this increase, $123.0 million was due to increased spending in Health and Children's Services. This increase can be attributable to escalating health care costs and an increase in the population served. Temporary Assistance for Needy Families grew by 6.5% in fiscal year 2003 over the previous year. Salaries increased statewide by $49.8 million (3.2%). Health insurance costs increased $51.4 million (16.3%). The General Government function showed a decrease in spending of $104.4 million (23.4%) due to budget cuts and a hiring freeze enacted by the Governor during the year.

Revenues by Source – Governmental Activities



Expenses and Program Revenues – Governmental Activities



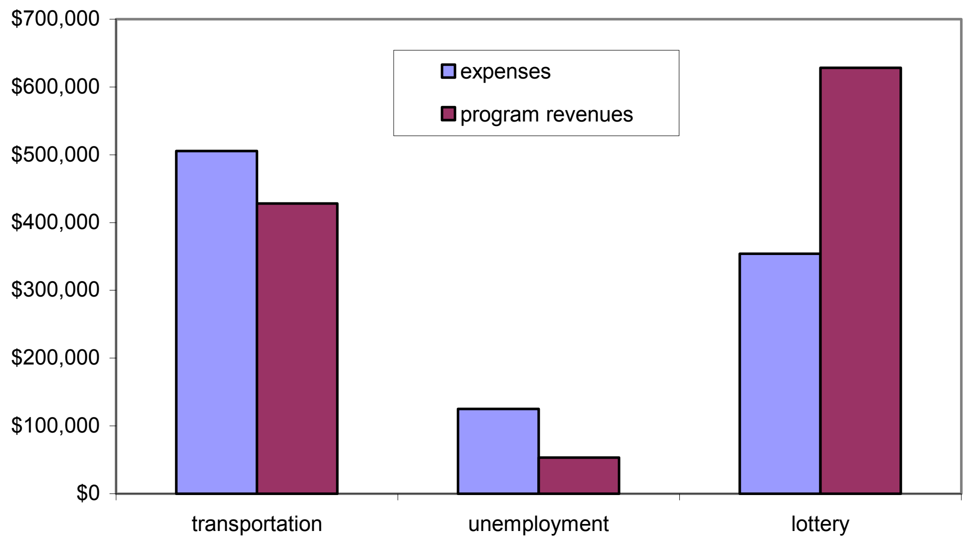
Business-type activities. Business-type activities decreased the State's net assets by $96.7 million. This resulted from a $53.8 million decrease in net assets by the Delaware Unemployment Insurance Trust Fund, a decrease in net assets of $43.3 million by the Delaware Department of Transportation and an increase of $.4 million in the Delaware State Lottery.

The decrease in net assets of the Delaware Unemployment Insurance Trust Fund can be attributed to unemployment benefits increasing by 14.0% ($15.5 million), unemployment insurance tax revenues during fiscal 2003 decreasing by 6.6% ($4.0 million), and benefits expense exceeding tax revenues by $71.7 million. Based upon a report from the U.S. Department of Labor, as of June 30, 2003, the Delaware Unemployment Trust Fund's net asset's were ranked 5th strongest in the nation. This ranking was based on the AHCM (average high cost multiple) methodology used by the U.S. Department of Labor to evaluate financial strength of states' Unemployment Trust Funds.

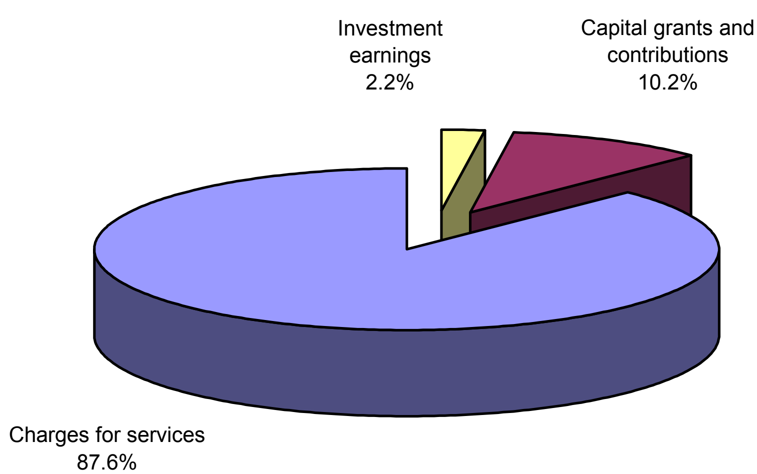
The Delaware Department of Transportation's net assets at June 30, 2003 were $43.3 million lower than June 30, 2002. The Department's total operating revenues remained fairly constant at $312.5 million and total operating expenses increased $42.5 million to $458.5 million. Contributing factors for the increase in operating expenses for fiscal year 2003 are investments in the maintenance, preservation, and repair of the Department's assets and storm-related costs.

The Delaware Lottery experienced an increase in net assets of $.4 million. Lottery revenues decreased $45.9 million, or nearly 7% from the previous year while operating expenses decreased by 12.3% from the previous year. The decline in revenues can be partly attributed to a downturn in the economy and a reduction in the number of patrons who used the State's three gaming facilities.

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



Financial Analysis of the State's Funds

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

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

As of the end of the current fiscal year, the State of Delaware's governmental funds reported combined ending fund balances of $982.5 million, an increase of $47.9 million in comparison with the prior year. Approximately one-half of the aggregate fund balances, $547.7 million constitutes unreserved fund balances. The unreserved fund balances, for the most part, are not available for new spending. These funds have been committed to various uses based on State statutes. The remainder of the fund balances are reserved to indicate that they are not available for new spending due to the following: 1) to liquidate contracts and purchase orders of the prior period ($223.3 million), 2) reserve for long-term loans ($70.4 million), 3) set aside for the budget reserve account ($136.5 million), or 4) for inventories and other assets ($4.7 million).

The general fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the general fund was $643.5 million, while total fund balance reached $949.1 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 21.9% of total general fund expenditures, while total fund balance represents 32.3% of that same amount.

Total general fund balance increased during the fiscal year by $27.4 million. Based on anticipated reductions in revenues, budget cuts were initiated and a hiring freeze was implemented early in the fiscal year. However, as of the end of fiscal 2003, general fund expenditures were below the level of appropriations and revenues exceeded budgeted amounts.

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

The State's net assets decreased in fiscal 2003 by $96.7 million as a result of operations in the proprietary funds. See page 10 for a discussion 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 diminished by $17.8 million (3.7%). Revenues were $10.7 million higher (0.4% percent) than the previous fiscal year due to an increase in collections from the realty transfer tax, cigarette taxes, bank franchise tax and increases in abandoned property collections. Expenditures were $.4 million higher than the previous fiscal year. Salaries, fringe benefits, pension costs and welfare payments were up $55.1 million (3.4%) whereas contractual services and capital outlay expenditures were down $65.9 million (20.4%).

The following summarizes the differences between the final appropriated budget (the original budget in addition to encumbrances and multi-year project budgetary carry-forwards from the prior fiscal year) and actual expenditures. As it became apparent in the early months of the fiscal year that the economy was slowing, measures were taken to reduce spending through hiring freezes and budget cuts across all agencies.

- $86.6 million in decreases in general government activities
- $64.7 million in decreases in education
- $37.8 million in decreases in Health and Children's services
- $12.5 million in decreases in the Department of Natural Resources and Environmental Control.
- $10.7 million in decreases in the Judicial and Public Safety departments.

Budgetary Special Fund are designated for specific purposes. The appropriated budgetary Special Fund is credited with tax or other revenue allocated to such fund and is charged with the related disbursements. State park operations and fees charged by the Public Service Commission are examples of specific uses of budgetary Special Funds. Federal payments, unemployment compensation and local school funds are examples of non-appropriated Special Funds.

At the end of the fiscal year, total fund balance of the appropriated budgetary Special Funds increased $6.7 million. Revenues remained unchanged from the previous year while expenditures increased $10.5 million (2.3%). The differences between the final appropriated budget (the original budget in addition to encumbrances and multi-year project budgetary carry-forwards from the prior fiscal year) and actual expenditures can be accounted for in much the same way as the General Fund.

Capital Asset and Debt Administration

Capital assets. The State of Delaware's investment in capital assets for its governmental and business-type activities, as of June 30, 2003, amounts to $5.0 billion (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, easements, roads, highways, and bridges. The total increase in capital assets for governmental activities was $248.1 million (17.8%) and an increase of $36.3 million (1.1%) for business-type activities.

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

- Completion of the New Castle County Courthouse ($129.4 million), the archives center ($15.3 million), new schools and improvements to existing schools ($76.7 million) and the purchase of various parcels of land by the Division of Parks and Recreation ($18.8 million). In addition, construction-in-progress as of June 30, 2003 was $296.8 million for governmental activities. Of this amount, approximately 59.1% is related to the building of new schools and improvements to existing schools.
- As of June 30, 2003, the Department of Transportation had invested $3,362.4 million in capital assets, including roads, bridges, buildings, land, and equipment. This amount represents a net increase (including additions and net of disposals, and depreciation) of $36.3 million over June 30, 2002. A contributing factor to the increase of the Department's capital assets is the substantial completion of SR-1. In May 2003, the Department opened the final section of this 41 mile, fully controlled access, highway extending from a connection with the southern terminus of the new SR-1 toll road south of Wilmington, to points south of Dover on U.S. Routes 13 and 113. SR-1 is the largest public works project ever undertaken in Delaware.

State of Delaware Capital Assets as of June 30
Net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Land	$ 286,424	$ 265,155	$ 11,230	$ 11,230	$ 297,654	$ 276,385
Land Improvements	23,587	23,160			23,587	23,160
Buildings	914,996	525,653	33,016	33,419	948,012	559,072
Easements	66,822	64,344			66,822	64,344
Equipment and vehicles	50,568	50,652	91,761	80,297	142,329	130,949
Infrastructure			3,226,811	3,201,814	3,226,811	3,201,814
Construction-in-progress	296,798	462,119			296,798	462,119
Total	$ 1,639,195	$ 1,391,083	$ 3,362,818	$ 3,326,760	$ 5,002,013	$ 4,717,843

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording expense related to selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include 11,057 center-line miles of roads and 1,386 bridges that the State is responsible to maintain.

The Department of Transportation performs condition assessments of eligible infrastructure assets at least every three years. Currently road condition assessments are conducted every year and bridge condition assessments are conducted, for the most part, every two years.

It is the Department of Transportation's policy to maintain at least 75 percent of its highways and bridge system at a Good or Better condition rating. No more than 10 percent of bridges and 15 percent of roads should be in substandard condition.

Of the State's 1,386 bridges that were rated in 2002, 1,011 or 72.9 percent received a Good or Better BCR rating, 19.7 percent were rated fair, and 7.4 percent received a substandard rating. Of the 8,653,408 square feet of bridge deck that was rated, 75.4 percent or 6,522,812 square feet received an OPC condition rating of Good or Better, 19.1 percent or 1,650,368 square feet received a fair rating, and 5.4 percent or 480,228 square feet received a substandard deck rating.

In 2002, when 4,175 centerline miles were rated, 76.6 percent received a Good or Better OPC rating, 13.6 percent received a fair rating, and 9.8 percent received a poor rating.

The 2003 estimate to maintain and preserve the Department of Transportation's infrastructure was $129.2 million, but the actual expenditure was $146.4 million, which is a $17.2 million increase over the estimate. The variance is predominantly attributed to change orders necessary on jobs that are were not estimated when the project was set up and budgeted.

The fiscal 2004 statewide capital budget totals $576.6 million. Of that amount, $268.9 million is allocated for non-transportation projects statewide and $307.7 million for Transportation Trust Fund projects. Major non-transportation projects that will be completed during the upcoming year include the Carvel State Office Building renovations ($14.9 million), the Stevenson House secure care facility ($15.3 million), the new Delaware State Police Troop 2 facility ($11.3 million) and the Smyrna Readiness Center ($7.6 million).

Additional information on the State's capital assets can be found in Note 1 on pages 57-58, Note 12 on page 85 and on pages 114-115 of the Required Supplementary Information.

Long-term debt. At the end of the current fiscal year, the State had total general obligation bond debt outstanding of $854.3 million, backed by the full faith and credit of the State. The Delaware Department of Transportation Trust Fund had revenue bonds outstanding of $863.1 million. The bonds do not constitute a debt of the State or a pledge of the general taxing power or the faith and credit of the State. The Delaware Economic Development Office has $.2 million of industrial development revenue bonds outstanding, which are supported by the full faith and credit of the State.

State of Delaware Outstanding Debt
General Obligation and Revenue Bonds
(Expressed in Millions)

	Governmental Activities 2003	Governmental Activities 2002	Business-type Activities 2003	Business-type Activities 2002	Total Primary Government 2003	Total Primary Government 2002
General obligation bonds	$ 854.3	$ 709.9			$ 854.3	$ 709.9
Revenue bonds	0.2	0.4	$ 863.1	$ 675.7	863.3	676.1
Total	854.5	710.3	863.1	675.7	1,717.6	1,386.0

The State of Delaware's total debt increased by $144.4 million (20.3%) during fiscal year 2003. The key factors in this increase were public and higher education facilities, prison construction, State offices and other facilities. The State has undertaken a series of bond refundings, which have lowered the overall debt service on outstanding State general obligation debt. The State refunded $132.7 million of its general obligation bonds in August 2002 and refunded another $34.5 million in April 2003 for a combined cash flow savings of $8.7 million.

Transportation Systems Revenue Bonds are issued with the approval of the State's General Assembly, and the State's Bond Issuing Officers (the Governor, the Secretary of Finance, the Secretary of State, and the State Treasurer) to finance improvements to the State's transportation systems. Approval by the General Assembly of the State is not required for the Transportation Fund to issue bonds to refund any of its bonds provided a present value debt service savings is achieved in such refunding. The sale must comply with the rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission.

At June 30, 2003, the Transportation Fund's debt increased by $187.4 million (27.7%). During the past year, $88.4 million of new money bonds were issued in August 2002 and $85.3 million of bonds were refunded. In April 2003, $140.5 million on new money bonds were issued and $136.7 million of bonds were refunded. The bonds were insured and are rated AAA by Standard & Poor's and Aaa by Moody's. Of the 11 outstanding bond issues, three have an AA rating from Standard & Poor's and an A1 rating from Moody's. The remaining eight issues are rated AAA by S&P and Aaa by Moody's.

There is no State Constitutional debt limit; however, in 1991, the State enacted legislation to replace the previous statutory debt limits with a three-part debt limit, one of which restricts new debt authorization to 5% of budgetary General Fund revenue as projected on June 30 for the next fiscal year. Should revenue collections increase during the fiscal year, no additional authorizations are made. For further information concerning the State's debt limits, see page 127 of the Statistical Section.

Additional information on the State of Delaware's long-term debt can be found in Note 5 on pages 69-72 of this report.

Economic Factors and Next Year's Budgets and Rates

Fiscal year 2003's GDP was reduced from 2.8% growth forecasted in March 2003 to an estimated growth rate of 2.6% according to Global Insights. At 3.3% growth, the real GDP forecast for fiscal year 2004 reflects the economy's recent recovery. As of June 2003, the Department of Finance estimated that employment in Delaware had declined by 0.4% during fiscal year 2003. The most dramatic job losses occurred in the manufacturing sector.

A revenue enhancement package was passed at the conclusion of the 2003 Legislative session. House Bills 267 and 268 increased various corporate taxes and fees. House Bill 269 increased the State's share of video lottery proceeds, extends the video lottery operating hours and allows for additional video lottery machines at each licensed racetrack. House Bill 270 increased the cigarette tax from 24 to 55 cents per pack. The revenue package is expected to generate approximately $143.0 million in new revenues.

The fiscal year 2004 operating and capital budgets meet budgetary spending limitations imposed by law. Although the budget reflects higher growth rates in revenues, the rate of growth in operating programs is expected to decline. Capital budget appropriations closed the gap, increasing from $19.3 million in fiscal year 2003 to over $142 million in fiscal year 2004.

Requests for Information

This financial report is designed to provide a general overview of the State of Delaware's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Accounting, 540 South DuPont Highway, Thomas Collins Building, Suite 3, Dover, Delaware 19901. Our CAFR can also be found on the "Department of Finance/Division of Accounting Home Page" at our Internet address: http://www.state.de.us/account.

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, the Townsend Building, Suite #1, 401 Federal Street, Dover, DE 19901.

State of Delaware

Basic Financial Statements

State of Delaware

Basic Financial Statements

STATE OF DELAWARE
STATEMENT OF NET ASSETS
JUNE 30, 2003
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 505,117	$ 282,345	$ 787,462	$ 22,220
Cash and cash equivalents - restricted		1,073	1,073	
Investments	100,753	292,938	393,691	2,889
Investments - restricted				52,053
Accounts and other receivables, net	219,925	44,817	264,742	97,716
Internal balances	1,371	(1,371)		
Inventories	4,707	7,884	12,591	537
Prepaid items and deferred charges	4,294	425	4,719	3,685
Loans and notes receivable, net	270		270	
Other current assets	6,603	486	7,089	1,152
Total current assets	843,040	628,597	1,471,637	180,252
Noncurrent Assets:				
Cash and cash equivalents - restricted				319
Long-term investments	644,298	65,759	710,057	91,758
Long-term investments-restricted		12,325	12,325	13,077
Accrued interest receivable				2,279
Loans and notes receivable, net	70,396	27,500	97,896	386,807
Capital assets, net	1,639,195	3,362,818	5,002,013	387,649
Deferred bond issuance costs				5,435
Other noncurrent assets		1,795	1,795	5,585
Total noncurrent assets	2,353,889	3,470,197	5,824,086	892,909
Total assets	3,196,929	4,098,794	7,295,723	1,073,161
LIABILITIES				
Current liabilities:				
Accounts payable	303,727	69,526	373,253	13,615
Accrued liabilities	5,663	33,682	39,345	9,802
Interest payable	14,647	17,938	32,585	
Notes payable				5,699
Deferred revenues		6,042	6,042	490
Capital leases				28
Escheat liabilities	24,700		24,700	
Compensated absences		3,613	3,613	16
Claims and judgements	49,154	2,117	51,271	
Escrow deposits		1,061	1,061	207
Current portion of general obligation long-term debt	94,312	47,640	141,952	10,672
Revenue bonds				12,290
Current portion of other long-term obligations	421		421	
Other current liabilities		10,553	10,553	
Total current liabilities	492,624	192,172	684,796	52,819
Noncurrent liabilities:				
Claims and judgements	64,304	14,481	78,785	
Pension obligation	80,577		80,577	
Compensated absences	112,534	7,991	120,525	990
Escheat liabilites	28,000		28,000	
Escrow deposits				30,364
Liabilities payable from restricted assets		12,325	12,325	
General obligation long-term debt	759,950	815,505	1,575,455	462,908
Other long-term obligations	22,484		22,484	
Other noncurrent liabilities	3,168	35,624	38,792	922
Total noncurrent liabilities	1,071,017	885,926	1,956,943	495,184
Total liabilities	1,563,641	1,078,098	2,641,739	548,003
Net Assets				
Invested in capital assets, net of related debt	762,239	2,464,049	3,226,288	277,811
Restricted	136,460	256,792	393,252	210,398
Unrestricted	734,589	299,855	1,034,444	36,949
Total Net Assets	$ 1,633,288	$ 3,020,696	$ 4,653,984	$ 525,158

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

		Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			
					Primary Government			
Function	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**	**Component Units**
Primary government:								
Governmental activities:								
General Government	$ 341,054	$ 166,077	$ 69,386		$ (105,591)		$ (105,591)	
Health and Children's Services	1,363,289	142,245	523,675		(697,369)		(697,369)	
Judicial and Public Safety	422,921	49,809	21,098		(352,014)		(352,014)	
Natural Resources and Environmental Control	100,171	53,009	18,429		(28,733)		(28,733)	
Labor	59,521	4,726	34,364		(20,431)		(20,431)	
Education	1,422,820	96,179	105,518		(1,221,123)		(1,221,123)	
Payment to Component Unit -								
General Government	10,107				(10,107)		(10,107)	
Education	64,670				(64,670)		(64,670)	
Interest	42,000				(42,000)		(42,000)	
Total governmental activities	3,826,553	512,045	772,470		(2,542,038)		(2,542,038)	
Business-type activities:								
Lottery	353,840	628,064				$ 274,224	274,224	
Transportation	504,463	312,463		115,502		(76,498)	(76,498)	
Payment to Component Unit	946					(946)	(946)	
Unemployment	125,270	53,525				(71,745)	(71,745)	
Total business-type activities	984,519	994,052		115,502		125,035	125,035	
Total primary government	$ 4,811,072	$ 1,506,097	$ 772,470	$ 115,502				
Component units:								
Delaware State Housing Authority	$ 81,575	$ 31,411	$ 41,424	$ 923				$ (7,817)
Diamond State Port Corporation	29,000	26,829		190				(1,981)
Riverfront Development Corporation	8,467	2,922	1,878					(3,667)
Delaware State University	63,689	19,776	12,707	633				(30,573)
Delaware Charter Schools	37,677	365	870	796				(35,646)
Total component units	$ 220,408	$ 81,303	$ 56,879	$ 2,542				(79,684)
General Revenues								
Taxes:								
Personal income					706,277		706,277	
Business					1,180,281		1,180,281	
Other					201,115		201,115	
Real estate					267,177		267,177	
Payments from primary government								75,723
Investment earnings					73,911	25,073	98,984	9,659
Gain (Loss) on sale of assets					13,536	(287)	13,249	(140)
Miscellaneous								205
Transfers					246,553	(246,553)		
Total General Revenues and Transfers					2,688,850	(221,767)	2,467,083	85,447
Change in Net Assets					146,812	(96,732)	50,080	5,763
Net Assets - Beginning of Year					1,486,476	3,117,428	4,603,904	519,395
Net Assets - End of Year					$ 1,633,288	$ 3,020,696	$ 4,653,984	$ 525,158

See Accompanying Notes to the Financial Statements

Basic Financial Statements

State of Delaware

Governmental Fund Financial Statements

STATE OF DELAWARE
COMBINED BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 496,955	$ 351	$ 7,811		$ 505,117
Investments	604,586		140,465		745,051
Accounts receivable, net	45,688	4,127	27		49,842
Taxes receivable, net	86,023		16,198		102,221
Intergovernmental receivables, net		67,862			67,862
Due from other funds	83,402				83,402
Inventories	4,676	8	23		4,707
Loans and notes receivable	64,587	6,079			70,666
Other assets	6,603				6,603
Total assets	$ 1,392,520	$ 78,427	$ 164,524		$ 1,635,471
LIABILITIES AND FUND BALANCES (DEFICITS)					
Liabilities:					
Accounts payable	$ 205,495	$ 48,480	$ 37,896	$ 11,857	$ 303,728
Accrued liabilities	5,663				5,663
Claims and judgements	49,154				49,154
Escheat liability	24,700				24,700
Due to other funds		32,249		49,782	82,031
Other obligations	391				391
Deferred revenues	158,064	14,204	15,035		187,303
Total liabilities	443,467	94,933	52,931	61,639	652,970
Fund balances (deficits):					
Reserved for:					
Encumbrances	100,118	25,306	10,125	87,706	223,255
Inventories	4,676	8	23		4,707
Long-term portion of loans and notes receivable	64,338	6,058			70,396
Budget reserve	136,460				136,460
Unreserved	643,461	(47,878)	101,445	(149,345)	547,683
Total fund balances (deficits)	949,053	(16,506)	111,593	(61,639)	982,501
Total liabilities and fund balances (deficits)	$ 1,392,520	$ 78,427	$ 164,524	$ 0	$ 1,635,471

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
(Expressed in Thousands)

Total Fund Balances - Governmental Funds		$ 982,501
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	$ 286,424	
Land improvements	23,587	
Buildings	914,996	
Easements	66,822	
Equipment	50,568	
Construction in progress	296,798	
		1,639,195
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.		187,303
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	$ (14,647)	
Claims and judgments (long-term)	(64,303)	
Compensated absences	(112,534)	
Pension obligation	(80,577)	
Long-term debt and other obligations	(857,460)	
Unamortized premiums	(22,484)	
Unamortized deferred charges	4,294	
Escheat liability	$ (28,000)	(1,175,711)
Net assets of governmental activities		$ 1,633,288

See Accompanying Notes to the Financial Statements

STATE OF DELWARE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
REVENUES					
Personal taxes	$ 711,263				$ 711,263
Business taxes	1,181,667				1,181,667
Other tax revenue	201,063		$ 258,673		459,736
Licenses, fees, permits and fines	241,370	$ 14	279		241,663
Rentals and sales	20,621	9	22,831		43,461
Federal government	61,966	711,787	1,972		775,725
Interest & other investment income	65,205	20	8,685	$ 1	73,911
Other	216,068	2,318	41,884		260,270
TOTAL REVENUES	2,699,223	714,148	334,324	1	3,747,696
EXPENDITURES					
Current:					
General government	398,653	14,443			413,096
Health and children's services	839,173	533,532			1,372,705
Judicial and public safety	395,086	14,998			410,084
Natural resources and environmental control	97,951	18,448			116,399
Labor	25,568	33,932			59,500
Education	1,003,769	114,783	314,385		1,432,937
Payment to component unit -					
General government	5,947			4,160	10,107
Education	53,633	2,261	8,776		64,670
Capital outlay				189,713	189,713
Debt service:					
Principal	84,079				84,079
Interest and other charges	33,676				33,676
TOTAL EXPENDITURES	2,937,535	732,397	323,161	193,873	4,186,966
REVENUES OVER (UNDER) EXPENDITURES	(238,312)	(18,249)	11,163	(193,872)	(439,270)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Transfers in	474,634		2,663		477,297
Transfers out	(31,180)		(21,836)	(177,728)	(230,744)
Proceeds from general obligation bonds				395,455	395,455
Premiums on bond sales				23,864	23,864
Costs of issuance -					
Expenditures of bond sale				(981)	(981)
Payment to bond refunding agent	(177,728)				(177,728)
TOTAL OTHER SOURCES (USES) OF FINANCIAL RESOURCES	265,726		(19,173)	240,610	487,163
Net change in fund balances	27,414	(18,249)	(8,010)	46,738	47,893
Fund balances (deficits) - beginning	921,639	1,743	119,603	(108,377)	934,608
Fund balances (deficits) - ending	$ 949,053	$ (16,506)	$ 111,593	$ (61,639)	$ 982,501

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
Reconciliation of the Net Changes in Fund Balances - Total Governmental Funds to Change in Net Assets of Governmental Activities
(Expressed in Thousands)

Net Changes in Fund Balances	$	47,893
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. This is the amount by which capital outlays exceeded depreciation in the current period.		248,112
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		30,168
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. This is the amount by which proceeds exceeded repayments.		(162,295)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, the changes in these liabilities are not reported as expenditures in the governmental funds:		
Accrued interest expense		(2,560)
Claims and judgements		(5,097)
Compensated absences		2,400
Pension obligation		(8,821)
Physician loan and scholarships		(2,988)
Change in Net Assets of Governmental Activities	$	146,812

See Accompanying Notes to the Financial Statements

Governmental Fund Financial Statements

State of Delaware

Proprietary Fund Financial Statements

STATE OF DELAWARE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	Business-Type Activities - Enterprise Funds			
	Unemployment	**Lottery**	**DELDOT**	**Total**
Asset				
Current Assets:				
Cash and cash equivalents	$ 266,023	$ 4,613	$ 11,709	$ 282,345
Cash and cash equivalents - Restricted			1,073	1,073
Investments		2,616	290,322	292,938
Accounts receivable, net	7,249	13,638	4,133	25,020
Taxes receivable, net	14,161			14,161
Intergovernmental receivables, net			4,435	4,435
Interest and investment revenue receivable			1,201	1,201
Inventories			7,884	7,884
Prepaid items		425		425
Due from other governments	486			486
Total current assets	287,919	21,292	320,757	629,968
Noncurrent Assets:				
Long-term investments			65,759	65,759
Long-term investments-restricted		12,325		12,325
Loans and notes receivable			27,500	27,500
Other assets		1,795		1,795
Capital assets, net		385	3,362,433	3,362,818
Total noncurrent assets		14,505	3,455,692	3,470,197
Total Assets	287,919	35,797	3,776,449	4,100,165
Liabilities				
Current Liabilities				
Accounts payable		11,873	57,653	69,526
Accrued liabilities	29,913		3,769	33,682
Interest payable			17,938	17,938
Deferred revenue			6,042	6,042
Compensated absences			3,613	3,613
Claims and judgements			2,117	2,117
Prizes liability		9,327		9,327
Escrow deposits			1,061	1,061
Current portion of long-term debt			47,640	47,640
Tax refunds payable	1,226			1,226
Due to other funds		1,371		1,371
Total Current Liabilities	31,139	22,571	139,833	193,543
Noncurrent Liabilities				
Compensated absences			7,991	7,991
Claims and judgments			14,481	14,481
Liabilities payable from restricted assets		12,325		12,325
Long-term debt			815,505	815,505
Bonds issue premium, net			35,624	35,624
Total Noncurrent Liabilities	0	12,325	873,601	885,926
Total Liabilities	31,139	34,896	1,013,434	1,079,469
Net Assets				
Invested in Capital Assets, net of related debt		385	2,463,664	2,464,049
Restricted for:				
Unemployment Benefits	256,780			256,780
Other			12	12
Unrestricted		516	299,339	299,855
Total Net Assets	$ 256,780	$ 901	$ 2,763,015	$ 3,020,696

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in thousands)

	Business-Type Activities - Enterprise Funds			
	Unemployment	**Lottery**	**DELDOT**	**Total**
Operating Revenues				
Unemployment taxes	$ 53,525			$ 53,525
Gaming revenue		$ 628,064		628,064
Turnpike			$ 88,079	88,079
Motor fuel tax			107,268	107,268
Motor vehicle document fee			57,704	57,704
Motor vehicle registration fee			27,832	27,832
Other motor vehicle			14,142	14,142
International Fuel Tax Agreement			3,135	3,135
Federal highway reimbursements			376	376
Property management			473	473
Passenger fares			8,714	8,714
Advertising			271	271
Auxiliary transportation			416	416
Miscellaneous			4,053	4,053
Total Operating Revenues	53,525	628,064	312,463	994,052
Operating Expenses				
Unemployment benefits	125,270			125,270
Cost of sales		294,719		294,719
Prizes and claims/ judgements		52,745	5,147	57,892
Transportation			417,193	417,193
Depreciation		181	16,412	16,593
General and administrative		6,195	18,829	25,024
Payment to component unit			946	946
Total Operating Expenses	125,270	353,840	458,527	937,637
Operating Income (Loss)	(71,745)	274,224	(146,064)	56,415
Nonoperating Revenues (Expenses)				
Interest and investment revenue	17,916		7,157	25,073
Capital grants			115,502	115,502
Interest expense			(46,882)	(46,882)
Loss on disposal of assets			(287)	(287)
Total Nonoperating Revenues (Expenses)	17,916		75,490	93,406
Income (Loss) Before Transfers	(53,829)	274,224	(70,574)	149,821
Transfers In			28,517	28,517
Transfers Out		(273,823)	(1,247)	(275,070)
Change in Net Assets	(53,829)	401	(43,304)	(96,732)
Total Net Assets - Beginning	310,609	500	2,806,319	3,117,428
Total Net Assets - Ending	$ 256,780	$ 901	$ 2,763,015	$ 3,020,696

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in thousands)

	Business-Type Activities-Enterprise Funds			
	Unemployment	**Lottery**	**DELDOT**	**Total**
Cash Flows from Operating Activities				
Receipts from employers	$ 51,928			$ 51,928
Payments for insurance claims	(123,270)		$ (2,710)	(125,980)
Receipts from customers and users		$ 627,293		627,293
Other operating receipts			315,058	315,058
Payments to suppliers for goods and services		(38,227)	(405,061)	(443,288)
Payments to employees for services		(1,453)		(1,453)
Payments for prizes		(51,565)		(51,565)
Payment for commissions		(260,955)		(260,955)
Other receipts			2,524	2,524
Net Cash Provided (Used) by Operating Activities	(71,342)	275,093	(90,189)	113,562
Cash Flows from Noncapital Financing Activities				
Federal grants and other contributions			3,883	3,883
Transfers in			28,517	28,517
Transfers out		(275,189)	(1,247)	(276,436)
Net Cash Provided (Used) by Noncapital Financing Activities		(275,189)	31,153	(244,036)
Cash Flows from Capital and Related Financing Activities				
Proceeds from capital debt			259,402	259,402
Capital grants			116,560	116,560
Purchases of capital assets			(53,463)	(53,463)
Principal paid on capital debt			(41,490)	(41,490)
Interest paid on capital debt			(45,007)	(45,007)
Other receipts			427	427
Net Cash Provided by Capital and Related Financing Activities			236,429	236,429
Cash Flows from Investing Activities				
Interest and investment revenues	17,916		5,537	23,453
Purchase of Investments			(190,016)	(190,016)
Proceeds from sales and maturities of investments		2,730	7,577	10,307
Net Cash Provided (Used) by Investing Activities	17,916	2,730	(176,902)	(156,256)
Net Increases (Decrease) in Cash/Cash Equivalents	(53,426)	2,634	491	(50,301)
Cash/Cash Equivalents - Beginning of Year	319,449	1,979	12,291	333,719
Cash/Cash Equivalents - End of Year	$ 266,023	$ 4,613	$ 12,782	$ 283,418
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	$ (71,745)	$ 274,224	$ (146,064)	$ 56,415
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation expense		181	16,412	16,593
Loss on Disposal of Equipment		98		98
Decrease (increase) in assets:				
Decrease (increase) in receivables, net	(2,317)	(771)	(890)	(3,978)
Decrease (increase) in inventories			815	815
Decrease (increase) in prepaid items		(159)	556	397
Increase (decrease) in liabilities				
Increase (decrease) in accounts and other payables	1,927	388	28,150	30,465
Increase (decrease) in accrued liabilities	499	(56)	4,762	5,205
Increase (decrease) in accrued expenses		1,188	4,966	6,154
Increase (decrease) in accrued payroll and related expenses			1,104	1,104
Increase (decrease) in due to/from other governments	294			294
Net Cash Provided (Used) by Operating Activities	$ (71,342)	$ 275,093	$ (90,189)	$ 113,562

See Accompanying Notes to the Financial Statements

State of Delaware

Fiduciary Fund Financial Statements

STATE OF DELAWARE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003
(Expressed in thousands)

	Pension Trust Funds	Investment Trust Funds	Agency Funds
Assets			
Cash and cash equivalents	$ 473		$ 25,893
Receivables:			
Employer contributions	3,395		
Member contributions	1,826		
Other receivables			20,383
Investments, at fair value:			
Domestic fixed income	929,212	$ 2,023	
Domestic equities	1,192,615	2,596	
Pooled equity & fixed income	1,704,971	3,711	
Managed futures	103,238	224	
Private investments	455,375	991	
Short term investments	122,940	250	8,847
Foreign equities	361,706	787	
Total Assets	4,875,751	10,582	55,123
Liabilities			
Accounts payable	4,630		55,123
Benefits payable	734		
Accrued expenses	253		
Total Liabilities	5,617		$ 55,123
Net Assets			
Assets held in trust for pension benefits and pool participants	$ 4,870,134	$ 10,582	

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in thousands)

	Pension Trust Funds	Investment Trust Funds
Additions		
Contributions:		
Employer contributions	$ 89,140	
Transfer of assets from outside the system	2,829	$ 783
Member contributions	40,280	
Other	10	
Total contributions	132,259	783
Investments:		
Investment earnings	121,382	264
Net increase in fair value of investments	41,586	153
Total investment earnings	162,968	417
Less investment manager/advisor/custody fees	(13,524)	(30)
Less investment administrative expenses	(223)	
Net investment earnings	149,221	387
Total additions	281,480	1,170
Deductions		
Transfer of assets outside the system	7,399	
Pension payments	239,859	
Refunds of contributions to members	2,973	
Group life payments	4,172	
Administrative expenses	5,227	
Total Deductions	259,630	
Change in Net Assets	21,850	1,170
Net Assets - Beginning of Year	4,848,284	9,412
Net Assets - End of Year	$ 4,870,134	$ 10,582

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2003
(Expressed in Thousands)

	State Employees' Pension Plan	Special Pensions Plan	New State Police Plan	Judiciary Pension Plan	Volunteer Firemen's Pension Plan
Assets:					
Cash	$ 439		$ 2	$ 6	$ 4
Receivables:					
Employer Contributions	2,219		124	48	
Member Contributions	1,629		89	8	
Total Receivables	3,848		213	56	
Investments at Fair Value:					
Domestic Fixed Income	887,579	$ 169	20,665	5,347	1,673
Domestic Equities	1,139,181	217	26,523	6,862	2,147
Pooled Equity and Fixed Income	1,628,580	311	37,918	9,810	3,069
Managed Futures	98,612	19	2,296	594	186
Private Investments	434,972	83	10,127	2,620	820
Short Term and Money Markets	111,723	28	2,829	657	197
Foreign Equities	345,500	66	8,044	2,082	651
Total Investments	4,646,147	893	108,402	27,972	8,743
Total Assets	$ 4,650,434	$ 893	$ 108,617	$ 28,034	$ 8,747
Liabilities					
Transfer of assets outside the system					
Benefits payable	$ 685		$ 3		$ 2
Accrued administrative expenses	241		3	$ 1	
Total Liabilites	926		6	1	2
Assets Held in Trust for Pension Benefits	**$** 4,649,508	**$** 893	**$** 108,611	**$** 28,033	**$** 8,745

See Accompanying Notes to the Financial Statements

Diamond State Port Corporation Fund	County and Municipal Police and Firemen's Plan	County and Municipal Police and Firemen's Cola Fund	County and Municipal Other Plans	DPERS Post Retirement Increase Fund	SEPP Post Retirement Health Care Premium Fund	Closed State Police Plan	Totals
$ 1	$ 7		$ 2	$ 6		$ 6	$ 473
25	148		14	802	$ 15		3,395
13	74		11			2	1,826
38	222		25	802	15	2	5,221
1,233	6,951	$ 962	612	1,494	2,527		929,212
1,582	8,922	1,234	786	1,917	3,244		1,192,615
2,262	12,755	1,765	1,124	2,740	4,637		1,704,971
137	772	107	68	166	281		103,238
604	3,407	471	300	732	1,239		455,375
175	1,405	2,344	90	427	696	2,369	122,940
480	2,706	374	238	581	984		361,706
6,473	36,918	7,257	3,218	8,057	13,608	2,369	4,870,057
$ 6,512	$ 37,147	$ 7,257	$ 3,245	$ 8,865	$ 13,623	$ 2,377	$ 4,875,751
		$ 895			$ 3,735		$ 4,630
	$ 42		$ 2				734
$ 1	3		1			$ 3	253
1	45	895	3		3,735	3	5,617
$ 6,511	**$** 37,102	**$** 6,362	**$** 3,242	**$** 8,865	**$** 9,888	**$** 2,374	**$** 4,870,134

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	State Employees' Pension Plan	Special Pensions Plan	New State Police Plan	Judiciary Pension Plan	Volunteer Firemen's Pension Plan
Additions					
Contributions:					
Employer Contributions	$ 40,175		$ 2,786	$ 1,342	$ 667
Transfer of Assets from Outside the System					
Member Contributions	35,130		2,337	563	210
Other			10		
Total Contributions:	75,305		5,133	1,905	877
Investments:					
Investment Income	115,884	$ 22	2,698	698	218
Net increase (decrease) in fair value	39,077	18	1,278	302	102
Total Investment Income:	154,961	40	3,976	1,000	320
Less Investment Manager/Advisor/Custody Fees	(12,918)	(3)	(301)	(77)	(24)
Less Investment Administrative Expenses	(213)		(5)	(1)	(1)
Net Investment Income:	141,830	37	3,670	922	295
Total Additions	217,135	37	8,803	2,827	1,172
Deductions:					
Transfer of Assets Outside the System		750			
Pension Payments	217,126	121	689	1,971	1,057
Refunds of Contributions to Members	2,653		102		48
Group Life Payments	4,060	35			
Administrative expenses	5,227				
Allocation of Administrative expenses	(273)	3	62	10	18
Total Deductions	228,793	909	853	1,981	1,123
Change in Net Assets	(11,658)	(872)	7,950	846	49
Net Assets Held in Trust for Pension Benefits					
Balance - Beginning of Year	4,635,288	1,765	100,631	26,943	8,696
Balance - End of Year	$ 4,623,630	$ 893	$ 108,581	$ 27,789	$ 8,745

See Accompanying Notes to the Financial Statements

Diamond State Port Corporation Fund	County and Municipal Police and Firemen's Plan	County and Municipal Police and Firemen's Cola Fund	County and Municipal Other Plans	DPERS Post Retirement Increase Fund	SEPP Post Retirement Health Care Premium Fund	Closed State Police Plan	Totals
$ 333	$ 2,931		$ 248	$ 18,124	$ 4,689	$ 17,845	$ 89,140
		$ 2,072				757	-
170	1,546		259			65	40,280
							10
503	4,477	2,072	507	18,124	4,689	18,667	129,430
161	908	125	80	195	330	63	121,382
73	567	65	48	(290)	346		41,586
234	1,475	190	128	(95)	676	63	162,968
(18)	(101)	(14)	(9)	(22)	(37)		(13,524)
	(2)				(1)		(223)
216	1,372	176	119	(117)	638	63	149,221
719	5,849	2,248	626	18,007	5,327	18,730	278,651
		2,914			3,735		7,399
170	244		52			18,429	239,859
24	105		41				2,973
						77	4,172
							5,227
28	67		26			59	
222	416	2,914	119	-	3,735	18,565	259,630
497	5,433	(666)	507	18,007	1,592	165	19,021
6,014	31,669	7,028	2,735	17,010	8,296	2,209	4,848,284
$ 6,511	$ 37,102	$ 6,362	$ 3,242	$ 35,017	$ 9,888	$ 2,374	$ 4,867,305

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

Child Support Collection:	Balance July 1, 2002	Additions	Deductions	Balance July 1, 2003
Assets				
Cash and cash equivalents	$ 5,349	$ 263,220	$ 266,686	$ 1,883
Investments	1,961	2,017	2,980	998
Receivables, net	2,822	48,840	51,597	65
Total Assets	$ 10,132	$ 314,077	$ 321,263	$ 2,946
Liabilities				
Accounts payable	$ 10,132	$ 314,077	$ 321,263	$ 2,946
Total Liabilities	$ 10,132	$ 314,077	$ 321,263	$ 2,946

Court Fines and Restitution:	Balance July 1, 2002	Additions	Deductions	Balance July 1, 2003
Assets				
Cash and cash equivalents	$ 8,021	$ 21,025	$ 15,169	$ 13,877
Investments	582	5,120	5,104	598
Receivables, net	15,527	4,250	4,004	15,773
Total Assets	$ 24,130	$ 30,395	$ 24,277	$ 30,248
Liabilities				
Accounts payable	$ 24,130	$ 30,395	$ 24,277	$ 30,248
Total Liabilities	$ 24,130	$ 30,395	$ 24,277	$ 30,248

All Other Agency Funds	Balance July 1, 2002	Additions	Deductions	Balance July 1, 2003
Assets				
Cash and cash equivalents	$ 7,524	$ 22,572	$ 19,963	$ 10,133
Investments	12,830	32,075	37,654	7,251
Receivables, net	3,286	7,493	6,234	4,545
Total Assets	$ 23,640	$ 62,140	$ 63,851	$ 21,929
Liabilities				
Accounts p+B23ayable	$ 23,640	$ 62,140	$ 63,851	$ 21,929
Total Liabilities	$ 23,640	$ 62,140	$ 63,851	$ 21,929

Totals - All Agency Funds	Balance July 1, 2002	Additions	Deductions	Balance July 1, 2003
Assets				
Cash and cash equivalents	$ 20,894	$ 306,817	$ 301,818	$ 25,893
Investments	15,373	39,212	45,738	8,847
Receivables, net	21,635	60,583	61,835	20,383
Total Assets	$ 57,902	$ 406,612	$ 409,391	$ 55,123
Liabilities				
Accounts payable	$ 57,902	$ 406,612	$ 409,391	$ 55,123
Total Liabilities	$ 57,902	$ 406,612	$ 409,391	$ 55,123

See Accompanying Notes to the Financial Statements

State of Delaware

Component Unit Financial Statements

Component Unit Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF NET ASSETS
MAJOR COMPONENT UNITS
JUNE 30, 2003
(Expressed in Thousands)

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	Delaware Charter Schools	All Component Units Total
ASSETS						
Current Assets:						
Cash and cash equivalents	$ 1,147	$ 1,182	$ 94	$ 11,555	$ 8,242	$ 22,220
Investments - restricted	52,053					52,053
Investments		2,889				2,889
Accounts and other receivables, net	80,004	2,965	175	13,098	1,474	97,716
Inventories		510	27			537
Deferred bond issuance costs	443					443
Prepaid items	2,506	672	63		1	3,242
Other current assets				1,091	61	1,152
Total current assets	136,153	8,218	359	25,744	9,778	180,252
Noncurrent Assets:						
Cash and cash equivalents - restricted		222	97			319
Long-term investments	91,757			1		91,758
Accrued i+A1nterest receivable	2,279					2,279
Long-term investments - restricted				13,077		13,077
Loans and notes receivable, net	384,853		1,444	510		386,807
Capital assets, net	21,323	153,328	64,006	120,845	28,147	387,649
Deferred bond issuance costs	5,193			242		5,435
Other noncurrent assets			4,765	198	622	5,585
Total noncurrent assets	505,405	153,550	70,312	134,873	28,769	892,909
Total assets	641,558	161,768	70,671	160,617	38,547	1,073,161
LIABILITIES						
Current liabilities:						
Accounts payable	4,085	1,237	908	4,417	2,968	13,615
Accrued liabilities	226	1,493	312	4,561	3,210	9,802
Deferred revenue	181	142	73		94	490
Capital leases		28				28
Compensated absences	16					16
Escrow deposits			207			207
Current portion of long-term debt			9,076	160	1,436	10,672
Notes payable	216	4,416	1,000	67		5,699
Revenue bonds	11,240		180	870		12,290
Total current liabilities	15,964	7,316	11,756	10,075	7,708	52,819
Noncurrent liabilities:						
Compensated absences	768				222	990
Escrow deposits	30,364					30,364
Notes payable	1,851	51,285		533		53,669
Revenue bonds	368,365		5,185	12,202		385,752
Long -term debt			2,163	231	21,093	23,487
Other noncurrent liabilities	858	64				922
Total noncurrent liabilities	402,206	51,349	7,348	12,966	21,315	495,184
Total liabilities	418,170	58,665	19,104	23,041	29,023	548,003
NET ASSETS						
Invested in capital assets, net of related debt	20,968	100,645	43,561	106,180	6,457	277,811
Restricted	183,654	1		26,390	353	210,398
Unrestricted	18,766	2,457	8,006	5,006	2,714	36,949
Total net assets	$ 223,388	$ 103,103	$ 51,567	$ 137,576	$ 9,524	$ 525,158

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF ACTIVITIES
MAJOR COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component Units:				
Delaware State Housing Authority	$ 81,575	$ 31,411	$ 41,424	$ 923
Diamond State Port Corporation	29,000	26,829		190
Riverfront Development Corporation	8,467	2,922	1,878	
Delaware State University	63,689	19,776	12,707	633
Delaware Charter Schools	37,677	365	870	796
Total component units	$ 220,408	$ 81,303	$ 56,879	$ 2,542

General Revenues
- 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

Net Assets - End of Year

See Accompanying Notes to the Financial Statements

	Net (Expense) Revenue and Changes in Net Assets					
	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	Delaware Charter Schools	Totals
	$ (7,817)					$ (7,817)
		$ (1,981)				(1,981)
			$ (3,667)			(3,667)
				$ (30,573)		(30,573)
					$ (35,646)	(35,646)
						(79,684)
	3,406		3,467	32,792	36,058	75,723
	8,668	357	(78)	498	214	9,659
			(140)			(140)
					205	205
	12,074	357	3,249	33,290	36,477	85,447
	4,257	(1,624)	(418)	2,717	831	5,763
	219,131	104,727	51,985	134,859	8,693	519,395
	$ 223,388	$ 103,103	$ 51,567	$ 137,576	$ 9,524	$ 525,158

See Accompanying Notes to the Financial Statements

Component Unit Financial Statements

State of Delaware

Notes to the Financial Statements

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 agencies, bureaus, boards, commissions, and authorities that make up the State's legal entity. The State's nineteen 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. The State's reporting entity is also comprised of its component units, entities for which the State is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the State's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the State.

Financial accountability is defined in GASB Statement No.14, "The Financial Reporting Entity." 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 pension trust funds. The DPERS is audited by other auditors and their report dated August 15, 2003 is publicly available. The financial report of DPERS for the year ended June 30, 2003 may be obtained by writing to the State Board of Pension Trustees and Office of the Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

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 units column of the basic financial statements includes the financial data of these entities. Each discretely presented component unit has a June 30 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 Authority administers the role of affordable housing as a key aspect of State policy. The Authority's relationship with the State is such that exclusion of the Authority from the State's basic financial statements would cause the statements to be misleading or incomplete. The Authority 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. The Authority was audited by other independent auditors, and their report dated October 16, 2003 has been issued under separate cover.

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 six of the nine 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 general purpose financial statements would cause the statements to be misleading or incomplete. The Corporation was audited by other independent auditors and their report dated August 7, 2003 has been issued under separate cover.

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 six of the 13 board members; however, five of the remaining seven directors consist of the Governor and four State officials. Authorization by the State's Budget Director and Controller

General is required before funds of the RDC may be expended. The RDC was audited by other independent auditors, and their report dated August 12, 2003 has been issued under separate cover.

Delaware State University

Delaware State University (DSU) is a public institution of higher education funded primarily through State appropriations. Additional funding is derived from tuition, federal grants and private donations and grants. The Board of Trustees is comprised of 11 members, six appointed by the Governor of Delaware and five 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. Other independent auditors audited the University, and their report dated October 27, 2003 has been issued under separate cover.

Delaware Charter Schools

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

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

Related Organizations

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

Jointly Governed Organization

The Delaware River and Bay Authority, a body politic, was created with the intention of advancing the economic growth and development of those areas in the State of Delaware and the State of New Jersey, which border the Delaware River and Delaware Bay. The Authority is governed by twelve (12) commissioners: six appointed by the State of Delaware and six appointed by the State of New Jersey.

The Authority is autonomous from a day-to-day operations perspective and neither State is obligated for the Authority's debt. The Authority is not included in these financial statements as the State of Delaware has no ongoing financial interest.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of State 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 State is reported separately from certain legally separate component units for which the State is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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 not properly included 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. 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, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards

Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance.

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

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

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

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

Governmental Funds

The State reports the following major governmental funds:

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

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

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

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

Proprietary Funds

Proprietary Funds are used to account for those activities which are financed and operated in a manner similar to private business enterprises. The costs of providing services to the general public on a continuing basis are financed by or recovered primarily through user charges.

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

The Lottery recognizes revenue from on-line games the day of the drawing. Revenue from the sale of instant tickets is recognized when the book has been activated and 85% of the related prizes of an activated book is 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 nonoperating revenues and expenses.

The State reports the following major proprietary funds:

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

Unemployment Fund - The unemployment fund accounts for the activities relating to the State's unemployment insurance program.

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

Fiduciary Funds

The accounts of the pension and investment trust funds are reported using the flow of economic resources measurement focus and are maintained on the accrual basis of accounting. For pension trust funds, employee contributions are recognized as revenue in the period in which the employee services are performed. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Agency funds are custodial in nature and do not present results of operations and therefore do not have a measurement focus.

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 - Pension trust funds account for transactions, assets, liabilities and net assets available for plan benefits of the Delaware Public Employees' Retirement System (DPERS) (Note 14)

Investment Trust Funds - Investment trust funds are used to account for external investment pools where a government commingles the moneys 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.

(c) Audit Responsibility

For the year ended June 30, 2003, financial statements of certain separately administered organizations, agencies of the State and component units, included in the reporting entity of the State have been audited by auditors other than KPMG LLP or the Office of the Auditor of Accounts. These entities include the Delaware Public Employees Retirement System, the Investment Trust Fund, Delaware State University, Delaware State Housing Authority, the Riverfront Development Corporation, the Diamond State Port Corporation, the Delaware Charter Schools, the Delaware State Lottery and the DelDOT Fund (consists of the Delaware Department of Transportation, Delaware Transportation Authority, the Transportation Trust Fund and the Delaware Transit Corporation).

The table below sets forth the proportion (%) of certain key financial information that was subject to audit by other auditors for the year ended June 30, 2003.

	Assets	Liabilities	Revenue	Expense
Government-Wide Financial Statements				
Business Type Activities	93 %	97 %	95 %	87 %
Component Units	100 %	100 %	100 %	100 %
Fund Financial Statements				
Lottery	100 %	100 %	100 %	100 %
DelDOT Fund	100 %	100 %	100 %	100 %
Pension Trust Fund	100 %	100 %	100 %	100 %
Investment Trust Fund	100 %	100 %	100 %	100 %

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

Deposits and investments

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

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

Receivables and Payables

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

Inventories and Prepaid Items

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

Restricted Assets

The Delaware State Lottery's mandatory deposit with the Multi-State Lottery and the annuities for future installment prize payments are recorded as restricted assets, as are any assets of the Delaware State University, the Diamond State Port Corporation and the Riverfront Development Corporation that are subject to external restrictions.

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 an initial, individual cost of more than $15,000 at the date of acquisition and an estimated useful life in excess of one year. 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 $15,000. Building and land improvements are capitalized when the cost of the project exceeds $100,000. Infrastructure and software is capitalized when the costs of individual items or projects exceed $1 million.

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

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.

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:

Asset	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

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

Compensated Absences

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

Long-Term Obligations

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

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

Fund Equity

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

The State Constitution provides that certain excess unencumbered budgetary General Funds at the end of a fiscal year must be placed in a reserve account (the "Budget Reserve Account"). This account, designed to provide a cushion against unanticipated deficits, may not exceed 5% of the estimated General Fund revenue for the ensuing fiscal year. Total funding of the Budget Reserve Account was $136.5 million at June 30, 2003. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation. Designations of fund balance represent tentative management plans that are subject to change.

(e) Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. All other federal reimbursement type grants are recorded as accounts receivable and revenue when the related expenditures or expenses are recognized. In addition to monetary transactions, Federal grants also include non-monetary transactions related to food stamps. Food stamps inventories are reported at coupon value in the General Fund.

(f) Litigation Revenue

In 1997, several states began litigation against several defendant tobacco product manufacturers to recover certain amounts the states expended to provide health care to numerous tobacco product users. 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 (amounting to $200 billion, according to estimates) until 2025. 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. Delaware's settlement share for fiscal year 2003 was $29.4 million. This amount is reported in the General Fund as part of "other" revenue. Future payments will be reported as revenue when they are received. No receivable for such payments has been reported pursuant to the settlement since the amounts to be received are contingent as described above. Monies received under the Master Settlement Agreement are dedicated to health care and related programs. Expenditures of these funds are authorized by Legislation.

NOTE 2. CASH, INVESTMENTS AND RESTRICTED ASSETS

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

Investment Guidelines and Management: The investment guidelines, adopted by the Board provide, among other things, that no more than 10% of the portfolio may be invested in obligations of any one issuer other than the U.S. Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances.

Collateralization Requirements*:* All State funds 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 Keefe, Bruyette & Wood's Bank Watch Service. The Board has also determined that State demand deposits need not be collateralized provided that any bank that holds these funds has for the last two years, a return on average assets of 5% or greater and an average equity-capital ratio of at least 1:20. If the bank does not meet the above criteria, collateral must consist of one or more of the following:

(a) U.S. Government securities;
(b) U.S. Government agency securities;
(c) State of Delaware securities; or
(d) 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.

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

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

An analysis of cash and investments by category of risk as required by GASB Statement No. 3 is presented below .

(A) DEPOSITS

Primary Government

At June 30, 2003, the carrying value and the bank balances of the State's deposits were $814,901,000 and $820,926,000 respectively. Of the bank balances, $17,843,000 was insured by the Federal Deposit Insurance Corporation (FDIC) and/or collateralized with securities held by the State or by its agent in the State's name (Category 1). $537,060,000 is uninsured and uncollateralized (Category 3). The remaining $266,023,000 represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury.

As a condition for operating in the State, various insurance companies have deposited an aggregate amount of $395,525,000 into escrow. The State Insurance Commission and the insurance companies are joint custodians of such funds. Because the State can neither use nor release these funds without the joint approval of the insurer/depositor, these amounts are not reported in the State's financial statements.

Component Units

Delaware State Housing Authority

The Delaware State Housing Authority's deposits for risk categorization consist of checking accounts, money market accounts, bank savings accounts and investment agreements. The total carrying value and bank balance of the deposits at June 30, 2003 was $53,200,114, and $53,800,289 respectively. Of the bank balance, $1,499,555 was entirely insured or collateralized with securities held by the Authority or by its agent in the Authority's name (Category 1). The remaining $52,300,734 consists of investment agreements that are neither insured nor collateralized (Category 3). For purposes of the financial statements, money market accounts, bank savings are classified as investments and investment agreements are classified as restricted investments.

Diamond State Port Corporation

At June 30, 2003, the carrying value and bank balances of the Diamond State Port Corporation's cash deposits amounted to $1,404,581 and $1,600,427, respectively. Of the bank balances, $100,000 is insured by the FDIC (Category 1) and the remaining $1,500,427 is uninsured and uncollateralized (Category 3). $222,330 of restricted cash and cash equivalents consists of short-term investments.

Riverfront Development Corporation

At June 30, 2003, the Riverfront Development Corporation's cash deposits carrying value and bank balances amounted to $190,513 and $333,457 respectively. Cash deposits include $96,689 of restricted cash and cash equivalents. Of the bank balances, $201,685 is insured by the FDIC (Category 1) and $127,200 is uninsured and uncollateralized (Category 3). The remaining $4,572 consists of deposits included in the State Investment Pool.

Delaware State University

At June 30, 2003, Delaware State University's deposits carrying value and bank balance was $5,417,178 and $3,396,556 respectively. An additional $6,138,190 of cash and cash equivalents related to unexpended State appropriations are included on the Statement of Net Assets. Of the bank balances, $100,000 was insured by FDIC (Category 1) and the remaining $3,296,556 was uninsured and uncollateralized (Category 3).

Delaware Charter Schools

At June 30, 2003, the Delaware Charter Schools deposits carrying value was $8,242,000, consisting entirely of deposits included in the State Investment Pool.

B. INVESTMENTS

Primary Government

The table on the following page provides information about the custodial credit risks associated with the State's investments. Category 1 includes investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent in the State's name. As of June 30, 2003 the State does not have any investments in Category 2. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the State's name.

The State's Investments below include $12,325,000 presented as restricted assets on the balance sheet. Pooled investments represent those investments in units of a pool rather than specific securities. As a result, such investments are not categorized as to risk because they are not evidenced by securities that exist in a physical or book-entry form.

PRIMARY GOVERNMENT INVESTMENTS

(Expressed in Thousands)

Investment Type	Category 1	Category 3	Total Fair Value
Commercial Paper	$ 226,818	$ 28,009	$ 254,827
U.S. Government Agency Securities	162,186	479,372	641,558
Corporate Obligations		239,231	239,231
Foreign Government Securities		15,680	15,680
Municipal Bonds		13,994	13,994
Pension and Investment Trust Funds:			
Domestic Fixed Income	931,235		931,235
Domestic Equities	1,195,211		1,195,211
Short Term Investments *	123,190		123,190
Managed Futures	103,462		103,462
Foreign Equities	362,493		362,493
SUBTOTAL	$ 2,755,577	$ 729,242	3,880,881
Pooled Investments not subject to categorization: **			
Pooled Investments			14,770
Pension and Investment Trust Investment Pool:			
Pooled Equity & Fixed Income			1,708,682
Private Investments			456,366
SUBTOTAL INVESTMENTS			$ 6,060,699
Less: Pooled Component Unit Investments			(55,140)
TOTAL STATE INVESTMENTS ***			$ 6,005,559

* Pension Short Term Investments primarily include Commercial Paper and overnight deposits.

** Investments not evidenced by securities are not categorized.

*** Includes investments classified as restricted assets on the Statement of Net Assets.

	Governmental Activities	Business Type Activities	Fiduciary Funds	Totals
Cash/Cash Equivalents	$ 505,117	$ 282,345	$ 26,366	$ 813,828
Restricted Cash/Cash Equivalents		1,073		1,073
Short Term Investments	100,753	292,938	8,847	402,538
Long Term Investments	644,298	65,759		710,057
Restricted Investments		12,325	4,880,639	4,892,964
	$ 1,250,168	$ 654,440	$ 4,915,852	$ 6,820,460
	Less: Carry Value of Deposits			(814,901)
	Balance In State Investment Pool			$ 6,005,559

The pooled investments of the pension and investment trust funds consist primarily of venture capital, limited partnerships, open-end mutual funds and real estate. The fair value of pension and investment trust investments is determined by quoted market values, where applicable. Investments in real estate pooled funds are determined based on appraised values. Venture capital and other limited partnership values are determined based on discounted market values where market quotes are available, and by various procedures for investments in non-traded partnerships where quotes are not available. In 1994, the Board of Pension Trustees of the DPERS adopted a formal written policy on the use of derivatives. Only a few selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are spelled out in manager contracts and are monitored on an ongoing basis. The Board believes that it is unlikely that any of the derivatives used by managers of the DPERS could have a material adverse effect on the financial condition of the DPERS. Managers authorized to use derivatives do so to reduce foreign exchange risk and minimize transaction costs. Managers may also use derivatives as part of an overall strategy to enhance returns. The following lists principal categories of derivatives and their uses during the year:

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

Repurchase Agreements

For repurchase agreements, the underlying securities consist of U.S. Government or government agency securities, certificates of deposit, commercial paper or bankers' acceptances. All repurchase transactions are governed by written repurchase agreements. Statutes require that securities underlying repurchase agreements must have a market value of at least 102% of the cost of the repurchase agreement. Due to significantly higher cash flows at certain times during the fiscal year, the State's investment in overnight repurchase agreements for which the underlying securities were held by the dealer (Category 3) fluctuates.

Reverse Repurchase Agreements

The Cash Management Policy Board permits the State to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. At June 30, 2003, the State had no reverse repurchase agreements.

COMPONENT UNITS

Delaware State Housing Authority

The Delaware State Housing Authority invests its funds and those held by its trustees in accordance with the various applicable bond resolutions, Federal laws and regulations, and is under the oversight of the State's Cash Management Policy Board. DSHA investments categorized as to risk had a fair value of $91,757,092 at June 30, 2003. Of this amount, $42,445,356 was uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Authority's name (Category 3). The remaining $49,311,736 represents pooled investments where the Authority does not own specific securities. This amount includes funds of $40,755,769 specifically identified for the Authority in the State of Delaware's Investment Pool. These pooled investments are categorized by risk within the investments of the primary government.

Diamond State Port Corporation

The carrying and fair value of investments of the DSPC at June 30, 2003 amounted to $2,888,965. The investments, consisting of various equity and mutual funds, are classified for credit risk as uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the DSPC's name (Category 3).

Delaware State University

Investments of the University totaled $13,076,590, stated at quoted market value. These investments consist of pooled investments where the University does not own specific securities.

NOTE 3. RECEIVABLES

Taxes receivable represent the amount of personal, business, and other taxes determined to be measurable and available as of June 30, 2003. Taxes receivable which will not be available within 60 days of year end are recorded as deferred revenue. All taxes receivable are recorded net of an allowance for doubtful accounts. Uncollectability primarily results from identified assessment problems, inability to locate taxpayers, and accounts of decedents.

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

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

	General	Federal Funds	Local School District Funds	Unemployment	Lottery	DelDOT	Total Receivables
			(Expressed in Thousands)				
Receivables:							
Taxes	$ 209,254		$ 16,256	$ 23,069			$ 248,579
Interest		$	7			$ 1,201	1,208
Accounts	590,238	47,496	191	7,249	$ 14,317	4,133	663,624
Loans and Notes	64,587	6,079				27,500	98,166
Intergovernmental		67,862		486		4,435	72,783
Total receivables	864,079	121,437	16,454	30,804	14,317	37,269	1,084,360
Allowance for doubtful accounts	(667,781)	(43,369)	(229)	(8,908)	(679)		(720,966)
Total receivable (net)	$ 196,298	$ 78,068	$ 16,225	$ 21,896	$ 13,638	$ 37,269	$ 363,394
Amounts not scheduled for collection during the subsequent year	$ 14,661	$ 6,636	$ 12,570	$	$	$ 27,500	$ 61,367

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

(Expressed in Thousands)

	State Housing Authority	State Port Corporation	Riverfront Development Corporation	Delaware State University	Delaware Charter Schools	Total Receivables
Receivables:						
Interest	$ 2,290					$ 2,290
Accounts	17,798	$ 3,083	$ 175	$ 14,940	$ 1,474	37,470
Loans and Notes	448,266		3,375	510		452,151
Intergovernmental	322					322
Total receivables	468,676	3,083	3,550	15,450	1,474	492,233
Less: Allowance for doubtful accounts	(1,540)	(118)	(1,931)	(1,842)		(5,431)
Total receivables (net)	$ 467,136	$ 2,965	$ 1,619	$ 13,608	$ 1,474	$ 486,802
Amounts not scheduled for collection during the subsequent year	$ 387,132	$	$ 1,444	$ 510	$	$ 389,086

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.

At year end, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	(Expressed in Thousands)
Unavailable	
Taxes Receivable	$ 76,434
Non-tax Receivables	101,715
Intergovernmental Receivables	627
Subtotal Unavailable	178,776
Unearned	
Advance Park Reservation Fees	732
Federal Grant Advance Drawdowns	7,795
Total Deferred Revenue	$ 187,303

NOTE 4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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 agencies by other agencies within the State reporting entity. Amounts receivable from or payable to other levels of government are reported as Intergovernmental receivables or payables. The composition of Due From/Due To balances as of June 30, 2003 expressed in thousands is as follows.

Receivable Fund	Payable Fund	Amount
General Fund	Federal Fund	$ 32,249
	Capital Project Fund	49,782
	Delaware State Lottery	1,371
	Total	$ 83,402

The amounts due from the Federal Fund and Capital Projects 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. The State Legislation authorizes certain Capital Project expenditures prior to the issuance of bonds. These costs result in a negative balance in the State Investment Pool. The negative balance is considered to be a borrowing from the General Fund. The amount due from the Delaware Lottery (reported as an internal balance on the Statement of Net Assets), represents profits required by law to be transferred to the General Fund.

Transfers In From /Out To Other Funds

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

A schedule of transfers in and transfers out for the year ended June 30, 2003 is presented on the following page.

(Expressed in Thousands)

	Transfers In	Transfers Out
Governmental Fund Types		
General Fund	$ 474,634	$ 31,180
Federal Fund		
Local School Fund	2,663	21,836
Capital Projects Fund		177,728
Proprietary Fund Types		
Lottery		273,823
DELDOT Fund	28,517	1,247
Total All Funds	$ 505,814	$ 505,814

NOTE 5. GENERAL OBLIGATION BONDS

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

The State Constitution provides that the State may issue general obligation bonds for specific purposes in amounts approved by the General Assembly. The enabling acts pursuant to which the bonds are issued provide that all bonds issued shall be direct obligations of the State of Delaware; that is, the bonds are secured by the pledge of the full faith and credit of the State. General Obligation bonds are redeemed over a period not to exceed 20 years, generally from available resources in the General fund. Accordingly, the State of Delaware has generally issued 10 and 20-year serial bonds with equal amounts of principal maturing each year. Bonds outstanding have call provisions providing for early redemption at the option of the State, generally beginning 8 or 10 years following the date of issue in the inverse order of maturity, in whole or in part, at a redemption price not to exceed 101% to 103% of par value.

On July 23, 2002, the State issued $261,645,000 of general obligation bonds. These serial bonds mature between July 1, 2003 and July 1, 2023, and bear average annual interest rates of 4.58%. A portion of these proceeds, amounting to $133,645,000 was used to advance refund $132,740,000 of general obligation bonds. Investments were purchased and placed in an irrevocable trust with an escrow agent. The investments and fixed earnings on the investments are sufficient to fully provide for all future debt service on the refunded bonds. The refundings resulted in an economic gain of $6,459,000 and a debt service cash savings over the next 16 years of $10,843,000. The remaining proceeds of these bonds were used to provide funds for capital improvements to various State facilities.

On January 8, 2003, the State issued $133,050,000 of general obligation bonds. These serial bonds mature between July 1, 2003 and July 1, 2023, and bear average annual interest rates of 3.87%. A portion of these proceeds, amounting to $33,050,000, was used to advance refund $34,530,000 of general obligation bonds. Investments were purchased and placed in an irrevocable trust with an escrow agent. The investments and fixed earnings on the investments are sufficient to fully provide for all future debt service on the refunded bonds**.** The refundings resulted in an economic gain of $2,135,000 and a debt service cash savings over the next 8 years of $2,215,000. The remaining proceeds of these bonds were used to provide funds for capital improvements to various State facilities.

On December 18, 2002, the State issued $760,000 in General Obligation Qualified Zone Academy Bonds (QZABs). The QZABs are debt instruments that carry a substantial federal tax credit to the lending financial institution. The lender receives no interest payment from the borrower but receives an interest tax credit. The lender benefits from the tax credit that provides a greater return than bond interest would provide, while the State benefits because the loan is essentially interest free. Proceeds were used for renovation of public schools. The bonds mature in 2016.

Bonds issued and outstanding totaled $854,261,900 at June 30, 2003. The State is authorized to issue an additional $229.2 million of general obligation bonds at June 30, 2003. Interest rates and maturities of the outstanding General Obligation Bonds are detailed on the following page.

General Obligation Bonds

Sale #	Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding June 30, 2003 (Expressed in Thousands)
188	GO Refunding 2003B	4.0% - 5.0%	2012	$ 33,050
187	GO 2003A	2.625% - 5.0%	2023	100,000
186	QZAB 2002B	0%	2017	760
185	GO 2002A G.O. + Refund	4.0% - 5.25%	2012	261,645
184	QZAB 2001B	0%	2011	649
183	GO + Refunding 2001A	4.0% - 4.75%	2021	144,547
182	GO 2000 A	5.0% - 5.5%	2020	57,500
181	GO 1999 A	4.0% - 4.625%	2019	77,000
179	GO + Refunding 1998A	4.5% - 4.75%	2018	83,415
178	GO 1997 B	5.0%	2017	19,500
177	GO 1997 A	5.0%	2017	24,000
176	GO 1996 A	4.5% - 5.125%	2016	22,500
175	GO 1994 B	5.25% - 6.125%	2015	6,750
174	GO 1994 A	4.6% - 5.2%	2014	12,210
173	GO Refunding 1993 B	2.5% - 5.0%	2012	315
172	GO 1993 A	4.25% - 5.0%	2013	1,500
171	GO Refunding 1992 C	2.75% - 5.75%	2010	4,285
170	GO 1992 B	4.7% - 6.1%	2013	4,636
				$ 854,262

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 therefore has been removed as a liability from the Government-wide financial statements. As of June 30, 2003, a total of $166.7 million of defeased bonds were outstanding.

The table presented on the following page sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2003.

TOTAL GENERAL OBLIGATION BONDS
(Expressed in Thousands)

Fiscal Year Ending June 30	PRINCIPAL	INTEREST	Total
2004	$ 94,312	$ 38,358	$ 132,670
2005	89,945	34,501	124,446
2006	86,261	30,379	116,640
2007	81,324	26,167	107,491
2008	72,240	22,446	94,686
2009-2013	267,825	69,888	337,713
2014-2018	111,635	23,659	135,294
2019-2023	50,720	5,541	56,061
Totals	$ 854,262	$ 250,739	$ 1,105,001

Changes in general obligation bonded debt during the year ended June 30, 2003, are summarized in Note 10.

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.

PRIMARY GOVERNMENT

Delaware Economic Development Office

The Office has $180,000 of industrial development revenue bonds outstanding at June 30, 2003, which are supported by the full faith and credit of the State. Future debt service requirements are dependent on lease rentals or other payments from the users of the projects financed with the separate bond proceeds. The State is liable for payment of principal and interest to the extent that the other sources default on payments.

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. 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 August 15, 2002, the Trust Fund issued $173,680,000 of Transportation System Senior Revenue Bonds, 2002 Series B. A portion of the proceeds was used for a current refunding of $85,320,000 of Transportation System Senior Revenue Bonds. The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of $3,345,564 and a reduction of $4,568,209 in future debt service payments.

On April 17, 2003, the Trust Fund issued $277,210,000 of Transportation System Senior Revenue Bonds, 2003 Series. A portion of the proceeds was used for a current refunding of $136,670,000 of Transportation System Senior Revenue Bonds. The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of $14,035,493 and a reduction of $16,949,916 in future debt service payments.

The Authority has previously defeased various other 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 removed as a liability of the Authority. As of June 30, 2003, a total of $283,035,000 of defeased bonds are outstanding.

Bonds outstanding at June 30, 2003 amounted to $863,145,000. The Delaware Transportation Authority had a total of $195,470,550 in authorized but unissued bonds at June 30, 2003. Bonds outstanding at June 30, 2003 are detailed on the following page.

Delaware Transportation Authority Revenue Bonds

Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding June 30, 2003 (Expressed in Thousands)
Transportation System Senior Revenue Bonds - Series			
1992	5.3% - 5.4%	2012	$ 2,825
1993	4.9% - 5.5%	2010	17,645
1993 A	4.65% - 5.25%	2014	7,870
1994	5.6% - 6.50%	2014	6,235
1997	5.0% - 6.0%	2017	100,455
1998	4.0% - 5.5%	2016	59,470
2000	5.0% - 6.0%	2020	30,560
2001	3.5% - 5.25%	2021	63,700
2002	4.0% - 5.0%	2008	43,015
2002 B	3.0% - 5.25%	2022	173,680
2003	3.0% - 5.0%	2023	277,210
Transportation System Junior Revenue Bonds - Series			
1992	5.3% - 5.4%	2009	510
1993	4.9% - 5.0%	2005	29,320
1997	4.5%	2004	2,530
2002	4.375% - 5.0%	2009	48,120
	Totals		863,145
	Less: Current portion		47,640
			$ 815,505

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

Delaware Transportation Authority Revenue Bonds

(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2004	$ 47,640	$ 38,176	$ 85,816
2005	53,920	39,175	93,095
2006	55,095	36,433	91,528
2007	56,875	33,571	90,446
2008	60,345	30,619	90,964
2009-2013	259,120	109,638	368,758
2014-2018	196,725	55,081	251,806
2019-2023	133,425	16,311	149,736
Totals	$ 863,145	$ 359,004	$ 1,222,149

COMPONENT UNITS

Delaware State Housing Authority

The Authority is authorized to issue bonds and notes, with the approval of the State, in order to exercise its powers. These bonds and notes are secured solely by the revenues, loans, and other pledged assets under the related Bond Indenture of the Authority. Bonds issued by the Authority are not secured by the full faith, credit and taxing power of the State.

The Delaware State Housing Authority has issued revenue bonds to provide financing for mortgage, construction, and other loans to not-for-profit and limited for-profit housing sponsors; to make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans; and to purchase qualified mortgage loans from mortgage lenders. The bonds are direct obligations of the Authority and are secured by the mortgage loans made or purchased under the applicable resolutions; the revenues, prepayments and foreclosure proceeds received are related to the mortgage loans, and certain funds and accounts established pursuant to the applicable bond resolutions. All bonds are callable subject to certain restrictions. Interest rates on bonds outstanding range from 2.25% to 10.375% with maturities through October 1, 2035.

The Authority’s Single Family Mortgage Revenue Bonds 2003 Series A is a total of $30,000,000 being issued in traunches. From February 18, 2003 to June 26, 2003, the Authority issued a total of $18,881,115. Proceeds of the sales were used for making new qualified residential mortgage loans and to purchase qualified mortgage loans from mortgage lenders.

Outstanding bonds at June 30, 2003 amounted to $379,605,000. Future debt service requirements for the Authority's bonds are shown below.

Delaware State Housing Authority Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2004	$ 11,240	$ 19,819	$ 31,060
2005	11,771	19,321	31,092
2006	12,064	18,779	30,843
2007	12,492	18,194	30,686
2008	13,203	17,551	30,754
2009-2013	66,367	76,760	143,127
2014-2018	58,730	58,304	117,034
2019-2023	69,088	57,939	127,027
2024-2028	58,731	31,849	90,580
2029-2033	44,569	12,862	57,431
2034-2038	21,350	11,270	32,620
Total	$ 379,605	$ 342,648	$ 722,254

Riverfront Development Corporation

Bonds payable represents amounts due under variable rate bonds, which were issued by RDC in November 1997. The bonds bear interest at a rate which is determined quarterly and is equal to the yield on 90-day U.S. Treasury Bills plus .30%. The rate as of June 30, 2003 was 5.125%. The bonds mature December 1, 2017. The bonds are subject to mandatory redemption requirements as shown on the below.

Riverfront Development Corporation Revenue Bonds

(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2004	$ 180	$ 270	$ 450
2005	200	261	461
2006	240	249	489
2007	245	237	482
2008	275	224	499
2009-2013	1,785	869	2,654
2014 - 2018	2,440	302	2,742
Total	$ 5,365	$ 2,412	$ 7,777

Delaware State University

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

Interest rates range from 3.65% to 5.25% on the outstanding Revenue Refunding Bonds. Debt service requirements for the Delaware State University Bonds are shown on the following page.

Delaware State University Revenue Refunding Bonds

(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2004	$ 870	$ 554	$ 1,424
2005	905	521	1,426
2006	940	485	1,425
2007	690	453	1,143
2008	720	2,086	2,806
2009 - 2013	4,035	897	4,932
2014 - 2018	4,980	29	5,009
Total	$ 13,140	$ 5,025	$ 18,165
Less: Unamortized Bond Discount	(68)		
	$ 13,072		

NOTE 7. LOANS AND NOTES PAYABLE

Delaware State Housing authority (DSHA)

Notes payable of the DSHA represent obligations to Wilmington Trust Corporation, FNMA and the State.

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 FAF issues in advance. Debt service requirements for these notes are shown below.

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

Year Ending June 30	Principal	Interest	Total
2004	$ 197	$ 35	$ 232
2005	47	25	72
2006	46	23	70
2007	46	21	67
2008	115	19	134
2009-2013	355	260	615
2014-2018	39	3	41
Total	$ 845	$ 386	$ 1,231

The Authority acquired a building for general administrative purposes using the proceeds from a mortgage note issued by Wilmington Trust Corporation. The note is payable through January 2007 at an interest of 4.75%. The total principal balance at June 30, 2003 is $354,206. Annual debt service requirements on this note are as follows:

Delaware State Housing Authority
Wilmington Trust Corporation Note
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2004	$ 18	$ 15	$ 33
2005	21	14	35
2006	22	13	35
2007	293	7	300
Total	$ 354	$ 49	$ 403

The Authority entered into a $6,300,000 loan agreement with FNMA in May 2003 to provide construction financing for three HDF/Tax Credit developments through FNMA's American Community Fund (ACF). The total principal balance at June 30, 2003 is $867,254. The note is payable as the construction project loans convert to permanent HDF mortgages through April 2006 with interest accruing at an adjustable rate obtained by adding one hundred forty (140) basis points (1.40%) to the three month LIBOR, adjusted quarterly, based on such rate as published in *The Wall Street Journal* on the last business day of the month immediately preceding each quarter. Debt service requirements for the $867,254 FNMA/ACF note payable cannot be accurately scheduled due to uncertain timing of principal draws as construction progress and repayments as construction projects convert to permanent loans. Based on this principal and an interest rate in effect at the end of the year of 2.72%, the annual cost would be approximately $24,000.

Diamond State Port Corporation (DSPC)

Loan and Notes payable of the DSPC at June 30, 2003 are as follows.

(Expressed in Thousands)

City of Wilmington:	
Port Debt Service Notes	$ 28,201
Transportation Trust Fund Loan	27,500
Total	$ 55,701

Transportation Trust Fund Loan

On November 1, 2001, the DSPC entered into a loan agreement with the Department of Transportation of the State of Delaware (DOT). The DSPC borrowed $25,500,000 on February 2,2002 and $2,000,000 on May 2, 2002). 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 addition, the loan provided $8,648,136 to establish a fund to be invested. This fund is to be used to pay portions of debt service as they become due, and is restricted for this purpose.

The rate of interest on the loan is 4.6%. The first payment on the loan was due January 1, 2003 and was for interest only. Thereafter, payments of principal and interest are due semi-annually over a twenty-year period. Interest expense charged to operations in 2003 was $1,273,665.

Transportation Trust Fund Loan
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2004	$ 863	$ 1,255	$ 2,118
2005	903	1,215	2,118
2006	945	1,173	2,118
2007	989	1,129	2,118
2008	1,035	1,083	2,118
2009-2013	5,943	4,647	10,590
2014-2018	7,460	3,130	10,590
2019-2023	9,362	1,225	10,587
Total	$ 27,500	$ 14,857	$ 42,357

City of Wilmington

In consideration of the acquisition of the Port of Wilmington assets from the City of Wilmington, Delaware (the City), the DSPC issued to the City two separate notes consisting of a Port Deferred Payment Note in the amount of $39,900,000 and Port Debt Service Notes with original face amounts of $51,080,622. These notes are secured by a first lien on substantially all of the DSPC's assets.

Port Debt Service Notes

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 $22,165,000 of general obligation bonds with an average interest rate of 3.7% to advance refund $21,335,000 of outstanding 1992 A, B, and C Series general obligation bonds with an average interest rate of 6.16%. The Port related portions of the new bonds issued and old bonds redeemed were $7,206,705 and $6,945,086 respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $261,619 for the year ended June 30, 2002, it reduces the Corporation's debt service payments by $281,293 over the next eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven years of the life of the debt. The deferred loss balance as of June 30, 2003 was $175,979.

Principal and interest payments made on the notes during 2003 were $3,325,927 and $1,461,143, respectfully. Interest expense in 2003 was $1,423,409.

The future principal and interest payments on Port Debt Service Notes are as follows:

Port Debt Service Note
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2004	$ 3,554	$ 1,313	$ 4,867
2005	3,300	1,155	4,455
2006	2,980	1,007	3,987
2007	3,117	866	3,983
2008	3,261	715	3,976
2009-2013	7,817	1,971	9,788
2014-2018	2,844	743	3,587
2019-2023	1,504	195	1,699
After 2022			
Subtotal	28,377	7,965	36,342
Deferred Loss on Refunding	(176)	- 0 -	(176)
Total	$ 28,201	$ 7,965	$ 36,166

Riverfront Development Corporation

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 $11,239,546 at June 30, 2003. Interest rates for the mortgages vary between 4.34% and 8.5% and mature between July 2003 and October 2007. Estimated future annual debt service requirements are as follows:

(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2004	$ 9,076	$ 377	$ 9,453
2005	725	110	835
2006	1,155	45	1,200
2007	12	15	27
2008	271	7	278
Total	$ 11,239	$ 554	$ 11,794

Demand Note Payable and Advance Payable

RDC has available a line of credit in the amount $500,000. This loan bears interest at .75% over prime (5.0% at June 30, 2003) and due on demand. The outstanding balance on this loan was $500,000 as of June 30, 2003. This loan secured by a mortgage on real property.

Advance payable consists of an advance received from DNREC of $500,000. The advance is noninterest bearing and is to be repaid from proceeds from a claim that RDC has against the U.S. Department of Defense for environmental remediation costs incurred. RDC expects proceed from the claim, sufficient to repay the advance, will be received during the year ended June 30, 2004.

Both the demand note payable and the advance payable are recorded as current obligations.

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 $135.7 million, of which $110.3 million relates to property leases and $25.4 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 $27.1 million were made by the General Assembly to meet the rental payments in fiscal 2003, of which $16.2 million was for office space and $10.9 million was for equipment consisting mainly of computers, data processing equipment and fleet vehicles.

Significant annual equipment rentals include $4.6 million for computers and data processing equipment for the Executive Department and $3.7 million for fleet vehicles with the Department of Administrative Services. Significant annual real estate rentals include $5.1 million for leases for Health and Social Services facilities, $2.3 million for the Department of Labor and $1.8 million for office space of the Department of Services for Children, Youth and Their Families.

Future minimum lease commitments for operating leases as of June 30, 2003 are shown in the following table.

State of Delaware Lease Commitments
(Expressed in Thousands)

Year Ending June 30	Operating Leases
2004	$ 25,826
2005	20,390
2006	15,384
2007	10,782
2008	9,170
2009-2013	26,341
2014-2018	11,321
2019-2023	2,634
2024- 2028	2,325
2029- 2033	1,704
Thereafter	9,860
	$ 135,737

NOTE 9. OTHER LONG-TERM OBLIGATIONS

Compensated absences payable are reported in the Government-wide Financial Statements and in Proprietary Funds. They represent benefits accrued to State employees for vacation earned as of year-end and sick leave estimated to be paid out at retirement for services rendered as of June 30, 2003. Employees earn from 1.25 to 1.75 days of vacation leave per month depending on years of service. The employee or his estate is 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. $112.5 million has been accrued in long-term obligations for the Governmental Funds and $11.6 million in the Proprietary Funds for the compensated absences liability.

The State has recorded $52.7 million relating to the accrual of the long-term obligation for escheat (abandoned property). $24.7 million was recorded as a current obligation.

The State has incurred obligations relating to scholarship and physician loan repayment programs resulting in an additional long-term obligation of $3.0 million. $0.4 million was recorded as a current obligation. An additional long-term obligation relates to the purchase of the Wilmington Public Building. $28,077 was paid during the year ended June 30, 2003. The remaining balance of $30,194 is reported as a current obligation as the final payment is to be made in 2004.

NOTE 10. CHANGES IN LONG-TERM OBLIGATIONS

The State uses the General Fund to liquidate approximately 80% of compensated absences and all other long-term obligations. Local school funds and Federal Funds are used to liquidate 13% and 7% of the remaining compensated absences obligations.

The following table provides a summary of changes in long-term obligations for the year ended June 30, 2003.

CHANGES IN LONG-TERM OBLIGATIONS
Primary Government
(Expressed in Millions)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	$ 709.9	$ 395.5	$ (251.1)	$ 854.3	$ 94.3
Bond issue premium, net of accumulated amortization		23.9	(1.4)	22.5	
Revenue bonds and Public Bldg	0.4		(0.2)	0.2	
Physician Programs and Scholarships		3.0		3.0	0.4
Claims and Judgments	97.4	429.1	(413.0)	113.5	49.2
Compensated Absences	114.9		(2.4)	112.5	
Net pension obligation	71.8	27.5	(18.7)	80.6	
Escheat payable	47.7	15.3	(10.3)	52.7	24.7
Governmental activities long-term liabilities	$ 1,042.1	$ 894.3	$ (697.1)	$ 1,239.3	$ 168.6
Business-type Activities					
Revenue bonds	675.7	228.9	(41.5)	863.1	47.6
Bond issue premium, net of accumulated amortization	5.1	30.5		35.6	
Compensated Absences	11.2	0.6	(0.2)	11.6	3.6
Claims and judgments	11.5	7.8	(2.7)	16.6	2.1
Business type Activities long-term liabilities	$ 703.5	$ 267.8	$ (44.4)	$ 926.9	$ 53.3

Changes in long-term obligations for the Component Units are summarized on the following page.

Component Units
(Expressed in Millions)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Delaware State Housing Authority					
Notes Payable	$ 3.5	$ 0.9	$ (2.3)	$ 2.1	$ 0.2
Revenue bonds	424.8	21.0	(66.2)	379.6	11.2
Compensated Absences	0.7	0.1		0.8	0.0
Total Long Term Obligations	$ 429.0	$ 22.0	$ (68.5)	$ 382.5	$ 11.4
Diamond State Port Corporation					
Notes Payable	$ 31.5	$	$ (3.3)	$ 28.2	$ 3.6
Loans Payable		27.5		27.5	0.9
Other Non-current	3.3		(3.2)	0.1	
Total Long Term Obligations	$ 34.8	$ 27.5	$ (6.5)	$ 55.8	$ 4.5
Riverfront Development Corporation					
Bonds Payable	$ 5.5	$	$ 0.1	$ 5.4	$ 0.2
Long term debt	15.7	7.0	(11.5)	11.2	9.1
Total Long Term Obligations	$ 21.2	$ 7.0	$ (11.4)	$ 16.6	$ 9.3
Delaware State University					
Lease Obligations	$ 0.5	$	$ (0.1)	$ 0.4	$ 0.2
Notes Payable		0.6		0.6	0.1
Revenue bonds	13.9		(0.8)	13.1	0.9
Total Long Term Obligations	$ 14.4	$ 0.6	$ (0.9)	$ 14.1	$ 1.2
Delaware Charter Schools					
Long term debt		$ 22.5		$ 22.5	$ 1.4
Total Long Term Obligations		$ 22.5		$ 22.5	$ 1.4

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

The State of Delaware, by action of the General Assembly, created various authorities for the express purpose of providing private entities with an available low cost source of capital financing for construction of facilities deemed to be in the public interest. The bonds of the authorities represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers to the entity served by the bond issuance. The State has no obligation for this debt. Accordingly, these bonds are not reflected in the accompanying financial statements. These bonds are issued through the Delaware Economic Development Authority and the Delaware Health Facilities Authority. The principal amount of bonds outstanding at June 30, 2003 for these entities amounted to $1.9 billion and $310.9 million, respectively.

NOTE 12. CAPITAL ASSETS

PRIMARY GOVERNMENT

Capital asset activities for the fiscal year ended June 30, 2003 were as follows:

(Expressed in Thousands)

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated				
Land	$ 265,155	$ 21,269		$ 286,424
Easements	64,345	2,477		66,822
Construction-in-progress	462,119	214,226	$ (379,547)	296,798
Total capital assets, not being depreciated	791,619	237,972	(379,547)	650,044
Capital assets, being depreciated				
Vehicles	50,222	5,409	(5,590)	50,041
Buildings	1,025,790	414,458	(2,879)	1,437,369
Equipment	74,831	8,562	(13,828)	69,565
Land Improvements	34,234	1,578	(2,182)	33,630
Total capital assets being depreciated	1,185,077	430,007	(24,479)	1,590,605
Less accuumulated depreciation for:				
Vehicles	(31,872)	(3,755)	5,425	(30,202)
Buildings	(500,138)	(24,306)	2,071	(522,373)
Equipment	(42,528)	(9,095)	12,787	(38,836)
Land Improvements	(11,075)	(1,150)	2,182	(10,043)
Total accumulated depreciation	(585,613)	(38,306)	22,465	(601,454)
Total capital assets, being depreciated, net	599,464	391,701	(2,014)	989,151
Governmental activities capital assets, net	$ 1,391,083	$ 629,673	$ (381,561)	$ 1,639,195

Business-type Activity DelDOT Fund	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated				
Land	$ 11,230			$ 11,230
Infrastructure	3,201,814	$ 24,997		3,226,811
Total capital assets, not being depreciated	3,213,044	24,997		3,238,041
Capital assets, being depreciated				
Buildings	50,658	1,319	$ (6)	51,971
Vehicles and equipment	143,377	27,147	(17,957)	152,567
Total capital assets being depreciated	194,035	28,466	(17,963)	204,538
Less accuumulated depreciation for:				
Buildings	(17,238)	(1,717)		(18,955)
Vehicles and equipment	(63,745)	(14,695)	17,249	(61,191)
Total accumlated depreciation	(80,983)	(16,412)	17,249	(80,146)
Total capital assets, being depreciated, net	113,052	12,054	(714)	124,392
Business-type activity capital assets, net	$ 3,326,096	$ 37,051	$ (714)	$ 3,362,433

Business-type Activites Lottery	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Vehicles and equipment	$ 1,855		$ (460)	$ 1,395
Total capital assets being depreciated	1,855		(460)	1,395
Less accuumulated depreciation for:				
Vehicles and equipment	(1,191)	$ (181)	362	(1,010)
Total accumlated depreciation	(1,191)	(181)	362	(1,010)
Total capital assets, being depreciated, net	664	(181)	(98)	385
Business-type activity capital assets, net	$ 664	$ (181)	$ (98)	$ 385

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

(Expressed in Thousands)

Governmental Activities:	
General Governments	$ 6,474
Health and Children's Services	1,189
Judicial and Public safety	10,476
Natural Resources and Environmental Control	2,058
Labor	79
Education	18,030
Total Depreciation Expense - Governmental Activities	$ 38,306
Business-type Activities:	
Transportation	**$** 16,412
Lottery	181
Total Depreciation Expense- Business-type Activities	**$** 16,593

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 as of June 30, 2003, for workers' compensation, automobile accident and health-care claim liabilities is $113.5 million. The claim liabilities relating to health-care totaling $49.2 million have been recorded as current liabilities. The liability for workers' compensation and automobile accident liabilities of $64.3 million have been recorded as long-term obligations. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2003 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2002 and 2003 were as follows:

(Expressed in Thousands)

Fiscal Year	Beginning Balance July 1	Current Year Claims and Changes in Estimates	Actual Claim Payments	Ending Balance June 30
2002	$ 95,194	$ 384,570	$ (382,350)	$ 97,414
2003	$ 97,414	$ 429,108	$ (413,064)	$ 113,458

NOTE 14. PENSIONS

PRIMARY GOVERNMENT

State of Delaware Pension Plans

The State Board of Pension Trustees administers the following defined benefit plans of the Delaware Public Employees' Retirement System (DPERS):

*State Employees' Pension Plan;

*Special Pension Plan;

*New State Police Pension Plan;

*Judiciary Pension Plans (Closed and Revised);

*County and Municipal Police/Firemen's Pension Plans
(FICA and Non-FICA);

*County and Municipal Other Employees' Pension Plan;

*Volunteer Firemen's Pension Plan;

*Diamond State Port Corporation Pension Plan; and

*Closed State Police Pension Plan.

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

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

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

*County and Municipal Police/Firemen's COLA Fund;

*Post-Retirement Increase Fund; and

*Delaware Local Government Retirement Investment Pool.

Non-DPERS Fund Descriptions and Contributions

County and Municipal Police and Firemen's COLA Fund

During 1990, the State of Delaware passed legislation, which established a mechanism for funding post-retirement increases granted by employers who participate in the County and Municipal Police and Firemen's Pension Plans. This mechanism allows the State to appropriate funds to a separate County and Municipal Police and Firemen's COLA Fund managed by the Board. The funds are generated by a 0.25% tax on the value of insurance premiums written within the State. The State and local governments transfer the proceeds of the tax on a per officer basis. The portion of the tax payable relating to the State Police is re-directed into the COLA Fund. When a participating employer grants a post-retirement increase, 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)

During 1993, the State of Delaware passed legislation which established a mechanism for funding ad hoc post-retirement increases granted by the General Assembly to employees retired under the State Employees' Plan, the New State Police Plan and the Judiciary Plans (Closed and Revised) beginning with Fiscal 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate Post-Retirement Increase Fund managed by the Board. When the Legislature grants an ad hoc post-retirement adjustment, funds are transferred from this Post-Retirement Increase Fund on a monthly basis based on a 5-year actuarial funding schedule to the appropriate pension plan from which the additional benefits are disbursed.

Investment Trust Fund

In June 1996, the State of Delaware passed legislation, which established the Delaware Local Government Retirement Investment Pool (DELRIP) in the custody of the Board of Pension Trustees to allow local governments the option to pool their pension assets with the Delaware Public Employees' Retirement System. The DELRIP is an external investment pool that allows local governments to maximize their rate of return and reduce administrative expenses related to the investment of funds. There were three participating entities in the DELRIP as of June 30, 2003, which comprises the pool in its entirety.

The DELRIP is subject to the oversight of the System's Investment Committee and not subject to the regulatory oversight of the SEC. The System has not provided or obtained any legal binding guarantees during the year to support the value of shares. The fair value of the portion in the pool is the same as the value of the Master Trust shares.

Post-Retirement Health Insurance Premium Fund

In June 2000, the State of Delaware passed legislation which established a mechanism for funding the State’s retiree health care costs for covered employees in the State Employees’ Pension Plan. The mechanism allows the State to appropriate employer contributions to a separate fund managed by the Board. These funds will be used to pay the State’s cost for health care premiums. Funding levels are set annually by the Delaware State Legislature as a part of the budget process. Funding began in July 2001 in the amount of 0.65% of payroll. Funding for FY2003 was 0.37% of payroll. Funding during FY2004 has been suspended.

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.

Plan Membership, Benefit and Contribution Provisions

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

State Employees' Pension Plan

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

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

Vesting: Five (5) years of credited service.

Retirement: Age 62 with five (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 five (5) years of credited service.

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

Contributions:
Employer - determined by Board of Pension Trustees.
Employee - 3% of earnings in excess of $6,000.

Death Benefit: $7,000 per member.

Special Pension Plan

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

Service Benefits: Defined by special legislation.

Vesting: Not applicable.

Retirement: Not applicable.

Disability Benefits: Not applicable.

Survivor Benefits: Same as State Employees' Plan.

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

Death Benefit: $7,000 per member.

New State Police Pension Plan

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

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

Vesting: Ten (10) years of credited service.

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

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

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

Contributions:
Employer - determined by Board of Pension Trustees.
Employee - 7% of compensation.

Death Benefit: $7,000 per member.

Judiciary Pension Plans (Closed and Revised)

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

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

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

Service Benefits:

Closed – Three percent (3%) of average annual compensation multiplied by years of credited service, subject to minimum and maximum 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, eligible survivor receives 2/3 of pension the employee would have been eligible to receive.

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

Contributions:
Employer - determined by Board of Pension Trustees.
Employee:

- Closed - $500 per year for the first 25 years of service.
- Revised - 3% of earnings that exceed $6,000 per year, plus 2% of earnings that exceed the Social Security Wage Base for the first 24 years of service.

Death Benefit: Not applicable.

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

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

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

Vesting: Ten (10) years of credited service.

Retirement: Age 62 with ten (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.

Ordinary - 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.
Employee - FICA covered - 5% of compensation.
Non-FICA covered - 7% of compensation.

Death 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 other than police officers and fire fighters 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 highest five years of compensation.

Vesting: Five (5) years of credited service.

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

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

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

Contributions:
Employer - determined by Board of Pension Trustees.
Employee - 3% of earnings in excess of $6,000, plus 2% of earnings that exceed the Social Security Wage Base.

Death Benefit: Not applicable.

Volunteer Firemen's Pension Plan

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

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

Vesting: Ten (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.
- Volunteer Member - $60 per member per year.

Death Benefit: Not applicable.

Diamond State Port Corporation Pension Plan

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

Service Benefits: 1.75% of final average monthly compensation multiplied by the years of credited service (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: Five (5) years of credited service.

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

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

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

Contributions:

- Employer - determined by Board of Pension Trustees.
- Employee - 2% of compensation.

Death Benefit: Not applicable.

Closed State Police Pension Plan

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

Service Benefits: 50% of monthly salary.

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

Disability Benefits: Duty - 75% of salary. Ordinary - 50% of salary.

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 - The Closed State Police Plan is funded on a pay-as-you-go basis.
Employee - 5% of salary with 20 years or less of credited service; 2% of salary with over 20 years credited service.

Death Benefit: $7,000 per member.

Historical Trend Information

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

Pension Investments

As of June 30, 2003, the following managers have investments at fair value in excess of 5% of the DPERS net assets held in trust for pension benefits:

	Fair Value (Expressed in Thousands)
Mellon Capital Asset Allocation Fund	$ 1,044,553
Mellon Capital Global Asset Allocation Fund	664,009
Lincoln Capital	382,095
T. Rowe Price High Yield Bonds	296,542
Loomis Saytles	252,598
Total	$ 2,639,797

Employer Contributions

The table on the following page provides an analysis of Employer Contributions for the current year and the preceding two years. Totals for State Employees', New State Police and Judiciary plans do not include Post-Retirement Increase Fund contributions. Employer contributions of all Plans administered by the System are actuarially determined, with the exception of the Closed State Police Plan, which remains pay-as-you-go. The table presents the annual required contributions expressed in dollars and as a percentage of amount actually contributed.

Schedule of Employer Contributions
(Expressed in Thousands)

Plan	Fiscal Year Ended	Annual Required Contributions	Percentage Contributed
State Employees' *	6/30/03	$40,175	100.0%
	6/30/02	18,148	100.0%
	6/30/01	20,542	100.0%
Special	6/30/03	- 0 -	N/A
	6/30/02	- 0 -	N/A
	6/30/01	- 0 -	N/A
Closed State Police	6/30/03	$27,654	68.0%
	6/30/02	27,831	64.0%
	6/30/01	27,709	62.0%
New State Police *	6/30/03	$ 2,786	100.0%
	6/30/02	2,476	100.0%
	6/30/01	2,480	100.0%
Judiciary *	6/30/03	$ 1,342	100.0%
	6/30/02	1,399	100.0%
	6/30/01	1,333	100.0%
Diamond State Port Corporation	6/30/03	$ 333	100.0%
	6/30/02	341	100.0%
	6/30/01	386	100.0%
County and Municipal Police/ Firemen's	6/30/03	$ 2,931	100.0%
	6/30/02	2,779	100.0%
	6/30/01	2,664	100.0%
County and Municipal Other Employees	6/30/03	$ 248	100.0%
	6/30/02	92	100.0%
	6/30/01	165	100.0%
Volunteer Firemen's	6/30/03	$ 667	100.0%
	6/30/02	586	100.0%
	6/30/01	618	100.0%

* Totals do not include Post-Retirement Increase Fund Contributions.

Annual Pension Cost, Actuarial Methods and Assumptions

The table on the following page provides 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, 2003.

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

Plan	State Employees'	Special	Closed State Police	New State Police	Judiciary
Annual Pension Cost	$ 40,175	N/A	$ 27,654	$ 2,786	$ 1,342
Actuarial Valuation Date	6/30/03	6/30/03	6/30/03	6/30/03	6/30/03
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 Percent Closed	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	14.43 years	N/A	33 years	17 years	18 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	8.50%	8.50%	8.50%	8.50%	8.50%
Projected Salary Increases*	6.00%-9.89%	N/A	7.00%	7.00%	5.50%
Cost-of-living adjustments	Ad Hoc	Ad Hoc	Based on CPI	Ad Hoc	Ad Hoc

Plan	Diamond State Port Corporation	County & Municipal Police & Fireman's	County & Municipal Other Employees	Volunteer Firemen's
Annual Pension Cost	$ 341	$ 2,779	$ 92	$ 586
Actuarial Valuation Date	6/30/03	6/30/03	6/30/03	6/30/03
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Open	Level Percent Open	Level Dollar Closed
Remaining Amortization Period	19 years	10 years	10 years	24 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	8.50%	8.50%	8.50%	8.50%
Projected Salary Increases*	5.00%	7.00%	7.00%	N/A
Cost-of-living adjustments	Ad Hoc	Ad Hoc	Ad Hoc	Ad Hoc

- Projected Salary Increases include an inflation component of 5% for all Plans.

Funding Status and Progress

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. 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.

FUNDING STATUS AND PROGRESS

(Expressed in Thousands)

Plan	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL AAL AAL (UAAL) (Excess of Assets over Liabilities) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) UAAL/ (Excess) as % of Covered Payroll (3) / (5)
State Employees'	6/30/03	$ 5,125,442	$ 4,794,944	$ (330,498)	106.9%	$ 1,355,800	(24.4%)
	6/30/02	4,956,156	4,521,732	(434,424)	109.6%	1,351,112	(32.2%)
	6/30/01	4,759,031	4,232,244	(526,787)	112.4%	1,270,632	(41.5%)
Special	6/30/03	$ 1,009	$ 768	$ (241)	131.4%	N/A	N/A
	6/30/02	1,832	742	(1,090)	246.9%	N/A	N/A
	6/30/01	1,866	993	(873)	187.9%	N/A	N/A
Closed State	6/30/03	$ 2,322	$ 318,250	$ 315,928	0.7%	$ 2,869	11,011.8%
Police +	6/30/02	2,036	318,687	316,651	0.6%	3,105	10,198.1%
	6/30/01	1,749	306,194	304,445	0.6%	3,247	9,376.2%
New State	6/30/03	$ 120,457	$ 106,272	$ (14,185)	113.3%	$ 31,778	(44.6%)
Police	6/30/02	109,615	91,928	(17,687)	119.2%	30,281	(58.4%)
	6/30/01	99,138	80,040	(19,098)	123.9%	25,624	(69.1%)
Judiciary	6/30/03	$ 30,961	$ 31,646	$ 685	97.8%	$ 6,112	11.2%
	6/30/02	29,049	30,122	1,073	96.4%	7,329	14.6%
	6/30/01	27,231	29,635	2,404	91.9%	6,371	37.7%
Diamond State Port	6/30/03	$ 7,328	$ 7,056	$ (272)	103.9%	$ 8,636	(3.1%)
Corporation	6/30/02	6,675	6,617	(58)	100.9%	9,354	(0.6%)
	6/30/01	6,044	5,618	(426)	107.6%	8,788	(4.8)%
County and	6/30/03	$ 41,228	$ 36,698	$ (4,530)	112.3%	$ 24,128	(18.8)%
Municipal Police/	6/30/02	35,053	30,344	(4,709)	115.5%	21,342	(22.1)%
Firemen's (FICA) *	6/30/01	29,389	26,465	76	99.3%	19,605	1.1%
County and *	6/30/03	$ 3,632	$ 3,332	$ (270)	108.1%	$ 6,209	(4.3)%
Municipal Other	6/30/02	3,033	2,816	(217)	107.7%	2,545	(8.5)%
Employees'	6/30/01	2,794	2,962	168	94.3%	2,292	7.3%
						Active ++ Members	Cost per Active Member ++
Volunteer	6/30/03	$ 9,644	$ 15,619	$ 5,975	61.7%	4,933	$ 1,211
	6/30/02	9,333	14,940	5,607	62.5%	4,856	1,155
	6/30/01	9,022	13,837	4,815	65.2%	4,769	1,010

* In all years, the Actuarial Accrued Liability is reported on the Frozen Initial Liability Cost Method.

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

++ Not expressed in thousands.

NET PENSION OBLIGATION (NPO)

The Annual Pension Cost (APC) and Net Pension Obligation (NPO) for the Closed State Police Plan for the fiscal years ended June 30, 2003, 2002, and 2001 are presented on the following page.

NET PENSION OBLIGATION (NPO)

	Fiscal Year Ended June 30, 2003	Fiscal Year Ended June 30, 2002	Fiscal Year Ended June 30, 2001
	(Expressed in Thousands)		
Annual Required Contribution	$ 27,654	$ 27,831	$ 27,709
Interest on Net Pension Obligation	6,099	5,257	4,374
Adjustment to Annual Required Contribution	(6,265)	(5,371)	(4,448)
Annual Pension Cost	27,488	27,717	27,635
Less Contributions Made	(18,667)	(17,805)	(17,245)
Increase in Net Pension Obligation	8,821	9,912	10,390
Net Pension Obligation, Beginning of Year	71,756	61,844	51,454
Net Pension Obligation, End of Year	$ 80,577	$ 71,756	$ 61,844

Post-Retirement Health Care Benefits

In addition to the pension benefits, the State provides post-retirement health care benefits, in accordance with State statutes, to all employees who retire from the State after meeting the eligibility requirements. The eligibility requirements are the same as those of the pension plans. Currently, 17,617 retirees meet those eligibility requirements. The State reimburses substantially all validated claims for medical and hospitalization costs incurred by pre-Medicare retirees and their dependents. The State also pays a fixed amount of $292.32 per month for a Medicare supplement for each retiree eligible for Medicare. Expenditures for post-retirement health care benefits are recognized as retirees report claims. During the year, General Government expenditures of $68,050,812 were recognized in the General Fund for post-retirement health care.

Deferred Compensation Plan

The State offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all State of Delaware employees, permits them to defer a portion of their salary to future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Plan changed in January 2001 to include an employer-matching contribution. The State will match the first $10 per pay contributed by employees who have worked for the State at least for six months. Maximum annual State match per employee is $260. The State contribution totaled $1,787,603 million for the year ended June 30, 2003.

Delaware Transportation Authority

Generally, employees of the Delaware Transportation Authority are covered under DPERS. The Delaware Transit Corporation (DTC), a subsidiary public corporation of the Delaware Transportation Authority, has three single-employer defined benefit plans consisting of the Salaried Office Pension Plan, 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. Those reports may be obtained by writing or calling the Delaware Transit Corporation at 900 Public Safety Boulevard, Dover, DE 19901.

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 is as follows (note - the current year information is not available for each plan):

Annual Pension Cost, Actuarial Methods and Assumptions

(Expressed in Dollars)

Plan	Salaried Office Plan	DTC Pension Plan	Contributory Pension Plan
Contribution Rates:			
Employer	Actuarially Determined	Actuarially Determined	3.00/ 5.00%
Participants	1.00%	N/A	3.00/ 5.00%
Annual Pension Cost	$ 42,192	$ 693,100	$ 563,584
Contributions Made	$ -	$ 545,328	$ 346,939
Actuarial Valuation Date	7/1/2001	7/1/2002	01/01/2002
Actuarial Cost Method	Projected Unit Credit Cost	Frozen Initial Liability	Entry Age Normal
Remaining Amortization Period	N/A	23	N/A
Asset Valuation Method	Market	Market	Smooth
Actuarial Assumptions:			
Investment rate of return	7.00%	7.50%	7.00%
Projected Salary Increases	5.00%	4.50%	4.00%

N/A = Not Applicable

Effective January 1, 2003, the Contributory Pension Plan contribution and employer match percentages increased to 5% for North District Fixed Route operators and maintenance personnel. The contribution and employer match percentages for Paratransit operators and South District Fixed Route operators will increase to 5% effective July 1, 2003.

The component of the annual pension cost of the DTC Pension Plan for the year ended June 30, 2001 included an annual required contribution of $494,329, interest on the net pension obligation of $9,663 and amortization of the net pension obligation of $10,752.

As of January 1, 2001, significant changes were made to the provisions of the Contributory Plan. The changes included an increase in benefits received by retirees, the addition of Paratransit operators and South District Fixed Route operators to the Plan, and increased benefits paid to beneficiaries of certain deceased active participants.

The tables on the following page provide required supplementary information concerning funding policies and annual pension costs. Annual pension cost is equal to the respective plans required and actual contributions.

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)
Salaried Office Pension Plan	07/01/2001	$ 2,606,031	$ 1,075,445	$ 1,530,586	242.32%	$ 723,961	211.42%
	07/01/2000	$ 2,859,157	$ 1,049,467	$ 1,809,690	272.44%	$ 702,499	257.61%
	07/01/1999	$ 2,498,738	$ 1,054,050	$ 1,444,688	237.06%	$ 685,788	210.66%
DTC Pension Plan	07/01/2002	$ 4,355,464	$ 4,727,035	$ (371,571)	92.14%	$ 7,690,602	(4.83%)
	07/01/2001	$ 3,717,396	$ 4,097,808	$ (380,418)	90.72%	$ 7,680,779	(4.95%)
	07/01/2000	$ 3,465,024	$ 3,840,040	$ (375,016)	90.23%	$ 6,868,150	(5.46%)
Contributory Pension Plan	01/01/2002	$ 13,207,197	N/A	N/A	N/A	$ 14,754,161	N/A
	01/01/2001	$ 14,294,487	N/A	N/A	N/A	$ 12,236,975	N/A
	01/01/2000	$ 14,903,156	N/A	N/A	N/A	$ 7,449,948	N/A

Three-Year Trend Information

(Expressed in Dollars)

	Plan Year Ended	Contribution Made	Annual Pension Cost (APC)	Percent Of APC Contributed	Net Pension Obligation
Salaried Pension Plan	06/30/2002	$ - 0 -	$ 42,192	-	$ -
	06/30/2001	$ 5,977	$ 40,950	14.60%	-
	06/30/2000	$ 10,379	$ 42,440	24.26%	-
DTC Pension Plan	06/30/2003	$ 545,328	$ 693,100	78.68%	-
	06/30/2002	$ 975,255	$ 641,054	152.13%	-
	06/30/2001	$ 520,000	$ 493,240	105.43%	102,079
Contributory Pension Plan	12/31/2002	$ 346,939	$ 563,584	61.56%	-
	12/31/2001	$ 326,681	$ 256,801	127.21%	-
	12/31/2000	$ 202,851	$ 7,614	2,664.18%	-

N/A = Not Applicable

Plan Merger

Effective July 1, 2002, the Salaried Office Pension Plan was merged into the Contributory Pension Plan.

Component Units

Delaware State Housing Authority (DSHA)

All full time or regular part-time State employees of the DSHA are covered under the DPERS plan, including post-retirement health care. For the year ended June 30, 2003, the Authority was required to contribute 9.47% of covered payroll to the

DPERS plan. The Authority's contribution to the DPERS for the year ended June 30, 2003 was $181,215, equal to the required contribution for the year. Full-time non-state employees of the Public Housing Program and Section 8 Program are covered by the "Housing-Renewal and Local Agency Retirement Plan," a defined contribution plan funded by contributions from both the Authority and the covered employees. Non-State employees of the DSHA are required to contribute 3.5% of their base salary. The DSHA's contribution rate of annual salaries is 9.47% for the period ended June 30, 2003. Total contributions made for the year amounted to $309,896 of which $226,060 and $83,836 was contributed by the DSHA and its employees, respectively.

The Authority provides post-retirement health care benefits in accordance with Authority General Order Number 325, to all non-state employees who retire from the Authority after meeting the eligibility requirements. Currently, five retirees meet those eligibility requirements. Health care benefits paid during fiscal 2003 totaled $18,717. The set aside balance, which is held in the State of Delaware investment pool, totaled $259,024 as of June 30, 2003. The Authority decided for fiscal 2003 the current set aside balance was sufficient and did not set aside additional funds.

Diamond State Port Corporation and Delaware State University

Generally, employees of these discretely presented component units are covered under DPERS.

NOTE 15. AFFILIATED ORGANIZATIONS

Delaware State Lottery

Multi-State Lottery Association

The Multi-State Lottery Association (MUSL) was established in 1987. Its members include the Delaware State Lottery, an enterprise fund, and twenty-four other state lotteries. MUSL is governed by a Board of Directors, of which each member lottery is represented. The Board's responsibilities are to initiate, promulgate, and administer a multi-state lottery game for the mutual benefit of the member lotteries.

The total amount held as a deposit by the MUSL as of June 30, 2003, was $1,794,979. This amount, reported by the Lottery as restricted assets and as liabilities payable from restricted assets, represents funds to be paid to the State of Delaware, upon ending the Powerball game, if MUSL is not required to use a portion of the Lottery's reserves held by MUSL.

Complete separate financial statements for MUSL may be obtained at the Multi-State Lottery Association, 1701 48th Street, Suite 210, West Des Moines, IA 50266-6723.

DelDOT Fund

Delaware Transportation Authority

During fiscal year 1998, Expressways Operations/Toll Administration entered into a regional electronic toll collection system consortium. The consortium includes an agreement among member jurisdictions to share in the potential revenues and costs associated with the construction, financing and operations of an electronic toll collection customer service center (CSC). The CSC collects tolls and violation fees from motorists in each member jurisdiction and remits to each jurisdiction their share of tolls collected based upon actual road usage.

The CSC will also lease fiber optic transmission lines to the public, which will generate rental income to the CSC. The rental income and violation fees are expected to exceed the costs associated with operating the CSC. In the event that the CSC generates costs in excess of revenues during its ten-year operating term, each member jurisdiction will be obligated to finance their share of this operating deficit under the terms of a True-Up Agreement, which each member jurisdiction has signed.

At June 30, 2003 and June 30, 2002, a True-Up study revealed a probable liability relating to the above True-Up Agreement. While the exact amount of this liability, due in March 2008, is not known, a reasonable estimate based on information currently available is $12,000,000 and $6,469,204, respectively. These amounts have been discounted to their present value based on the average investment rate of the Trust Fund at fiscal year end. The discounted amounts of $10,913,837 and $5,767,330 appear in other liabilities at June 30, 2003 and 2002, respectively. Recognition of this expenditure reduces the fund balance at June 30, 2003 and 2002 by $5,146,508 and $3,805,267, respectively. To accumulate funds for future payment of this contingency, the Delaware Transportation Authority is earmarking funds within its operating budget.

On March 25, 2003, the Trust Fund withdrew from the regional consortium that was governing the E-Zpass operation jointly with three agencies from other states. November 30, 2003 is designated as the final transition date. As of this date, the Trust Fund will be operating its E-Zpass system independent of the regional consortium. According to the withdrawal agreement, the Trust Fund will receive approximately $7.6 million at the completion of the fiber optic system. The Trust Fund has agreed to pay $1.9 million in costs over six months and its share of the True-Up due in March 2008.

Audited statements for the CSC may be obtained from Adesta Transportation Inc., 200 East Park Drive, Suite 600, Mt. Laurel, New Jersey 08054.

NOTE 16. CONTINGENCIES

Various parties have made claims against the State in amounts, which in the aggregate, could be material to the financial statements of the State. The State recognized $5.7 million as General Government accrued liabilities in the General Fund for pending litigation settlements for the fiscal year ended June 30, 2003 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, 2003 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 $18.9 million at June 30, 2003) in the event that the annuity issuers default on their obligations.

NOTE 17. SUBSEQUENT EVENT

On August 14, 2003, the State issued $121.0 million of general obligation bonds. These serial bonds mature between July 1, 2004 and July 1, 2023 and bear average interest rates of 3.86%. Proceeds were used to provide funds for capital improvements to various State facilities.

NOTE 18. PRIOR PERIOD ADJUSTMENT

DELDOT Fund

A prior period adjustment was made to record $2,366,000 net bond premium/ discount for DELDOT 2001 and 2002 bond issues, restating net assets at June 30,2002 from $2,803,953,000 to $2,806,319,000.

Component Units

Delaware State Housing Authority

Beginning net assets of the Authority as of June 30, 2002 were restated for prior period adjustments. The adjustments principally relate to reclassification of investments to mortgages receivable and the related write-off of unrealized gains and the write-off of prior year developers contributions. Net assets of the Authority as of June 30, 2002 have been restated from $223,855,000 to $219,131,000.

Delaware Charter Schools

Beginning net assets of the Delaware Charter Schools as of June 30, 2002 were restated for a prior period adjustment. Net assets increased by $5,130,000, resulting from adjustments as the entities were audited for the first time. The majority of the adjustments related to recording capital assets net of related debt. Net assets of the Delaware Charter Schools as of June 30, 2002 were restated from $3,563,000 to $8,693,000.

State of Delaware

Required Supplementary Information

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY REPORTING

BUDGETARY BASIS VS. GAAP

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

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

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

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

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

Statutory/Budgetary Presentation

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

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

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

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

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

Budgetary Fund Balance	
Designated:	
Budget Reserve Account	$ 136.5
Continuing and encumbered appropriations	173.3
Undesignated	154.2
Total	$ 464.0

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

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

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

Budgetary Fund Balance	
Designated:	
Delaware Health Fund	$ 73.4
Department of Administrative Services	17.6
Department of Finance	38.5
Department of Natural Resources and Environmental Control	159.4
Miscellaneous designated funds	20.9
Total	$ 309.8

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

Statutory/Budgetary Reconciliations

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

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

BUDGET VS GAAP REVENUE RECONCILIATION
(Expressed in Millions)

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

BUDGET VS GAAP EXPENDITURE RECONCILIATION
(Expressed in Millions)

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

APPENDIX C

CONTINUING DISCLOSURE AGREEMENT

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement dated as of April 15, 1996 (the "Disclosure Agreement") is executed and delivered by THE STATE OF DELAWARE (as more fully defined below, the "State") in connection with the issuance of its General Obligation Bonds - Series 1996A. The State, intending to be legally bound, hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the State for the benefit of the Holders from time to time of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the 1996A Bond Resolution, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Additional Bonds" shall mean any indebtedness of the State issued subsequent to the 1996A Bonds which the State has declared in writing to be covered by this Disclosure Agreement.

"Annual Report" shall mean any Annual Report provided by the State pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Bond Resolution" shall mean the 1996A Bond Resolution and, to the extent relevant, any other bond resolution or authorizing document with respect to Additional Bonds.

"Bonds" shall mean the 1996A Bonds and any Additional Bonds, if any.

"Dissemination Agent" shall mean any agent of the State designated in writing by the State which has filed with the State a written acceptance of such designation.

"Holder" shall mean any registered holder of Bonds, provided however, that with respect to any Bond registered in a "street name" or the name of a nominee such as The Depository Trust Company, the term "holder" shall mean the beneficial owner of that Bond as defined in S.E.C. Rule 13d-3.

"Issuing Officers" shall mean the Governor, Secretary of Finance, Secretary of State and State Treasurer of the State.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board, or any successor organization. The current address of the MSRB is:

MUNICIPAL SECURITIES RULEMAKING BOARD
Continuing Disclosure Information System
1640 King Street, Suite 300
Alexandria, VA 22314-2719
(202) 223-9503 (phone)
(703) 683-1930 (fax)

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

BLOOMBERG MUNICIPAL REPOSITORY
Attn: Municipal Dept.
Bloomberg Business Park
100 Business Park Drive
Skillman, New Jersey 08558
(609) 279-3200 (phone)
(609) 279-3224 (phone)
(609) 279-5962 (fax)
[U.S. Mail: P.O. Box 840
Princeton, NJ 08542-0840]

THE BOND BUYER
Attn: Secondary Market Disclosure
395 Hudson Street, 3rd Fl.
New York, New York 10004
(212) 807-3814 (phone)
(212) 807-3868 (phone)
(212) 989-9282 (fax)
Internet: disclosure@muller.com

DISCLOSURE, INC.
Attn: Document Acquisitions/Municipal Securities
5161 River Road
Bethesda, Maryland 20816
(301) 951-1450 (phone)
(301) 718-2329 (fax)

R.R. DONNELLEY & SONS
Municipal Securities Disclosure Archive
559 Main Street
Hudson, Mass. 01749
(800) 580-3670 (phone)
(508) 562-1969 (fax)
Internet: http://www.municipal.com

KENNY INFORMATION SYSTEMS, INC.
Attn: Kenny Repository Service
65 Broadway, 16th Fl.
New York, New York 10006
(212) 770-4595 (phone)
(212) 797-7994 (fax)

MOODY'S NRMSIR
Attn: Public Finance Information Center
99 Church Street, 6th Floor
New York, New York 10007-2701
(800) 339-6306 (phone)
(212) 553-1460 (fax)

"1996A Bond Resolution" shall mean the bond resolution duly adopted by the Issuing Officers of the State with respect to the 1996A Bonds on April 23, 1996.

"1996A Bonds" shall mean the State's $100,000,000 aggregate principal amount General Obligation Bonds - Series 1996A dated April 15, 1996.

"1996A Underwriter" shall mean Lehman Brothers.

"Obligated Person" shall have the meaning set forth in the Rule, provided that the sole objective criteria used to select the Obligated Person shall be the entity obligated to repay all debt service with respect to the relevant Bonds.

"Participating Underwriter" shall mean the 1996A Underwriter and any of the original underwriters of any Additional Bonds required to comply with the Rule in connection with offering of such Additional Bonds.

"Repository" shall mean each National Repository and the State Repository, if any.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time, any successor provisions of similar import promulgated by the Securities and Exchange Commission in the future, and any applicable no-action letters and other authoritative interpretations of Rule 15c2-12 released by the Securities and Exchange Commission including, by way of example, the staff interpretive guidance dated June 23, 1995 from Robert L.D. Colby, Deputy

Director or the letter dated September 19, 1995 from Catherine McGuire, Chief Counsel, Division of Market Regulation addressed to John S. Overdorff, Esquire.

"State" shall mean The State of Delaware, or any successor Obligated Person that assumes either by operation by law or by contract both (i) the obligation to pay debt service on the Bonds and (ii) the obligations of the State under this Disclosure Agreement.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule. As of the date of this Agreement, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The State shall, or shall cause the Dissemination Agent to, not later than the first day of the eleventh calendar month immediately following the end of the State's fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to said date, the State shall provide the Annual Report to the Dissemination Agent, if any. Given the State's current fiscal year, this obligation to provide an Annual Report occurs by not later than May 1 of each year, commencing May 1, 1997. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided however that the audited financial statements of the State may be submitted separately from the balance of the Annual Report.

(b) If the State is unable to provide the Annual Report to Repositories by the date required in subsection (a), the State shall send a notice to each Repository (or to the MSRB and the State Repository) in substantially the form attached as Exhibit A.

(c) The Dissemination Agent, if any, shall: (i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and (ii) file a report with the State certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

(d) Audited financial statements of the State not submitted as part of the Annual Report shall be provided to each Repository, if and when available to the State, and in any event not more than thirty (30) days after receipt thereof from the State's auditors. In the event that audited financial statements are not submitted as part of the Annual Report, the State shall provide in lieu thereof unaudited financial statements meeting the description set forth in Section 4(a)(i) hereof.

(e) The State shall promptly provide written notice of any change in its fiscal year to the MSRB and to each Repository.

SECTION 4. Content of Annual Reports.

(a) The State's Annual Report shall contain or incorporate by reference the information listed in Exhibit B with respect to the relevant fiscal year.

(b) Notwithstanding the provisions of Section 4(a) above, in the event the State provides for the repayment of the Bonds through an economic defeasance, such that repayment of the principal of and interest on the Bonds are expected to be derived from escrowed securities, and not the general revenues of the State (the "Defeased Bonds"), the State's Annual Report with respect to such Defeased Bonds shall only contain or incorporate by reference a report by a certified public accountant (the "Verification Report") as to the mathematical accuracy of computations showing the sufficiency of the receipts from the escrowed securities to pay, when due, the principal, interest and redemption premium (if any) requirements of the Defeased Bonds; provided that the State receive an opinion of counsel with expertise in federal securities law to the effect that such Annual Report is permitted by the Rule. Any cross reference to the Verification Report may be contained in a footnote to the State's audited financial statements.

(c) Any or all of the items required may be incorporated by reference from other documents, including official statements of debt issues of the State or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The State shall clearly identify each such other document so incorporated by reference.

(d) If any information described in Section 4(a) above can no longer be generated because the operations to which such information relates have been materially changed or discontinued, a statement to that effect shall satisfy the obligations of the State under this Section 4, provided however that the State shall, to the greatest extent feasible, provide in lieu thereof similar information with respect to any substitute or replacement operations.

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies;

2. Non payment-related defaults;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;

7. Modifications to rights of Bondholders;

8. Bond calls (other than mandatory sinking fund redemptions);

9. Defeasances of Bonds;

10. Release, substitution, or sale of property securing repayment of any Bonds; or

11. Rating changes.

(b) If a Listed Event occurs, the State shall as soon as possible determine if such event would constitute material information for holders of Bonds, in accordance with the applicable "materiality" standard under then-current securities laws.

(c) If the occurrence of a Listed Event would be material to holders of Bonds in accordance with the applicable "materiality" standard under then-current securities laws, the State shall in a timely manner file, or cause the Dissemination Agent to file, a notice of such occurrence with the MSRB and the State Repository (if any). Notwithstanding the foregoing, notice of Listed Events need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Bond Resolution, provided that such notice is given in a timely manner.

SECTION 6. Accounting Standards. The financial statements described in Section 4(a)(i) above shall be audited by either a certified public accountant or an independent public accountant and shall be prepared in accordance with both (a) generally accepted accounting principles applicable in the preparation of financial statements of municipalities and other public entities as such principles are from time to time promulgated by the Financial Accounting Standards Board, the Governmental Accounting Standards Board, or such other body recognized as authoritative by the American Institute of Certified Public Accountants or any successor body ("GAAP"), and (b) applicable federal and state auditing statutes, regulations, standards and/or guidelines; provided however that the State may from time to time modify its accounting principles to the extent necessary or desirable to comply with changes in either GAAP or applicable federal and state statutes, regulations, standards and/or guidelines. The State currently utilizes a combination of modified accrual and GAAP bases for its budgeting and reporting obligations. To the extent the State shifts solely to a GAAP basis, the State reserves the right to provide its Annual Report based solely on that basis. Any such modification of accounting standards to conform to changes in either GAAP or applicable federal or state auditing statutes, regulations, standards or guidelines shall not constitute an amendment to this Disclosure Agreement within the meaning of Section 9 hereof, provided that such modifications are disclosed in the first Annual Report to be provided subsequent to such modifications.

SECTION 7. Termination of Reporting Obligation. The State's obligations under this Disclosure Agreement shall terminate upon (a) the legal defeasance, prior redemption or payment in full of all of the Bonds or (b) the assumption by a successor Obligated Person of all of the obligations of the prior Obligated Person both hereunder and under the Bonds. The prior State shall provide timely written notice to each Repository of any termination of its obligations hereunder.

SECTION 8. Dissemination Agent. The State may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such agent, with or without appointing a successor Dissemination Agent.

SECTION 9. Amendments. (a) Notwithstanding any other provision of this Disclosure Agreement, the State may modify or amend this Disclosure Agreement if the following preconditions are satisfied:

(i) the modification or amendment is being made in connection with a change of circumstances that arises from a change in legal requirements, change in law, change in the identity, nature or status of the State, or change in the type of business conducted by the State;

(ii) this Disclosure Agreement, as amended, would have complied with the requirements of the Rule as of the date of issuance of the relevant Bonds, after taking into account any amendment or interpretations of the Rule, as well as any change in circumstances; and

(iii) the modification or amendment does not materially adversely affect the interests of Holders, as determined either by a party unaffiliated with the State (such as a paying agent or nationally recognized bond counsel) or by an approving vote of a majority of Holders.

Compliance with the provisions of this Section 9(a) shall be conclusively evidenced by a written opinion of nationally recognized bond counsel to the effect that the modification or amendment satisfies the requirements of this Section 9(a).

(b) The State shall report any modification or amendment of this Disclosure Agreement as required by the Rule. To the extent required by the Rule, the State shall include as a component of the first Annual Report to be provided subsequent to the relevant amendment, a copy of the amendment, together with a notice explaining in narrative form both (i) the reasons for the amendment and (ii) the impact of the change in the type of operating data or financial information being provided. To the extent required by the Rule, if the amendment relates to changes in accounting principles to be followed in preparing financial statements, the first Annual Report to be provided subsequent to the relevant amendment shall also include a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles and a qualitative (and to the extent reasonably feasible, quantitative) discussion of the differences in the accounting principles and the impact of the change in the accounting principles upon the presentation of the financial information. Written notice of any such change in accounting principles shall be provided in a timely fashion to each Repository.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including disclaimers or any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the State chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the State shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the State to comply with any provision of this Disclosure Agreement, a paying agent, any Participating Underwriter or any Holder may take such actions as may be necessary and appropriate, including seeking a writ of mandamus or specific performance by court order to cause the State to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Bond Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the State to comply with this Disclosure Agreement shall be an action to compel performance; provided however that nothing herein shall limit any Holder's rights under applicable federal securities law.

SECTION 12. Severability. In case any section or provision of this Disclosure Agreement or any covenant, stipulation, obligation, agreement, or action, or any part thereof, made, assumed, entered into or taken under this Disclosure Agreement, or any application thereof, is for any reason held to be illegal or invalid or is at any time inoperable, such illegality, invalidity or inoperability shall not affect the remainder thereof or any other section or provision or the Disclosure Agreement, or any other covenant, stipulation, obligation, agreement, act or action, or part thereof, made, assumed, entered into or taken under this Disclosure Agreement, which shall at the time by construed and enforced as if such illegal or invalid or inoperable portion were not contained therein.

SECTION 13. Entire Agreement. This Disclosure Agreement contains the entire agreement of the State with respect to the subject matter hereof and supersedes all prior arrangements and understandings with respect thereto, provided however that this Disclosure Agreement shall be interpreted and construed with reference to and in *pari materia* with the Rule.

SECTION 14. Captions. The captions or headings herein shall be solely for convenience of reference and shall in no way define, limit or describe the scope or intent of any provisions or sections hereof.

SECTION 15. Beneficiaries. This Disclosure Agreement is being entered into solely for the benefit of the Participating Underwriters and Holders from time to time of the Bonds, and nothing in this Disclosure Agreement expressed or implied is intended to or shall be construed to give to any other person or entity any legal or equitable right, remedy or claim under or in respect of this Disclosure Agreement or any covenants, conditions or provisions contained herein.

SECTION 16. Governing Law. This Disclosure Agreement shall be deemed to be a contract made under the laws of the State of Delaware, and all provisions hereof shall be governed and construed in accordance with the laws of the State of Delaware, without reference to the choice of law principles thereof.

IN WITNESS WHEREOF, The State of Delaware has caused this Disclosure Agreement to be duly executed by the Secretary of Finance as of the day and year first above written.

____
Sarah Jackson
Secretary of Finance
The State of Delaware

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of State: The State of Delaware

Name of Bond Issue: $100,000,000 General Obligation Bonds - Series 1996A

Date of Issuance: April 30, 1996

CUSIP: ______________________________

NOTICE IS HEREBY GIVEN that the State has not provided an Annual Report with respect to the above-named Bonds as required by Section 16 of the Bond Resolution adopted April 23, 1996 in a timely manner. [The State anticipates that the Annual Report will be filed by ___________________.]

Dated: __________________

THE STATE OF DELAWARE

By:___________________________________
Authorized Officer

EXHIBIT B

CONTENTS OF ANNUAL REPORT

The Annual Report shall contain the following:

1. Audited financial statements for the prior fiscal year in form and content substantially the same as those appended to the State's Official Statement with respect to the 1996A Bonds.

2. A Summary of the Cash Basis Financial Statements for the prior fiscal year in form and content substantially the same as those appended to the State's Official Statement with respect to the 1996A Bonds.

3. An update of the type of information included in the below-listed tables and sections in the Official Statement to the extent not included in Item Nos. 1 or 2 above:

(a) General Obligation Debt Service (p. 3) - updated for the issuance of general obligation debt through the prior fiscal year.

(b) The 5% Rule (p. 4) - updated for the current fiscal year.

(c) The 15% Test and the Cash Balances Test (p. 5-6) - updated for the current fiscal year.

(d) DEFAC Budgetary General Fund Revenue Projections (p. 29) - updated for the prior fiscal year.

(e) Budgetary General Fund Revenue (p. 30) - updated for the prior fiscal year.

(f) Budgetary General Fund Expenditures (p. 31) - updated for the prior fiscal year.

(g) Sources and Uses of State Funds (p. 32) - updated to compare the prior fiscal year to the fiscal year ten years prior.

(h) Budgetary General Fund Disbursements (p. 45) - updated for the prior fiscal year.

(i) Public School Enrollment (p. 46) - updated for the prior year.

(j) Welfare Expenditures (p. 47) - updated for the prior fiscal year.

(k) Total Federal Funds (p. 50) - updated for the prior fiscal year.

4. An update of the type of information included in the text and tables under the heading "Bonded Indebtedness of the State" beginning with the subsection "General Obligation Debt" through "State Revenue Debt" (p. 7-10) for the prior fiscal year. The information under the heading "Lease Obligations" shall be updated to cover the five fiscal year period beginning with the prior fiscal year.

5. An update of the type of information included in the text under the heading "Indebtedness of Authorities, Certain Higher Education Institutions and Political Subdivisions - Authorities - Delaware Transportation Authority" (p. 11) for the prior fiscal year; and "- Delaware State Housing Authority" (p. 12) updated for the prior fiscal year.

6. An update of the type of information included in the text and tables under the heading "Fiscal Year Ended June 30, 1995" (p. 33-35) for the prior fiscal year.

7. An update of the type of information included in the text and tables under the heading "State Pension Plan" (p. 51-53) for the prior fiscal year.

8. An update of the text appearing in the first paragraph under the heading "Employee Relations" (p. 53) for the prior fiscal year.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[FORM OF OPINION OF BOND COUNSEL]

January 21, 2004

OPINION OF BOND COUNSEL

TO THE PURCHASERS OF THE ABOVE-CAPTIONED BONDS:

Re: The State of Delaware
<u>$205,310,000 General Obligation Bonds - Series 2004A</u>

We have acted as bond counsel in connection with the issuance of $205,310,000 General Obligation Bonds – Series 2004A (the "Bonds") by The State of Delaware (the "State") on the date hereof. The Bonds are issued as fully registered Bonds as provided in the Bonds and in a resolution of the Issuing Officers of the State adopted January 7, 2004 (the "Resolution").

The Bonds are issued pursuant to the Constitution and laws of the State including Chapter 74, Title 29, Delaware Code, as amended and the Resolution.

As Bond Counsel, we have examined a certified copy of the Resolution and the form of Bonds. We have examined originals (or copies certified or otherwise identified to our satisfaction) of such other instruments, certificates and documents as we have deemed necessary or appropriate for the purposes of the opinion rendered below. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies.

We have relied on a certificate of the State as to the due execution and delivery of, and payment for, the Bonds. As to any facts material to our opinion we have, when such facts were not independently established, relied upon the aforesaid instruments, certificates and documents including the State's Federal Tax Certificate as to Arbitrage and Instructions as to Compliance with Provisions of Section 103(a) of the Internal Revenue Code of 1986, as amended, dated the date of issuance of the Bonds, and the statement of reasonable expectations of future events set forth in such certificate.

We have not verified the accuracy, completeness or fairness of the information set forth in any offering statement or other similar documents of the State delivered to the purchasers or prospective purchasers of the Bonds, and we take no responsibility therefor.

Based on the foregoing, we are of the opinion as of the date hereof and under existing law that:

1. The Bonds have been duly authorized, executed and delivered and constitute legal and valid general obligations of the State.

2. The State has pledged its faith and credit for the payment of the principal of and interest on the Bonds. The Constitution of the State does not contain any limitation upon the rate or amount of taxes which may be levied by the State for the payment of principal of and interest on the Bonds with the exception that any law which shall have the effect of increasing the rates of taxation on personal income for any year or part thereof prior to the date of the enactment thereof, or for any year or years prior to the year in which the law is enacted, would be void.

3. Interest (including accrued original issue discount) on the Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion set forth in the preceding sentence is subject to the condition that the State comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon continues to be excluded from gross income for purposes of federal income taxation. Failure to comply with certain of such requirements could cause the interest on the Bonds to be includable in gross income retroactive to the date of issuance of the Bonds. The State has covenanted to comply with all such requirements. Interest on the Bonds is not treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the "Code") for purposes of the individual and corporate alternative minimum taxes; however, we call to your attention that under the Code, to the extent that interest on the Bonds is a component of a corporate holder's "adjusted current earnings", a portion of that interest may be subject to the corporate alternative minimum tax. We express no opinion regarding other federal tax consequences relating to the Bonds or the receipt of interest thereon.

4. Interest on the Bonds is excluded from taxable income for the purposes of personal and corporate income taxes imposed by the State.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.