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

In the opinion of Bond Counsel, interest on the 2009C 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. Interest on the 2009C 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 2009C Bonds. Under existing statutes, interest on the 2009 Bonds is exempt from personal and corporate income tax imposed by The State of Delaware. For a more complete discussion, see "Tax Matters" herein.

$492,980,000
THE STATE OF DELAWARE
General Obligation Bonds – Series 2009
consisting of:

$313,665,000	**$179,315,000**
General Obligation Bonds	**General Obligation Bonds**
Series 2009C	**Series 2009D**
	(Federally Taxable – Build America Bonds)

Dated: Date of Issuance **Due: October 1, as shown on the Inside Front Cover**

The Bonds consist of the $313,665,000 General Obligation Bonds-Series 2009C (the "2009C Bonds") and the $179,315,000 General Obligation Bonds-Series 2009D (Federally Taxable – Build America Bonds) (the "2009D Bonds" and, together with the 2009C Bonds, the "Bonds" or the "2009 Bonds"). The 2009 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 2009 Bonds. The State has elected to designate the 2009D Bonds as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 and to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on the 2009D Bonds. See "DESCRIPTION OF THE BONDS – 2009D Bonds As Build America Bonds."

Interest on the 2009 Bonds is payable semiannually on April 1 and October 1 of each year commencing April 1, 2010.

The 2009C Bonds are not subject to redemption prior to maturity. The 2009D Bonds are subject to optional redemption, mandatory sinking fund redemption and extraordinary optional redemption prior to maturity as more fully described herein.

The 2009 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 2009 Bonds and the investors should look for payment to the institution from which their 2009 Bonds were purchased.

The 2009 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. Certain legal matters will be passed upon for the underwriters of the 2009C Bonds by their counsel Cozen O'Connor, Wilmington, Delaware and Philadelphia, Pennsylvania. 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 October 22, 2009.

The date of this Official Statement is October 14, 2009

MATURITIES, AMOUNTS, RATES, YIELDS, PRICES & CUSIP NUMBERS

2009C BONDS[1]

Maturity (October 1)	Principal Amount ($)	Interest Rate (%)	Yield (%)	Price ($)	CUSIP Number[3] (246380)
2011	3,335,000	3.000	0.800	104.229	3U1
2012	4,145,000	2.000	1.000	102.891	3C1
2012	21,270,000	5.000	1.000	111.566	3K3
2013	5,290,000	2.000	1.420	102.215	3D9
2013	18,215,000	5.000	1.420	113.675	3L1
2014	12,225,000	2.000	1.750	101.178	3E7
2014	18,205,000	5.000	1.750	115.320	3M9
2015	2,460,000	2.500	2.050	102.504	3F4
2015	42,795,000	5.000	2.050	116.422	3N7
2016	3,090,000	2.500	2.300	101.275	2T5
2016	50,015,000	5.000	2.300	117.230	3P2
2017	295,000	4.000	2.520	110.590	2U2
2017	22,795,000	5.000	2.520	117.747	3Q0
2018	5,690,000	2.500	2.690	98.498	2V0
2018	14,295,000	5.000	2.690	118.248	3R8
2019	3,120,000	4.000	2.810	110.258	2W8
2019	10,380,000	5.000	2.810	118.879	3S6
2020	495,000	4.000	2.930	109.953	2X6
2020	16,040,000	5.000	2.930	119.256	3T4
2021	13,580,000	5.000	3.040	119.503	2Y4
2022	3,935,000	3.000	3.120	98.729	2Z1
2022	3,230,000	5.000	3.120	119.890	3V9
2023	10,140,000	5.000	3.190	120.240	3A5
2024	605,000	4.000	3.260	108.696	3B3
2024	6,540,000	5.000	3.260	120.449	3W7
2025	7,150,000	5.000	3.340	120.387	3G2
2026	7,160,000	5.000	3.420	120.187	3H0
2027	7,170,000	5.000	3.490	120.007	3J6

2009D BONDS[2]

Maturity (October 1)	Principal Amount ($)	Interest Rate (%)	Yield (%)	Price ($)	CUSIP Number[3] (246380)
2015	9,365,000	3.700	3.530	100.902	3X5
2016	9,400,000	3.900	3.760	100.846	3Y3
2017	12,350,000	4.100	3.990	100.740	3Z0
2018	12,350,000	4.300	4.140	101.183	4A4
2019	12,350,000	4.450	4.290	101.281	4B2
2020	12,350,000	4.600	4.440[4]	101.272[4]	4C0
2021	12,350,000	4.700	4.540[4]	101.266[4]	4D8
2022	12,350,000	4.800	4.640[4]	101.259[4]	4E6
2023	12,350,000	4.850	4.790[4]	100.467[4]	4F3
2024	12,350,000	5.000	4.890[4]	100.854[4]	4G1
2025	12,350,000	5.100	4.990[4]	100.850[4]	4H9
2026	12,350,000	5.200	5.090[4]	100.846[4]	4J5
2027	12,350,000	5.300	5.190[4]	100.842[4]	4K2

$24,700,000 5.600% Term Bond due October 1, 2029 – Price 100.754[4]; Yield 5.537%[4]; CUSIP 246380 4L0

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1. The 2009C Bonds have been sold to investors through a negotiated sale with a group of underwriters represented by Morgan Stanley & Co. Incorporated and including Barclays Capital, J.P. Morgan Securities Inc. and Stone & Youngberg LLC.
2. The 2009D Bonds have been awarded to Citigroup Global Markets Inc. through a competitive sale.
3. Copyright 2006, American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. Neither the State nor the Underwriters take any responsibility for the accuracy of such CUSIP numbers. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity.
4. Yield and priced to call date (October 1, 2019).

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.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, ARE NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

The underwriters of the Bonds have provided the following sentence for inclusion in this Official Statement: The underwriters of the Bonds have reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the underwriters of the Bonds do not guarantee the accuracy, completeness or fairness of such information.

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such forward-looking statements speak only as of the date of this Official Statement. The State disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the State's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

All quotations from and summaries and explanations of provisions of laws and documents described herein do not purport to be complete and reference is made to said laws and documents for full and complete statements of their provisions.

Upon issuance, the Bonds will not be registered under the Securities Act of 1933, as amended, or under any state securities laws in reliance upon exemptions contained in such Act or under such state securities laws. The Bonds will not be listed on any stock or other securities exchange. Any registration or qualification of the Bonds in accordance with applicable provisions of securities laws of the states in which the Bonds may be registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency, except the State, will have passed upon the accuracy, completeness or adequacy of this Official Statement or approved the Bonds for sale. Any representation to the contrary may be a criminal offense.

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OFFICIAL STATEMENT

of

THE STATE OF DELAWARE

$492,980,000
General Obligation Bonds – Series 2009
Consisting of:

$313,665,000 **General Obligation Bonds** **Series 2009C**	**$179,315,000** **General Obligation Bonds** **Series 2009D** **(Federally Taxable – Build America Bonds)**

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 $492,980,000 General Obligation Bonds-Series 2009 consisting of $313,665,000 General Obligation Bonds-Series 2009C (the "2009C Bonds") and the $179,315,000 General Obligation Bonds-Series 2009D (Federally Taxable – Build America Bonds) (the "2009D Bonds" and, together with the 2009C Bonds, the "Bonds" or the "2009 Bonds"). The 2009C Bonds are issued as tax-exempt obligations of the State under the Internal Revenue Code of 1986, as amended (the "Code"). The 2009D Bonds are issued as taxable obligations of the State, and the State is electing to treat the 2009D Bonds as direct pay "Build America Bonds" under Section 54AA of the Code.

Brief descriptions of the State, the authorizing Resolutions (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 Resolutions 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 2009C Bonds are general obligations of the State to be issued pursuant to a resolution adopted on October 9, 2009 (the "2009C Resolution") and the 2009D Resolution (as defined below). The 2009D Bonds are general obligations of the State to be issued pursuant to a resolution adopted on October 14, 2009 (the "2009D Resolution," and together with the 2009C Resolution, the "Resolutions") 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 inside of 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.

2009D Bonds As Build America Bonds

The American Recovery and Reinvestment Act of 2009 ("ARRA") permits the State to issue the 2009D Bonds as "Build America Bonds" to finance capital expenditures for which it could issue tax-exempt bonds, and to elect to receive payments from the United States Treasury equal to 35% of the corresponding interest payable on such 2009D Bonds (the "Subsidy Payments"). Such Subsidy Payments are not pledged to the payment of the 2009D Bonds. Subsidy Payments for the 2009D Bonds will be paid to the State and therefore the holders of 2009D Bonds are not entitled to a tax credit related thereto, and interest paid to holders of 2009D Bonds is subject to federal income tax. To the extent such Subsidy Payments are paid by the federal government to the State, such amounts will be deposited in a special fund created by the State.

In certain circumstances, the Subsidy Payments to be made to the State may be reduced (offset) by amounts determined to be applicable under the Code and Treasury Regulations. For example, offsets may occur by reason of any past-due, legally enforceable debt of the State to any Federal agency. The amount of any such offset is not predictable, and the State does not currently expect that any such offsets will apply to the credits the State expects to receive. Any such offset does not alter the State's obligation to pay principal and interest due on the 2009D Bonds.

The Subsidy Payments do not constitute a full faith and credit guarantee of the United States of America, but are required to be paid by the United States Treasury under ARRA. If the Subsidy Payments from the United States Treasury are reduced or eliminated, the 2009D Bonds are subject to extraordinary optional redemption. See "DESCRIPTION OF THE BONDS – Redemption" herein.

Redemption

Optional Redemption – 2009C Bonds

The 2009C Bonds are not subject to redemption prior to maturity.

Optional Redemption (Par Call) – 2009D Bonds

The 2009D Bonds maturing on or after October 1, 2020 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 and pro rata within maturities, beginning October 1, 2019 at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest to the redemption date.

Mandatory Sinking Fund Redemption – 2009D Bonds

The 2009D Bonds maturing on October 1, 2029 are subject to mandatory sinking fund redemption in part, pro rata within maturities, by operation of a sinking fund to be established by the State (to the extent not previously purchased by the State) on October 1, at a redemption price equal to par plus interest accrued to the redemption date in the following principal amounts in each of the following years:

Year	Principal Amount
2028	$12,350,000
2029*	12,350,000

* Final Maturity

Extraordinary Optional Redemption – 2009D Bonds

The 2009D Bonds are subject to redemption prior to maturity at the option of the State, in whole or in part (pro rata within a maturity), upon the occurrence of an Extraordinary Event, at a redemption price (the

"Extraordinary Optional Redemption Price") equal to the greater of (i) 100% of the principal amount of the 2009D Bonds to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest on the 2009D Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the 2009D Bonds are to be redeemed, discounted to the date on which the 2009D Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 100 basis points; plus, in each case, accrued and unpaid interest on the 2009D Bonds to the redemption date.

An "Extraordinary Event" will have occurred if Section 54AA or 6431 of the Internal Revenue Code of 1986, as amended (the "Code") (as such Sections were added by Section 1531 of ARRA, pertaining to "Build America Bonds") is modified, amended or interpreted in a manner pursuant to which the State's 35% Subsidy Payments from the United States Treasury are reduced or eliminated. The redemption price of the 2009D Bonds to be redeemed at the option of the State will be determined in good faith by the State and such determination shall be binding and conclusive on the owners of the 2009D Bonds.

The "Treasury Rate" is, as of any redemption date of any 2009D Bonds, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to such redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from such redemption date to the maturity date of such 2009D Bonds; provided, however, that if the period from such redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

So long as DTC or a successor securities depository is the sole owner of the 2009D Bonds, it is the State's intent that redemption allocations made by DTC, the Direct Participants and Indirect Participants (as each is defined herein under "THE BOOK-ENTRY ONLY SYSTEM") or such other intermediaries that may exist between the State and the Beneficial Owners (as defined herein under "THE BOOK-ENTRY ONLY SYSTEM") be made in accordance with these same proportional provisions. The State can provide no assurance that DTC, the Direct Participants or Indirect Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such a proportional basis.

Notice of Redemption

Notice of redemption will be mailed to registered owners of the 2009D 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 Resolutions. The State, so long as a book-entry system is used for determining ownership of the 2009D 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 2009D 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 Resolutions. 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
1999A	2016	$ 2,750,000	11/23/2009	100%
2001A	2010-2021 inclusive	$ 9,960,000	11/23/2009	100%
2002A	2010*, 2012, 2014-2021 inclusive	$ 44,800,000	07/01/2010	100%
2003A	2012-2022 inclusive	$ 38,900,000	01/01/2011	100%
2003C	2012-2018 inclusive, 2020, 2023	$ 40,000,000	07/01/2011	100%
2005D	2014	$ 8,600,000	09/01/2013	100%
2006A	2015-2017 inclusive	$ 4,935,000	08/01/2014	100%
2006B	2015, 2016, 2018	$ 26,280,000	08/01/2014	100%
2007A	2016, 2017	$ 27,850,000	05/01/2015	100%
2008A	2017-2028 inclusive	$ 32,145,000	03/01/2016	100%
2008B	2017-2025 inclusive	$ 63,855,000	03/01/2016	100%

* In the case of the 2002A Bonds, the 2010 maturity is being funded to maturity on July 1, 2010.

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 or to maturity, as the case may be, and to redeem on such call date Refunded Bonds which become due after such date or to pay at maturity, as the case may be. 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 National Association (the "Escrow Agent") pursuant to an escrow agreement to be dated October 22, 2009 (the "Escrow Agreement") between the State and the Escrow Agent for the benefit of the holders of the Refunded Bonds.

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

The sources and uses of funds to accomplish the purposes of the Bonds are expected to be as follows:

Sources:	**2009C Bonds**	**2009D Bonds**	**Total**
Par Amount of Bonds:	$ 313,665,000.00	$ 179,315,000.00	$ 492,980,000.00
Net Original Issue Premium	47,046,613.90	1,691,444.30	48,738,058.20
Total Sources:	$ 360,711,613.90	$ 181,006,444.30	$ 541,718,058.20
Uses:			
Capital Projects	$ 31,942,101.20	$179,751,239.30	$211,693,340.50
Deposit to Escrow Fund	327,148,093.91	-	327,148,093.91
Underwriters' Discount	1,316,972.76	1,255,205.00	2,572,177.76
Other Financing Expenses	304,446.03	-	304,446.03
Total Uses:	$ 360,711,613.90	$ 181,006,444.30	$ 541,718,058.20

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)

	Prior to Issuance of the Bonds				After Issuance of Bonds			
Fiscal Year Ending June 30	Principal	Interest	Debt Service	Total Principal Amount Outstanding	Principal	Interest	Debt Service	Total Principal Amount Outstanding
2010	$156.4	$63.4	$219.8	$1,312.8	$156.4	$66.3	$222.8	$1,505.7
2011	149.1	57.2	206.3	1,163.7	138.2	67.1	205.4	1,367.5
2012	144.8	52.4	197.2	1,018.9	139.5	62.6	202.2	1,228.0
2013	135.3	45.5	180.8	883.5	134.4	55.9	190.2	1,093.6
2014	121.9	37.5	159.3	761.7	133.2	47.7	180.9	960.3
2015	109.3	32.1	141.4	652.3	120.8	41.8	162.6	839.5
2016	100.5	27.3	127.8	551.8	112.5	36.1	148.6	727.0
2017	94.6	23.3	117.9	457.2	107.3	31.1	138.3	619.7
2018	81.9	19.4	101.3	375.3	94.5	26.7	121.2	525.2
2019	64.8	15.9	80.7	310.5	77.3	22.8	100.2	447.9
2020	47.6	13.3	60.9	262.9	60.1	19.7	79.8	387.8
2021	45.4	11.3	56.6	217.5	57.9	17.1	75.0	329.9
2022	45.1	9.4	54.4	172.5	57.7	14.5	72.2	272.2
2023	43.1	7.4	50.6	129.3	55.6	12.1	67.7	216.5
2024	36.2	5.5	41.7	93.1	48.7	9.6	58.3	167.8
2025	29.6	4.0	33.5	63.6	42.0	7.4	49.5	125.8
2026	26.4	2.7	29.0	37.2	38.9	5.5	44.4	86.9
2027	21.2	1.6	22.8	16.0	33.7	3.8	37.5	53.2
2028	11.5	0.7	12.2	4.5	24.0	2.3	26.3	29.2
2029	4.5	0.2	4.7		16.9	1.2	18.1	12.4
2030					12.4	0.3	12.7	
	$ 1,469.3	$429.9	$ 1,899.2		$1,662.2	$551.7	$2,213.9	

(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. 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. All bonds are required to mature within 20 years from their date. Other than bonds issued in fiscal years 2010 and 2011, bonds may not provide for principal payments higher in later years than earlier years (except for refunding bonds, capital appreciation bonds, qualified zone academy bonds and retail 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 2009 estimate of net general fund revenues for fiscal year 2010 was $3,190.7 million, thus a total of $159.5 million of new tax-supported general obligation debt was permitted under the 5% rule and was authorized.

The level of tax-supported debt permitted under the 5% Rule is set out in the following table. The fiscal year 2010 is based on House Joint Resolution No. 7 which provides fiscal 2010 official revenue, refund and unencumbered fund estimates. The amounts for fiscal years 2011 and 2012 are estimated from the September 21, 2009 meeting of the Delaware Economic and Financial Advisory Council ("DEFAC"). See "STATE FINANCIAL OPERATIONS – Revenue Summary-Fiscal 2010E – Fiscal 2012E" herein. DEFAC projections are dependent on a variety of economic factors affecting the State's projected revenues. Fiscal 2013 and fiscal 2014 are based on the long-term growth rates of 4.7% and 2.9%, respectively, adopted by DEFAC at its September 21, 2009 meeting. See "STATE FINANCIAL OPERATIONS - Revenue and Expenditure Forecasting".

The 5% Rule
(in millions)

	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014
Estimated Net Budgetary General Fund Revenue	$ 3,190.7	$ 3,218.7	$ 3,370.5	$ 3,529.4	$ 3,632.2
Projected New Tax-Supported Debt Authorizations	$ 159.5	$ 160.9	$ 168.5	$ 176.5	$ 181.6

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 illustrated in the following table:

The 15% Test
(in millions)

	Fiscal 2010[1]
General Obligation Debt Service	$ 222.8
Less: Excluded Debt Service [2]	(58.9)
Other Tax-Supported Debt Service [3]	27.3
Total Tax-Supported Debt Service	$ 191.2
Delaware Transportation Authority (TTF) Debt Service	$ 125.3
Total Debt Service	$ 316.5
Estimated Aggregate Budgetary General Fund and TTF Revenue [4]	$3,658.8
Total Debt Service as Percent of Total Revenue	8.65%

(1) Year of maximum annual debt service. Totals in column may not add due to rounding.
(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 September 21, 2009 revenue projections of DEFAC for fiscal 2011. 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 illustrated below:

The Cash Balances Test
(in millions)

	Fiscal 2010 [(1)]
General Obligation Debt Service	$ 222.8
Less: Excluded Debt Service [(2)]	(58.9)
Net General Obligation Debt Service	$ 163.8
Projected Cumulative Cash Balances [(3)]	$ 284.9

(1) Year of maximum annual debt service. Totals in column may not add due to rounding.
(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 September 21, 2009 budgetary General Fund revenue projections by DEFAC for fiscal year 2011.

"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, 2009, 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	$343.4
School Facilities (State Share)	608.6
Subtotal	$952.0
General Obligation Debt Supported by Budgetary Special Funds	
Highways and Other Transportation Improvements	$ 2.1
School Facilities (Local Share)	514.9
Housing Authority Loans	0.4
Subtotal	$ 517.4
Total General Obligation Debt Outstanding	$1,469.3[(1)]

(1) Totals may not add due to rounding.

The Trust Fund reimburses the budgetary General Fund for the payment of debt service on previously issued transportation-related general obligation debt and debt issued on behalf of the Division of Motor Vehicle. As of June 30, 2009, $2.1 million of such debt was outstanding.

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. In conjunction with aggregate construction spending of capital improvement projects, the State issues bonds for 100% of the cost of approved school district projects pursuant to Authorization Acts. Simultaneously, the school districts issue their own bonds (the "School District 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 debt service on the School District Bonds 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

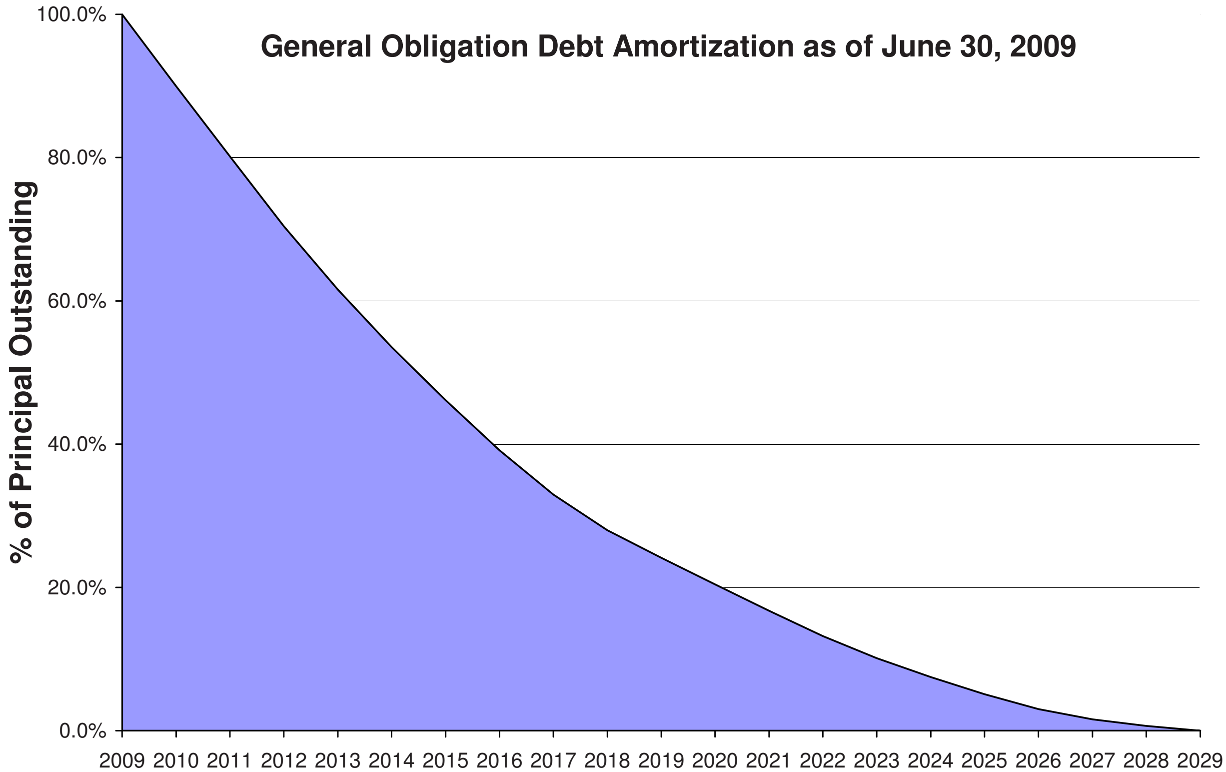
After the issuance of the Bonds, statutory authorization will exist for the issuance of additional general obligation debt of the State in the principal amount of $225.6 million.

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 $1,469.3 million on June 30, 2009 with approximately 79% scheduled to mature within ten 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. In the U.S. Census Bureau's Public Education Finances survey of 2007 issued in July 2009, Delaware ranked 10^{th} in state spending per pupil in elementary – secondary public schools. Of the $1,469.3 million of debt outstanding as of June 30, 2009, $514.9 million or 35% was issued on behalf of local school districts. This debt is fully supported 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. Almost 80% of current general obligation debt is scheduled to mature within ten years, as noted above.

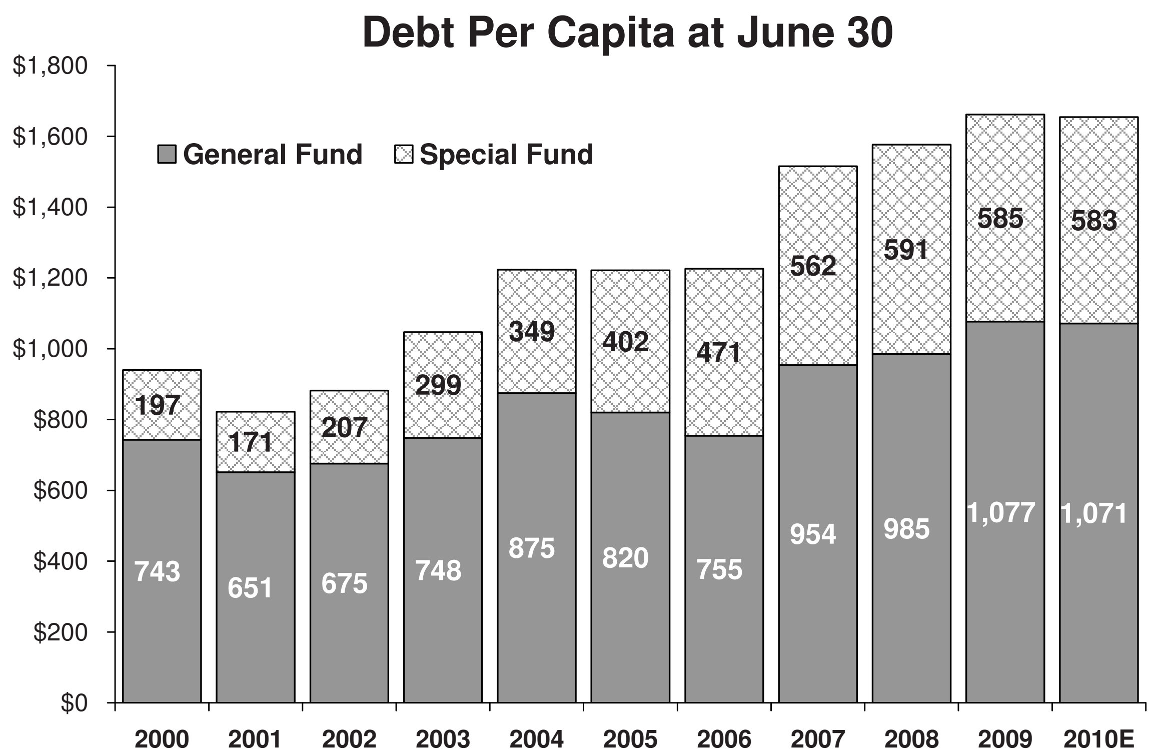
- **Strict Debt Limitations**: In 1991, the State instituted new debt limits, one of which restricts new debt authorizations to 5% of budgetary General Fund revenue as projected for the next fiscal year. Should revenue collections increase during the fiscal year, no additional authorizations are made. 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, the State has appropriated surplus cash for "pay-as-you-go" financing. Revenue surpluses between fiscal years 1993 to 2001 allowed the State to appropriate cash on average at a rate of 52.6% of capital expenditures. With more modest revenue growth, cash contributions in fiscal 2002 and 2003 were reduced. However, between fiscal 2004 and 2009, the cash funding exceeded $1 billion or 27.1% of capital expenditures.

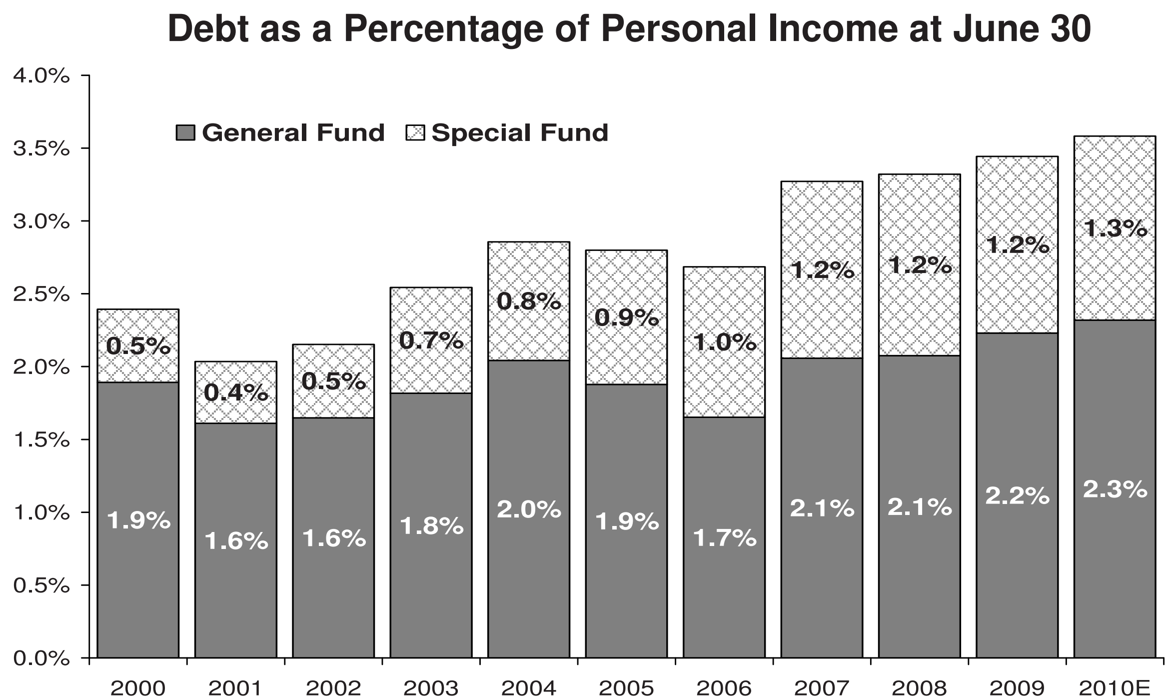
• **Debt Reduction**: During the period of 1995-2001, the State implemented a substantial debt reduction plan as extraordinary surpluses permitted. Revenues in the fiscal years since 2001 have precluded additional debt reduction efforts, but the State remains committed to debt reduction as a policy initiative 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. In fiscal 2003, the State refunded over $167 million of its general obligation bonds for a combined savings of $8.7 million. In fiscal 2004, savings of $2.9 million were realized after the State refunded $74.6 million of its general obligation bonds; in fiscal 2005, savings of $1.9 million were realized after the State refunded $48.3 million of its general obligation bonds; and in fiscal 2008, savings of $.7 million were realized after the State refunded $16.4 million of its general obligation bonds. The State continues to monitor opportunities to refund its outstanding bonds to lower future debt service requirements.

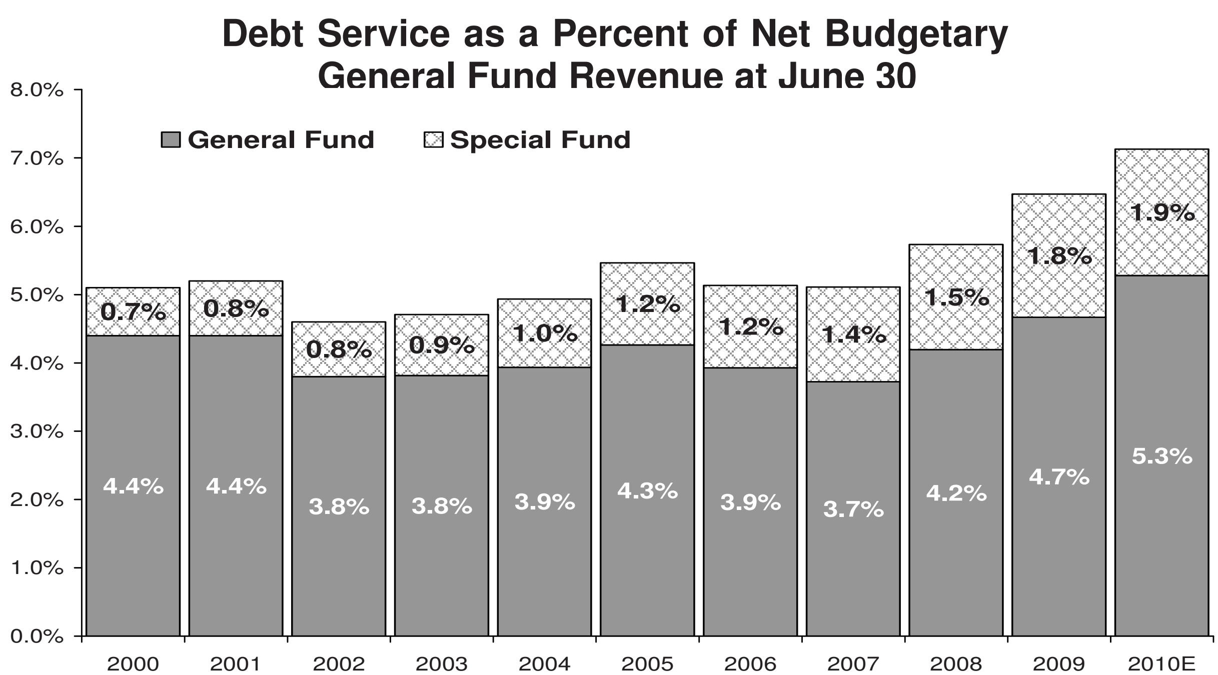
The result of these initiatives has been to reduce the rate of growth in Delaware's debt burden, as depicted on a fiscal year basis in the following three charts.



Notes: Shaded area represents portion of general obligation debt funded by the budgetary General Fund. The remainder is funded by budgetary Special Funds.
Decrease in fiscal 2001 due to a shift in timing of bond sale to fiscal 2002.
2010 data assumes a population growth rate of 1.3%.



Notes: Shaded area represents portion of general obligation debt funded by the budgetary General Fund. The remainder is funded by budgetary Special Funds.
Personal Income estimates provided by Global Insight and Delaware Department of Finance.



Notes: 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

Qualified Zone Academy Bonds ("QZAB") 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. QZABs are taxable bonds the proceeds of which are limited to improving eligible public schools, such capital projects having been approved by the General Assembly. In lieu of receiving periodic interest payments from the State, an eligible QZAB holder is generally allowed annual federal income tax credits while the QZAB is outstanding.

On December 8, 2006, the State issued $1,433,000 QZABs for the purpose of financing renovations of the following facilities in the Cape Henlopen School District, Sussex County, Delaware: the Lewes School, Milton Elementary School, Rehoboth Elementary School and H.O. Brittingham Elementary School. In conjunction with the QZAB, the State executed a forward delivery contract requiring that the State establish an escrow account to be funded with annual sinking fund deposits and which will be guaranteed interest at a rate of 2.72% per annum.

In 2004, the State issued $908,000 QZABs and, in fiscal 2005, issued $224,177 QZABs to finance the renovations of the Charlton School in the Caesar Rodney School District, Kent County, Delaware. In fiscal 2003, the State issued $760,000 QZABs and, in fiscal 2002, issued $649,000 QZABs. 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.

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 leases with terms in excess of one year. At June 30, 2008, aggregate remaining lease payments total approximately $197.5 million with $102.8 million payable through fiscal 2012. Real estate rentals account for 81.6% 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 further 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, 2009, the Delaware Transportation Authority had outstanding $1,144.3 million in Transportation System Revenue Bonds. Of the total $1,144.3 million outstanding, $12.4 million were junior revenue bonds which were retired on July 1, 2009. 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 further 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 ("DSHA"), created in 1968, had outstanding on June 30, 2009, $959.8 million of tax-exempt revenue bonds and $34.0 million of taxable revenue bonds. Approximately $976.7 million of the outstanding bonds were issued to finance the purchase of single-family homes, and $17.1 million was issued to finance multi-family housing. The security for these bonds is mortgage loan repayments, 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".

DSHA 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 DSHA's capital reserve fund if such fund is drawn upon to meet debt service payments on certain of the DSHA's bonds. As of June 30, 2009, there were no DSHA 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 DSHA is $350.0 million in bonds carrying the moral obligation of the State.

The Delaware Economic Development Authority

The Delaware Economic Development Authority and its predecessors had outstanding approximately $1.533 billion in economic development revenue bonds on June 30, 2009, none of which are backed by the full faith and credit of the State.

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, 2009, the Authority had $89.1 million 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, 2009, there were outstanding $438.0 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.

Delaware State University

There were outstanding on June 30, 2009, $55.9 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, exclusive of gifts, grants, bequests, contributions and donations to the extent specifically restricted to a particular purpose inconsistent with their use for the making of debt service payments and any funds appropriated by the State of Delaware.

University of Delaware

There were outstanding on June 30, 2009, $228.5 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, 2009.

General Obligation Debt of Political Subdivisions
(in millions)

New Castle County	$ 359.6
Sussex County	139.9
Kent County	20.8
Wilmington	252.5(1) (2)
Other Cities and Towns	143.5(2)
School Districts	514.9(3)
Total	$1,431.2

(1) Of this total, $10.0 million in principal is supported by payments from the Diamond State Port Corporation, an instrumentality of the State. Excludes $29.4 million of Wilmington Parking Authority bonds guaranteed by the City of Wilmington.

(2) Excludes revenue bonds and anticipation notes.

(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

Since fiscal 2004, Delaware's economic performance has been mixed relative to national trends. While Delaware's income growth has largely matched that of the United States, the State's employment growth has failed to keep pace with national trends. While Delaware's ties to the national economy are unmistakable, throughout the recent business cycle, Delaware consistently posted lower unemployment rates than the United States. (For a summary of Delaware's most recent economic forecast, see "STATE FINANCIAL OPERATIONS – Economic Projections".)

Delaware's mixed recent performance is due, in part, to the changing composition of its economic base. With a heavy concentration in financial services, the State's economy could not avoid the effects of recent industry turmoil. Despite this uncertainty, the State's major employers, Bank of America and JP Morgan Chase, for example, continue to maintain a major presence in the State. At the same time, relative new comers, like ING and Barclays, demonstrate that Delaware should maintain its position as a financial center.

Delaware's long-established manufacturing sectors, automobiles and fibers have also suffered as a result of the worst economic downturn since World War II. With both of the State's automobile assembly plants no longer in operation, the State's blue collar employment has suffered. As the larger economy changes, however, the State maintains the forward-looking mind-set that served it well as it addressed past economic challenges.

Since the adoption of the Financial Center Development Act in 1981, diversifying Delaware's economy has consistently ranked among State policymakers' highest priorities. The State's economic development efforts have followed a two-pronged approach. Broadly speaking, Delaware has continually improved its business climate using a combination of prudent fiscal management, judicious tax policy, and strategic investments in public education and infrastructure. When faced with specific challenges, alert and supportive policymakers have teamed with the business community to develop effective policy responses to a changing economic landscape.

In May 2009, Governor Jack Markell signed a sports betting bill into law that reactivated a sports lottery in Delaware, one of only four states exempt from the federal ban on sports betting under the Professional and Amateur Sports Protection Act enacted in 1992. Delaware's bill allows a sports lottery in the State's three existing racinos, using single game wagers on professional and certain collegiate athletic events. Delaware's position was challenged by the National Football League ("NFL") and other pro sports leagues, along with the NCAA and, in August, a three-judge panel of the 3rd U.S. Circuit Court of Appeals declared that Delaware's single-game bets and wagering on a variety of professional and collegiate sports violated the federal law. While Delaware appeals the decision, the State's three racinos opened its sports book to three-game parlay bets in time for the opening of the 2009 NFL season and Delaware continues to pursue table games such as blackjack, craps and roulette and the addition of gaming venues.

Delaware continues to pursue high technology industries, including life sciences research and development, pharmaceuticals, agricultural biotechnology, human biotechnology, information technology and, more recently, alternative energy and other green industries. 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.

The State's business friendly legal system continues to attract new incorporations. In recent years, more than 70% of new U.S. initial public offerings ("IPO") have chosen Delaware as their legal domicile. Even though IPO activity has suffered from economic and other factors, the State has continued to register a record number of business formations in the form of LLCs and LPs.

Population

Between 2007 and 2008, Delaware's population was estimated to have increased by 1.3 percent, to 873,092 inhabitants. In comparison, there was 0.3 percent growth in the region and 1.9 percent growth in the nation over the same period.

The following table presents population trends for Delaware, the mid-Atlantic region and the United States for 2003 through 2008.

Population
(in thousands)

	Delaware		Mid-Atlantic Region (1)		United States	
	Population	Change	Population	Change	Population	Change
2003	814	1.3%	46,447	0.4%	290,212	0.9%
2004	826	1.4	46,622	0.4	292,892	0.9
2005	839	1.6	46,737	0.2	295,561	0.9
2006	850	1.4	46,848	0.2	298,363	0.9
2007	862	1.4	46,983	0.3	301,290	1.0
2008	873	1.3	47,128	0.3	304,060	0.9

(1) Mid-Atlantic region consists of Maryland, New Jersey, Pennsylvania, New York and Delaware.
Source: U.S. Census Bureau.

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 2008 estimated population count of 72,592; Dover, the State capital and the site of a major U.S. Air Force base, with a 2008 estimated population count of 36,107 residents; and Newark, the site of the University of Delaware, with a 2008 estimated population count of 29,886.

The following table shows the population of the State's three counties for the years 2003 through 2008. Approximately 61 percent of the State's population lives in New Castle County, the northernmost county. Sussex County, the southernmost county, and Kent County continue to show strong growth, approximately four times that experienced by New Castle County.

Population by County

	New Castle	Change	Kent	Change	Sussex	Change
2003	512,347	0.7%	134,173	2.2%	167,719	2.4%
2004	516,103	0.7	138,319	3.1	171,260	2.1
2005	519,824	0.7	143,206	3.5	175,489	2.5
2006	523,194	0.6	147,520	3.0	179,652	2.4
2007	526,408	0.6	151,705	2.8	183,840	2.3
2008	529,641	0.6	155,415	2.4	188,036	2.3

Source: U.S. Census Bureau.

Personal Income

Personal income is the income received by all persons from all sources. The State's total personal income grew 3.2 percent from calendar 2007 to 2008, compared with 3.8 percent for the mid-Atlantic region and 3.9 percent for the nation. Total State personal income in calendar 2008 was $35.7 billion.

The following table provides per capita personal income comparisons for calendar 2002 through 2008. (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 1.8 percent from calendar 2007 to 2008. It grew by 3.5 percent in the mid-Atlantic region and 2.9 percent in the U.S. over the same period. State per capita personal income was 103 percent of U.S. per capita personal income in calendar 2008.

Per Capita Personal Income

	Delaware	Change	Mid-Atlantic Region(1)	Change	United States	Change	Delaware as Percent of the United States
2002	$33,007		$35,074		$30,838		107%
2003	33,644	1.9%	35,814	2.1%	31,530	2.2%	107
2004	35,523	5.6	37,860	5.7	33,157	5.2	107
2005	36,793	3.6	39,771	5.0	34,690	4.6	106
2006	38,745	5.3	42,392	6.6	36,794	6.1	105
2007	40,112	3.5	44,840	5.8	38,615	4.9	104
2008	40,852	1.8	46,405	3.5	39,751	2.9	103

Source: U.S. Department of Commerce.

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

Unemployment Rates

Delaware's average unemployment rate for 2008 rose to 4.8 percent from 3.4 percent in 2007. The region had an overall average unemployment rate of 5.3 percent in 2008, up from 4.3 percent in 2007. The following table presents the average annual unemployment rates for Delaware, the region, and the U.S. from 2002 through 2008.

Unemployment Rates

	Delaware	Mid-Atlantic Region(1)	United States
2002	4.0%	5.7%	5.8%
2003	4.2	5.8	6.0
2004	3.9	5.3	5.5
2005	4.0	4.8	5.1
2006	3.5	4.5	4.6
2007	3.4	4.3	4.6
2008	4.8	5.3	5.8

Sources: U.S. Department of Labor and Delaware Department of Labor.

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

In the most recent month for which data are available, May 2009, the U.S. Bureau of Labor Statistics reports that Delaware's unemployment rate of 8.1 percent was 22nd lowest in the nation. In the surrounding states, Maryland was 16th at 7.2 percent, New Jersey tied for 31st at 8.8 percent, and New York and Pennsylvania were tied for 23rd with several other states at 8.2 percent.

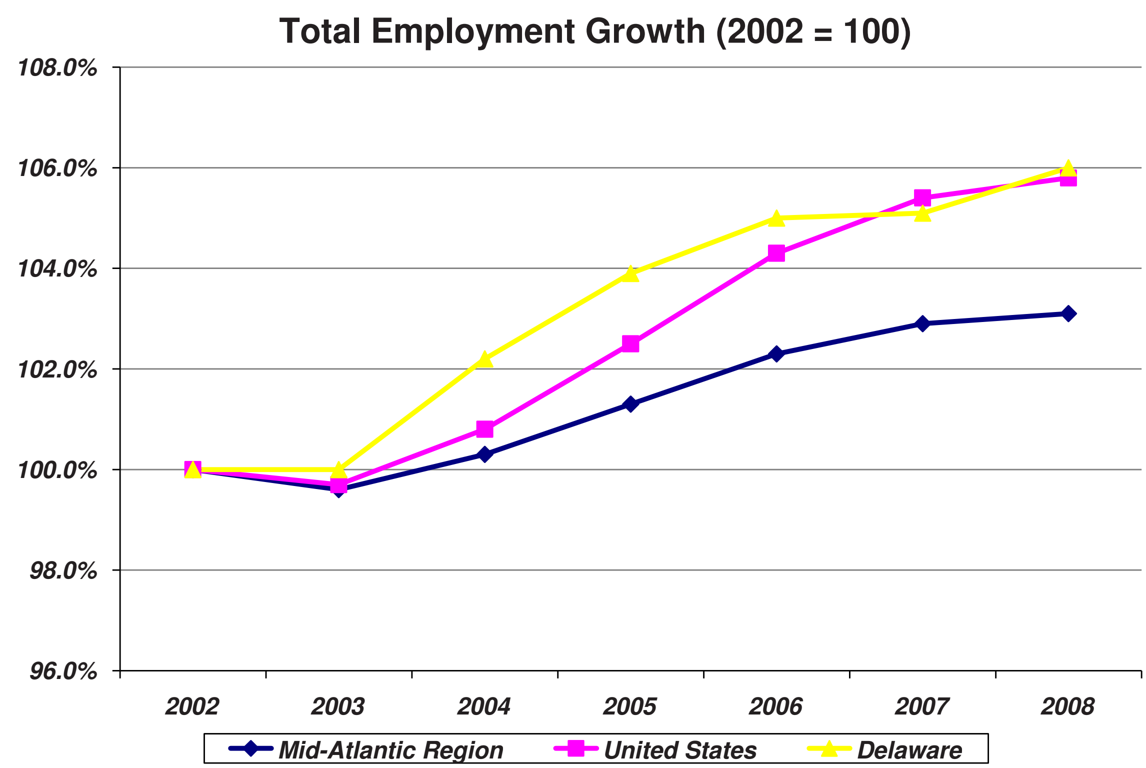
Employment

The rate of non-agricultural job growth in Delaware slowed to negative 0.9 percent in 2008, below the national rate of job growth of negative 0.4 percent. Growth in the surrounding states dropped to negative 0.2 percent.

Non-Agricultural Employment Growth Rates - %

	Delaware	Mid-Atlantic Region	United States
2002	(1.2)%	(0.9)%	(1.1)%
2003	0.0	(0.4)	(0.3)
2004	2.2	0.7	1.1
2005	1.7	1.0	1.7
2006	1.1	1.0	1.8
2007	0.1	0.6	1.1
2008	(0.9)	(0.2)	(0.4)

Sources: U.S. Department of Labor and Delaware Department of Labor.



Source: Delaware Department of Labor

In terms of employment, Government remained the single largest industry sector in Delaware in 2008. Total employment across all federal, state and local government entities averaged 62,000 over the year, an increase of 700 jobs over 2007. Among private industry sectors, Health Care and Social Assistance surpassed Retail Trade as the State's largest industry sector with 52,700 jobs compared with Retail Trade's 52,600.

Looking at industry growth by net jobs added from 2007 to 2008, Health Care and Social Assistance stood alone at the forefront, adding 2,100 workers over the year. Government was the only other sector to add more than 500 jobs; there were 700 new jobs in the public sector.

On a percentage basis, the fastest growing industry sector was again Health Care and Social Assistance, which grew at a 4.2 percent rate in 2008. Second fastest was Information, which added jobs at a 2.9 percent rate. Professional, Scientific, and Technical Services showed the third-fastest growth with a rate of 1.6 percent.

Employment by Industry Sector
(in thousands)

	2003	2004	2005	2006	2007	2008
Construction	24.2	26.3	27.9	29.3	27.7	25.4
Manufacturing	35.7	34.6	33.2	33.5	33.4	31.5
Wholesale Trade	14.2	14.7	14.9	15.1	14.9	14.6
Retail Trade	51.8	52.5	53.5	53.6	54.3	52.6
Transportation, Warehousing and Utilities[1]	12.7	13.5	13.3	13.8	14.0	13.5
Information	7.4	7.1	6.7	6.7	6.9	7.1
Finance and Insurance	39.1	38.3	38.7	38.2	38.8	39.0
Professional, Scientific and Tech. Services	25.8	26.7	27.0	25.8	25.1	25.7
Management of Companies	11.5	12.5	12.5	12.0	11.5	10.7
Administrative and Support Services	21.7	22.6	23.0	23.4	23.4	22.3
Educational Services	6.6	6.8	6.8	7.3	7.4	7.5
Health Care and Social Assistance	43.8	45.2	47.2	48.8	50.6	52.7
Arts, Entertainment and Recreation	8.6	8.8	8.8	8.8	8.2	8.2
Accommodation and Food Services	29.8	31.2	31.8	32.2	32.5	32.7
Other Services	18.3	18.9	19.8	20.3	20.4	20.4
Government	57.2	57.7	59.4	60.6	61.2	62.0
Total Nonfarm Employment	414.5	423.7	431.1	436.0	436.8	432.4

[1] Combines the industry sector Transportation and Warehousing with the sector Utilities.
Source: Delaware Department of Labor.

Chemical and Advanced Materials Industry

In Delaware, the business of chemistry is a vital part of the economy. It represents the leading export category for the State accounting for about 47% of Delaware's total manufactured exports. The chemical manufacturing industry is an historical cluster in Delaware with more than a 200 year local history. The requirement for rapid chemical and material innovations has diversified and today thousands are employed in this vital industry.

In Delaware the chemistry industry is diverse, going beyond the manufacturing of chemicals and includes advanced materials, instrumentation, research and development, marketing, distribution, intellectual property, and other capabilities that distinguish industry segments. Companies in Delaware are meeting the challenge for the future as they continue to innovate for growth rather than mature and decline.

The importance of the chemical industry to Delaware's economy historically stems from the establishment of E.I. du Pont de Nemours & Co., Inc. ("DuPont") which was founded in 1802. DuPont (NYSE: DD) is a market-driven, science company and one of the State's largest private employers. Operating globally with over $31 billion in annual sales in 2008, DuPont offers a wide range of innovative products and services for markets including agriculture, nutrition, electronics, communications, safety and protection, home and construction, transportation and apparel. In 2005, DuPont announced that it would invest $80 million in its research and development center near Wilmington with a rich pipeline of products and more projects underway than ever before. The company's growth and productivity strategies for increasing shareholder value are expected to continue to generate strong results.

This industry sector is bracing itself for the impact of sharp decreases in sales and profits in the wake of the global financial crisis. The volatile economy has kept the chemistry and advanced materials cluster continuously striving for new ways to lower expenditures and keep operating costs down, and most have implemented programs to strengthen their competitive edge. In Delaware, retention and expansion activities continue to be areas of focus as several significant acquisitions have occurred bringing several large company names to the state:

- Rohm and Haas (NYSE: ROH) was acquired by Dow (NYSE: DOW), and the company expects that its Delaware site will continue to be responsible for product and process R&D applications and customer support primarily in North America and Europe.
- Ashland Inc. (NYSE: ASH) has recently acquired Hercules Incorporated, creating a leading specialty chemicals company serving many of the world's most essential needs and industries. The company now includes three specialty chemical businesses (paper and water technologies, specialty resins, and specialty additives and functional ingredients) which will maintain a significant presence in Delaware especially at the research and technology center.
- BASF has completed their acquisition of Ciba Specialty Chemicals and continues to integrate operations. BASF has affirmed its commitment to the Newport, Delaware site where they will continue to manufacture high-performance pigments that improve product quality for customers around the world.

GE Energy has announced a company-wide strategy to aggressively pursue new technologies that help meet today's environmental challenges. This will include continued investment in their Newark, Delaware solar panel manufacturing site which currently employs 60. In 2007, the U.S. Department of Energy announced that GE Energy would be the recipient of approximately $18.6 million over three years to research how to make better, more affordable solar panels.

Air Liquide (OTC: AIQUY) is a worldwide leader in industrial and medical gases and related services. Founded in 1902, Air Liquide operates in more than 65 countries through 125 subsidiaries. Air Liquide recently opened its state-of-the-art R&D facility in Delaware where it is consolidating US research and development operations along with some of its manufacturing engineering business. The total capital expenditures budget for this project was nearly $30 million. The total employment targeted at the new facility will be 160 by 2010 and includes a global recruitment plan for top scientists.

Agilent's (NYSE: A) Life Sciences and Chemical Analysis group is a world leading provider of instrumentation, supplies, software and services to life science and chemical analysis markets. The Little Falls Site in Delaware is the major location for the company's chemical analysis measurement R&D, marketing and manufacturing operations. In November 2007, Agilent opened its East Coast Center of Excellence at the company's Delaware facility which employs almost 800.

In 2008, BASF acquired Ciba Specialty Chemicals (NYSE: CSB). The acquisition strengthened the BASF portfolio and expanded BASF's leading position in specialty chemicals, particularly for the plastics and coatings industries as well as for water treatment. Ciba's Delaware operations were developed to serve as its NAFTA business and manufacturing headquarters for the Coating Effects Business Segment. Ciba made significant investments in Delaware over the last 10 years investing more than $200 million in the expansion and modernization of their pigment manufacturing capabilities. BASF is the world's leading chemical company. Its portfolio ranges from oil and gas to chemicals, plastics, performance products, agricultural products and fine chemicals. BASF has more than 95,000 employees and posted sales of almost EUR 62.3 billion in 2008. BASF shares are traded on the stock exchanges in Frankfurt (BAS), London (BFA) and Zurich (AN).

INEOS Films, a division of INEOS Group, the third largest chemical company in the world, opened its new rigid films production site in Delaware. Beginning in 2004, INEOS Group purchased a site and building in Delaware City, Delaware and established INEOS Films North American headquarters. Plant renovations began in May 2005 and were completed in phases, culminating with the full production of high quality rigid films now underway. The investment in the new facility was in excess of $30 million.

TA Instruments ("TAI"), a division of Waters Corporation, is the world-wide market leader in the field of thermal analysis and rheology. It provides thermal analysis, rheometry, and microcalorimetry instruments throughout the world which are used primarily in predicting the suitability of polymers, fine chemicals, and viscous liquids for various industrial, consumer goods and health care products. TIA is also a developer and supplier of software-based products that interface with the company's instruments as well as other instruments manufactured by other companies. TAI's division headquarters are located in Delaware where they have just announced an expansion to include a new facility and increased employment over the next few years.

Many other companies in this cluster are investing in their Delaware facilities. In 2008, Croda held the official opening and dedication of its innovation centers creating new state of the art R&D labs as well as a modern commercial center. Corn Products had a ribbon cutting for its new applications & development, technical services and sales facility. The DuPont Experimental Station held the official ribbon cutting ceremony and dedication of the DuPont Innovation Center, a building designed through a partnership with the State. Rohm and Haas consolidated its North American lab operations and closed its operations in Phoenix, Arizona, moving a few new jobs to Delaware. FMC Biopolymers will invest nearly $8 million to upgrade its Delaware site after selecting the site over foreign-based facilities.

Life Sciences

In 1999, AstraZeneca Inc. (NYSE: AZN) ("AZ"), formed by the merger of Stockholm-based Astra AB and London-based Zeneca Group PLC, one of the largest pharmaceutical companies in the world, selected Delaware as its U.S. headquarters. AZ's R&D Wilmington site is a center of excellence in psychiatry, concentrating on developing therapies for schizophrenia, anxiety, depression, bipolar and dementia. In 2004, AZ opened a state-of-the-art Automated Compound Management Facility (ACMF) at its Wilmington R&D campus. Part of a four-year, $165 million investment in US research facilities, this addition is one of four new AZ drug discovery research facilities of its kind worldwide. With the ability to store over 2.8 million compound samples, the R&D Wilmington ACMF is a critical part of AstraZeneca's strategy to improve the speed and productivity of drug discovery and development. The ACMF has smoothed the progress of the company's worldwide initiative to rebuild its proprietary library of compounds helping to ensure the quality of these compounds for future use by applying optimal storage conditions and best handling practices. With advanced technologies and automated processes, ACMF will enable scientists to do drug discovery research in ways that were not possible before. In the United States, AstraZeneca currently reports that it is a $13.35 billion dollar healthcare business with 12,200 employees committed to improving people's lives.

Research and Development

Delaware's economy has long been a source of innovation and technological growth. Some of the state's most prominent firms, such as Agilent (NYSE: A), AstraZeneca, DuPont and W. L. Gore and Associates, are world renowned for their technical breakthroughs and resulting commercial success. The presence of these firms and others like them, as well as its highly capable research universities, have positioned Delaware as first in the nation for industry investment and research and development as well as high wage service jobs. The Kauffman Foundation and the Information Technology & Innovation Foundation rank Delaware 7th overall in the 2007 State New Economy Index, which measures the ability of states to transform from an industrial economic model to one that creates and retains high value-added, high-wage jobs. Delaware has consistently ranked in the top 10 and currently ranks in the top 5 states in the nation for high-wage traded services, foreign direct investment, gazelle jobs, scientists and engineers, patents and industry investment in R&D.

Delaware's high quality workforce and innovative research and development environment provide excellent opportunities for technology-based business growth and foster entrepreneurial ventures. The State provides a variety of technology resource programs and innovative business development support to enhance commercialization opportunities, such as Delaware's Patent Portfolio. Delaware has contracted with the Center for Advanced Technology and Innovation to evaluate and assess more than 250 patented technologies donated from DuPont and Hercules Corporation. Delaware is making available to the public the first 105 of these donated patents with marketing and licensing arrangements to entrepreneurs or technology-focused companies currently under consideration.

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.

Nemours Biomedical Research, the nation's largest group medical practice devoted to pediatric care, education, and research and headquartered at the Alfred I. DuPont Hospital in Wilmington, Delaware, has more than 40 different research programs and laboratories to support the medical and surgical staff in restoring and improving the health of acutely and chronically ill children. Based on dollars received from the NIH, collectively, Nemours Biomedical Research would rank 16th in overall awards to children's hospitals. According to the American Hospital Association Guide there are about 250 such children's hospitals.

The Delaware Technology Park ("DTP") is part of Delaware's commitment to attracting both established businesses and promising high-tech companies. With a combination of government, academic and industry partners, it is now home to 57 high-tech companies, including the Delaware Biotechnology

Institute. The mission behind the Delaware Technology Park is to promote economic development and innovation and, to that end, has developed an integrated system of technology focused facilities and services.

Biotechnology

The Delaware Biotechnology Institute (DBI), located in the Delaware Technology Park, is an academic unit of the University of Delaware and 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.

Some of the companies started at DBI are: the Fraunhofer Center for Molecular Biotechnology, Napro Biopharmaceuticals (now Tapestry Pharmaceuticals), LLuminari, Pharmaleads (now AthenaBio), Neurologix, InfoQuest Systems, NanoSelect and Orphagenix, Inc. Orphagenix founders, two University of Delaware researchers, are using a novel gene-repair therapy to develop orphan drugs, which target diseases that affect 200,000 patients or fewer. Orphagenix licenses the technology it uses from the University of Delaware, which holds the patents.

Delaware’s investments serve as seed funding for private investments, such as Fraunhofer Center for Molecular Biotechnology’s (CMB) recent $3.5 million grant from the Bill & Melinda Gates Foundation to support the development of transmission-blocking vaccines against malaria. Established in July 2001 as a partnership between the Fraunhofer Society in Germany and the State of Delaware, CMB conducts research in the area of plant biotechnology, developing cutting edge technologies to assist the diagnosis, prevention and treatment of human and animal diseases. CMB will use the Gates Foundation funding to produce lifesaving vaccines in non-genetically modified plants. This is the third grant that CMB has received from the Bill & Melinda Gates Foundation, having previously received a $2.7 million award for the development of novel subunit vaccines against influenza and a $1.2 million grant for pre-clinical studies towards the development of a vaccine against African trypanosomiasis.

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.

Over the past five years, DBI has successfully built a nationally recognized capability in plant molecular biology to better understand the basic processes that control plant development on the genetic level. Combined with the highly regarded genomics-based poultry disease research located at DBI, this newly developed capability has direct applications to serve Delaware’s agricultural industry.

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.

To ensure Delaware's continued voice in regional biotechnology industry opportunities, the Delaware BioScience Association (DBA) was formed in 2006. DBA is a non-profit trade association dedicated to promoting and expanding Delaware's bioscience industry by establishing a unified voice in order to accelerate the growth of human, animal, plant, and industrial bioscience, advocating on behalf of the industry in support of public policies that advance bioscience in the State, supporting initiatives that help attract bioscience talent and enterprises to the State, as well as support their retention and growth, and developing and implementing programs that build local, regional, national, and international recognition of and support for Delaware's bioscience industry.

DTP/DBI/DBA have helped enable about 12,000 new jobs in life science in 20 new companies between 1998 and 2007. Over $200 million has been invested and $250 million of grants have been won by DTP companies and DBI.

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. 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. The state tax structure was modernized in 2006 by allowing banks to elect an alternative system based on a three-factor income apportionment for multi-state operations, plus a location benefit tax reflecting the value of utilizing Delaware's banking laws and bank system.

There are currently over 60 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. Banking is one of the State's largest private industry sector employers, with over 35,000 employees at December 31, 2008, according to the Delaware Department of Labor. Credit cards are a major industry. Prominent credit card issuers in Delaware include Bank of America, Chase Bank (USA), Discover Bank and Barclays Bank Delaware. Other major bank employers include Wilmington Trust, PNC, ING Direct, Citigroup and HSBC. During the fiscal year ending June 30, 2009, the bank franchise tax contributed $81.9 million, about 2.6% of the State's total revenues.

Construction

Delaware's housing production during 2008 totaled 3,870 units, a 32.0% decrease from 5,695 units in 2007. Single family construction decreased by 34.5% to 2,840 units, while multi-family starts decreased by 17.0% to 506 units. The sale of mobile homes decreased by 30.3% to 524 units.

The following table outlines total housing production in the State by county for 2004 through 2008. Housing production includes single and multifamily, public and private housing, as well as mobile homes. In 2008, single family housing (including condominiums) represented 73% of total production, multifamily units represented 13%, and mobile homes represented 14%.

Production of Housing Units

	2004	2005	2006	2007	2008
New Castle County	2,937	2,209	1,752	1,314	822
Kent County	2,133	2,270	1,840	1,282	988
Sussex County	3,512	4,050	3,086	2,347	1,536
Mobile Homes	1,110	1,302	1,203	752*	524*
Total	9,692	9,831	7,881	5,695	3,870

* Mobile homes sales data is from the Delaware Division of Motor Vehicles (DMV). As of 2007, the DMV is collecting this data on the fiscal year rather than the calendar year, as in years past. Please keep this in mind when comparing data.

Source: Delaware State Housing Authority.

Automotive Industry

On June 1, 2009, General Motors Corp. ("GM") announced the closing of GM's Wilmington Boxwood Assembly Plant effective at the end of July 2009. Vehicles produced at the 62-year old plant most recently included the Pontiac Solstice, the Solstice coupe, the Saturn Sky and the Opel GT. Until recently, three shifts of production were needed at the GM plant to meet demand for these vehicles. In April 2008, the third shift was eliminated due to reduced demand, and in December 2008, GM cut the plant's second shift. About 550 employees remained at the plant.

On August 3, 2007, DaimlerChrysler AG completed the sale of 80.1 percent of the Chrysler Group to equity firm Cerberus Capital Management. Daimler continues to hold a 19.9 percent stake. Originally expected to be idled in 2009, Chrysler announced the closure of the Newark Assembly Plant at the end of calendar year 2008 eliminating about 1,000 jobs and citing a slowing global economy and a continuing shift toward smaller vehicles.

The State hopes to attract new businesses to these sites.

Incorporations

As of December 2008, the total number of business entities registered with the Delaware Division of Corporations exceeded 881,000. More than 121,000 new business entities were formed in Delaware in 2008. As a result of the current recession and tightening credit markets, approximately 99,500 new business entity formations are expected in 2009. The State continues to be the corporate home of over half of all publicly-traded firms in the United States. Delaware is the legal domicile of more than 60% of the companies listed in the "Fortune 500". Delaware leads the nation in per capita business entity filings and has ranked among the top five states in the nation for new business entity formations since 1989. The principal driver of this growth over the long term has been the popularity of alternative business entities, such as Delaware 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, friendly service from the Delaware Division of Corporations have resulted in significant business formation activity.

In order to sustain its competitive edge over other states and countries, Delaware continues to adopt statutes that respond to changing business conditions. A 2003 law extends the corporate jurisdiction of the Court of Chancery to include jurisdiction over commercial technology disputes and allows the Court to mediate many types of complex business disputes, providing a more cost-effective, confidential, and consensual method for resolving litigable disputes. Laws passed in 2004 and 2005 provide incentives for businesses to locate headquarter services or captive insurance operations in Delaware. 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 expanding Internet services to allow businesses to reserve corporate names, access general corporate information and file annual tax returns. All of these enhancements provide further incentives for entrepreneurs, businesses and investors to make Delaware their legal home.

Revised Article IX of the Uniform Commercial Code (UCC) took effect in most U.S. states in 2001 and provided that many UCC documents should be filed in the debtor's state of incorporation. In July 2001, Delaware became one of the first states to allow for the filing of UCC information via the Internet. In fiscal year 2009, the Division of Corporations processed 518,000 UCC filings and searches. General fund revenue from UCC transactions totaled $11.2 million in fiscal year 2009 and is projected to increase to $12.6 million in fiscal year 2010.

The Division of Corporations collects and disburses certain recording, courthouse municipality, statutory trust and UCC fees on behalf of the State's three counties (New Castle County, Kent County and Sussex County) and three county seats (City of Wilmington, City of Dover and Town of Georgetown). In fiscal year 2009, the Division disbursed $10.5 million of such fees to the State's three counties and three county seats. Such revenues are set aside and are not counted within the State's general fund figures.

Agriculture

Agriculture is a very significant industry in Delaware. In 2008, there were 2,500 farms, and land in farms at 500,000 acres accounted for 40% of Delaware's total land area. Farm size averaged 200 acres.

In 2008, the total market value of agricultural land and buildings was $5.15 billion, and the average value per farm was $2,060,000. The average market value per acre of farmland and buildings in Delaware was $10,300, almost five times the national average. Only four states had a higher value per acre of farm real estate. The average value per acre dropped $400 per acre from 2007.

In 2008, the value of agricultural sector production was $1.26 billion with Delaware farmers realizing a record $1.10 billion in cash receipts from all commodities. This was a 12 percent increase over 2007 cash receipts of $979 million.

Delaware's 2008 net farm income decreased 9% from the 2007 level of $268 million to $243 million. A $2.50 per bushel decrease in soybeans coupled with a 30 cent per bushel drop in corn prices accounted for most of the decline.

In 2008, Delaware ranked 1st in the United States in both the agricultural production value per farm ($505,263) and per acre ($2,526) as well as cash receipts per acre at $2,202 and net farm income per acre at $486. Delaware ranks 3rd nationally in the number of equine per county and equine-related expenditures in Delaware are estimated at $280 million annually.

The cash receipts from Delaware farms as compared to the U.S. total in 2004-2008 are outlined in the table below.

FARM CASH RECEIPTS

	DELAWARE				**UNITED STATES**	
Year	**Livestock & Livestock Products**	**Crops**	**Total Cash Receipts**	**Change from Previous Year**	**Total Cash Receipts**	**Change from Previous Year**
	---------million dollars--------			**percent**	**billion dollars**	**percent**
2004	741	182	923	23.2	237.2	10.1
2005	787	157	944	2.2	240.9	1.6
2006	654	164	818	(13.0)	240.8	0.0
2007	790	189	979	19.7	284.8	18.3
2008	828	272	1,101	12.4	324.2	13.8

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

The Port of Wilmington

The Port of Wilmington (the "Port") is one of the two largest importers of containerized bananas and other fruit in the world and is a significant east coast importer of: break bulk fruit, juice and produce, particularly winter Chilean fruit, citrus products from Morocco, juice concentrate and fruit from Argentina and liquid bulk juice concentrate from Brazil. Other notable break bulk items moving over the Port's piers include: steel, lumber, paper liner board, dry bulk and liquid petroleum products. The Port has also established a niche in handling specialized cargo such as large wind turbines, dismantled distillation and chemical plants, generators, and livestock export. The Port continues to be a major point of consolidation and export of vehicles to the Middle East, Africa and Central and South America.

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 750,000 square feet of modern temperature controlled refrigerated space. The combination of relatively new facilities, operational experience, proximity to transportation networks and a skilled labor force has 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 $51.0 million of indebtedness previously incurred by the City for Port related assets. The Delaware Transportation Authority's Transportation Trust Fund has loaned funds to the DSPC to enable it to restructure certain of the DSPC's debt and to fund certain capital projects. The Delaware River and Bay Authority has participated with DSPC to fund a refrigerated warehouse in 2006. Bank of America and Wilmington Trust Company have both loaned funds to DSPC for equipment purchases. DSPC does not have the power to pledge the credit of the State. As of June 30, 2009 the total debt service of the DSPC (principal and interest) is $47.3 million.

In fiscal 2009, a total of 4.2 million tons of cargo passed through the Port's facilities, an increase of 9% over the total tons handled in fiscal 2008. Increases in break bulk (juice, steel, fruit) and dry bulk revenues were greater than the revenue reductions from vehicles, lumber and containers such that operating revenue increased by $2.4 million to $29.2 million for fiscal 2009, compared to $26.8 million in fiscal 2008. Lease revenue increased from $4.7 million in fiscal 2008 to $5.1 million in fiscal 2009. Over $165 million has been provided by the State through fiscal 2009 for Port infrastructure improvements and debt restructuring. The Port is not required to repay these funds.

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".

Dover Air Force Base

The federal government maintains a major U.S. Air Force base (the "Base") in Dover, Delaware. The 3,900 acre Base, established in 1941, is the nation's busiest military cargo terminal and a key airlift center. It is home to the 436th Airlift Wing, known as the "Eagle Wing" and the 512th Airlift Wing, referred to as the "Liberty 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 Lockheed C-5 Galaxy transport planes, known as "the free world's largest airlifter" and C-17 Globemaster. Together with the 512th Airlift Wing, aircrews from Dover fly an air fleet that comprises 25% of the nation's strategic airlift capacity. In addition, the Base hosts the Charles C. Carson Center for Mortuary Affairs, the defense department's largest mortuary facility in the continental U.S. There are currently more than 6,400 military personnel – 3,900 active duty, 1,500 reservists, and 1,000 civilians – who work at the Base. It is estimated that, as of September 30, 2008, the economic impact of the Base on the local economy is nearly $495 million annually.

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, 2008, 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 32 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 19 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 September 21, 2009.

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. 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)

	2005	2006	2007	2008	2009
18 Months Before Fiscal Year-End	$2,742.6	$2,882.6	$3,140.4	$3,367.8	$3,524.1
9 Months Before Fiscal Year-End	2,777.2	3,019.7	3,280.3	3,390.0	3,411.7
Actual Fiscal Year-End Revenue.........	2,877.6	3,169.9	3,290.2	3,356.7	3,148.0

Economic Projections

Based upon national forecasts by Global Insight, Inc. in September 2009, the State's economy is expected to mirror the performance of the broader U.S. economy, which has been in recession since December 2007. The following chart compares forecasted population, employment and personal income growth rates for fiscal 2010 through 2012 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 2010	Fiscal 2011	Fiscal 2012	Fiscal 2010	Fiscal 2011	Fiscal 2012
Population Growth..........................	1.3%	1.4%	1.3%	1.0%	1.0%	1.0%
Employment Growth.......................	-2.6	0.8	1.8	-2.7	1.0	2.2
Personal Income Growth.................	1.1	3.2	4.5	-0.1	3.6	4.6

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

Revenue Summary - Fiscal 2010E - Fiscal 2012E

The following table and chart include DEFAC's forecast of budgetary General Fund revenue from all sources as of September 21, 2009 for fiscal 2010, fiscal 2011 and fiscal 2012. DEFAC forecasts General Fund revenue growth of -0.2%, 2.4% and 4.7% for fiscal years fiscal years 2010, 2011 and 2012, respectively. After adjusting for tax law changes and other nonrecurring items, however, the estimates reflect underlying growth rates of -6.5%, 4.2% and 4.1%, respectively, for fiscal years 2010, 2011 and 2012. See "Fiscal Year Ending June 30, 2010".

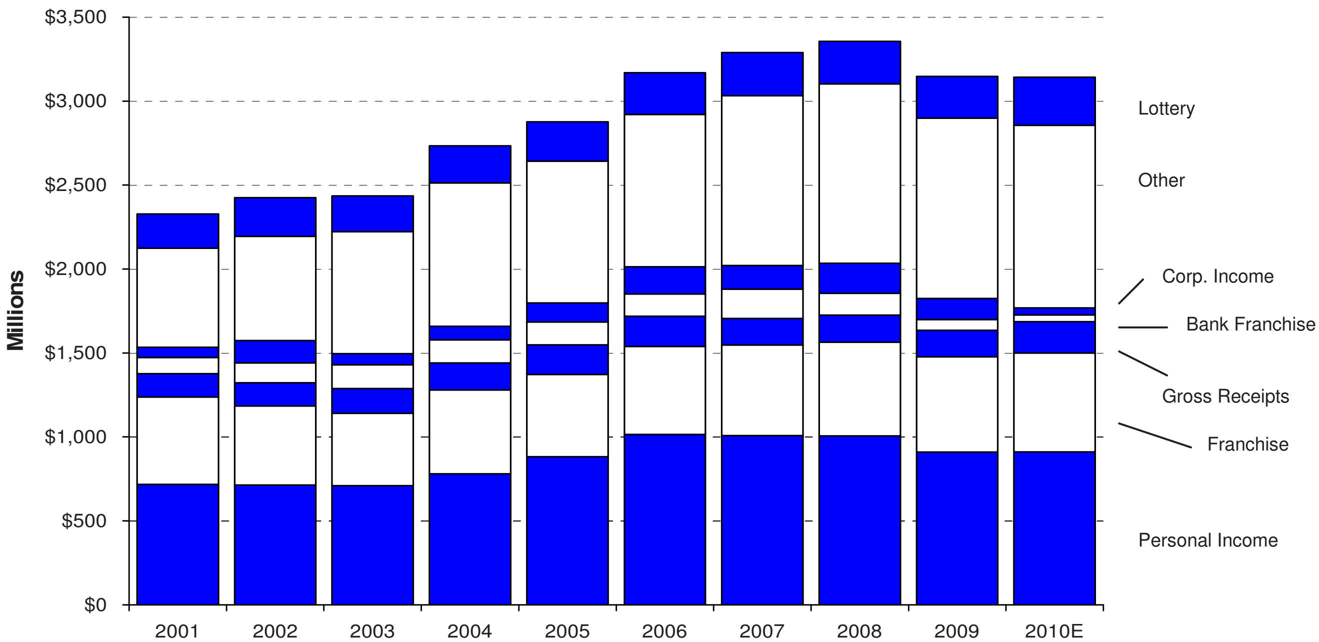
Budgetary General Fund Revenue
(in millions)

	DEFAC Forecasts as of September 21, 2009					
	Fiscal 2010		Fiscal 2011		Fiscal 2012	
	Forecast	Change	Forecast	Change	Forecast	Change
Personal Income Tax	1,095.7	-0.9%	1,174.0	7.1%	1,260.0	7.3%
Less: Refunds	(184.5)	-5.2%	(181.5)	-1.6%	(190.6)	5.0%
PIT Less Refunds	911.2	0.1%	992.5	8.9%	1,069.4	7.7%
Franchise Tax	601.9	4.8%	591.5	-1.7%	603.3	2.0%
Limited Partnerships & LLC's	153.4	11.9%	163.8	6.8%	175.3	7.0%
Subtotal Franchise Tax and Limited Partnerships & LLCs	755.3	6.2%	755.3	0.0%	778.6	3.1%
Less: Refunds	(12.0)	71.6%	(12.0)	0.0%	(12.0)	0.0%
Net Franchise Tax and Limited Partnerships & LLCs	743.3	5.5%	743.3	0.0%	766.6	3.1%
Business Entity Fees	73.0	43.6%	74.7	2.3%	76.4	2.3%
Uniform Commercial Code	12.6	12.8%	12.9	2.4%	13.3	3.1%
Corporation Income Tax	92.5	-42.9%	103.6	12.0%	119.1	15.0%
Less: Refunds	(50.0)	40.4%	(35.0)	-30.0%	(36.8)	5.1%
CIT Less Refunds	42.5	-66.4%	68.6	61.4%	82.3	20.0%
Bank Franchise Tax	39.4	-51.8%	38.8	-1.5%	40.8	5.2%
Gross Receipts Tax	186.6	13.7%	202.5	8.5%	214.7	6.0%
Lottery	286.7	15.6%	224.1	-21.8%	215.2	-4.0%
Abandoned Property	374.0	-4.6%	365.0	-2.4%	380.0	4.1%
Hospital Board and Treatment	78.1	1.5%	81.3	4.1%	84.1	3.4%
Dividends and Interest	9.0	1.2%	15.5	72.2%	17.4	12.9%
Realty Transfer Tax	40.4	-9.4%	27.4	-32.2%	30.2	10.2%
Estate Tax	5.0	6,310.3%	25.0	400.0%	26.5	6.0%
Insurance Taxes	66.0	-14.6%	69.5	5.3%	74.4	7.1%
Public Utility Tax	63.1	13.0%	67.2	6.5%	70.6	5.1%
Cigarette Taxes	134.2	6.8%	140.3	4.5%	141.7	1.0%
Other Revenues	110.7	-15.1%	95.8	-13.5%	93.5	-2.4%
Less: Other Refunds	(32.7)	-46.4	(25.7)	-21.3%	(26.7)	3.9%
Total(1)	$3,143.1	-0.2%	$3,218.7	2.4%	$3,370.5	4.7%

(1) May not equal the sum of its components due to the rounding of actual amount.

The following chart shows both the growth in and source of budgetary General Fund revenues since 2001 and provides estimates for fiscal 2010.

Budgetary General Fund Revenue at June 30
(in millions)



Source: For fiscal 2010, DEFAC Report, September 21, 2009.

Expenditure Summary - Fiscal 2006- Fiscal 2009

The following table compares total budgetary General Fund expenditures by major departments for the past four fiscal years ending with fiscal 2009. These figures include supplemental appropriations for capital projects. See also "BUDGETARY GENERAL FUND SUMMARIES - Budgetary General Fund Disbursements by Category of Expense."

Budgetary General Fund Expenditures
(in millions)

	Fiscal 2006	Change	Fiscal 2007	Change	Fiscal 2008	Change	Fiscal 2009	Change
Correction	$227.5	12.8%	$252.1	10.8%	$263.2	4.4%	$256.6	(2.5)%
Health and Social Services	783.8	10.8	852.5	8.8	918.7	7.8	832.9	(9.3)
Higher Education	239.3	4.8	253.8	6.1	253.0	(0.3)	252.4	(0.2)
Public Education	1,016.0	11.0	1,088.7	7.2	1,132.6	4.0	1,163.1	2.7
Safety & Homeland Security	115.0	15.2	120.9	5.1	126.5	4.7	124.2	(1.8)
Services to Children, Youth & Their Families	116.7	12.0	131.7	12.9	135.3	2.8	127.1	(6.1)
Other Expenditures	682.2	20.6	689.8	1.1	592.3	(14.1)	539.2	(9.0)
Total	$3,180.5	12.7%	$3,389.5	6.6%	$3,421.6	0.9%	$3,295.5	(3.7)%

The table below depicts trends in State expenditures by the three major components; i.e., budgetary General Fund base budget for operations, supplemental appropriations for one-time capital projects and debt reduction, 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 fiscal years subsequent to the fiscal year in which they were appropriated.

Adjusted Budgetary General Fund Expenditures
(in millions)

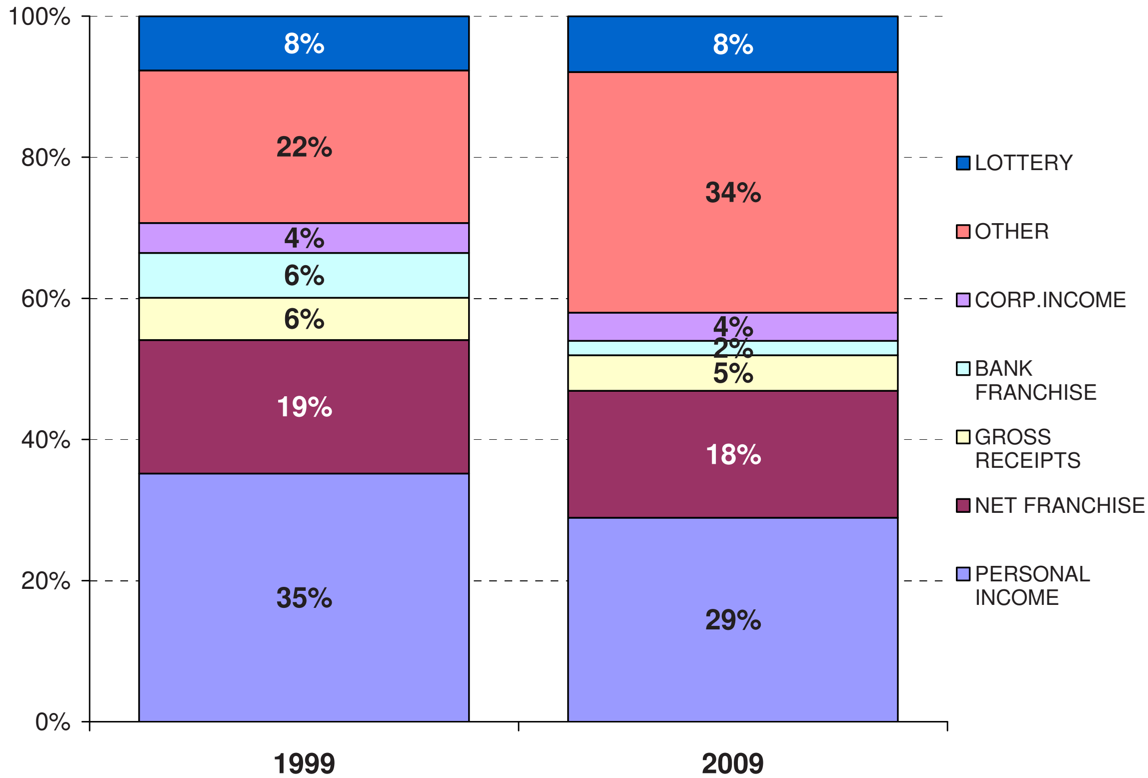
	2006	Change	2007	Change	2008	Change	2009	Change
Base Budget	$2,735.6	9.0%	$2,966.9	8.5%	$ 3,141.8	5.9%	$ 3,066.9	(2.4)%
Supplemental Appropriations	236.1	41.7%	208.7	(11.6)%	81.7	(60.9)%	76.2	(6.7)%
Prior Year Carryover	208.8	42.3%	214.2	2.6%	198.1	(7.5)%	152.4	(23.1)%
Total	$3,180.5	12.69%	$3,389.8	6.58%	$ 3,421.6	.94%	$ 3,295.5	(3.7)%

Note: Totals may not add due to rounding.

Sources and Uses of State Funds

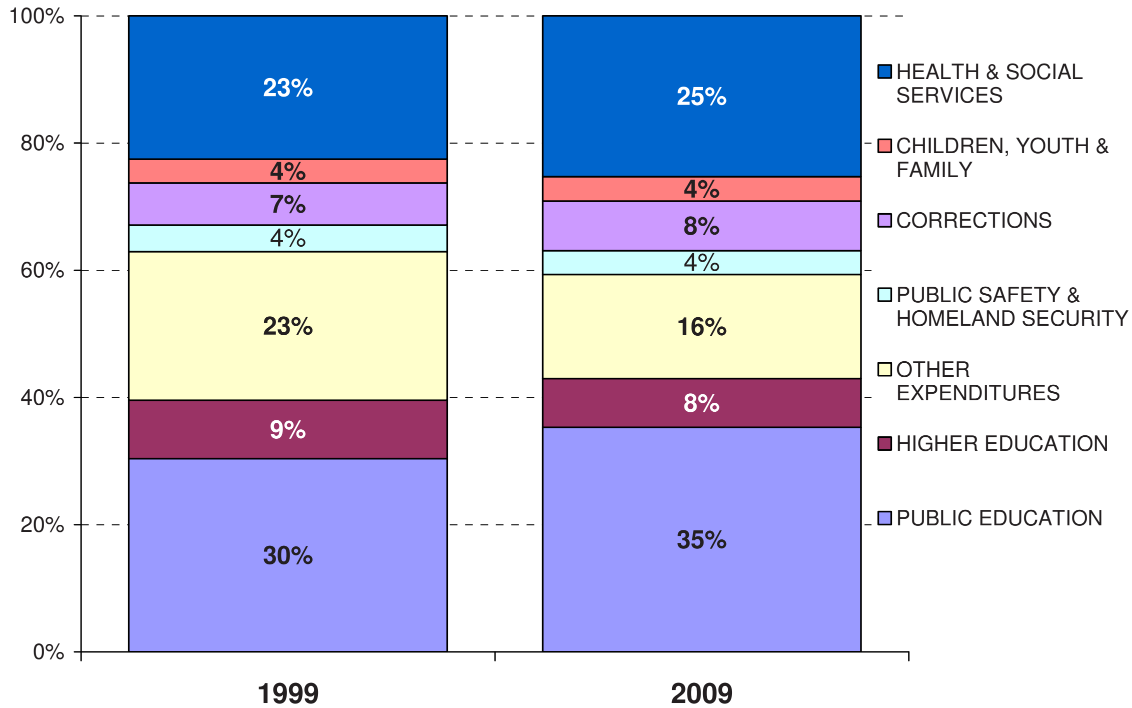
The distribution of budgetary General Fund revenues and appropriations is shown in the following bar charts, which compare fiscal 2009 with ten years earlier.

SOURCES



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

USES

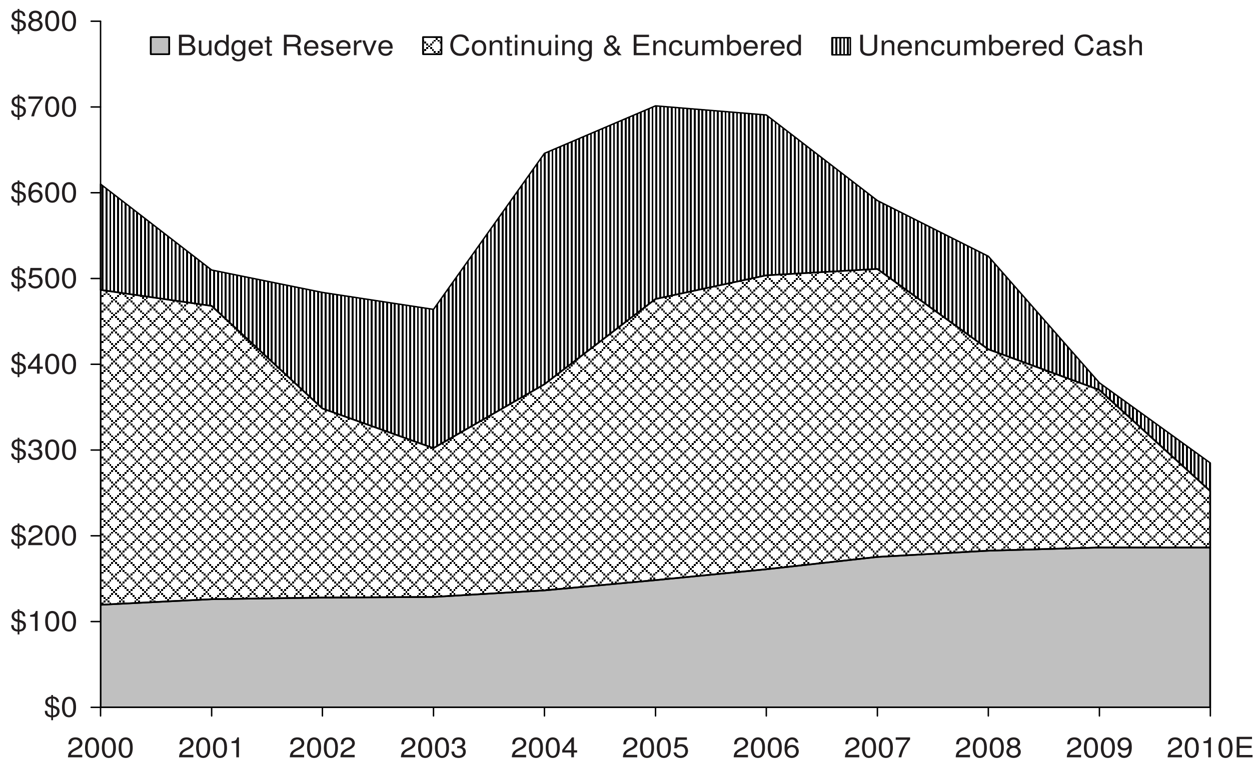


(1) Other uses include administrative services, fire prevention, National Guard, natural resources and environmental control, other elective offices, legislative and executive branches, and agriculture.

CUMULATIVE CASH BALANCES

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 2000 to fiscal 2010.

Budgetary General Fund
Cumulative Cash Balances at June 30
(in millions)



FISCAL YEAR ENDED JUNE 30, 2008

The State ended fiscal 2008 with a cumulative cash balance of $525.9 million. This balance represented 15.5% of the State's expenditures for the year. The Budget Reserve Account remained fully funded at the 5% level for the fiscal year, totaling $182.8 million. An additional $234.8 million was set aside for continuing and encumbered appropriations resulting in an unencumbered cash balance on June 30, 2008 of $108.3 million.

Revenue

Net budgetary General Fund revenue for fiscal 2008 totaled $3,356.7 million, a 2.0% increase over fiscal 2007.

Personal income taxes, after refunds, were $1,006.9 million, a slight decrease of 0.1% from fiscal 2007.

Franchise taxes, after refunds, were $557.6 million, a 3.2% increase over fiscal 2007.

Business entity fees were $63.4 million, a 3.1% decrease from fiscal 2007.

Corporate income taxes, after refunds, totaled $178.5 million, a 27.2% increase over fiscal 2007.

Bank franchise taxes totaled $129.7 million, 5.2% decrease from fiscal 2007.

Business and occupational gross receipts taxes were $162.1 million, a 3.1% increase over fiscal 2007.

Lottery revenue totaled $252.6 million, down 1.6% from fiscal 2007.

Abandoned property revenue totaled $375.6 million, a 2.9% increase over fiscal 2007.

Expenditures

Budgetary General Fund expenditures for fiscal 2008 totaled $3,421.6 million, a 0.9% increase over fiscal 2007. The fiscal 2008 budgetary General Fund operating budget totaled $3,285.6 million, a 3.1% decrease from fiscal 2007. Grants-in-aid appropriations of $47.7 million and the budgetary General Fund contribution to the capital budget of $77.9 million brought total appropriations to $3,411.2 million. The appropriation package was within the constitutionally-prescribed limit of 98% of estimated revenues.

Balances

The following table outlines estimated revenue, expenditures and remaining cash balances for fiscal 2008.

Budgetary General Fund Balances - Fiscal 2008
(in millions)

Revenue				$3,356.7
Expenditures				
Budget	$3,285.6			
Grants	47.7			
Supplemental	77.9			
Total appropriations		$3,411.2		
Continued and encumbered (prior years)		335.8		
Total spending authorizations			$3,747.0	
Less: Continued and encumbered (present year)			(234.8)	
Less: Reversions			(90.6)	
Total expenditures				$3,421.7
Operating balance				(65.0)
Prior year cash balance				590.9
Cumulative cash balance				$525.9
Less: Continued and encumbered (present year)				(234.8)
Less: Budget Reserve Account				(182.8)
Unencumbered cash balance				$108.3

FISCAL YEAR ENDED JUNE 30, 2009

The State ended fiscal 2009 with a cumulative cash balance of $378.5 million. This balance represented 11.5% of the State's expenditures for the year. The Budget Reserve Account remained fully funded for the fiscal year, totaling $186.4 million. An additional $183.7 million was set aside for continuing and encumbered appropriations resulting in an unencumbered cash balance on June 30, 2009 of $8.4 million.

Revenue

Net budgetary General Fund revenue for fiscal 2009 totaled $3,148.0 million, a 6.2% decrease from fiscal 2008.

Personal income taxes, after refunds, were $910.6 million, a decrease of 9.6% from fiscal 2008.

Franchise and Limited Partnership/LLC taxes, after refunds, were $704.3 million, of which $567.2 million relates to Franchise Taxes, a 1.7% increase over fiscal 2008.

Business entity fees were $50.8 million, a 19.8% decrease from fiscal 2008.

Corporate income taxes, after refunds, totaled $126.5 million, a 29.1% decrease from fiscal 2008.

Bank franchise taxes totaled $63.9 million, a 50.79% decrease from fiscal 2008.

Business and occupational gross receipts taxes were $157.9 million, a 2.6% decrease from fiscal 2008. Fiscal 2009 included a gross receipts tax increase which became effective on January 1, 2009.

Lottery revenue totaled $248.0 million, down 1.8% from fiscal 2008.

Abandoned property revenue totaled $392.1 million, a 4.4% increase over fiscal 2008.

Expenditures

Budgetary General Fund expenditures for fiscal 2009 totaled $3,295.5 million, a 3.7% decrease from fiscal 2008. The fiscal 2009 budgetary General Fund operating budget totaled $3,362.9 million, a 2.4% increase over fiscal 2008. Grants-in-aid appropriations of $45.2 million and the budgetary General Fund contribution to the capital budget of $83.4 million brought total appropriations to $3,491.5 million. The appropriation package was within the constitutionally-prescribed limit of 98% of estimated revenues.

Balances

The following table outlines estimated revenue, expenditures and remaining cash balances for fiscal 2009.

Budgetary General Fund Balances - Fiscal 2009
(in millions)

Revenue				$3,148.0
Expenditures				
Budget	$3,362.9			
Grants	45.2			
Supplemental	83.4			
Total appropriations		$3,491.5		
Continued and encumbered (prior years)		234.8		
Total spending authorizations			$3,726.3	
Less: Continued and encumbered (present year)			(183.7)	
Less: Reversions			(247.0)	
Total expenditures				$3,295.5
Operating balance				(147.5)
Prior year cash balance				526.0
Cumulative cash balance				$378.5
Less: Continued and encumbered (present year)				(183.7)
Less: Budget Reserve Account				(186.4)
Unencumbered cash balance				$ 8.4

FISCAL YEAR ENDING JUNE 30, 2010

Based upon the September 21, 2009, DEFAC revenue forecasts, net budgetary General Fund revenue for fiscal 2010 is projected to total $3,143.1 million, a 0.2% decrease from fiscal 2009.

Revenue

Personal income taxes, after refunds, are projected to total $911.2 million, a 0.1% increase over fiscal 2009. The fiscal 2010 estimate includes the impact of a tax increase that will take effect midway through the fiscal year on January 1, 2010.

Franchise and Limited Partnership/LLC taxes, after refunds, are projected to total $743.3 million, a 5.5% increase over fiscal 2009. The fiscal 2010 estimate includes the impact of a franchise tax increase that took effect retroactively on January 1, 2009.

Business entity fees are projected to reach $73.0 million, a 43.6% increase from fiscal 2009. The fiscal 2010 estimate includes the effect of several fee increases.

Corporate income taxes, after refunds, are estimated at $42.5 million, a 66.4% decrease from fiscal 2009.

Bank franchise taxes are projected to total $39.4 million, a 51.8% decrease from fiscal 2009.

Business and occupational gross receipts taxes are projected to total $186.6 million, a 13.7% increase over fiscal 2009. Fiscal 2010 includes the effect of two gross receipts tax increases, one of which became effective on January 1, 2009 and the other will become effective on January 1, 2010.

Lottery revenue is projected to total $286.7 million, a 15.6% decrease from fiscal 2009. Fiscal 2010 includes the first full-year impact of a higher State share of video lottery proceeds as well as the initial year of a new sports lottery.

Abandoned property revenue is projected to total $374.0 million, a 4.6% decrease from fiscal 2009.

Appropriations

The fiscal 2010 budgetary General Fund operating budget totaled $3,091.5 million, an 8.1% decrease from the fiscal 2009 operating budget. Grants-in-aid appropriations of $35.4 million bring total appropriations to $3,126.9 million. This appropriation package is within the constitutionally-prescribed limit of 98% of estimated revenues.

The fiscal 2010 capital budget totals $284.5 million. Of that amount, $211.6 million is allocated for general obligation capital projects, $72.9 million is allocated for the capital program of the Department of Transportation funded through the Transportation Trust Fund. No General Fund cash has been allocated for "pay as you go" capital projects.

Balances

The following table outlines estimated revenue, expenditures and remaining cash balances for fiscal 2010.

Projected Budgetary General Fund Balances - Fiscal 2010
(in millions)

Revenue				$3,143.1 [1]
Expenditures				
Budget	$3,091.5			
Grants	35.4			
Supplemental	0.0			
Total appropriations		$3,126.9		
Continued and encumbered (prior years)		183.7		
Total spending authorizations			$3,310.6	
Less: Continued and encumbered (present year)			(65.9)	
Less: Reversions			(8.0)	
Total expenditures				$3,236.7 [1]
Operating balance				(93.6)
Prior year cash balance				378.5
Cumulative cash balance				$284.9
Less: Continued and encumbered (present year)				(65.9)
Less: Budget Reserve Account				(186.4)
Unencumbered cash balance				$32.6

[1] Per September 21, 2009, DEFAC revenue and expenditure projections.

In fiscal 2009, the State received $89.9 million for Medicaid funding as a result of the American Recovery and Reinvestment Act of 2009 (the "ARRA"). In fiscal 2010, the State received ARRA funding of $141 million designated for Medicaid, $67.3 million designated for education, both public and higher, and $24.5 million in general stabilization funds for a total of $232.8 million. In fiscal 2011, ARRA funding is expected to be $80.5 million designated for Medicaid and $43 million designated for education for a total of $123.5 million. No additional ARRA funding is expected after fiscal 2011.

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 is expected to result in significant payments to the State. 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 may 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 requires an annual appropriation by the General Assembly and is administered by the Secretary of Finance. As of June 30, 2009, approximately $275.9 million has been received by the State from participating manufacturers. At June 30, 2009, the balance in the Delaware Health Fund was $50.4 million, of which $6.7 million was appropriated through the fiscal 2010 budget process to various health related programs. The remainder has been established as an endowment fund to continue to support such health related programs in the event of future reductions in tobacco 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 The 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 Office of Management and Budget and the Delaware State Clearinghouse Committee for Federal Aid Coordination. The Committee is comprised of 10 members, including the Secretary of Finance, Director of the Office of Management and Budget, Director of the Delaware Economic Development Office, the Controller General, and six legislators.

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 2009, the General Assembly authorized appropriations of $3,126.9 million for fiscal 2010, within the projected 98% appropriation limit.

Budget Reserve Account

The Budget Reserve Account (commonly referred to as the "Rainy Day Fund") 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 $186.4 million have been made which fully funded the Budget Reserve Account for fiscal 2010. 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 in 1980.

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 Director of the Office of Management and Budget 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. Recently enacted legislation allows the Division of Revenue to write off the accounts of those who are deceased or bankrupt.

Recently enacted legislation requires the Secretary of Finance to prepare, maintain and publish on the Division of Revenue’s Internet Website two separate lists of the top 100 business and personal taxpayers owing outstanding tax liabilities in excess of $1,000 in which a judgment has been filed and who are not currently in bankruptcy or have not entered into and complied with the terms of an installment plan.

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 to self insure its exposures when cost effective and commercially insure on the exposures that are specialized.

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, Healthcare Resource Solutions
Thomas J. Cook	Acting Secretary of Finance
Jeffrey W. Bullock	Secretary of State
Warren C. Engle	Senior Vice President, PNC Bank
Margaret A. Iorii	Asst. Vice President, Merrill Lynch
Russell T. Larson	Controller General
David F. Marvin	Partner, Marvin & Palmer Associates, Inc.
Velda Jones-Potter	State Treasurer
Harold Slatcher	President & CEO, County Bank

The investment guidelines, adopted by the Board in January 1982 and most recently revised on July 1, 2008, provide, among other things, that no more than 5% 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.

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

Personal Income Tax: Effective January 1, 2010, Delaware's rates on taxable income range from zero on the first $2,000 of net taxable income, to 6.95% 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 up to eight times per month.

Under current law, the top marginal tax rate will fall to 5.95% effective for tax years starting on or after January 1, 2014.

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, 2009, the maximum tax was increased. Applying the authorized share basis, the tax is levied according to the following rate schedule:

- 5,000 shares or less (minimum tax): $75.00
- 5,001 – 10,000 shares: $150.00
- $75.00 for each additional 10,000 shares or portion thereof
- Maximum annual tax is $180,000.00

Applying the gross assets basis, the tax is levied at a rate of $350 for each $1.0 million or fractional part thereof of the corporation's gross assets per authorized share. The maximum annual franchise tax is $180,000.00 and the minimum tax is $75.00. Tax payments for any corporation whose annual franchise taxes exceed $5,000.00 are required to be made quarterly. Other companies pay once each year, on March 1.

The most recent tax increase is scheduled to sunset for tax periods beginning on or after January 1, 2010, at which time the maximum tax will drop to $165,000.

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. Effective for tax periods ending after December 31, 2010, tax rates include 0.6739% for contractors (with a monthly deduction from gross receipts of $80,000); 0.4147% for wholesalers (with a monthly deduction of $80,000); 0.1944% for manufacturers (with a monthly deduction of $1,000,000); 0.2074% for food processors (with a monthly deduction of $80,000); 0.1037% for commercial feed dealers and farm machinery retailers (with a monthly deduction of $80,000); 0.7776% for general retailers (with a monthly deduction of $80,000); 0.6739% for restaurants (with a monthly deduction of $80,000); and 0.4147% of aggregate gross receipts on most occupational licenses (with a monthly deduction of $80,000). A use tax on leases of tangible personal property is levied on the lessee at the rate of 2.0736% of lease rentals and on the lessor at the rate of 0.3110% of rental payments received. Lessors are allowed a quarterly deduction of $240,000. Automobile manufacturers pay a 0.1458% tax (with a monthly deduction of $1,000,000).

Under current law, tax rates will fall by 7.4% effective for tax periods starting on or after January 1, 2014.

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 5.00%. Several exemptions/reductions apply. Receipts from sales of electricity to manufacturers, and agribusiness/food processors are taxed at 2.35%. Certain electrochemical processors and receipts from sales of electricity and gas to automobile manufacturers are exempt from the tax. Cable television and direct-to-home satellite services are taxed at 2.125%.

Cigarette Tax: Effective August 1, 2009, the cigarette tax was increased from $1.15 to $1.60 per 20 cigarette pack. Moist snuff is taxed at a rate of 54 cents per ounce. 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. Changes in federal law effectively phased-out Delaware's estate tax in 2005. Effective July 1, 2009, however, the State chose to "decouple" from federal law effectively reinstating the tax essentially as it existed in 2001.

Under current law, the Delaware estate tax is scheduled to sunset on July 1, 2014.

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.

Effective for tax years beginning after December 31, 2006, banks have the option of using an "Alternative Franchise Tax". The Alternative Franchise Tax has two parts:

1. A traditional income tax employing three-factor apportionment with a double-weighted receipts factor. The tax's regressive rates range from 7.0% on taxable income not in excess of $50 million to 0.5% on taxable income in excess of $1.3 billion.

2. A "Location Benefits Tax" based on assets. The minimum tax is $2.0 million with additional liability ranging from 0.015% on the value of assets not in excess of $5.0 billion to 0.005% on assets in excess of $20 billion but not in excess of $100 billion. The maximum Location Benefits Tax is $8.25 million.

Additional Sources of Revenue

Lottery

Delaware's lottery is comprised of two separate entities. The traditional lottery consists of daily drawings, lotto, instant tickets, and the multi-state Powerball. The video lottery is a state-operated network of linked video lottery machines restricted to three locations authorized by state law. In May 2009, the State's video lottery operations were granted the ability to conduct a sports lottery in the form of a Las Vegas-style sports book. Subsequent litigation has limited this new operation to parlay-style betting on National Football League games starting with the 2009 season. Delaware now shares the regional video lottery market with suburban Philadelphia, which saw two venues open during the winter of 2006-2007. In addition, Delaware will face additional video lottery competition from Maryland which is expected to enter the video lottery market in stages during mid-to-late 2010. DEFAC has monitored these developments and updated the State's revenue forecasts as they have unfolded. At least 30.0% of the net revenue generated from the traditional lottery is contributed to the budgetary General Fund. The State retains 43.5% of video lottery profits.

Abandoned Property

Abandoned property represents any debt or obligation, including securities, which have gone unclaimed or undelivered for three or more years. Such unclaimed property is reported to the state of the lost owner's last known address. If the owner's address is unknown or is in a foreign country, the unclaimed property is reported to the state of incorporation of the holder of the unclaimed property. In addition, for those lost owners with a last known address that is in a state which does not have an applicable statute for the type of property being reported, the unclaimed property is reported to the state of incorporation of the holder.

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, 2005 through 2009. See "STATE FINANCIAL OPERATIONS – "Expenditure Summary – Fiscal 2005–Fiscal 2009" for a detailed explanation of the expenditure figures.

Budgetary General Fund Disbursements
(in millions)

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Salaries	$1023.1	$1,108.3	$1,167.2	$1,222.9	$1,225.5
Debt Service	153.5	132.5	131.2	151.1	156.4
Contractual Services	228.8	252.2	289.5	296.7	286.8
Fringe Benefits, except Pensions	263.2	298.4	323.5	332.7	332.9
Pensions	147.1	180.7	201.5	218.6	211.1
Welfare and Assistance Grants	422.7	473.1	535.7	591.4	504.7
Other Grants	294.1	403.1	365.1	259.1	265.8
Other	289.9	332.2	376.2	349.1	312.3
Total Disbursements	$2,822.3	$3,180.5	$3,389.9	$3,421.6	$3,295.5

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

Delaware is one of only four states in the country which has not undergone a constitutional challenge to its public education funding. The State finances its public school operations from a combination of State, federal and local funds. In fiscal 2008, the State provided 63%, the federal government 8.2% and localities 28.9% of the cost for current operations and debt service. For fiscal 2006, the U.S. Department of Education, National Center for Educational Statistics, Institute for Education Sciences 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 2007-2008 school year, the average State-local funded classroom teacher's salary was $55,998, of which $38,925 was 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 2009 totaled $1,163.1 million. Appropriations of $1,121.0 million have been made for fiscal 2010.

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

Public School Enrollment[1]

	Enrollment	Change
2000	113,699	0.9%
2001	114,693	0.9
2002	115,566	0.8
2003	117,055	1.3
2004	118,413	1.2
2005	120,482	1.7
2006	121,856	1.7
2007	123,615	1.4
2008	124,903	1.0

(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 53,088 students in the 2008-2009 academic school year based upon Fall 2008 student headcount (43,230 on a full time equivalent ("FTE") basis). The three State-supported institutions are Delaware Technical and Community College which enrolled 14,918 students (10,029 FTE); Delaware State University, a land grant college located in Dover which enrolled approximately 3,534 students (2,818 FTE); and the University of Delaware, a land grant college located in Newark, which enrolled 20,500 students (18,772 FTE). The five privately supported institutions of higher education in the State enrolled an additional 14,136 students in 2008-2009 (11,611 FTE).

Budgetary General Fund expenditures for higher education in fiscal 2009 were $252.4 million. The State provides approximately 18% of the operating budget of the University of Delaware, 53% of the budget of Delaware Technical and Community College, and 41% of the budget of Delaware State University. Appropriations of $224.6 million have been made for fiscal 2010, including $122.4 million for the University of Delaware, $65.9 million for Delaware Technical and Community College and $35.9 million for Delaware State University.

Social Services

The principal social service programs administered by the State are: (1) Temporary Assistance for 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 traditionally has been funded at the minimum Federal financial participation ("FFP") rate of 50%. However, during the period from April 1, 2003 through June 30, 2004, the FFP was increased to 52.95% pursuant to Title IV of the Jobs and Growth Tax Relief Reconciliation Act of 2003. From October 1, 2004 through September 30, 2005, the FFP was 50.38%. During the period from

October 1, 2005 through September 30, 2006, the FFP was 50.09%. Beginning with the period of October 1, 2006 through September 30, 2008, the FFP was 50.0%. With the passage of the America Recovery and Reinvestment Act of 2009 (ARRA), effective October 1, 2008 through June 30, 2009, the FFP increased to 60.19%. As of July 1, 2009, the FFP is 61.59%.

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 1995, welfare caseloads in Delaware have dropped by approximately 50%. The average wage of those who have moved from welfare to full time work is $9.22 per hour. The State provides health care, childcare assistance and assistance with 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. An average of 13,188 people per month received cash assistance in fiscal 2009.

Since fiscal 1995, welfare caseloads and income maintenance expenditures have decreased, but the State's provision of health and childcare to the eligible welfare-to-work population as well as other changes in Medicaid eligibility, enrollment plus related costs have resulted in a corresponding increase. The following table indicates the trends of selected State social services expenditures for fiscal 2003 through fiscal 2009.

Social Services Expenditures
(dollars in millions)

	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009*
TANF							
Number of Recipients/month ...	14,111	14,237	14,062	13,876	11,382	10,307	11,312
Total Expenditures/year	$18.8	$19.1	$19.0	$18.7	$16.2	$15.3	$16.7
State Share...............................	$ 2.8	$ 2.9	$ 3.4	$ 3.5	$2.7	$11.1	$16.5
GENERAL ASSISTANCE							
Number of Recipients/month ...	2,106	2,335	2,481	2,620	2,818	3,008	3,352
Total Expenditures/year	$3.0	$3.3	$3.5	$3.8	$3.9	$4.2	$4.7
State Share...............................	$3.0	$3.3	$3.5	$3.8	$3.9	$4.2	$4.7
SSI							
Number of State Subsidized Recipients/month....................	732	745	805	838	804	820	845
State Share...............................	$1.1	$1.1	$1.2	$1.1	$1.1	$1.1	$1.2
FOSTER CARE (DSCYF)							
Number of Children/month	646	627	651	748	843	857	740
Total Expenditures/year	$9.6	$9.8	$11.8	$15.1	$19.2	$20.4	$18.2
State Share...............................	$8.4	$8.4	$10.2	$13.1	$16.8	$17.6	$15.9
DAY CARE							
Number of Children/month	13,400	13,813	13,839	14,266	15,039	14,009	13,496
Total Expenditures/year	$38.4	$40.0	$37.5	$46.6	$53.6	$49.0	$44.6
State Share...............................	$23.7	$23.7	$24.9	$28.7	$38.0	$26.0	$10.5
MEDICAID							
Number of Eligibles/month......	118,575	130,411	138,884	142,548	143,386	148,827	156,266
Total Expenditures/year	$702.8	$730.3	$826.4	$861.6	$990.0	$1,052.0	$1,201.0
State Share...............................	$346.1	$345.9	$397.2	$428.0	$495.0	$519.7	$595.9
COMMUNITY HEALTH							
State Expenditures/year............	$25.0	$23.8	$25.1	$26.5	$35.6	$39.8	$41.0

* Medicaid Expenditures for fiscal 2009 include an estimate for the 4th quarter since the Federal Report (CMS-64) has not been finalized.

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 Department served 22,354 clients in FY 2009, some of these clients were shared by each of the three divisions. The Family Services division spent $43.8 million in fiscal 2007, $46.3 million in fiscal 2008, $43.9 million in fiscal 2009, and has budgeted $43.8 million in fiscal 2010. The Division of Youth Rehabilitative Services (YRS) handles delinquent youth in both pre- and post-adjudication through an array of alternative placements and State-owned secure facilities. The YRS division spent $41.7 million in fiscal 2007, $44.0 million in fiscal 2008, $40.4 million in fiscal 2009, and has budgeted $41.4 million for fiscal 2010. The Division of Child Mental Health (CMH) Services provides programs for the mentally ill and the emotionally disturbed. The CMH spent $22.6 million in fiscal 2007, $27.4 million in fiscal 2008, $26.2 million in fiscal 2009, and has budgeted $27.7 million for fiscal 2010.

Corrections

The Department of Corrections ("DOC") is the only government operated correction agency in the State. Delaware runs what is called a unified corrections system. Delaware has no regional, county or municipal correction or jail system and no separate probation system. Offenders immediately become the responsibility of the State, including: pre-trial and sentencing, misdemeanor and felony, jail and prison and all community based sanctions. 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 DOC in fiscal 2009 were $262.6 million. The budget for fiscal 2010 is $249.4 million. As of June 30, 2009, the incarcerated population in the custody of the Department is approximately 7,074, of which about 5,600 are prisoners. The jail population of approximately 3,012 is divided between offenders sentenced to less than 1 year of incarceration (1,538) and offenders held pending trial (1,474). Over 17,900 individuals are under community supervision.

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 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, 2008.

Real Property Valuations
(in millions)

County	**Assessed Valuation**[1]	**Estimated Full Valuation**
New Castle..........................	$ 18,032.8[2]	$66,537.5
Kent.....................................	3,263.7[3]	16,238.9
Sussex	2,721.6 [4]	41,864.9
Total	$24,018.1	$124,641.3

(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 at certain times in the past 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 $88.1 million as of May 31, 2009 and includes no federal advances. The State has not borrowed any federal funds since 1982, but anticipates that borrowing may be necessary by early January 2010.

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 without any further authority from the General Assembly. The Delaware State Clearinghouse Committee is the committee representing the legislative and executive branches of government. It is charged with reviewing all State agency applications for federal funds and no agency may expend federal funds without approval of this committee.

The following chart indicates the distribution of federal funds expended by the State by Department in the fiscal years indicated below.

Ratio of Federal Funds Expended by Department

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Health & Social Services	58.5%	57.5%	58.6%	61.6%	59.6%	61.0%
Transportation	9.0%	10.4%	10.2%	9.0%	12.3%	13.9%
Public Education	12.1%	12.4%	12.4%	12.0%	11.1%	10.3%
Housing Authority	4.0%	3.7%	3.6%	4.1%	3.9%	3.2%
Labor	3.5%	3.5%	3.2%	3.1%	2.8%	2.6%
Higher Education	2.6%	2.7%	2.5%	2.5%	2.6%	2.5%
Natural Resources	3.5%	2.8%	2.6%	2.9%	2.6%	2.3%
Other	6.8%	7.0%	6.9%	4.8%	5.1%	4.2%
Total	100.0%	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(b) of the Internal Revenue Code (the "Code").

In accordance with federal law, the annual limit on a participant's pre-tax contributions increases to $16,500 in 2009. An additional, phased-in catch up contribution has been added for use by those ages 50 and older. Those who meet the age requirement may contribute an additional $5,500 in 2009.

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. However, the state match was suspended by the Legislature for fiscal year 2009. It will remain suspended for fiscal year 2010.

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 December 31, 2008 was $247.6 million.

STATE PENSION PLAN

The State of Delaware Employees' Pension Plan (the "Plan"), established by the General Assembly, covers approximately 35,430 active employees and approximately 20,846 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 a now closed State Police Pension Plan (for officers hired prior to July 1, 1980) which covers 5 active officers and 549 retirees, the new State Police Pension Plan which covers the 652 officers hired after July 1, 1980 and 88 retirees, and the State Judiciary Pension Plan which covers 55 active employees and 40 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 Office of Management & Budget serving as ex-officio members. The current members of the Board are:

Philip S. Reese (Chairman)............... Former Vice President and Treasurer, Conectiv
Robert W. Allen............................... President, Allen Petroleum
Thomas J. Cook .... Acting Secretary of Finance
Helen R. Foster, J.D.......................... President, CTW Consulting Associates
Suzanne B. Grant .... Former Vice President, Salomon Smith Barney, Consulting Group
Nancy Shevock .... Former Director, Delaware Transit Corp.
Ann S. Visalli.................................... Director, Office of Management & Budget

The custodian of the Fund's assets is Northern Trust Company, Chicago, Illinois. The Fund's assets are managed by professional investment management firms. The total return on the Fund in fiscal 2009 was (15.8%) compared to (26.2%) 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 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. An employee is "fully vested" in survivor benefits after 5 years of 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 for service prior to January 1, 1997.

The Plan is funded on an actuarially sound basis, as determined by the Board, on the basis of actuarial analyses undertaken by Cheiron, Inc. on an annual basis. The most recent valuation (as of June 30, 2009) was completed in September 2009. 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 has an unfunded accrued liability of $83.0 million as of June 30, 2009.

Unfunded Accrued Liability
(in millions)

June 30, 2005	($87.3)
June 30, 2006	($97.7)
June 30, 2007	($229.9)
June 30, 2008	($202.1)
June 30, 2009	$83.0

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 Cheiron, Inc. The new State Police Pension Plan has an unfunded accrued liability of $11.8 million as of June 30, 2009. The State Judiciary Pension Plan showed an unfunded accrued liability on June 30, 2009 of $8.8 million. 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, 2009, this plan had an unfunded accrued liability of $306.2 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 2009 was $96.6 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 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Income					
Employee Contributions	$37.9	$ 41.1	$ 42.8	$ 45.7	$ 45.9
State Contributions (budgetary General Fund and budgetary Special Funds)	104.5	129.3	142.1	148.5	135.4
Investment Income	500.5	666.7	942.7	(110.5)	(1,048.3)
Total Income	$642.9	$837.1	$1,127.6	$83.7	$(867.0)
Disbursements					
Pension Benefits Paid	$271.3	$300.3	$327.8	$348.1	$369.2
Refunds	2.4	2.9	3.2	3.0	3.1
Other Disbursements	8.7	9.3	9.1	10.3	11.1
Total Disbursements	$282.4	$312.5	$340.1	$361.4	$383.4
Excess of Income over Disbursements	$360.5	$524.6	$787.5	($277.7)	($1250.4)
Total Plan Assets	$5,608.5	$6,133.1	$6,920.6	$6,642.9	$5,396.5

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 15 pension increases averaging a total of 45.53% since July 1984, based on date of retirement.

Other Post Employment Benefits

The State provides post-employment health care to its employees and, in fiscal 2008, began accounting for these benefits according to Government Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions ("GASB 45"). The State's actuarially accrued liability, based on a study conducted by Cheiron of McLean Virginia using actual data as of July 1, 2009, has been determined to be about $5.6 billion using a discount rate of 5.0%. The State began pre-funding the obligation in 2002 and 2003 with lump sum payments and contributions based on a percentage of payroll. In fiscal 2007, the amount contributed as a percentage of payroll was approximately $5 million and increased to approximately $10 million in fiscal 2008 and 2009. For fiscal 2010, the State has committed $10 million in abandoned property revenue in excess of $374.0 million. The State has established an irrevocable trust and had accumulated $83 million in assets at June 30, 2009, which represents a funding ratio of 1.5%. The State's fiscal 2009 annual required contribution ("ARC") was $516.2 million of which 31% was met through cash contributions and paid benefits, and its fiscal 2010 ARC is estimated to be $480.0 million. The State expects to manage this obligation over time with continued contributions, savings initiatives and a review of benefits.

EMPLOYEE RELATIONS

The State currently has 31,347 full-time equivalent (FTE) positions budgeted for fiscal year 2010, a decrease of 345 FTEs from fiscal 2009. This includes 13,487 FTEs in the public schools, 1,012 FTEs in institutions of higher learning (excluding employees of the University of Delaware, which is not considered part of the State's financing reporting entity) and 16,848 FTE positions in all other departments.

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 is conducted by the Office of Management and Budget 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. Effective with the Governor's signature on August 2, 2007, Senate Bill 36 permits merit system employees to negotiate compensation, defined as payment of salaries and cash allowances, through the collective bargaining process. Position classification, health care and other benefit programs, workers compensation, disability programs and pension programs are not negotiable. 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 8,000 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. Currently only two-thirds of employees eligible for union representation are 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 Management and Budget, Economic Development, and Technology and Information), there are thirteen 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 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 of Accounts 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.

Statewide Elected Officials

Governor	Jack A. Markell
Lieutenant Governor	Matthew Denn
Attorney General	Joseph R. Biden III
State Treasurer	Velda Jones-Potter
State Auditor	R. Thomas Wagner, Jr.
Insurance Commissioner	Karen Weldin Stewart

Cabinet Positions and Other Appointed Officials

Agriculture	Edwin Kee
Correction	Carl C. Danberg
Delaware Economic Development Office	Alan Levin
Education	Lillian Lowery

Finance	Thomas J. Cook (Acting Secretary)
Health and Social Services	Rita Landgraf
Housing	Anas Ben-Addi
Labor	John McMahon
Management and Budget	Ann Visalli
National Guard	Francis D. Vavala
Natural Resources and Environmental Control	Collin O'Mara
Safety and Homeland Security	Lewis Schiliro
Services for Children, Youth and Their Families	Vivian Rapposelli
State	Jeffrey W. Bullock
Technology and Information	James Sills III
Transportation	Carolann Wicks

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 identified a potential aggregate exposure which could exceed $16 million as of September 30, 2009.

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 each series and interest rate 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 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 2009D Bonds within a maturity are being redeemed, DTC shall determine pro rata 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 and the Underwriters take no responsibility for the accuracy thereof.

APPROVAL OF LEGAL MATTERS

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 nor will it express an opinion as to the accuracy, completeness, or fairness of the statements contained in the Official Statement.

TAX MATTERS

2009C BONDS

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 2009C Bonds. These provisions include, but are not limited to, requirements relating to the use and investment of the proceeds of the 2009C 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 2009C 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 on the 2009C Bonds (including accrued original issue discount) 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 2009C 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 2009C Bonds to be so includable in gross income retroactive to the date of issuance of the 2009C Bonds. The State has covenanted to comply with all such requirements. Interest on the 2009C 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 2009C 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 2009C 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.

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 2009C 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 2009C 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 2009C 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 2009C 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 2009C Bonds, denies the interest deduction for indebtedness incurred or continued to purchase or carry tax-exempt obligations, such as the 2009C 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 2009C 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 2009C Bonds maturing on October 1, 2018 bearing interest at 2.500% and on October 1, 2022 bearing interest at 3.000%, 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 as set forth on the inside 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 2009C Bonds maturing on October 1, 2011 to October 1, 2017, inclusive, on October 1, 2018 bearing interest at 5.000%, on October 1, 2019 to 2021, inclusive, on October 1, 2022 bearing interest at 5.000% and on October 1, 2023 to 2027, inclusive 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 inside 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 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 such Premium Bonds.

2009D BONDS

The following is a summary of certain anticipated federal income tax consequences of the purchase, ownership and disposition of the 2009D Bonds. The summary is based upon the provisions of the Code, the regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change or possible differing interpretations. This summary does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances, nor certain types of investors subject to special treatment under the federal income tax laws. This summary focuses primarily on investors who will hold the 2009D Bonds as "capital assets" (generally, property held for investment within the meaning of Code Section 1221), but much of the discussion is applicable to other investors. Potential purchasers of the 2009D Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding and disposition of the 2009D Bonds.

Taxability of Stated Interest and Principal

In general, interest payable to holders of the 2009D Bonds who are not exempt from federal income tax will be treated as ordinary income in the year paid, in the case of cash basis taxpayers, or the year accrued, in the case of accrual basis taxpayers. Principal payments on the 2009D Bonds, other than those attributable to any market discount, will be treated as a return of capital.

Acquisition Premium

The purchaser of a 2009D Bond will be treated as having amortizable bond premium to the extent (if any) by which the purchaser's initial basis in the 2009D Bond exceeds the outstanding principal amount of the 2009D Bond. Provided that the purchaser makes an election under Section 171(c) of the Code (or made such an election after October 22, 1986), the amount of any amortizable bond premium may be amortized over the term of the 2009D Bond and treated as a reduction of the 2009D Bondholder's taxable interest income from the 2009D Bond each year.

The election under Section 171(c) of the Code to amortize bond premium applies to all taxable debt obligations then owned and thereafter acquired by a holder of a 2009D Bond, and may be revoked only with the consent of the Internal Revenue Service.

OWNERS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE ADVISABILITY OF MAKING AN ELECTION TO DEDUCT AMORTIZABLE BOND PREMIUM AND THE APPROPRIATE METHOD OF MAKING SUCH AN ELECTION.

Market Discount

A holder who purchases a 2009D Bond from a prior holder for a price below the adjusted issue price of the 2009D Bond (which generally will equal the remaining principal amount of such 2009D Bond) will, subject to certain *de minimis* rules, be treated as having purchased the 2009D Bond for a market discount. The amount of any market discount will be deemed to accrue over the remaining maturity of the 2009D Bond in accordance with the constant yield to maturity method of accounting, and will have to be taken into account by the holder of the 2009D Bonds as ordinary income for federal income tax purposes. Accrued market discount generally only has to be taken into account as ordinary income as principal payments are received, or upon the recognition of gain from the disposition of the 2009D Bond, provided that the holder may elect to include market discount in income as it accrues.

A holder of a 2009D Bond acquired at a market discount may also be required to defer, until the maturity date of such 2009D Bond or its earlier disposition in a taxable disposition, the deduction of a portion of interest that the holder paid or accrued on indebtedness incurred or maintained to purchase or carry the 2009D Bonds. This deferral rule does not apply if the holder of the 2009D Bond elects to include the market discount in income for the tax years to which it relates. Prospective purchasers who intend to purchase 2009D Bonds from an existing holder at a market discount should consult their own tax advisors regarding the inclusion of market discount in taxable income as ordinary income, the election to include market discount in income as it accrues, and the possible deferral of a portion of the interest deductions attributable to indebtedness incurred or maintained to purchase or carry 2009D Bonds purchased at a market discount.

Sale or Redemption of the 2009D Bonds

A holder's tax basis for a 2009D Bond is the price such holder pays for the 2009D Bond, reduced by (a) payments received other than "qualified periodic interest" and (b) amortized bond premium. Gain or loss recognized on a sale, exchange or redemption of a 2009D Bond, measured by the difference between the amount realized and the 2009D Bond's basis as so adjusted, will generally give rise to capital gain or loss if the 2009D Bond is held as a capital asset. In the case of a subsequent purchaser, a portion of any gain will generally be treated as ordinary income to the extent of any market discount accrued to the date of disposition which was not previously reported as ordinary income.

Backup Withholding

A holder of a 2009D Bond may, under certain circumstances, be subject to "backup withholding" at the rate ranging from 28 percent to 31 percent with respect to interest on the 2009D Bonds. This withholding generally applies if the holder of a 2009D Bond (a) fails to furnish the State with its taxpayer identification number ("TIN"); (b) furnishes the State an incorrect TIN; (c) fails to report properly interest, dividends or other "reportable payments" as defined in the Code, or (d) under certain circumstances, fails to provide the State or its securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is his correct number and that the holder is not subject to backup withholding. Backup withholding will not apply, however, with respect to payments made to certain holders of the 2009D Bonds, including payments to certain exempt recipients (such as certain exempt organizations) and to certain Nonresidents (as defined below). Holders of the 2009D Bonds should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

The State will report to the holders of the 2009D Bonds and to the IRS for each calendar year the amount of any "reportable payments" during such year and the amount of tax withheld, if any, with respect to payments on the 2009D Bonds.

Foreign Bondholders

Under the Code, interest with respect to 2009D Bonds held by nonresident alien individuals, foreign corporations or other non-United States persons ("Nonresidents") generally will not be subject to the 30 percent (30%) United States withholding tax if the State (or other person who would otherwise be required to withhold tax from such payments), is provided with an appropriate statement that the beneficial owner of a 2009D Bond is a nonresident. The withholding tax, if applicable, may be reduced or eliminated by an applicable tax treaty. However, interest that is effectively connected with a United States business conducted by a Nonresident holder of a 2009D Bond will generally be subject to the regular United States income tax.

INVESTORS WHO ARE NONRESIDENTS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE SPECIFIC TAX CONSEQUENCES TO THEM OF OWNING 2009D BONDS.

THE FOREGOING SUMMARY AS TO 2009D BONDS IS NOT INTENDED AS AN EXHAUSTIVE RECITAL OF THE POTENTIAL TAX CONSEQUENCES OF HOLDING THE 2009D BONDS. PROSPECTIVE PURCHASERS OF THE 2009D BONDS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF THE OWNERSHIP OF THE 2009D BONDS. BOND COUNSEL WILL NOT RENDER ANY OPINION WITH RESPECT TO ANY FEDERAL TAX CONSEQUENCES OF OWNERSHIP OF THE 2009D BONDS AND WILL NOT RENDER ANY OPINION AS TO STATE OR LOCAL TAX.

Delaware State Tax Opinion

In the opinion of Bond Counsel under existing statutes, interest on the 2009 Bonds is excluded from personal and corporate income tax imposed by the State.

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.

INDEPENDENT AUDITORS

The State's audited June 30, 2008, Basic Financial Statements included as APPENDIX B to this Official Statement have been examined by KPMG LLP, independent auditors, whose report thereon appears therein. KPMG LLP, the State's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP has not performed any procedures relating to this 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. No rating assures the market value of the Bonds.

UNDERWRITING

The 2009C Bonds are being purchased by Morgan Stanley & Co. Incorporated, as representative of a group of underwriters (the "2009C Underwriters"). The 2009C Underwriters have agreed to purchase said 2009C Bonds at a purchase price of $359,394,641.14 (which is equal to the aggregate principal amount of $313,665,000 plus net original issue premium of $47,046,613.90 less underwriters' discount of $1,316,972.76). The 2009C Underwriters' obligation to make such purchase is subject to certain terms and conditions set forth in the related purchase contract, the approval of certain legal matters by Bond Counsel and certain other conditions.

Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, an underwriter of the 2009C Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2009C Bonds.

J.P. Morgan Securities Inc., one of the underwriters of the 2009C Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings at the original issue prices. Pursuant to the Distribution Agreement (if applicable for this transaction), J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the 2009C Bonds with UBS Financial Services Inc.

The 2009D Bonds are being purchased by Citigroup Capital Global Markets Inc., as representative of a group of underwriters (the "2009D Underwriters"). The 2009D Underwriters have agreed to purchase said 2009D Bonds at a purchase price of $179,751,239.30 (which is equal to the aggregate principal amount of $179,315,000 plus net original issue premium of $1,691,444.30 less underwriters' discount of $1,255,205). The 2009D Underwriters' obligation to make such purchase is subject to certain terms and conditions set forth in the related purchase contract, the approval of certain legal matters by Bond Counsel and certain other conditions.

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 2009C 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 the Municipal Securities Rulemaking Board (the “MSRB”) via the Electronic Municipal Market Access System (“EMMA”), and (ii) notice of various events described in the Rule, if material (“Event Notices”), to the MSRP via EMMA.

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 (the “Continuing Disclosure Agreement”) prior to the issuance of the Bonds, to provide Annual Reports with respect to itself to MSRB via EMMA 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 via EMMA 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. The State is currently in compliance with all of its obligations under the Continuing Disclosure Agreement.

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

JACK A. MARKELL,
Governor

THOMAS J. COOK,
Acting Secretary of Finance

JEFFREY W. BULLOCK,
Secretary of State

VELDA POTTER-JONES,
State Treasurer

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APPENDIX A

SUMMARY OF CASH BASIS FINANCIAL STATEMENTS
For Fiscal Years 2005 Through 2009

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THE STATE OF DELAWARE
BUDGETARY GENERAL FUND
RECEIPTS, DISBURSEMENTS AND CASH BALANCES
(in thousands)

	Fiscal Years Ended June 30				
	2005[1]	2006[1]	2007[1]	2008[1]	2009[1]
Receipts					
Tax Revenue					
Personal Income	$1,015,637	$1,163,277	$1,186,579	$1,198,756	$1,105,248
Franchise	508,064	526,364	540,447	566,308	574,213
Corporation Income	157,022	182,729	177,061	227,791	162,134
Gross Receipts	176,622	179,264	157,312	162,117	164,079
Public Utility	36,504	39,354	46,156	48,106	55,857
Cigarette	80,655	88,526	88,289	125,338	125,681
Pari-Mutual	169	166	147	143	121
Inheritance and Estate	6,411	4,900	366	334	78
Realty Transfer	113,557	116,875	90,934	75,967	44,586
Alcoholic Beverage	13,777	14,238	14,801	14,736	15,519
Insurance Taxes	54,361	59,196	88,254	80,828	77,271
Bank Franchise	134,778	132,726	175,161	129,704	81,783
All Other	339,713	418,269	466,420	493,910	539,152
Total Taxes	2,637,271	2,925,884	3,031,927	3,124,038	2,945,722
Revenue Refunds	217,801	203,192	244,676	291,777	298,220
Net Taxes	2,419,470	2,722,692	2,787,251	2,832,261	2,647,502
Other Revenue					
Fees	98,985	105,300	109,386	107,690	90,494
Interest Earnings	9,105	13,497	25,266	32,948	8,892
Sales[2]	288,789	308,783	320,476	323,847	325,053
Grants, Donations & Special Income	2,400	44	0	0	0
Licenses	13,144	10,994	15,902	11,666	15,832
Other Revenue	3,431	3,110	9,030	6,188	3,332
Non-revenue and Transfers	42,260	5,495	22,901	42,141	56,922
Total Other Revenue	458,114	447,223	502,961	524,480	500,525
Total Receipts	**$2,877,584**	**$3,169,915**	**$3,290,212**	**$3,356,741**	**$3,148,027**
Disbursements					
Legislative	$ 11,640	$ 12,916	$ 13,174	$ 14,015	$ 12,886
Judicial	75,247	84,956	89,391	92,279	88,921
Executive	123,842	272,865	275,008	161,064	150,286
Technology and Information	31,843	36,813	37,647	36,926	37,066
Other Elective Offices	84,839	55,280	56,542	79,380	54,367
Legal	32,177	37,010	41,614	44,759	43,770
Dept. of State	17,058	19,292	25,592	31,890	38,060
Dept. of Finance	41,730	66,065	45,628	33,382	26,597
Dept. of Administrative Services	74,916	-	-	-	-
Dept. of Health & Social Services	707,351	783,771	852,546	918,685	832,935
Dept. of Children, Youth & Their Families	104,169	116,700	131,660	135,344	127,140
Dept. of Correction	201,694	227,496	252,143	263,196	256,627
Dept. of Natural Resources & Env. Control	45,774	57,631	70,495	66,750	56,900
Dept. of Safety & Homeland Security	99,818	114,963	120,875	126,543	124,196
Dept. of Transportation	-	12,027	1,981	3	-
Dept. of Labor	6,574	7,068	7,330	8,110	7,360
Other	19,787	20,437	25,793	23,652	22,923
Total Departments	1,678,461	1,925,290	2,047,419	2,035,978	1,880,034
Higher Education	228,342	239,291	253,820	253,029	252,403
Public Education	915,545	1,015,959	1,088,657	1,132,639	1,163,102
Total Education	1,143,887	1,255,250	1,342,477	1,385,668	1,415,505
Total Disbursements	**$2,822,348**	**$3,180,540**	**$3,389,896**	**$3,421,646**	**$3,295,539**
Receipts Over (Under) Disbursements	55,236	(10,625)	(99,684)	(64,905)	(147,512)
Cash Balance-Beginning of Period	645,961	701,197	690,572	590,888	525,983
General Fund Advances to Other Funds	-	-	-	-	-
Cash Balance	**$ 701,197**	**$ 690,572**	**$ 590,888**	**$ 525,983**	**$ 378,471**

(1) Unaudited. The State has audited GAAP financial statements for the fiscal years ending June 30, 2005 through June 30, 2008.
(2) Consists primarily of payments for board and treatment at State institutions and lottery receipts.
NOTE: Numbers are rounded, and thus, the sum of the detail may not equal the total.
Source: Department of Finance.

THE STATE OF DELAWARE
BUDGETARY SPECIAL FUND
RECEIPTS, DISBURSEMENTS AND CASH BALANCES
(in thousands)

	Fiscal Years Ended June 30				
	2005[(1)]	**2006**[(1)]	**2007**[(1)]	**2008**[(1)]	**2009**[(1)]
Receipts					
Taxes					
Insurance	$ 21,385	$ 24,107	$ 27,241	$ 30,494	$ 26,209
Local School Property	316,417	349,193	386,832	416,881	427,014
All Other	289,979	289,476	363,852	372,447	425,131
Total Taxes	627,782	662,776	777,925	819,822	878,354
Other Revenue					
Federal Grants and Reimbursements	1,127,048	1,204,152	1,186,399	1,291,847	1,521,071
Pension Fund Receipts	132,513	162,595	170,100	181,024	176,382
Interest Earnings	20,612	33,931	52,737	51,361	25,328
All Other	720,641	801,823	881,799	965,447	981,174
Total Other Revenue	2,000,815	2,202,501	2,291,035	2,489,679	2,703,955
Non-Revenue and Transfer					
Sale of Bonds	129,445	136,850	392,030	210,666	252,202
Receipts from Pension Fund	482,351	562,820	564,015	535,836	558,052
All Other	790,976	845,323	797,030	857,656	860,229
Total Non-Revenue and Transfer	1,402,771	1,544,993	1,753,075	1,604,158	1,670,483
Total Receipts	4,031,368	4,410,270	4,822,035	4,913,659	5,252,792
Total Disbursements	4,075,696	4,384,805	4,557,734	4,923,979	5,164,419
Receipts Over (Under) Disbursements	(44,328)	25,464	264,301	(10,320)	88,373
Operating Cash Balance-Beginning of Period	1,055,600	1,012,112	1,036,762	1,298,653	1,291,554
Operating Cash Balance-End of Period	**$1,011,272**	**$1,037,576**	**$1,301,063**	**$1,288,333**	**$1,379,927**
Other Cash					
Payables[(2)]	840	(814)	(2,411)	3,221	(795)
Cash Balance	**$1,012,112**	**$1,036,762**	**$1,298,653**	**$1,291,554**	**$1,379,132**

(1) Unaudited. The State has audited GAAP financial statements for the fiscal years ending June 30, 2005 through June 30, 2008.

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

NOTE: Numbers are rounded and thus the sum of the detail may not equal the total.

Source: Department of Finance.

THE STATE OF DELAWARE
COMBINED BUDGETARY GENERAL AND SPECIAL FUNDS
RECEIPTS, DISBURSEMENTS AND CASH BALANCES
(in thousands)

	Fiscal Years Ended June 30				
	2005[1]	**2006**[1]	**2007**[1]	**2008**[1]	**2009**[1]
Receipts					
Net Taxes	$ 3,047,252	$ 3,385,512	$ 3,565,176	$ 3,637,083	$ 3,525,849
Interest Earnings	29,718	47,428	78,003	84,309	34,220
Grants, Donations and Special Income	1,071,632	1,156,096	1,143,028	1,241,077	1,451,838
Licenses	16,989	14,523	20,517	16,485	23,523
Fees	217,144	247,263	246,886	260,996	233,779
Sales	357,300	373,403	401,066	413,913	417,857
Other Revenue	852,188	964,005	1,030,570	1,121,125	1,144,708
Total Revenue	5,592,223	6,188,229	6,485,246	6,774,988	6,831,774
Non-Revenue and Transfers	1,316,728	1,391,954	1,627,002	1,495,415	1,569,041
Total Receipts	6,908,951	7,580,184	8,112,248	8,270,403	8,400,815
Total Disbursements	6,898,043	7,565,345	7,947,629	8,345,624	8,459,958
Receipts Over (Under) Disbursements	10,908	14,838	164,619	(75,221)	(59,143)
Cash Balance-Beginning of Period	1,701,561	1,713,309	1,727,333	1,889,541	1,817,541
General Fund Advances to Other Funds	-	-	-	-	-
Operating Cash Balance-End of Period	**$1,712,469**	**$1,728,147**	**$1,891,952**	**$1,814,320**	**$1,758,398**
Other Cash					
Payables[2]	840	(814)	(2,411)	3,221	(795)
Cash Balance	**$1,701,561**	**$1,713,309**	**$1,727,333**	**$1,889,541**	**$1,757,603**

(1) Unaudited. The State has audited GAAP financial statements for the fiscal years ending June 30, 2005 through June 30, 2008.
(2) Payroll withholdings are no longer considered a State budgetary Special Fund. They are a General Ledger liability entry starting in fiscal 1987.
NOTE: Numbers are rounded and thus the sum of the detail may not equal the total.

Source: Department of Finance.

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APPENDIX B

BASIC FINANCIAL STATEMENTS
For The Year Ended June 30, 2008

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STATE OF DELAWARE
Basic Financial Statements
June 30, 2008
(With Independent Auditors' Report Thereon)

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STATE OF DELAWARE

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware (State), as of and for the year ended June 30, 2008, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware as of June 30, 2008, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2009, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 19, the budgetary comparison schedules for the general fund and special fund on pages 124 through 129, the information about infrastructure assets reported using the modified approach on pages 130 and 131, and the schedules of required supplementary pension and other post-employment trust data on pages 132 through 136 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

February 18, 2009

Management's Discussion and Analysis

The following is a discussion and analysis of the State of Delaware's (the State's) financial activities as of and for the fiscal year ended June 30, 2008. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found on pages i-vi of this report, and the state's financial statements, which follow this section.

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

Financial Highlights

- The assets of the State exceeded its liabilities at the close of the most recent fiscal year by $5,710.3 million (net assets). Component units reported net assets of $751.7 million, an increase of $32.2 million from the previous year.

- As a result of its operations, the primary government's total net assets decreased by $126.8 million (2.2%) in fiscal year 2008. Net assets of governmental activities decreased by $149.6 million (5.4%) from the previous year, while net assets of the business-type activities increased $22.8 million (0.7%) from the previous year.

- The State's governmental funds reported combined ending fund balances of $1,488.5 million, a decrease of $78.0 million (5.0%) in comparison with the prior year.

- At the end of the current fiscal year, unreserved fund balance for the general fund was $856.5 million, which was 21.2% of total general fund expenditures. Some of the unreserved fund balance is not available for new spending as such funds have been committed based on State statutes that can only be amended by legislation.

- The State's total general obligation debt increased $65.1 million (5.0%) during fiscal year 2008 to $1,376.0 million. Of the State's outstanding debt, $516.2 million (37.5%) has been issued on behalf of local school districts, which are supported by the property tax revenues of those districts.

Overview of the Financial Statements

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

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

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

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

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

The government-wide financial statements include not only the State (known as the primary government), but also legally separate entities for which the State is financially accountable. These entities include the Delaware State Housing Authority, the Diamond State Port Corporation, the Riverfront Development Corporation, the Delaware State University, the Delaware Technical and Community College Educational Foundation and 18 charter schools. Financial information for these component units is reported separately from the financial information presented for the primary government. The government-wide financial statements can be found on pages 20-21 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories – the General Fund or the Special Fund. References to these funds in this report include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The State adopts an annual appropriated budget for its budgetary general fund. A budgetary comparison statement has been provided for the budgetary general fund to demonstrate compliance with the budget. The schedule can be found on page 126 of this report.

Proprietary funds Proprietary funds charge customers for the services they provide – whether they are provided to outside customers (enterprise funds) or other State agencies and other governments (internal service funds). Proprietary funds provide the same type of information as the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the Lottery, Unemployment Insurance Trust Fund and the Delaware Department of Transportation (DelDOT), all of which are considered to be major funds of the State.

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

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

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

The basic fiduciary fund financial statements can be found on pages 29-30 of this report. Combining fiduciary fund statements can be found on pages 138-144.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34 -121 of this report.

Other information In addition to the basic financial statements and accompanying notes, this report presents certain Required Supplementary Information (RSI) concerning the status of the

State's legally adopted budget, the maintenance of the State's infrastructure and additional schedules related to funding status and progress, annual pension costs and actuarial methods and assumptions for the State's pension trusts. The RSI can be found on pages 124-136 of this report.

Statewide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's assets exceeded liabilities for the primary government by $5,710.3 million at the close of the most recent fiscal year.

The largest portion of the State's net assets (74.4%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment) less any related outstanding debt used to acquire those assets. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net assets, comprising 8.7% of total net assets, represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion, unrestricted net assets (16.9%), may be used at the State's discretion; however, some of these funds have been appropriated based on State statutes.

Condensed Financial Information - Primary Government
As of June 30, 2008
(Expressed in Thousands)

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

The capital assets of the governmental activities increased $268.8 million (10.2%) since June 30, 2007. Primary increases are a result of significant renovations to, and expansions of, existing school buildings across all counties to accommodate the rise in student population. Construction costs continue to increase consistent with national trends for higher costs for construction supplies due to an increase in fuel charges.

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

In addition to the increases noted above, the securities lending activities of the State decreased both assets and liabilities $36.8 million from fiscal year 2007 to fiscal year 2008. Collateral is required for borrowed securities equal to 102% of the borrowed securities. The State invests collateral to earn interest. Investments held for securities lending transactions and the corresponding collateral held for securities lending transactions were $116.0 million at June 30, 2008. The leading factor to this decrease was the downturn in the financial markets during fiscal year 2008.

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

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

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

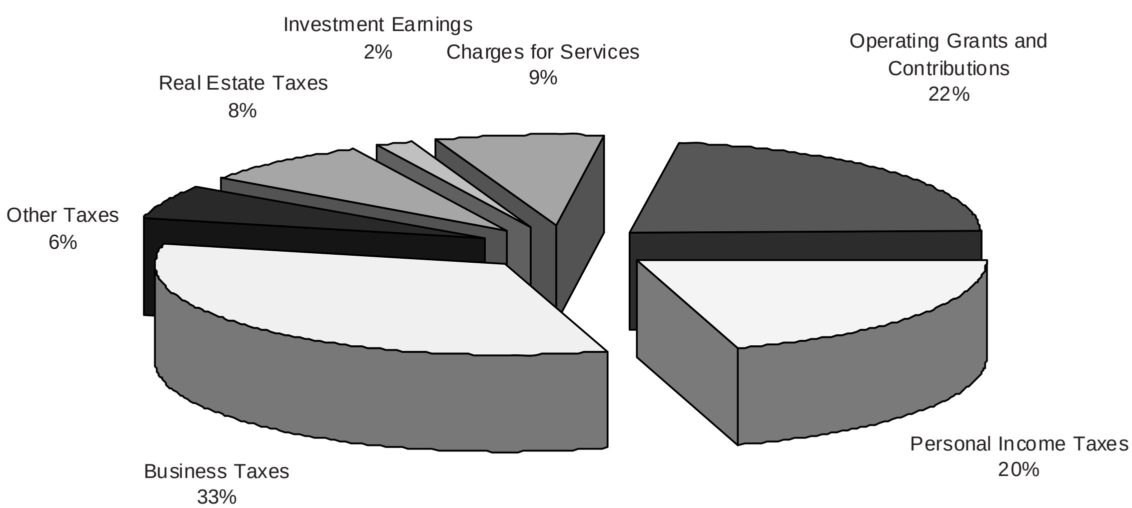
	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	$ 400,943	$ 491,097	$ 1,245,890	$ 1,206,768	$ 1,646,833	$ 1,697,865
Operating grants and contributions	1,094,610	1,001,981			1,094,610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

Governmental activities Governmental activities decreased the State's net assets by $149.6 million while business-type activities increased the State's net assets by $22.8 million. A comparison of the cost of services by function for the State's governmental activities is shown in the following chart, along with the revenues used to cover the net expenses of the governmental activities. Key elements of the increase in net assets are as follows:

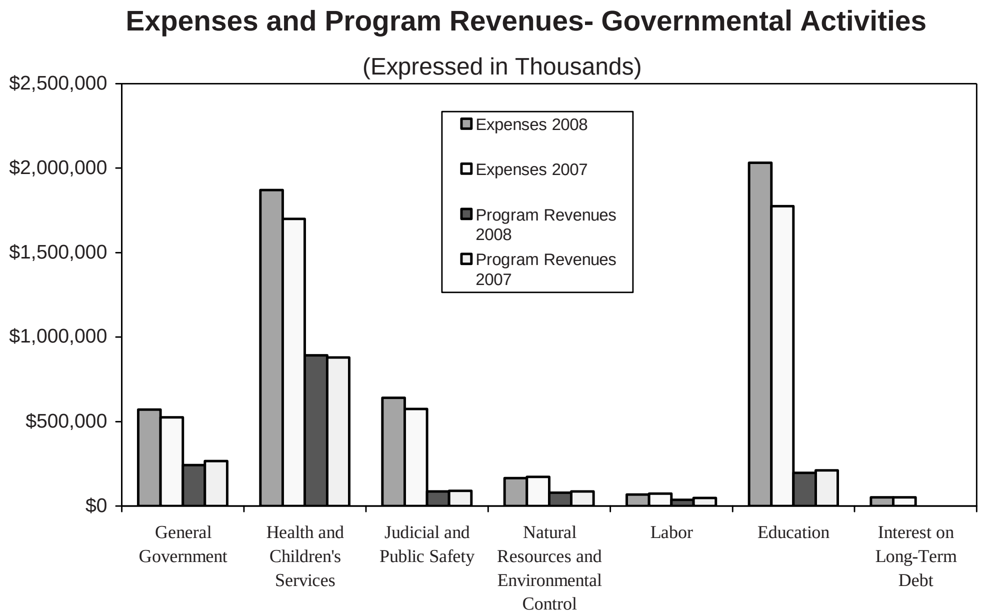
Total general revenues increased overall by $42.8 million (1.2%) with increases in tax revenues such as real estate taxes and cigarette taxes. These increases helped offset decreasing personal income tax growth.

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

Revenues by Source – Governmental Activities



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



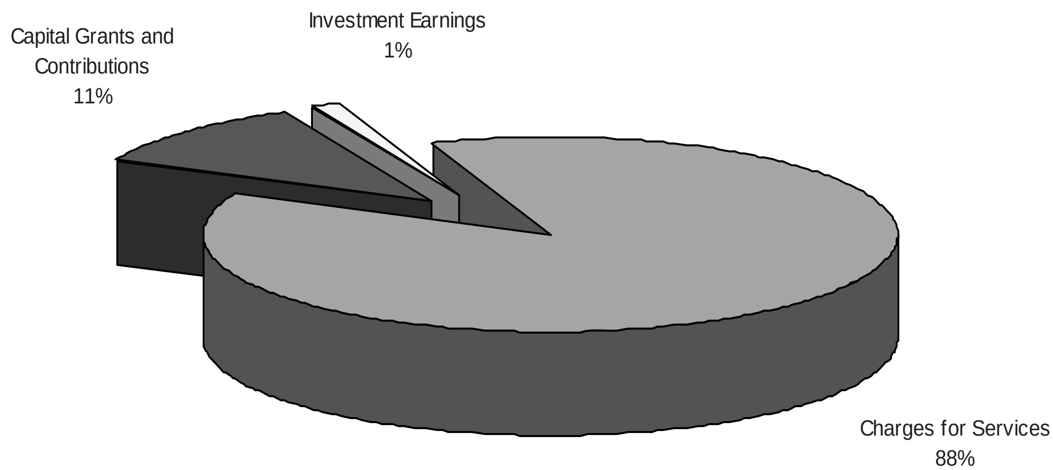
Business-type activities Business-type activities increased the State's net assets by $22.8 million. This increase is comprised of a $54.1 million increase in net assets by DelDOT, a $30.5 million decrease at the Unemployment Insurance Trust Fund, and a $0.8 million decrease of Lottery's net assets.

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

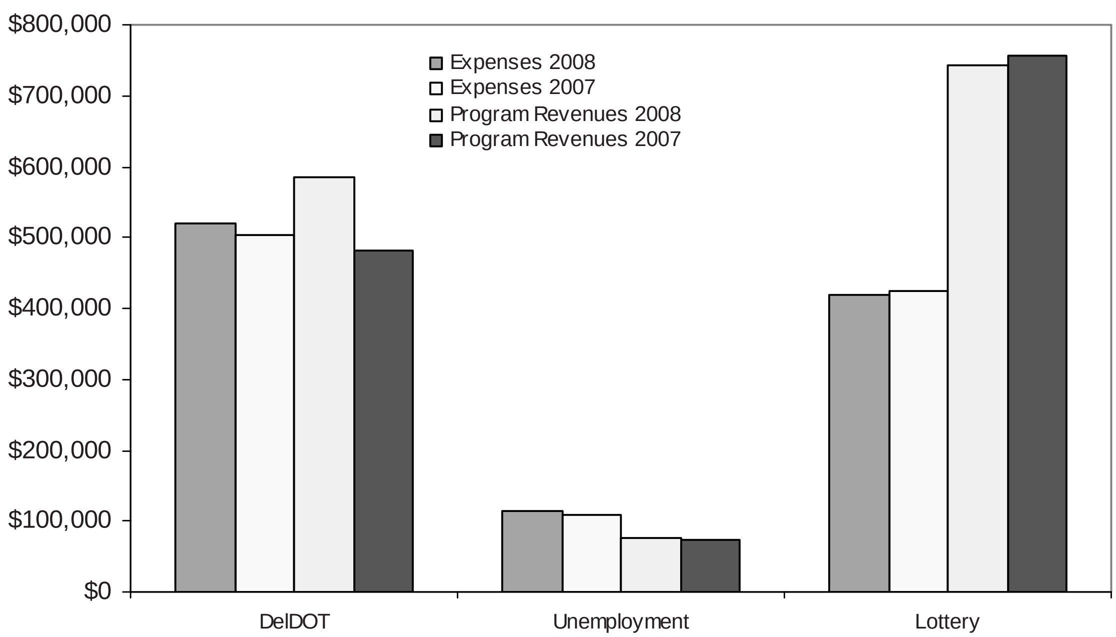
The DelDOT's net assets at June 30, 2008 were $54.1 million higher than June 30, 2007. DelDOT's total operating revenues increased by $49.3 million (13.0%) while operating expenses increased by $35.6 million (7.7%). The October 1, 2007 toll and fee increases were the main contributors of the operating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

The Lottery's net assets changed by less than $0.1 million. By law, the Lottery's fund balance cannot exceed $1.0 million. Revenue for the Lottery decreased by $12.9 million (1.7%) over last year due to a $6.6 million increase in traditional games revenue and a $19.5 million decrease in video lottery revenues. As a result, the Lottery transferred $322.8 million to the State, a decrease from fiscal year 2007 of $7.1 million. The total costs of games and prizes decreased by $6.7 million (1.6%) over the previous year.

Revenues by Source – Business-type Activities



Expenses and Program Revenues – Business-type Activities



Financial Analysis of the State's Funds

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

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

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $1,488.5 million, a decrease of $78.0 million. Approximately 62.5% of the aggregate fund balances, $929.6 million, constitute unreserved fund balances.

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

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

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

At the end of the current fiscal year, unreserved fund balance of the general fund was $856.5 million, while total fund balance reached $1,225.5 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 21.2% of total general fund expenditures, while total fund balance represents 30.4% of total fund expenditures or 111 days of operations.

Federal funds Federal funds represent pass through grants used for designated purposes. Revenue increased by $93.5 million for the year while spending increased by $33.0 million, due to increased spending in social service programs such as Medicaid and public assistance to children, youth and their families.

Local School funds These funds are used to account for activities relating to the State's local school districts, which are funded by locally raised real estate taxes and other revenues. The fund balance increased by $60.9 million to $178.3 million. Spending decreased because of spending cuts in school districts.

Capital Project funds Capital Project funds are used to account for the construction and acquisition of capital assets of the primary government. Capital outlay expenditures totaled $277.8 million in fiscal year 2008, an increase of $57.1 million. State legislation authorizes certain capital project expenditures prior to the issuance of bonds in an aggregate amount not to exceed 3% of general fund revenue.

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

The State's net assets increased in fiscal year 2008 by $22.8 million as a result of operations in the proprietary funds. Page 11 discusses the changes in net assets of the business-type activities.

General Fund Budgetary Highlights

The budgetary general fund is the chief operating fund of the State. At the end of the fiscal year, total fund balance decreased by $64.9 million (11.0%). Revenues were $66.5 million (2.0%) higher than the previous fiscal year this was primarily due to increases in cigarette taxes of $37.0 million and corporate incomes taxes of $36.0 million. However, there were decreases in bank franchise tax of $45.5 million (26.0%) and realty transfer taxes of $15.0 million (16.5%), which is due to the poor performance in the housing and credit markets and the increase in energy prices.

Expenditures were $31.7 million (0.9%) higher than the previous fiscal year. Salaries and other employment costs increased by $64.9 million (4.4%). Grants-in-Aid decreased by $105.9 million (29.0%) while Medicaid grew by $52.6 million (11.9%). In addition, contractual services increased by $7.2 million (2.5%), personal services and travel decreased by $6.2 million (2.9%) and capital outlays decreased by $20.8 million (23.8%). Debt service payments increased by $19.8 million (15.1%) as the debt payments were made from the special fund.

The original budget authorizes current fiscal year operating and administrative expenditures. Included in the final budget are the original budget, prior year encumbrances, multi-year project budgetary carry-forwards from the prior fiscal years, and all modifications to the original budget. The most significant components are the original budget and carry-forwards of prior fiscal year. The unused appropriations from a prior year will carry forward to the final budget for authorized capital projects and grants for example until the funds are spent. During fiscal year 2008, the original budget was modified to provide decreased spending in services in education, health and children's services, self-insurance for health care, expenditures for beach and farmland preservation, land and water conservation, and minor capital renovations in facilities management.

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

- $131.4 million in the Executive Department for funds budgeted, but not spent on an ongoing significant capital improvement project to upgrade the State's emergency response system and software system upgrades for Enterprise Resource Planning Software and other minor capital projects;

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

- $26.7 million in Natural Resources and Environmental Control for expenditures authorized in the final budget, but not spent on energy incentives and incentives for improving the environment such as beach preservation, storm water retention ponds, improvements to State Parks, environmental clean up and water conservation;

- $43.6 million in the Department of Health and Social Services, as well as $4.6 million in the Department of Children, Youth and Their Families for programs that have been rendered, but not yet billed such as Delaware Healthy Children Program costs.

Funded projects, which are not completed by year-end, may carry over unspent funds into fiscal year 2009. Unspent funds are reflected in the final budget which may cause variances from original budget.

Capital Assets and Debt Administration

Capital assets The State's investment in capital assets for its governmental and business-type activities, as of June 30, 2008, amounted to $6,647.2 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, easements, roads, highways, and bridges. The total increase in capital assets for governmental activities was $268.8 million (10.2%) and the increase for business-type activities was $107.9 million (3.0%).

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

- Completion of new schools and renovations of existing schools of $209.5 million, as well as completion of major renovations such as the Old State House. In addition, construction-in-progress as of June 30, 2008 was $336.1 million for governmental activities. Approximately 61.2% of this total is related to the building of new schools and improvements to existing schools across all counties, with the majority of spending occurring in New Castle County.

- The increase in business-type activities is due to the DelDOT fund increase resulting from several major purchases of rolling stock, as well as the I-95 expansion project and the US 301 toll road project.

As allowed by GASB Statement No. 34, *Basic Financial Statements and-Management's Discussion and Analysis for-State and Local Governments*, the State has adopted an alternative process for recording expense related to selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include 4,454 center line miles of roads and 1,457 bridges that the State is responsible to maintain.

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

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

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

Additional information on the State's capital assets can be found in Note 1 on pages 34-45, Note 12 on pages 95-99 and on pages 130-131 in the Required Supplementary Information.

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

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

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	$ 437,874	$ 413,080	$ 222,986	$ 206,411	$ 660,860	$ 619,491
Land improvements	62,241	61,030			62,241	61,030
Buildings	1,879,679	1,682,438	56,017	35,459	1,935,696	1,717,897
Easements	145,893	117,997			145,893	117,997
Equipment and vehicles	46,411	48,066	114,584	84,201	160,995	132,267
Infrastructure			3,345,399	3,283,783	3,345,399	3,283,783
Construction-in-progress	336,111	316,789		21,240	336,111	338,029
Total	$ 2,908,209	$ 2,639,400	$ 3,738,986	$ 3,631,094	$ 6,647,195	$ 6,270,494

Long-term debt The State uses general obligation debt to finance capital projects. At the end of the current fiscal year, the State had total general obligation bond debt outstanding of $1,376.0 million backed by the full faith and credit of the State. Its relatively large debt burden reflects its centralized role in financing school construction projects that are typically funded by local governments or school districts in other states. As of June 30, 2008, $516.2 million, or 37.5%, of the State's outstanding debt was issued on behalf of local school districts. Local school districts transferred $52.0 million of property tax revenue to the State to cover related debt service during fiscal year 2008**.**

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

- A 5% test restricts new debt authorization to 5% of budgetary general fund revenue as projected on June 30th for the next fiscal year. Should actual revenue collections increase during the year, no additional authorizations are made. For fiscal year 2008, debt issuance was limited to $168.3 million.

- A 15% test restricts debt issuance if the annual payments on all outstanding debt exceed 15% of estimated budgetary general fund and Transportation Trust Fund Revenue for the next fiscal year. Currently, these annual payments represent between 7% and 8% of estimated general fund and Transportation Trust Fund revenues.

- Finally, a cash balance test restricts debt issuance if the debt service payment in any year exceeds the estimated cumulative cash balance for the following fiscal year. For fiscal year 2009, the projected cash balance exceeded debt service.

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

Debt issued by the Delaware Transportation Authority (the Authority) does not constitute a debt of the State or a pledge of its general taxing power or of its full faith and credit. Rather, the outstanding revenue bonds are obligations of the Authority payable solely from and secured by a pledge and assignment of certain tolls and revenues such as motor fuel tax revenues, motor vehicle document fees and motor vehicle registrations. The Authority has revenue bonds outstanding of $992.6 million as of June 30, 2008. In June 2008, the Authority issued $84.7 million in Transportation System Senior Revenue Bonds. The sale resulted in $43.4 million to support its ongoing capital transportation program and $41.3 million refunding bonds.

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

Other Post-Employment Benefits

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

Economic Factors and Next Year's Budgets and Rates

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

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

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

Financial Management

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

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

These ratings were reaffirmed in January 2009.

Requests for Information

This financial report is designed to provide a general overview of the State's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Accounting, 820 Silver Lake Boulevard, Suite 200, Silver Lake Plaza, Dover, Delaware 19904. This CAFR can also be found on the Internet at **http://accounting.delaware.gov/cafrdefault.shtml**.

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

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

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

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

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

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINED BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008
(Expressed in Thousands)

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

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2008
(Expressed in Thousands)

Total Fund Balances - Governmental Funds		$ 1,488,468
Amounts reported for governmental activities in the statement of net assets are different because:		
Net capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	$ 437,874	
Land improvements	62,241	
Buildings	1,879,679	
Easements	145,893	
Equipment and vehicles	46,411	
Construction in progress	336,111	
		2,908,209
Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		331,080
Some liabilities net of related assets are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Interest payable	$ (24,193)	
Claims and judgments (current and long-term)	(107,132)	
Compensated absences (current and long-term)	(146,786)	
Other post employment benefits	(265,600)	
Pension obligation	(108,823)	
General obligation long-term debt and related accounts	(1,429,039)	
Notes payable (current and long-term)	(8,563)	
Other long-term obligations	(3,357)	
Escheat liability	(32,000)	
		(2,125,493)
Net assets of governmental activities		$ 2,602,264

See Accompanying Notes to the Financial Statements

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

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

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
RECONCILIATION OF THE NET CHANGES IN FUND BALANCES -
TOTAL GOVERNMENT FUNDS TO CHANGE IN NET ASSETS
OF GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

Net Changes in Fund Balances		$ (78,012)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlays	351,462	
Depreciation expense	(82,653)	
		268,809
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		18,973
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Components of the debt related adjustments consist of:		
Debt service principal repayments	$ 151,650	
New debt issued (face value)	(217,375)	
Premium received	(10,220)	
Issuance costs	389	
Amortization of premium/issuance costs	5,854	
		(69,702)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, the changes in these liabilities are not reported as expenditures in the governmental funds:		
Accrued interest expense		(389)
Claims and judgments		(8,962)
Notes payable		(3,681)
Compensated absences		(6,186)
Pension obligation		(4,068)
Other post employment benefits		(265,600)
Other liabilities		(752)
Change in Net Assets of Governmental Activities		$ (149,570)

See Accompanying Notes to the Financial Statements

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

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

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

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

See Accompanying Notes to the Financial Statements

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

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

See Accompanying Notes to the Financial Statements

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

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

See Accompanying Notes to the Financial Statements

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

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

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2008
(Expressed in Thousands)

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

* Fiscal year-end December 31, 2007

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Expressed in Thousands)

		Program Revenues		
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Component units:				
Delaware State Housing Authority	$ 106,893	$ 52,299	$ 61,224	$ 612
Diamond State Port Corporation	31,657	26,816	-	3,000
Riverfront Development Corporation	13,230	2,028	1,800	21,099
Delaware State University	103,728	44,821	27,443	4,811
Delaware Technical and Community College (DTCC) Educational Foundation	1,939	624	7,101	-
Delaware Charter Schools	83,810	9,778	5,546	72
Total component units	$ 341,257	$ 136,366	$ 103,114	$ 29,594
General revenues:				
Unrestricted payments from primary governments				
Investment earnings (loss)				
Gain (Loss) on sale of assets				
Miscellaneous				
Total general revenues				
Change in net assets				
Net assets - beginning of year (as restated)				
Net assets - end of year				

* Fiscal year ended December 31, 2007

See Accompanying Notes to the Financial Statements

Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	DTCC * Educational Foundation	Delaware Charter Schools	Totals
$ 7,242						$ 7,242
	$ (1,841)					(1,841)
		$ 11,697				11,697
			$ (26,653)			(26,653)
				$ 5,786		5,786
					$ (68,414)	(68,414)
						(72,183)
-	-	-	29,599	-	70,370	99,969
11,551	(815)	969	(1,955)	420	1,050	11,220
-	4	(494)	-	-	-	(490)
-	(60)	-	(6,394)	-	103	(6,351)
11,551	(871)	475	21,250	420	71,523	104,348
18,793	(2,712)	12,172	(5,403)	6,206	3,109	32,165
266,263	151,341	118,014	150,663	10,871	22,382	719,534
$ 285,056	$ 148,629	$ 130,186	$ 145,260	$ 17,077	$ 25,491	$ 751,699

Net (Expense) Revenue and Changes in Net Assets

See Accompanying Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Reporting Entity

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

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

Blended Component Unit

The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity; however, as it provides services and benefits almost exclusively to the primary government, the DPERS is considered a blended component unit and is shown in the financial statements as part of the primary government as a pension trust fund. The financial report of DPERS for the year ended June 30, 2008 may be obtained in writing to the State Board of Pension Trustees and Office of the Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

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

Discretely Presented Component Units

The following component units are entities that are legally separate from the State, but are financially accountable to the State for reporting purposes or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The component unit's column of the basic financial statements includes the financial data of these entities. Except for the Delaware Technical and Community College Educational Foundation, which has a fiscal year-end of December 31, 2007, each discretely presented component unit has a June 30, 2008 fiscal year-end.

Delaware State Housing Authority

The Delaware State Housing Authority (DSHA) is a public corporation whose Director is appointed by and reports directly to the Governor of the State. The DSHA administers the role of providing affordable housing as a key aspect of State policy. The DSHA's relationship with the State is such that exclusion of the DSHA from the State's basic financial statements would cause the statements to be misleading or incomplete. The DSHA is authorized, among other things, to (1) make mortgage, construction and other loans to not-for-profit and limited for-profit housing sponsors; (2) make loans to mortgage lenders, requiring the proceeds thereof to be used for making newly qualified residential mortgage loans; (3) purchase qualified mortgage loans from mortgage lenders; and (4) apply for and receive assistance and subsidies under programs from the federal government and others.

Diamond State Port Corporation

The Diamond State Port Corporation (DSPC) was organized as a body corporate and politic constituting a public instrumentality of the State. The DSPC is empowered to operate, improve and maintain the Port of Wilmington and related facilities. The Governor appoints 8 of the 15 members of the board of directors, with the advice and consent of the Senate. The DSPC's relationship with the State is such that exclusion of the DSPC from the State's basic financial statements would cause the statements to be misleading or incomplete.

Riverfront Development Corporation

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

Delaware State University

Delaware State University (DSU) is a public institution of higher education. Funding is primarily through State appropriations. State appropriations without restrictions as to use by the University are reported in general revenue. Additional funding is derived from tuition, federal grants, private donations and grants. The Board of Trustees is comprised of 15 members, eight appointed by the Governor of Delaware and seven elected by the Trustees.

The President of the University and the Governor of the State of Delaware serve as ex-officio members of the Board. Delaware State University financial data includes its two component units, the Delaware State University Housing Foundation and the Delaware State University Foundation, Inc.

Delaware Technical and Community College Educational Foundation

The Delaware Technical and Community College Educational Foundation (the Foundation) is a fiduciary-type component unit of Delaware Technical and Community College (DTCC), which is part of the primary government. The Foundation was established on November 13, 1968 by a trust agreement. On April 20, 1999, the Foundation revised the trust document incorporating all previous amendments to the previous trust document. The trust agreement stipulates that the activities of the Foundation be limited to such educational purposes that come under Section 501(c) (3) of the Internal Revenue Code. Activities include, but are not limited to, making contributions, gifts or grants, or otherwise rendering financial aid and assistance by direct payments to DTCC and providing financial assistance to qualified students. The Foundation has a fiscal year-end of December 31, 2007.

Delaware Charter Schools

Delaware's 18 Charter Schools are public schools funded primarily through State appropriations. Additional funding is derived from federal grants passed through from the primary government, private donations and funds received from local school districts on a tax portion per child basis. Charter schools are each managed by a board of directors, which operate independently, under a charter granted by the State Department of Education with the approval of the State Board of Education. Charters are granted for an initial period of three years and renewable every five years thereafter. Financial information for Delaware Charter Schools is presented in the aggregate as they are individually immaterial.

Complete financial statements for each of the discretely presented component units may be obtained from their respective administrative offices.

Related Organizations

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

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

Jointly Governed Organization

The Delaware River and Bay Authority (DRBA), a body politic, was created with the intention of advancing the economic growth and development of those areas in the State of Delaware and the State of New Jersey which border the Delaware River and Delaware Bay.

DRBA is governed by 12 commissioners: six appointed by the State of Delaware and six appointed by the State of New Jersey. DRBA is autonomous from a day-to-day operations perspective and neither State is obligated for the DRBA's debt. DRBA is not included in these financial statements as the State of Delaware has no ongoing financial interest.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is separately presented from certain legally separate component units for which the State is financially accountable.

The statement of net assets measures not just current assets and liabilities, but also long-term assets and liabilities such as capital assets (including infrastructure assets) and general long-term debt. The difference between the State's assets and its liabilities is its net assets. Net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. There are no net assets that are restricted by enabling legislation at June 30, 2008. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

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

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

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

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

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

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

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

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

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

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

Governmental Funds

The State reports the following major governmental funds:

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

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

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

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

Proprietary Funds

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

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

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

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

The State reports the following major proprietary funds:

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

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

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

Fiduciary Funds

The fiduciary funds account for assets held by the State in a trustee capacity or as an agency for other individuals or organizations. The fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting.

The State reports the following fiduciary funds:

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

Pension Trust Funds – The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity; however, as it provides services and benefits almost exclusively to the primary government, the DPERS is considered a fiduciary fund and is shown in the financial statements as part of the primary government as a pension trust fund. Pension trust funds account for transactions, assets, liabilities and net assets available for plan benefits (Note 15). For pension trust funds, employee contributions are recognized as revenue in the period in which the employee services are performed. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The financial report of DPERS for the year ended June 30, 2008 may be obtained by writing to the State Board of Pension Trustees and Office of the Pensions, McArdle Building, and Suite #1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

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

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

New Accounting Pronouncements

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other than Pension Plans.* This Statement establishes a uniform financial reporting standard that supersedes the interim guidelines included in Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension* Plans. This Statement addresses financial statement and disclosure requirements for reporting by administrators or trustees of OPEB plan assets, or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports. The State adopted this standard for the fiscal year ended June 30, 2008.

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This Statement establishes standards for the measurement, recognition, and display of OPEB expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The State adopted this standard for the fiscal year ended June 30, 2008.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.* The Statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or as a collateralized borrowing. Such transactions are likely to comprise the sale of delinquent property tax liens, certain mortgages, student loans, or future revenues such as those arising from tobacco settlement agreements. This statement was required to be implemented in fiscal year June 30, 2008. The State has determined that there is no affect of this statement.

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

Impact of Future Accounting Pronouncements

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

The requirements of this Statement were effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning net assets can be restated. However, governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are required to apply the provisions retroactively for all such periods presented. The future impact of this statement is currently being evaluated by the State.

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

Deposits and Investments

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

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

The State presents its deposits and investments in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* an amendment to GASB Statement No. 3, *Deposits with Financial Institutions*, *Investments (including repurchase agreements) and Reverse Repurchase Agreements*. This standard requires that state and local governments, including colleges and universities, disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas; credit risk, interest rate and maturity, interest rate sensitivity and foreign exchange exposure.

Receivables and Payables

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

Inventories and Prepaid Items

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

Restricted Assets

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

The State has the following restricted assets:

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

Capital Assets

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

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

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

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

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

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
Software	5	N/A

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

Compensated Absences

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

Long-Term Obligations

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

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

Fund Equity

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

The State Constitution provides that certain excess unencumbered budgetary general funds at the end of a fiscal year must be placed in a reserve account (the "Budgetary Reserve Account"). This account, designed to provide a cushion against unanticipated deficits, may not exceed 5% of the estimated general fund revenue for the ensuing fiscal year. Total funding of the budgetary reserve account was $186.4 million at June 30, 2008. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation. Per the Delaware Constitution, the General Assembly, by three-fifths vote of the members elected to each House, may appropriate from the budgetary reserve account. Should the State attempt to use this reserve for other purposes, such could be challenged by citizens.

(d) Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables when entitlement occurs. All other federal reimbursement type grants are recorded as accounts receivable when the related expenditures or expenses are recognized. Related revenue is recorded subject to availability. Amounts not collected within 60 days of fiscal year-end are recorded as deferred revenue. In addition to monetary transactions, Federal grants also include non-monetary transactions related to food stamps.

(e) Litigation Revenue

In 1997, several states began litigation against defendant tobacco product manufacturers to recover certain amounts the states expended to provide health care to the users of tobacco products. In 1998, a settlement was reached which provided that the states cease litigation against the manufacturers. As part of the Master Settlement Agreement, certain manufacturers agreed to remit periodic payments to the states until 2025. The State's share of the estimated $200 billion settlement amounted to $774.5 million. Amounts to be remitted are calculated based on a variety of specific settlement provisions. Future tobacco product sales are one key factor used in determining periodic payment amounts. A receivable of $12.8 million has been recorded pursuant to the settlement. The Master Settlement agreement receipts of $29.7 million are recorded in the general fund as part of other revenue and as miscellaneous general revenue on the government-wide statement of activities. Expenditures of monies received under the Master Settlement Agreement are authorized by legislation and are dedicated to health care and related programs.

NOTE 2 CASH, INVESTMENTS AND RESTRICTED ASSETS

Cash Management Policy and Investment Guidelines

The State Treasurer maintains the majority of the deposits and investments of the primary government and uses professional money managers to invest the State's deposits according to guidelines set in the *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy) by the State's Cash Management Policy Board (the Board).

The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the State except money in DPERS and the OPEB Trust and money held under the State deferred compensation program. By law, all deposits and investments belonging to the State are under the control of the State Treasurer except for those that, by specific authority, are under the control of other agencies or component units, as determined by the Board in various pooled investment funds (State Investment Pool). The deposit and investment policies of those entities may differ from those of the State Treasurer. Typically, these agencies follow the deposit and investment policies of the State Treasurer in an effort to minimize deposit and investment risks.

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

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

- Cash Accounts. Cash accounts divide the State's available cash into three parts:

  - Collection and Disbursement Accounts: The State maintains an amount of cash in its general collection and disbursement accounts sufficient to meet its outstanding obligations.

  - Cash and Liquidity Accounts: The majority of the State's cash balance available for investment is maintained in the cash and liquidity accounts. These accounts are managed and invested by investment managers, selected by the Board through competitive bid, in order to maximize the return to the State while, at the same time, providing for safety of principal and sufficient liquidity for the State to meet its cash needs. The State manages its short-term (12 to 18 month) investments to ensure sufficient liquidity and prevent their premature sale for the purpose of covering expenditures. Short-term investments should mature at face value in sufficient amounts to meet any needs.

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

- Special Purpose Accounts. There are two primary types of special purpose accounts:

  - Endowment Accounts: Endowment accounts consist of funds set-aside for specified purposes.

  - Authority Accounts: The State's Authorities (state agencies, local school districts and component units) maintain a variety of fund types, including various operating funds, bond funds and debt service reserve funds.

The Policy specifies the types of investments these managers can make; the maximum percentage of assets that may be invested in particular instruments; the minimum credit quality of these investments; and the maximum length of time the assets can be invested. The Policy provides, among other things, that no more than 10% of the entire portfolio may be invested in obligations of any one issuer other than the U.S. Government. The following investments are permissible for all funds under the review of the Board, subject to percentage limitations of the account.

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

Additional permissible investments for special purpose accounts only:

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

The primary government's accounts are categorized as "authority accounts". At June 30, 2008, investments of the primary government are primarily in commercial paper, corporate obligations, government agency bonds and notes, and municipal obligations. All of these meet the objectives defined by the Policy.

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

Risks

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

Custodial Credit Risk

Deposits

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

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

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

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

At June 30, 2008, the carrying amount of the primary government's deposits was $806.5 million and the bank balance was $925.8 million. Of the $925.8 million bank balance, $71.1 million was fully insured; $164.4 million represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury; and the remaining

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

Investments

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

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

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Also, the terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. The State manages interest rates using the segmented time distribution and effective duration methods. The State approves and contracts with different investment managers of fixed income securities in order to manage the exposure to interest rate risk with each different manager focusing on different goals of yield periods or duration of maturities of their particular portion of the investment pool. The Policy provides either maturity or duration limitations for the various investment pools. The interest rate risk inherent in the portfolio is monitored by measuring the weighted average maturity and/or duration.

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

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

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

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

- **Cash Account Investment**. The maximum maturity for any investment at the time of purchase for the cash account is one year.

- **Liquidity Accounts**. The maximum maturity for any investment at the time of purchase for the liquidity accounts is two years.

- **Reserve Cash (Intermediate) Account**. The maximum maturity for any investment at the time of purchase is 10 years. The maximum average maturity of the portfolio is seven years.

- **Endowment Accounts**. The maximum maturity for any investment at the time of purchase is 10 years. The maximum average maturity of the portfolio is seven years. The Board shall consider tailoring maturity restrictions to meet specific purposes for endowment accounts to be established in the future.

- **Authority Operating, Bond and Debt Service Reserve Fund Accounts**. Maturity Restrictions: The maximum maturity for any investment at the time of purchase is 10 years, except when prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

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

Investment Maturity
(Expressed in Thousands)

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

Credit Risk

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

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

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

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

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

Credit Risk - Quality Ratings
(Expressed in Thousands)

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

TSY = Treasury

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

NR = Non-Rated Pooled accounts

Concentration of Credit Risk

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

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

A. U.S. Government-no restrictions.

B. Government agency-50% total; 20% in any one agency.

C. Certificates of deposits, time deposits and bankers acceptances-50% total; 10% in any one issuer.

   1. Domestic-No additional restrictions.

   2. Non-domestic-25%.

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

D. Corporate debt-50% total; 25% in any one industry; 10% in any one issuer, 10% of any issuer's total outstanding securities.

   1. Domestic-No additional restrictions.

   2. Non-Domestic-25%; 10% in any one issuer.

E. Repurchase agreements-50% total.

F. Reverse repurchase agreements-25% total.

G. Money market funds-25% total; 10% in any one fund except for the Cash Account, which may invest 100% of the Account in the Delaware Local Government Investment Pool (DELGIP) Fund. The Investment Guidelines for the DELGIP Fund are defined in Appendix B of the Policy.

H. Canadian treasuries-25% total; 10% in any one agency.

I. Canadian agency securities-25% total; 10% in any one agency.

J. Municipal obligations-10% in any one issuer.

K. Guaranteed investment contracts-Permitted where it is prudent to match a specific investment instrument with a known specific future liability, subject to credit quality guidelines for commercial paper and corporate bonds and debentures and with adequate exit provisions in the event of the future downgrade of the issuer.

L. Mortgage-backed securities-20% total.

At June 30, 2008, the State’s investments have met the requirement of all the State’s laws and policies, when applicable. There were no obligations that represented 5% or more of the primary government’s investments, except for U.S. government securities, pooled and mutual funds.

Foreign Currency Risk

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

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

Commitments

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

Securities Lending

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

BNY/Mellon, acting as lending agent, lends the State's securities for cash, securities, or letter-of-credit collateral. Collateral is required at 102% of the fair value of the securities loaned. Collateral is marked to market daily. If the collateral received by the borrowers falls below the collateral requirement of the securities loaned, additional collateral is obtained from the borrowers. To the extent any loss arising out of approved investments results in a deficiency in the amount of collateral available for return to a borrower, the lender agrees to pay bank on demand cash in an amount equal to such deficiency. Cash collateral is invested by the lending agent in accordance with investment guidelines per the contract. The lending agent cannot pledge or sell securities collateral unless the borrower defaults.

At June 30, 2008, the State's credit exposure to individual borrowers was limited because the amounts the State owed the borrowers exceeded the amounts the borrowers owed the State. The State's contract with the lending agent requires the agent to indemnify the State if the borrowers fail to return the underlying securities and the collateral is inadequate to replace the loaned securities or if the borrowers fail to pay income distributions on the loaned securities.

All securities loans at June 30, 2008 could be terminated immediately by either the lending agent or the borrower.

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

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

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

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

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

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

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

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

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

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

Delaware Public Employees' Retirement System (DPERS or System)

Investment Policy

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

a. Allocate a minimum of 20% of assets to fixed income investments such as bonds, cash equivalents, and certain real estate investments;

b. Maintain a widely diversified portfolio, to minimize the risk of overexposure in any one market segment or investment style;

c. Monitor the performance of all investment managers using specific benchmarks;

d. Control exposure in illiquid asset classes;

e. Review, re-examine, and reconfirm the operation of results of the investment process regularly;

f. Identify new long-term opportunities for risk reduction and improved investment returns; and

g. Review actuarial assumptions to ensure consistency with capital market expectations.

For the fiscal year ended June 30, 2008, management of the System has operated in accordance with these policies, in all material respects.

Securities Lending

The System entered into a contract with its custodian during fiscal year 2007 to participate in its securities lending program. The objective of securities lending is to earn income through a conservatively operated and well-controlled program. Income expected is commensurate with the market demand for the stocks, bonds, and other securities made available by the System and the return earned on the investment of cash collateral. In December 2007, the Investment Committee and Board voted to withdraw from the securities lending program, primarily because of concern for current market conditions and counterparty risk. As of June 30, 2008, all loaned securities were returned to the custodied accounts, and no program collateral was held. The System intends to return to the program at some time in the future when market conditions are deemed to be more favorable.

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

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

Investments

The following is a listing of fixed income investments and cash equivalents and related maturity schedule which shows the System's exposure to interest rate risk as of June 30, 2008. It is the System's policy to classify corporate convertible bonds as equity securities on the Statement of Net Assets because those securities generally convert to preferred equity interests upon maturity. Corporate convertible bonds in the amount of $732.3 million have been included in the chart below because they have maturity dates and are exposed to interest rate risk.

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

Investment Type/Sector	Fair Value	Less than 1	1 - 6	6 - 10	10 +	Not Determined
Asset backed securities	$ 28,146	$ -	$ 6,609	$ 3,039	$ 18,498	$ -
Cash equivalents	293,974	293,974	-	-	-	-
Commercial mortgage-backed	45,820	-	597	-	45,223	-
Corporate bonds	364,094	11,289	81,499	90,640	180,666	-
Corporate convertible bonds	732,254	31,045	445,467	45,700	210,042	-
Government agencies	51,602	8,848	22,249	18,388	2,117	-
Government bonds	82,506	-	37,434	17,340	27,732	-
Government mortgage backed securities	142,424	-	106	2,007	113,056	27,255
Government issued commercial mortgage-backed	497	-	-	-	497	-
Municipal/provincial bonds	30,487	4,722	18,473	1,799	5,493	-
Non-government backed C.M.O.s	34,384	-	515	1,486	32,383	-
Pooled investments	830,859	-	254,764	312,491	178	263,426
Total	$ 2,637,047	$ 349,878	$ 867,713	$ 492,890	$ 635,885	$ 290,681

Interest Rate Risk

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

Credit Risk

The System's general investment policy is to apply the prudent-person rule to all risks incurred by the fund: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The System has no investment policy that would further limit its investment choices related to credit risk. As of June 30, 2008, the System's fixed income investments and cash equivalents had the following credit risk characteristics as indicated in the following schedule (expressed in thousands):

Moody's Ratings or Comparable	Percent of Total Fund	Market Value
AAA to A	18.1%	$ 1,284,354
BBB to B	6.3%	445,186
CCC to C	0.7%	47,494
Less than C	0.0%	1,244
U.S. Government Guaranteed	2.0%	144,622
Not Rated	10.1%	714,147
Total:	37.2%	$ 2,637,047

Custodial Credit Risk

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

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

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

Management Fees

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

Investment Commitments

The System has commitments to invest up to an additional $754.0 million in venture capital limited partnerships in varying amounts as of June 30, 2008, to be drawn down, as called upon at any time during the term of each partnership, which is usually a ten-year period. Generally, these commitments are self-funding, in that the capital calls are met using cash flows generated by the existing venture capital/limited partnerships as managers in this asset class realize the proceeds of their investments.

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

Foreign Investments

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

Investment Types
(Expressed in Thousands)

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

Derivatives

Derivatives are instruments (securities or contracts) whose value is dependent on such things as stock or bond prices, interest rate levels, or currency exchange rates. In June 1994, the Board adopted a formal written policy on the use of derivatives which is reviewed periodically. This policy, as amended, was incorporated in the formalized investment policy adopted by the Board during fiscal year 2007 and reviewed during fiscal year 2008. Some selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are stated in the manager's contract and are monitored on an ongoing basis. Derivatives serve a variety of useful purposes for the System, including the reduction of foreign exchange risk, the minimization of transaction costs and as a means of implementing value added strategies to enhance returns. So-called "exotic" derivatives are not used. If the use of derivatives in a portfolio strategy results in some leverage, that leverage is never permitted to expose the Fund to a loss greater than the amount committed to that strategy.

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

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

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

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

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

Risk and Uncertainty

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

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

COMPONENT UNITS

Diamond State Port Corporation (DSPC)

At June 30, 2008, the carrying value and the bank balances of the DSPC's deposits were $18.8 million and $19.0 million, respectively. Of the bank balances, $100,000 is insured by the Federal Deposit Insurance Corporation (FDIC) and $18.9 million is subject to custodial credit risk because it is uninsured and uncollateralized. However, it is held at financial institutions that satisfied the State's collateralization requirements and does not require collateralization.

Riverfront Development Corporation (RDC)

At June 30, 2008, the carrying value and bank balances of the RDC's deposits were $11.2 million and $11.6 million, respectively and of which $1.5 million were held in the State Investment Pool. Deposits include $383,737 of restricted cash and cash equivalents that have been assigned to the bank as collateral for repayment in the event of a default under the bond or collateral agreements. Of the bank balances, $407,600 is insured by the FDIC and $10.8 million is uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

Delaware State University (DSU)

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

Delaware Technical and Community College Educational Foundation (DTCC Foundation)

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

Delaware Charter Schools

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

Delaware State Housing Authority (DSHA)

Investment Policies

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

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

a. Obligations of or explicitly guaranteed by the U.S. or Delaware state governments.

b. Obligations of U.S. government-sponsored enterprises and U.S. government agencies and instrumentalities.

c. Obligations of depositories and other financial institutions.

d. Bankers' acceptances

e. Commercial paper

f. Money market mutual funds

g. Corporate debt obligations

h. The State of Delaware investment pool with the State Treasurer's Office.

i. Other investment arrangements made pursuant to an investment agreement authorized by a resolution of the DSHA.

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

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

Investments

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

Investment Maturities (in Years)
(Expressed in Thousands)

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

Interest Rate Risk

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

a. Single Family & Multi-Family Program Funds: Investment contracts for bond program funds should have a maturity that matches the final bond maturity to minimize reinvestment risk. Individual investments of bond program funds should match anticipated cash requirements or provide sufficient liquidity to allow funds to be accessed to meet bond resolution requirements without incurring material principal losses.

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

c. General Fund: The Operating Reserve Account, which is managed externally, should have a maximum maturity at the time of purchase of ten years. However, specific investments may be transferred into the account from time to time that may have a longer maturity. The DSHA may further reduce the maximum maturity of the operating reserve investments from time to time.

d. Other DSHA funds should be invested with a maturity that matches, or is prior to, the anticipated time at which the funds will be needed.

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

Credit Risk

DSHA's general investment policy is to make investments with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as, the probable income to be derived. DSHA's investment policy limits its investment choices as mentioned above under Investments. For the DSHA's Single and Multi-Family Programs, the investment rating must be equal or exceed the bond rating. The DSHA's Operating Reserve Account has a specific credit quality requirement. Corporate debt obligations and shares of money market mutual funds shall have a long-term rating of AA and/or Aa, respectively by Standard & Poor's (S&P) and Moody's at the time of purchase. As of June 30, 2008, DSHA's investments were rated as follows:

Ratings (S & P)
(Expressed in Thousands)

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, DSHA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the DSHA's $149.6 million investment balance, $61.8 million represents deposits held by various Guaranteed Investment Contract (GIC) providers under investment agreements. These accounts are uninsured and uncollateralized. The funds are specifically identified for DSHA, but the custodial credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the GIC provider whose rating must equal or exceed that of the bond rating. The bank and savings money markets must be collateralized at 102% or greater by securities pledged and identified as held in DSHA's name. Although the State Investment Pool is not collateralized, the State's Cash Management Policy Board requires that investments meet certain ratings, investment types and maturity criteria. DSHA's investment policy does not limit the amount of securities that can be held by the counterparties.

Riverfront Development Corporation (RDC)

RDC's restricted investments totaling $10.3 million consist of $4.8 million of short-term investments (rated A1 or better) and $5.5 million of government bonds (rated AAA). These investments are investments that are uninsured, unregistered and held by the counterparty's trust department or agent in RDC's name. The following issuers have investments at fair value in excess of 5% of RDC's investment portfolio:

Investments	Fair Value	% Of Assets
General Electric Capital Corp. note	$ 600,000	5.8%
Federal Home Loan Bank bonds	4,500,840	43.5%
Federal Home Loan Mortgage Corp. note	998,825	9.7%

Delaware State University (DSU)

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

Delaware Technical and Community College Educational Foundation (DTCC Foundation)

Investments of the DTCC Foundation totaled $8.5 million, stated at quoted market value. These investments consist of pooled investments where the DTCC Foundation does not own specific securities. An additional $56,091 is invested in life insurance, recorded at the cash surrender value.

NOTE 3 RECEIVABLES

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

Taxes receivable represent the amount of personal, business, and other taxes determined to be measurable and available at June 30, 2008. Uncollectibility for taxes receivable primarily results from identified assessment problems, inability to locate taxpayers, and accounts of decedents.

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

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

Receivables - Primary Government
Governmental Activities
(Expressed in Thousands)

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

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

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

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

Receivables
Component Unit Activities
(Expressed in Thousands)

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

Deferred Revenues

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

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

Deferred Revenues
(Expressed in Thousands)

Unavailable		
Taxes receivable	$	79,366
Non-tax receivables:		
Loans and notes receivables		189,508
Accounts receivables		62,206
Subtotal unavailable		331,080
Unearned		
Advance park reservation fees		928
Federal grant advance drawdowns		2,872
Subtotal unearned		3,800
Total deferred revenue	$	334,880

NOTE 4 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

(a) Due From/Due to Other Funds

Receivables reported as “due from other funds” and the related payables reported as “due to other funds” represent amounts owed to State organizations by other organizations within the State reporting entity. Amounts receivable from or payable to other levels of government are reported as intergovernmental receivables or payables. The composition of due from/due to balances at June 30, 2008, expressed in thousands, is as follows:

Receivable Fund	Payable Fund		Amount
General	Federal		$ 31,871
	Local school district		8,330
		Subtotal	40,201
General	Lottery		6,325
		Total	$ 46,526

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

The amount due from the Lottery fund (reported as an internal balance on the statement of net assets), represents profits required by law to be transferred to the general fund.

(b) Transfers In From/Out To Other Funds

Transfers in and transfers out from/to other funds in the statement of revenues, expenditures and changes in fund balance, the statement of revenues, expenses and changes in fund net assets, proprietary funds and payment from the primary government in the statement of activities-component units represent transfers between funds. Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) use restricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) move profits from the Lottery fund as required by State law.

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

	Transfers In	Transfers Out
Governmental funds		
General	$ 434,605	$ 27,049
Federal		25,457
Local school district	56,165	85,729
Capital projects	268	20,671
Proprietary funds		
Lottery		322,842
DelDOT	5,690	14,980
Total all funds	$ 496,728	$ 496,728

NOTE 5 GENERAL OBLIGATION BONDS

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

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

On March 1, 2008, the State issued $217.4 million in general obligation bonds. These serial bonds mature between March 1, 2009 and March 1, 2028. The Series A Bonds totaling $45.0 million were sold to retail investors and bear coupons of 3% to 5%. The Series B Bonds totaling $172.4 million were sold competitively to institutional investors and bear coupons of 4.75% to 5%. The proceeds of these bonds were used to provide financing for capital projects and to advance refund $16.4 million of general obligation bonds. Investments and fixed earnings on the investments are sufficient to fully provide for all further debt service on the refunded bonds. The refunding resulted in an economic gain of $687,193 and a debt service cash savings over the next seven years of $715,382.

Bonds issued and outstanding totaled $1,376.0 million at June 30, 2008. Of this amount, $516.2 million is supported by property taxes collected by the local school districts. During fiscal year 2008, the local school district funds transferred $52.0 million of property tax revenue to the State to meet the required debt service on their share of the debt.

The State is authorized to issue an additional $270.4 million of general obligation bonds at June 30, 2008. Interest rates and maturities of the outstanding general obligation bonds are detailed as follows:

General Obligation Bonds

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

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

Total General Obligation Bonds
(Expressed in Thousands)

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

Changes in general obligation bonded debt during the year ended June 30, 2008 are summarized in Note 10.

In prior years, the State has defeased certain general obligation bonds by creating separate irrevocable trust funds. New debt has been issued or cash appropriated and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt. Accordingly, the debt has been considered defeased and has been removed as a liability from the government-wide financial statements. At June 30, 2008, a total of $122.0 million of defeased bonds were outstanding.

NOTE 6 REVENUE BONDS

Revenue Bonds

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

(a) Primary Government

DelDOT Fund

Delaware Transportation Authority

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

To assist the Authority in financing a unified transportation system, the State created a Transportation Trust Fund (the Trust Fund) within the Authority which receives all receipts of the Authority. The primary sources of funding of the Trust Fund are motor fuel taxes and motor vehicles fees imposed and collected by the State and deposited in the Trust Fund, and revenue from the Delaware Turnpike, which the Authority owns and operates. The Authority also has the power to issue bonds, with legislative authorization, to finance improvements to the State's transportation system. Debt issued by the Authority does not constitute a debt of the State or a pledge of its general taxing power or of its full faith and credit. Rather, the outstanding revenue bonds are obligations of the Authority payable solely from and secured by a pledge and assignment of certain tolls and revenues such as motor fuel tax revenue, motor vehicle document fees, and motor vehicle registrations. The Authority may apply Trust Fund revenue in excess of debt service requirements for transportation projects, subject to legislative authorization, and may pledge any or all of this revenue to secure financing for these projects.

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

The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of $2.3 million and a reduction of $2.4 million in future debt service payments.

The Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is therefore not reported as a liability. At June 30, 2008, the amount of defeased debt outstanding amounted to $195.0 million.

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

Delaware Transportation Authority Revenue Bonds
(Expressed in Thousands)

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

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

Delaware Transportation Authority Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2009	$ 73,213	$ 43,619	$ 116,832
2010	74,090	41,795	115,885
2011	65,414	38,380	103,794
2012	66,074	35,101	101,175
2013	65,506	31,809	97,315
2014-2018	301,514	113,138	414,652
2019-2023	237,720	49,198	286,918
2024-2028	105,730	8,595	114,325
2029-2033	3,375	74	3,449
Totals	$ 992,636	$ 361,709	$ 1,354,345

The transportation system revenue bonds have fixed interest rates and are limited obligations of the Authority secured only by the pledged revenues of the trust funds. Summary financial information at June 30, 2008 for the trust funds, which is the segment of DelDOT that supports the revenue bonds, is presented on the next page.

Condensed Balance Sheets
(Expressed in Thousands)

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

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

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

Condensed Statements of Cash Flows
(Expressed in Thousands)

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

(b) Component Units

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

Delaware State Housing Authority (DSHA)

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

The DSHA has issued revenue bonds to provide financing for mortgage, construction, and other loans to not-for-profit and limited for- profit housing sponsors; to make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans; and to purchase qualified mortgage loans from mortgage lenders. The bonds are direct obligations of the DSHA and are secured by the mortgage loans made or purchased under the applicable resolutions; the revenues, prepayments and foreclosure proceeds received are related to the mortgage loans, and certain funds and accounts established pursuant to the applicable bond resolutions. All bonds are callable subject to certain restrictions. Interest rates on bonds outstanding range from 2.38% to 7.375% with maturities of such bonds up through July 1, 2048.

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

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

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

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

Delaware State Housing Authority Revenue Bonds
(Expressed in Thousands)

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

Riverfront Development Corporation (RDC)

Bonds payable represents amounts due under variable rate bonds, which were issued by RDC in November 1997. The bonds bear interest at a rate which is determined quarterly and is equal to the yield on 90-day U.S. Treasury bills plus 0.30% with a minimum rate of 5.125%. The rate as of June 30, 2008 was 5.125%. The bonds mature December 1, 2017. Debt service requirements are as follows:

Riverfront Development Corporation Revenue Bonds
(Expressed in Thousands)

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

Delaware State University (DSU)

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

Delaware State University
Revenue Bonds Payable
(Expressed in Thousands)

Revenue Refunding Bonds	$	56,855
Student Housing Foundation Bonds		52,440
Total	$	109,295

In May 1999, the DSU issued revenue refunding bonds of $15.9 million (par value) to advance refund the 1992 and 1996 series bonds with a total par value of $14.6 million. These bonds are due on October 1, 2017. The Bond Trust Indenture requires the DSU to maintain a Debt Service Reserve Fund equal to the maximum annual debt service on all bonds outstanding under the indenture. The indenture provides for the deposit of a surety bond in the Debt Reserve Fund, replacing the investment requirement. This bond was obtained from MBIA Insurance Corporation in the amount of $1.6 million. The bond ratings were not changed as a result of this substitution. In addition, the DSU has pledged for payment of debt all net operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding.

Interest rates range from 4.00% to 5.25% on the outstanding revenue refunding bonds. Debt service requirements for the DSU Bonds are shown in the following schedule:

Delaware State University Revenue Refunding Bonds
(Expressed In Thousands)

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

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

Delaware Economic Development Authority Revenue Bonds
(Expressed In Thousands)

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

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

The Foundation obtained a loan payable in an aggregate amount of $18.4 million funded with proceeds from the issuance of student housing revenue bonds, Series 2004A (for Phases I and II). Pursuant to the Trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004A Bonds are restricted to refunding prior outstanding bonds, to fund a debt service reserve fund for the Series 2004A Bonds, to fund an operating reserve fund, and to pay a portion of the costs of issuance of the Series 2004A Bonds.

The Foundation financed Phase III of the project with a loan payable in an aggregate amount of $35.9 million funded with the proceeds from the issuance of variable rate demand student housing revenue bonds, Series 2004B. Pursuant to the trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004 Bonds are restricted to financing the construction, furnishing, and equipping Phase III of the Project, to defease in advance of their maturities, the former Series 2000B and 2002B Bonds, to fund interest on the Series 2004 Bonds during construction, to fund a debt service reserve fund for the Series 2004B Bonds, and to pay a portion of the costs of issuance of the Series 2004 Bonds.

The liability of the Foundation under the loan agreements is limited to the value of the building and improvements, pledged revenues and amounts deposited with the trustee. Total accrued interest on all bonds as of May 31, 2008 is $405,744.

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

The Swap matures on February 1, 2009 and provides for payments by Phase III at a fixed rate of 2.594% in exchange for receipts at a variable rate of 67% of the one-month Libor rate. The fair market value of the Swap at May 31, 2008 is a liability of $212,679.

For the fiscal year ended May 31, 2008, the net change in the fair value for the swap agreement is $(741,387) and has been included in the statement of activities. The fair market value of both swap agreements has been recorded in the statement of net assets.

Maturities of long-term debt at May 31, 2008 are presented in the following table.

Delaware State University
Student Housing Foundation
Revenue Bonds
(Expressed in Thousands)

Year Ending May 31	Tax-exempt
2009	$ 840
2010	935
2011	1040
2012	1,090
2013	1,140
2014 - 2018	6,485
2019- 2023	8,105
2024 - 2028	10,220
2029 - 2033	12,880
2034 - 2036	10,285
Subtotal	$ 53,020
Less: bond discount (net of accumulated amortization)	(580)
Total	$ 52,440

NOTE 7 LOANS AND NOTES PAYABLE

(a) Component Units

Delaware State Housing Authority (DSHA)

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

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

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

Diamond State Port Corporation (DSPC)

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

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

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

Transportation Trust Fund Loan

On November 30, 2001, the DSPC entered into a loan agreement with DelDOT. The DSPC borrowed $27.5 million. The funds were used to repay the balances in full of the Delaware River and Bay Authority Note and the Wilmington Trust Company Note and, at a discount, the City of Wilmington Deferred Payment Note.

In July 2006, the Transportation Trust Fund Loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2006 and January 1, 2007, and to restructure the repayment of the outstanding principal balance effective July 1, 2007 over the next 22 years. Additionally, the State appropriated $10.0 million to be applied as a repayment of principal and interest in fiscal year 2007. The interest rate of 4.6% remained unchanged. Beginning March 31, 2007, principal and interest payments are March 1 and May 1 each year. The loan matures May 2028.

Interest expense charged to operations in 2008 was $964,623.

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

Transportation Trust Fund Loan
(Expressed in Thousands)

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

City of Wilmington Note

In 1995, in consideration of the acquisition of the Port of Wilmington assets from the City of Wilmington (the City), Delaware, the DSPC issued to the City two separate notes consisting of a Port Deferred Payment Note in the amount of $39.9 million and Port Debt Service Notes with an original face amount of $51.0 million. These notes are secured by a first lien on substantially all of the DSPC's assets. These notes obligate the DSPC to pay the City amounts that generally represent the outstanding principal balance of certain DSPC-related City general obligation bonds. The interest rates on the City bonds range from 3.2% to 6.4%.

On October 20, 2001, the City issued $22.2 million of general obligation bonds with an average interest rate of 3.7% to advance refund $21.3 million of outstanding 1992 A, B, and C Series general obligation bonds with an average interest rate of 6.16%. The DSPC related portions of the new bonds issued and old bonds redeemed were $7.2 million and $6.9 million, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $261,619 for the year ended June 30, 2002, it reduced the Corporation's debt service payments by $281,293 over eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven year life of the debt. The deferred loss balance as of June 30, 2008 was $24,553.

On October 5, 2004, the City issued $12.9 million of general obligation bonds with an average interest rate of 3.73% to advance refund $11.7 million of outstanding 1993 B Series general obligation bonds with an average interest rate of 5.0%, and a portion of interest of $161,921 due January 1, 2005. The Port-related portions of the new bonds issued and old bonds redeemed were $4.0 million and $3.6 million, respectively, passed through to the DSPC. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $397,862, it reduces the DSPC's debt service payments by $251,815 over the next seventeen and a half years resulting in an economic gain. The deferred loss on the refunding is accreted over the seventeen and a half year life of the debt. The deferred loss balance on the 2004 refunding as of June 30, 2008 was $385,567.

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

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

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

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

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

Port Debt Service Note
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2009	$ 2,116	$ 463	$ 2,579
2010	2,460	365	2,825
2011	1,401	278	1,679
2012	1,449	224	1,673
2013	579	190	769
2014-2018	2,997	577	3,574
2019-2023	1,536	162	1,698
Subtotal	12,538	2,259	14,797
Deferred Loss on Refunding	(410)	-	(410)
Total	$ 12,128	$ 2,259	$ 14,387

Delaware River and Bay Authority (DRBA) Obligation

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

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

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

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

Delaware River and Bay Authority Obligation
(Expressed in Thousands)

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

Wilmington Trust Company (WTC) Loan

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

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

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

Wilmington Trust Company Loan
(Expressed in Thousands)

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

Bank of America Master (BOA) Lease

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

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

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

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

Bank of America Master Lease
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2009	$ 27	$ 9	$ 36
2010	28	8	36
2011	29	7	36
2012	29	6	35
2013	30	5	35
2014-2018	162	13	175
Total	$ 305	$ 48	$ 353

Riverfront Development Corporation (RDC)

The RDC has entered into multiple mortgage agreements with various banks. These mortgages are secured by the real estate and vehicles financed. Principal balances of the mortgages total $11.7 million at June 30, 2008. Interest rates for the mortgages vary between 5.455% and 8.0% and mature between June 2009 and July 2012. Estimated future annual debt service requirements are shown below.

Riverfront Development Mortgage Debt
(Expressed in Thousands)

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

Demand Note Payable and Advance Payable

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

NOTE 8 LEASE COMMITMENTS

Primary Government

The State has entered into various property and equipment operating leases (terms in excess of one year) with aggregate future rentals approximating $197.5 million, of which $161.2 million relates to property leases and $36.3 million relates to equipment leases. Operating leases contain various renewal options. Any escalation clauses, sublease rentals and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures of the related fund when paid. Appropriations of approximately $32.8 million were made by the General Assembly to meet the rental payments in fiscal year 2008, of which $23.8 million was for office space and $9.0 million was for equipment consisting mainly of computers, data processing equipment and fleet vehicles.

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

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

Lease Commitments
(Expressed in Thousands)

Year Ending June 30	Operating Leases
2009	$ 31,296
2010	27,328
2011	23,424
2012	20,727
2013	17,358
2014-2018	46,020
2019-2023	19,729
2024-2028	9,592
2029-2033	2,060
Total	$ 197,534

NOTE 9 OTHER LONG-TERM OBLIGATIONS

Compensated absences payable are reported in the government-wide financial statements and in the proprietary fund financial statements. They represent benefits accrued to State employees for vacation earned as of year-end and sick leave estimated to be paid out at retirement for services rendered as of June 30, 2008. Employees earn from 1.25 to 1.75 days of vacation leave per month depending on years of service. Employees or their estates are paid for unused vacation upon termination of employment. Employees earn 1.25 days of sick leave per month. The State's obligation for sick leave credit is a maximum of 45 workdays. $146.8 million has been accrued for the Governmental Activities and $13.8 million in the Business-type Activities for the total compensated absences liability. The current portion of the long-term obligation for compensated absences is $11.3 million in the Governmental Activities and $4.2 million in the Business-type Activities. Approximately $123.5 million (84.1%) of the long-term obligation for compensated absences will be liquidated by the General Fund. Of the remainder, approximately $9.5 million (6.5%) and $13.8 million (9.4%) will be paid with Federal Funds and Local School District Funds, respectively.

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

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

NOTE 10 CHANGES IN LONG-TERM OBLIGATIONS

The following table provides a summary of changes in long-term obligations of the primary government for the year ended June 30, 2008:

Changes in Long-Term Obligations
Primary Government
(Expressed in Millions)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
General obligation bonds	$ 1,307.5	$ 217.4	$ (151.7)	$ 1,373.2	$ 142.0
Bond issue premium, net of accumulated amortization	56.8	10.1	(6.3)	60.6	4.6
Notes payable	2.6	9.2	(3.2)	8.6	8.4
Physician and scholarship programs	3.5	1.1	(0.6)	4.0	0.6
Claims and judgments (notes 13 and 17)	98.2	43.2	(34.3)	107.1	29.9
Compensated absences	140.6	26.2	(20.0)	146.8	11.3
Net pension obligation (note 15)	104.8	13.1	(9.1)	108.8	-
Other postemployment benefits	-	265.6	-	265.6	-
Escheat payable	40.0	-	-	40.0	8.0
Governmental Activities long-term liabilities	$ 1,754.0	$ 585.9	$ (225.2)	$ 2,114.7	$ 204.8
Business-type Activities:					
Revenue bonds	$ 1,018.8	$ 82.8	$ (109.0)	$ 992.6	$ 73.2
Bond issue premium, net of accumulated amortization	29.4	5.1	(6.1)	28.4	6.8
Liabilities payable from restricted assets	6.2	0.6	-	6.8	1.7
General obligation bonds	3.4	-	(0.6)	2.8	0.7
Compensated absences	13.6	0.2	-	13.8	4.1
Other postemployment benefits	-	25.9	-	25.9	-
Claims and judgments (notes 13 and 17)	4.8	3.2	(3.6)	4.4	1.9
Business-type Activities long-term liabilities	$ 1,076.2	$ 117.8	$ (119.3)	$ 1,074.7	$ 88.4

Changes in long-term obligations for the component units are summarized below:

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Delaware State Housing Authority					
Notes payable	$ 4.5	$ -	$ (4.1)	$ 0.4	$ 0.1
Revenue bonds	735.0	248.3	(84.6)	898.7	14.7
Compensated absences	1.0	0.5	(0.5)	1.0	-
Escrow deposits	28.5	2.4	-	30.9	-
Other long-term obligations	0.3	0.3	-	0.6	-
Total long-term obligations	$ 769.3	$ 251.5	$ (89.2)	$ 931.6	$ 14.8
Diamond State Port Corporation					
Notes and loans payable	$ 37.7	$ 0.8	$ (1.0)	$ 37.5	$ 3.1
Total long-term obligations	$ 37.7	$ 0.8	$ (1.0)	$ 37.5	$ 3.1
Riverfront Development Corporation					
Revenue bonds	$ 4.5	$ -	$ (0.3)	$ 4.2	$ 0.3
Long-term debt	9.7	4.1	(2.1)	11.7	0.8
Total long-term obligations	$ 14.2	$ 4.1	$ (2.4)	$ 15.9	$ 1.1
Delaware State University					
Other long-term obligations	$ 1.4	$ -	$ (0.5)	$ 0.9	$ 0.6
Compensated absences	4.9	0.5	-	5.4	-
Notes payable	0.9	-	-	0.9	-
Revenue bonds	62.9	47.9	(1.5)	109.3	1.6
Total long-term obligations	$ 70.1	$ 48.4	$ (2.0)	$ 116.5	$ 2.2
Delaware Charter Schools					
Compensated absences	$ 0.9	$ 0.3	$ -	$ 1.2	$ 0.1
Long-term debt	38.5	3.7	(4.0)	38.2	5.3
Total long-term obligations	$ 39.4	$ 4.0	$ (4.0)	$ 39.4	$ 5.4

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

The State, by action of the General Assembly, created various authorities for the express purpose of providing private entities with an available low cost source of capital financing for construction of facilities deemed to be in the public interest. The bonds of the authorities represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers to the entity served by the bond issuance. The State has no obligation for this debt. Accordingly, these bonds are not reflected in the accompanying financial statements. These bonds are issued through the Delaware Economic Development Authority and the Delaware Health Facilities Authority. The principal amount of bonds outstanding at June 30, 2008 for these entities amounted to $1,587.8 million and $373.5 million, respectively.

NOTE 12 CAPITAL ASSETS

(a) Primary Government

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

Capital Assets
(Expressed in Thousands)

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

Capital Assets
(Expressed in Thousands)

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

Capital Assets
(Expressed in Thousands)

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

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

Depreciation Expense
(Expressed in Thousands)

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

(b) Component Units

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

Component Units
(Expressed in Thousands)

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

NOTE 13 RISK MANAGEMENT

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

Claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process does not result in an exact amount. Claim liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The management of the State estimates that the amount of actual or potential claims against the State at June 30, 2008, for workers' compensation, automobile accident and health-care claim liabilities is $139.5 million. The claim liabilities relating to health-care totaling $33.6 million have been recorded as accrued liabilities in governmental activities. The liability for workers' compensation and automobile accident liabilities totaling $105.9 million has been recorded in governmental activities as claims and judgments. The current portion of these claims totals $29.9 million. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2008 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2008 and 2007 were as follows:

Changes in Claim Liabilities
(Expressed in Thousands)

Fiscal Year	Beginning Balance July 1	Current Year Claims and Changes in Estimates	Actual Claim Payments	Ending Balance June 30
2007	$ 132,851	$ 469,857	$ (467,227)	$ 135,481
2008	135,481	482,689	(478,657)	139,513

DelDOT

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

NOTE 14 OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

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

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

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

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

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

<u>Eligibility:</u>

State Employees:

Early Retirement

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

Normal Retirement:

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

<u>Benefits:</u>

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

<u>Spouse and Survivor Coverage:</u>

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

Employee Contributions:

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

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

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

Funding Policy

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

Contributions

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

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

Annual OPEB Cost and Net OPEB Obligation

The State's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the net OPEB obligations. The following table shows the components of the State's annual OPEB cost for the year, the amount actually contributed to the plan, and the State's net OPEB obligation (dollar amounts in millions):

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

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

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

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

Funded Status and Funding Progress

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. This schedule will be expanded in future years to provide multi-year trend data.

Actuarial Methods and Assumptions

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

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

Delaware Transit Corporation (DTC)

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

Plan Description

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

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

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

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

Funding Policy

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

Annual OPEB Cost and Net Obligation

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

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

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

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

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

Funded Status and Funding Progress

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

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

Actuarial Methods and Assumptions

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

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

NOTE 15 PENSIONS

(a) Primary Government

Pension Plans

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

- State Employees' Pension Plan;

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

With the exception of the Diamond State Port Corporation Pension Plan, the State's General Assembly is responsible for setting benefits and contributions and amending plan provisions; administrative rules and regulations are adopted and maintained by the Board. The Board of Directors for the Diamond State Port Corporation is responsible for setting benefits and contributions and amending their plan provisions.

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

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

- County & Municipal Police and Firefighters' COLA Fund;
- Post-Retirement Increase Fund;
- Delaware Local Government Retirement Investment Pool (DELRIP).

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

Non-DPERS Fund Descriptions and Contributions

County & Municipal Police and Firefighters' COLA Fund

During 1990, the State passed legislation which established a mechanism for funding post-retirement increases granted by employers who participate in the County & Municipal Police and Firefighters' pension plans. This mechanism allows the State to appropriate funds relating to a cost of living adjustment (COLA) to a separate County & Municipal Police and Firefighters' COLA Fund managed by the Board. The funds are generated by a 0.25% tax on the value of insurance premiums written within the State. The proceeds of the tax are transferred to the State and local governments on a per member basis. In 1994, the New State Police Plan began receiving funding for post-retirement increases from the Post-Retirement

Increase Fund. Since that time, funds calculated for the State Police membership were re-directed into the COLA Fund. In accordance with 18 Del. C. §708(c), when a participating employer grants a post-retirement increase for a plan outside of the State's County & Municipal Plans, funds are transferred from the COLA Fund to the employer. The participating employer must provide funds to match the State's contribution.

Post-Retirement Increase Fund (PRI)

The State passed legislation which established a mechanism for funding ad hoc post-retirement increases granted by the General Assembly to members retired under the State Employees' Plan, the New State Police Plan, and the Judiciary Plans (Closed and Revised) beginning in fiscal year 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate PRI fund managed by the Board. When the Legislature grants an ad hoc post-retirement adjustment, funds are transferred from this PRI fund on a monthly basis based on a five-year actuarial funding schedule to the appropriate pension plan from which the additional benefits are disbursed. For the fiscal year ended June 30, 2008, $47.4 million was transferred to the appropriate plans in DPERS.

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

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

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

Local Government Retirement Investment Pool

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

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

State Employees' Post-Retirement Health Insurance Premium Fund

On July 1, 2007, a separate trust fund for OPEB, the Delaware OPEB Fund Trust, was created by the State to accumulate and invest assets to pay the State share of future retiree health insurance premiums. The assets of the State Employees' Post-Retirement Health Insurance Premium Fund (aggregating $34.2 million) were transferred out of the System and into the Delaware OPEB Fund Trust during fiscal year 2008. Fiscal year 2008 funding was 0.54% of covered payroll. Funding for fiscal year 2009 will range between 0.54% and 0.81% of covered payroll. These funding rates are not actuarially determined, but determined in the budget process.

Plan Membership, Benefit and Contribution Provisions

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

State Employees' Pension Plan

Plan Description and Eligibility:

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

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

Vesting: 5 years of credited service.

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

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

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

<u>Contributions</u>:
- ♦ Employer - Determined by Board of Pension Trustees.
- ♦ Member - 3% of earnings in excess of $6,000.

<u>Burial Benefit</u>: $7,000 per member.

Special Fund

<u>Plan Description and Eligibility:</u>

The Special Fund provides certain benefits granted to individuals through legislation passed by the General Assembly.

<u>Service Benefits</u>: Defined by special legislation

<u>Vesting:</u> Defined by special legislation

<u>Retirement</u>: Defined by special legislation

<u>Disability Benefits</u>: Defined by special legislation.

<u>Survivor Benefits</u>: Same as State Employees' Plan.

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

<u>Burial Benefit</u>: $7,000 per member.

New State Police Pension Plan

<u>Plan Description and Eligibility:</u>

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.

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

<u>Vesting:</u> 10 years of credited service at age 62.

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

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

Non-Duty – same as Service Benefits

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

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

Burial Benefit: $7,000 per member.

Judiciary Pension Plans (Closed and Revised)

Plan Description and Eligibility:

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

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

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

Service Benefits:

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

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

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

Vesting: 12 years of credited service.

Retirement:

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

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

Disability Benefits: Same as Service Benefits

Survivor Benefits:

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

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

Contributions:

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

Burial Benefit: Not applicable.

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

Plan Description and Eligibility:

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

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

Vesting: 10 years of credited service.

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

Disability Benefits:

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

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

Non-Duty - Same as Service Benefits

<u>Survivor Benefits</u>: 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.

<u>Contributions</u>:
- ♦ Employer - Determined by Board of Pension Trustees.
- ♦ Member - 7% of compensation.

<u>Burial Benefit</u>: Not applicable.

County and Municipal Other Employees' Pension Plan

<u>Plan Description and Eligibility</u>:

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

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

<u>Vesting</u>: 5 years of credited service.

<u>Retirement</u>: Age 62 with 5 years of credited service, age 60 with 15 years of credited service; or after 30 years of credited service.

<u>Disability Benefits</u>: Same as Service Benefits. Employee must have 5 years of credited service.

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

<u>Contributions</u>:
- ♦ Employer - Determined by Board of Pension Trustees.
- ♦ Member - 3% of earnings in excess of $6,000

<u>Burial Benefit</u>: Not applicable.

Delaware Volunteer Firemen's Fund

<u>Plan Description and Eligibility:</u>

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

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

Vesting: 10 years of credited service.

Retirement: Age 60 with 10 years credited service.

Disability Benefits: Not applicable.

Survivor Benefits: Not applicable.

Contributions:
- ♦ Employer - Determined by Board of Pension Trustees.
- ♦ Member - $60 per member per calendar year.

Burial Benefit: Not applicable.

Diamond State Port Corporation Pension Plan

Plan Description and Eligibility:

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

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

Vesting: 5 years of credited service.

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

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

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

Contributions:
- ♦ Employer - Determined by Board of Pension Trustees.
- ♦ Member - 2% of compensation.

Burial Benefit: Not applicable.

Closed State Police Pension Plan

Plan Description and Eligibility:

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

Service Benefits: 50% of monthly salary.

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

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

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

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

Burial Benefit: $7,000 per member.

Historical Trend Information

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

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

(b) Net Pension Obligation (NPO)

The Annual Pension Cost (APC) and Net Pension Obligation (NPO) for the Closed State Police Pension Plan for the fiscal years ended June 30, 2008, 2007, and 2006 are as follows:

Net Pension Obligation (NPO)
(Expressed in Thousands)

	Fiscal Year Ended June 30, 2008	Fiscal Year Ended June 30, 2007	Fiscal Year Ended June 30, 2006
Annual Required Contribution	$ 26,017	$ 25,479	$ 24,623
Interest on Net Pension Obligation	8,380	7,921	7,641
Adjustment to Annual Required Contribution	(9,060)	(8,487)	(8,122)
Annual Pension Cost	25,337	24,912	24,142
Less Contributions Made	(21,269)	(19,159)	(20,655)
Increase in Net Pension Obligation	4,068	5,753	3,487
Net Pension Obligation, Beginning of Year	104,755	99,002	95,515
Net Pension Obligation, End of Year	$ 108,823	$ 104,755	$ 99,002

Three-Year Trend Information
(Expressed in Thousands)

	Plan Year Ended	Contribution Made	Annual Pension Cost (APC)	Percent Of APC Contributed	Net Pension Obligation
State Employees	6/30/2008	$ 101,660	$ 101,660	100.00%	$ -
	6/30/2007	97,000	97,000	100.00%	-
	6/30/2006	91,013	91,013	100.00%	-
County & Municpal Police & Firefighters	6/30/2008	$ 6,246	$ 6,246	100.00%	$ -
	6/30/2007	5,780	5,780	100.00%	-
	6/30/2006	5,488	5,488	100.00%	-
County & Municpal Other Employees'	6/30/2008	$ 1,492	$ 1,492	100.00%	$ -
	6/30/2007	820	820	100.00%	-
	6/30/2006	734	734	100.00%	-
Delaware Volunteer Firemen's Fund	6/30/2008	$ 1,045	$ 1,553	67.30%	$ 2,161
	6/30/2007	978	1,528	64.01%	1,682
	6/30/2006	899	1,464	61.41%	1,150
Judiciary	6/30/2008	$ 2,644	$ 2,644	100.00%	$ -
	6/30/2007	2,495	2,495	100.00%	-
	6/30/2006	2,002	2,002	100.00%	-
New State Police	6/30/2008	$ 6,643	$ 6,643	100.00%	$ -
	6/30/2007	6,334	6,334	100.00%	-
	6/30/2006	5,276	5,276	100.00%	-
Closed State Police	6/30/2008	$ 21,267	$ 25,337	83.94%	$ 108,823
	6/30/2007	19,159	24,912	76.91%	104,755
	6/30/2006	20,655	24,623	83.88%	99,002
Diamond State Port Corporation	6/30/2008	$ 715	$ 715	100.00%	$ -
	6/30/2007	626	626	100.00%	-
	6/30/2006	703	703	100.00%	-

Delaware Transportation Authority

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

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan as well as information concerning funding policies and annual pension costs may be found in the Required Supplementary Information on pages 124-136.

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

Three-Year Trend Information
(Expressed in Dollars)

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

Deferred Compensation Plan

The State offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all State of Delaware employees, permits them to defer a portion of their salary to future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Plan changed in January 2001 to include an employer-matching contribution. The Match Plan was suspended by the State Legislature for fiscal year 2009. The State contribution totaled $3.0 million to the Match Plan for the year ended June 30, 2008.

NOTE 16 AFFILIATED ORGANIZATIONS

State Lottery

Multi-State Lottery Association

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

The amount the Lottery had on deposit with MUSL as of June 30, 2008, was $2.1 million. This amount is reported by the Lottery as a liability on its balance sheet because it represents the amount to be paid to the State upon separation from the MUSL if the MUSL is not required to use a portion of the Lottery's reserves held by the MUSL.

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

NOTE 17 COMMITMENTS

Primary Government

The State has entered into various contractual commitments that contracts for services and for construction of various highway, capital, and lottery projects. These commitments are expected to be funded from existing program resources, current and future appropriations and from the proceeds of revenue and general obligation bonds to be issued. Commitments of the governmental funds totaling $329.3 million are shown on the balance sheet as encumbrances. Commitments of the proprietary fund include $268.4 million for DelDOT and $180.4 million for Lottery.

Component Units

Diamond State Port Corporation (DSPC)

DSPC has various contracts for construction and renovation of significant facilities in accordance with the Capital Budget approved by its Board of Directors. As of June 20, 2008, DSPC had commitments totaling $16.2 million.

Riverfront Development Corporation (RDC)

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

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

NOTE 18 CONTINGENCIES

Various parties have made claims against the State. For those cases in which it is reasonably possible that a loss will be incurred and in which the amount of the potential judgment can be reasonably estimated, the State estimates the liability to be $13.5 million. The State recognized $1.2 million in governmental activities as claims and judgments liabilities for pending litigation settlements estimated to be probable as of June 30, 2008. In the opinion of the Attorney General of the State, however, the remaining cases are either subject to a valid defense or are not expected to result in an impairment of the State's financial position. Management believes the settlement in aggregate of claims outstanding will not result in amounts material to the financial statements of the State.

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The right to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the State. The State does not believe that the liabilities that may result from such audits for periods through June 30, 2008 would have a material effect on its financial position or the results of operations.

The State Lottery has discharged its primary responsibility for payment of annual installments (generally 14 to 20 years) to winners of jackpots greater than $150,000 by purchasing annuities from private insurance companies. The Lottery remains liable for future periodic payments of deferred prize obligations (approximately $4.7 million at June 30, 2008) in the event that the annuity issuers default on their obligations.

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

NOTE 19 SUBSEQUENT EVENTS

(a) Primary Government

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

(b) Component Units

Delaware State Housing Authority (DSHA)

On July 1, 2008, the DSHA issued $69.4 million in Single Family Mortgage Revenue Bonds. The proceeds will be used to provide down payment assistance and low rate mortgages to first-time home buyers over the next fiscal year.

On October 15, 2008, the DSHA issued $104.7 million in Single Family Mortgage Revenue Bonds. The proceeds will be used to provide down payment assistance and low rate mortgages to first-time home buyers over the next fiscal year.

Riverfront Development Corporation (RDC)

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

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

NOTE 20 PRIOR PERIOD ADJUSTMENTS

(a) Component Units

Delaware State University

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

Delaware Technical and Community College Education Foundation

Certain reclassifications have been made to the prior year's financial statements in order to conform to the current year presentation. The reclassifications did affect the previously reported results of operations.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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 1(b), the State's budget system uses only a general fund and a special fund, each of which uses the basis of accounting described below. Additionally, the activities of certain component units of the State, which are not substantially supported by tax revenues, are not included in the budget data. Reconciliation of the accrual adjustments necessary to convert budgetary basis information to GAAP basis is presented in Required Supplementary Information.

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

The budgetary general fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary special funds. Certain Special Funds are subject to appropriation, referred to herein as budgetary or appropriated Special Funds. Unexpended appropriations at year-end are available for subsequent expenditure to the extent that they have been encumbered at that date or legislatively extended for another year. Budget data represents original appropriations modified by interdepartmental transfers, supplemental, continuing, and carried-over encumbered appropriations. Subsequent modifications to the budget require the approval of the Controller General and the Budget Director. Additional detailed information regarding compliance with the legal level on control can be obtained by contacting the Office of Management and Budget at (302) 739-4206. Summary information regarding individual department budgets and the compliance with the legal level of budgetary control is presented on the following pages.

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

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

Statutory/Budgetary Presentation

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

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriations bill as of June 30, 2008, and do not include encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year. GAAP requires that the final legal budget be reflected in the "final budget" column; therefore, updated revenue estimates available for appropriations as of the last Delaware Economic and Financial Advisory Council (DEFAC) meeting in June 2008, as well as the amounts shown in the original budget, are reported. The final legal budget also reflects encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year.

The tables on the following two pages represent the Budgetary Statements of Revenues, Expenditures and Changes in Fund Balance – General and Special Funds. Also included is a schedule showing the budgetary fund balance designations. Of the $526.0 million budgetary general fund balance at June 30, 2008, $186.4 million is reserved for the budgetary reserve account and $234.8 million is designated as continuing and encumbered appropriations. The $104.8 million of undesignated fund balance, for the most part, is not available for new spending as these funds have been committed based on State statutes which are subject to review and change by the Legislature.

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

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

Budgetary fund balance	
Designated:	
Budgetary reserve account	$ 186.4
Continuing and encumbered appropriations	234.8
Undesignated	104.8
Total	$ 526.0

(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, 2008
(Expressed in Millions)

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

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

Statutory/Budgetary Reconciliations

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

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

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

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

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

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

Required Supplementary Information

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 4,454 centerline miles and approximately 1,457 bridges that the State is responsible to maintain.

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

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

It is the State's policy to maintain at least 85% of its highways at a fair or better condition level and 75% of its bridge systems at a good or better condition level. No more than 10% of bridges and 15% of roads should be in substandard condition. Condition assessments are determined every year for roads and every two years for bridges. Due to the timing of these condition assessments, information for the fiscal year ended June 30, 2008 is not available. The last assessment was as of December 31, 2007. At that time, 91.3% of the roadway condition assessments were in the fair or better category. 91.3% of the bridge structures were in the good or better category, and 97.9% of the bridge deck ratings were in the good or better category.

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

Structural Rating Numbers and Percentages for Bridges

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

Calendar Year Ended December 31

Deck Rating Numbers and Percentages for Bridges

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

Calendar Year Ended December 31

Center-Line Mile Numbers and Percentages for Road Pavement

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

Calendar Year Ended December 31

Comparison of Estimated-to-Actual Maintenance/Preservation*

(Expressed In Thousands)

Fiscal Year Ended June 30

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

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

Required Supplementary Information – Pension

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

Delaware Public Employees' Retirement System (DPERS)

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

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

Plan	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) 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 *	6/30/08	$ 6,751,949	$ 6,549,856	$ (202,093)	103.1%	$ 1,711,473	(11.8%)
	6/30/07	6,437,916	6,208,025	(229,891)	103.7%	1,654,609	(13.9%)
	6/30/06	5,998,746	5,901,072	(97,674)	101.7%	1,589,185	(6.1%)
Special	6/30/08	$ 614	$ 492	$ (122)	124.8%	N/A	N/A
	6/30/07	673	530	(143)	127.0%	N/A	N/A
	6/30/06	758	704	(54)	107.7%	N/A	N/A
Closed State Police +	6/30/08	$ 618	$ 299,912	$ 299,294	0.2%	$ 1,152	25,980.4%
	6/30/07	514	297,183	296,669	0.2%	1,695	17,502.6%
	6/30/06	1,663	294,149	292,486	0.6%	1,912	15,297.4%
New State Police *	6/30/08	$ 216,368	$ 214,921	$ (1,447)	100.7%	$ 47,971	(3.0%)
	6/30/07	194,560	195,811	1,251	99.4%	46,924	2.7%
	6/30/06	169,824	170,877	1,053	99.4%	43,579	2.4%
Judiciary*	6/30/08	$ 47,209	$ 55,856	$ 8,647	84.5%	$ 9,689	89.2%
	6/30/07	43,050	53,686	10,636	80.2%	9,825	108.3%
	6/30/06	38,407	50,177	11,770	76.5%	9,397	125.3%
Diamond State Port Corporation	6/30/08	$ 13,391	$ 14,139	$ 748	94.7%	$ 10,270	7.3%
	6/30/07	11,911	13,604	1,693	87.6%	11,213	15.1%
	6/30/06	10,361	12,738	2,377	81.3%	11,130	21.4%
County & Municipal Police Firefighters	6/30/08	$ 102,423	$ 103,911	$ 1,488	98.6%	$ 49,328	3.0%
	6/30/07	87,395	89,022	1,627	98.2%	45,059	3.6%
	6/30/06	72,120	72,832	712	99.0%	38,342	1.9%
County and Municipal Other Employees	6/30/08	$ 12,980	$ 14,308	$ 1,328	90.7%	$ 18,632	7.1%
	6/30/07	10,405	11,578	1,173	89.9%	16,183	7.2%
	6/30/06	8,529	9,222	693	92.5%	13,027	5.3%
						Active Member ++	Cost per Active Member ++
Volunteer Firemen	6/30/08	$ 12,972	$ 25,719	$ 12,747	50.4%	5,066	2,516
	6/30/07	12,225	24,809	12,584	49.3%	5,170	2,434
	6/30/06	11,340	23,925	12,585	47.4%	5,160	2,439

* Excludes liability and amortization payments due to cost-of-living adjustments. This liability is funded from the Post-Retirement Increase Fund and is funded over five years.
\+ The Closed State Police Pension Plan is a pay-as-you-go pension plan.
++ Not expressed in thousands.
N/A – Not Applicable

Annual Pension Cost, Actuarial Methods and Assumptions - DPERS

The schedules below provide information concerning annual pension costs. Annual pension cost for each plan, except the Closed State Police Plan, is equal to the respective plan's required and actual contributions for the fiscal year ended June 30, 2008.

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

Plan	State Employees'	Special	Closed State Police	New State Police	Judiciary
Annual Pension Cost	$ 101,660	N/A	$ 25,337	$ 6,643	$ 2,644
Actuarial Valuation Date	6/30/08	6/30/08	6/30/08	6/30/08	6/30/08
Actuarial Cost Method	Entry Age Normal	N/A	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed for Plan Bases & Open for Aggregate Gain/Loss	N/A	Level Dollar Closed	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	20 years	N/A	29 years	20 years	14.1 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:					
Investment rate of return	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases [1]	4.3% to 10.1%	N/A	4.8% to 5.3%	4.8% to 16.7%	4.3% to 13.1%
Cost-of-living adjustments	Ad hoc	Ad hoc	Based on CPI	Ad hoc	Ad hoc

Plan	Diamond State Port Corporation	County & Municipal Police & Firefighters'	County & Municipal Other Employees	Volunteer Firemen's
Annual Pension Cost	$ 715	$ 6,246	$ 1,492	$ 1,553
Actuarial Valuation Date	6/30/08	6/30/08	6/30/08	6/30/08
Actuarial Cost Method	Entry Age Normal	Entry Age Normal**	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Open	Level Percent Open	Level Closed
Remaining Amortization Period	16 years	10 years	10 years	20 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:				
Investment rate of return	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases [1]	4.8%	4.3% to 15.7%	4.3% to 10.1%	N/A
Cost-of-living adjustments	Ad Hoc	Ad Hoc	Ad Hoc	Ad Hoc

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

N/A: Not applicable

DelDOT - Delaware Transit Corporation – Pension Data

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

Funding Status and Progress
(Expressed in Dollars)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (Excess of Assets over AAL) (a-b)	(d) Funded Ratio (a / b)	(e) Annual Covered Payroll	(f) UAAL (Excess) as % of Covered Payroll (c / e)
DTC Pension Plan	07/01/2007	$ 10,533,449	$ 10,873,946	$ (340,497)	96.87%	$ 9,993,019	(3.40%)
	07/01/2006	8,709,127	9,076,068	(366,941)	95.96%	8,897,785	(4.12%)
	07/01/2005	7,539,479	7,932,143	(392,664)	95.05%	8,019,950	(4.89%)
Contributory Plan	1/1/2008	$ 26,949,255	$ 27,608,650	$ (659,395)	97.61%	$ 18,689,331	(3.53%)

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

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

Note: For the contributory pension plan valuation dated January 1, 2008, the actuarial cost method was changed from the aggregate method to the entry age normal method. In addition, the asset valuation method was changed to the five-year smoothed market method.
N/A: Not applicable

Required Supplementary Information – OPEB Trust

The following table presents additional information related to funding status and progress. It is intended to help readers assess the individual plans' funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

OPEB Trust

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

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

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

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

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

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

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

Delaware Transit Corporation – OPEB

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

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

APPENDIX C

CONTINUING DISCLOSURE AGREEMENT

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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. <u>Content of Annual Reports.</u>

(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.

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

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[FORM OF OPINION OF BOND COUNSEL]

October ___, 2009

OPINION OF BOND COUNSEL

RE: The State of Delaware
$313,665,000 General Obligation Bonds – Series 2009C
$179,315,000 General Obligation Bonds – Series 2009D (Federally Taxable-Build America Bonds)

TO THE PURCHASERS OF THE ABOVE-CAPTIONED BONDS:

We have acted as bond counsel in connection with the issuance of $313,665,000 General Obligation Bonds – Series 2009C (the “2009C Bonds”), and $179,315,000 General Obligation Bonds – Series 2009D (Federally Taxable-Build America Bonds) (the “2009D Bonds,” and together with the 2009C Bonds, 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 two resolutions of the Issuing Officers of the State adopted on October 9, 2009 for the 2009C Bonds and October 14, 2009 for the 2009C Bonds and the 2009D Bonds (collectively, the “Resolutions”).

The Bonds are issued pursuant to the Constitution and laws of the State including Chapter 74, Title 29, Delaware Code, as amended and the Resolutions.

As Bond Counsel, we have examined certified copies of the Resolutions and the form of the 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 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 on the 2009C Bonds (including accrued original issue discount) 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 complies 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 2009C Bonds to be includable in gross income retroactive to the date of issuance of the 2009C Bonds. The State has covenanted to comply with all such requirements. Interest on the 2009C 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 2009C 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 2009C 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.

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THE STATE OF DELAWARE • GENERAL OBLIGATION BONDS – SERIES 2009C AND SERIES 2009D (FEDERALLY TAXABLE – BUILD AMERICA BONDS)

Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber
FSC
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