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

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

$336,330,000
THE STATE OF DELAWARE
consisting of
$111,330,000 General Obligation Bonds – Series 2013A
$225,000,000 General Obligation Bonds – Series 2013B

Dated: Date of Issuance **Due: August 1 for the 2013A Bonds and February 1 for the 2013B Bonds, both as shown on the Inside Front Cover**

The Bonds consist of the $111,330,000 General Obligation Bonds, Series 2013A (the "2013A Bonds") and the $225,000,000 General Obligation Bonds, Series 2013B (the "2013B Bonds", and together with the 2013A Bonds, the "2013 Bonds" or the "Bonds"). The 2013 Bonds are general obligations of the State and the full faith and credit of the State will be pledged for the payment of the principal of and interest on the 2013 Bonds.

Interest on the Bonds is payable semiannually on February 1 and August 1 of each year commencing August 1, 2013.

The 2013A Bonds maturing on or after August 1, 2024 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 and interest rate selected by the State, beginning August 1, 2023, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest as set forth more fully herein. The 2013B Bonds maturing on or after February 1, 2022 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 and interest rate selected by the State, beginning February 1, 2021, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest as set forth more fully herein.

The 2013 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 2013 Bonds will be paid to The Depository Trust Company or its nominee as record owner of the 2013 Bonds and investors should look for payment to the institution from which their 2013 Bonds were purchased.

The 2013 Bonds are offered when, as and if issued and received by the Underwriters (as defined hereafter) 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 2013A Bonds by their counsel Ballard Spahr LLP, Wilmington, Delaware. 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 February 28, 2013.

BofA Merrill Lynch **Raymond James | Morgan Keegan**

Drexel Hamilton, LLC **Loop Capital Markets** **M&T Securities, Inc.** **TD Securities**

The date of this Official Statement is February 21, 2013.

MATURITIES, AMOUNTS, RATES, YIELDS AND PRICES

2013A Bonds[1]

Maturity (August 1)	Principal Amount ($)*	Interest Rate (%)	Yield (%)	Price ($)	CUSIP Number[3] (246381)
2017	2,300,000	3.000	0.670	110.141	BJ5
2017	5,250,000	4.000	0.670	114.494	BU0
2017	11,250,000	5.000	0.670	118.847	CB1
2018	3,000,000	2.000	0.920	105.702	CE5
2018	3,155,000	5.000	0.920	121.541	BK2
2019	3,000,000	3.000	1.140	111.491	BL0
2019	6,620,000	5.000	1.140	123.847	BV8
2020	2,000,000	2.000	1.400	104.216	CF2
2020	2,605,000	4.000	1.400	118.273	BM8
2020	5,005,000	5.000	1.400	125.302	BW6
2021	2,000,000	3.000	1.600	110.992	BN6
2021	7,610,000	5.000	1.600	126.697	BX4
2022	3,000,000	3.000	1.780	110.541	BP1
2022	6,625,000	5.000	1.780	127.824	BY2
2023	2,605,000	4.000	1.950	119.253	BQ9
2023	7,100,000	5.000	1.930	128.863	BZ9
2024	2,585,000	2.000	2.120	98.787	BR7
2024	2,000,000	4.000	2.050	118.218*	CA3
2024	9,695,000	5.000	2.000	128.102*	CC9
2025	4,295,000	3.000	2.310	106.359*	BS5
2025	9,995,000	5.000	2.090	127.131*	CD7
2026	9,635,000	3.000	2.490	104.656*	BT3

* Priced to first call date of August 1, 2023.

2013B Bonds[2]

Maturity (February 1)	Principal Amount ($)*	Interest Rate (%)	Yield (%)	Price ($)	CUSIP Number[3] (246381)
2014	11,845,000	2.000	0.160	101.700	CG0
2015	11,845,000	3.000	0.310	105.158	CH8
2016	11,845,000	5.000	0.460	113.175	CJ4
2017	11,845,000	5.000	0.600	117.042	CK1
2018	11,845,000	5.000	0.840	120.028	CL9
2019	11,845,000	5.000	1.060	122.567	CM7
2020	11,845,000	5.000	1.310	124.351	CN5
2021	11,845,000	5.000	1.530	125.803	CP0
2022	11,840,000	5.000	1.710	124.285*	CQ8
2023	11,840,000	5.000	1.890	122.788*	CR6
2024	11,840,000	3.000	2.300	105.043*	CS4
2025	11,840,000	3.000	2.430	104.085*	CT2
2026	11,840,000	3.000	2.530	103.354*	CU9
2027	11,840,000	3.000	2.630	102.630*	CV7
2028	11,840,000	3.000	2.700	102.126*	CW5
2029	11,840,000	3.000	2.760	101.696*	CX3
-	-	-	-	-	-
2031	11,840,000	3.000	2.850	101.056*	CY1
2032	11,840,000	3.000	2.890	100.772*	CZ8
2033	11,840,000	3.000	2.930	100.490*	DA2

* Priced to first call date of February 1, 2021

(1) The 2013A Bonds have been sold to investors through a negotiated sale with a group of Underwriters represented by Merrill Lynch, Pierce, Fenner & Smith Incorporated and including Raymond James & Associates, Inc., Drexel Hamilton, LLC, Loop Capital Markets LLC, M&T Securities, Inc. and TD Securities.

(2) The 2013B Bonds have been awarded to J.P. Morgan Securities LLC through a competitive sale.

(3) 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.

No dealer, broker, salesperson or other person has been authorized by the State 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 at the time of issuance 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 are subject inherently 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 (the "Act"), 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

$336,330,000
THE STATE OF DELAWARE
General Obligation Bonds – Series 2013
consisting of
$111,330,000 General Obligation Bonds – Series 2013A
$225,000,000 General Obligation Bonds – Series 2013B

INTRODUCTION

This Official Statement (including the cover page and the appendices, the "Official Statement") has been prepared by The State of Delaware (the "State" or "Delaware") and provides certain information about the State and its $111,330,000 General Obligation Bonds - Series 2013A (the "2013A Bonds") and its $225,000,000 General Obligation Bonds – Series 2013B (the "2013B Bonds", and together with the 2013A Bonds, the "Bonds" or the "2013 Bonds"). The 2013 Bonds are issued as tax-exempt obligations of the State under the Internal Revenue Code of 1986, as amended (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 2013 Bonds are general obligations of the State to be issued pursuant to two resolutions adopted on February 21, 2013 (collectively, 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.

Redemption

Optional Redemption

The 2013A Bonds maturing on or after August 1, 2024 are subject to redemption at the option of the State on or after August 1, 2023, and prior to maturity, in whole or in part at any time and from time to time, in any order of maturity and interest rate selected by the State (and within a maturity and interest rate by lot), at 100% of the principal amount of the 2013A Bonds to be redeemed, plus interest accrued and unpaid to the redemption date.

The 2013B Bonds maturing on or after February 1, 2022 are subject to redemption at the option of the State on or after February 1, 2021, and prior to maturity, in whole or in part at any time and from time to time, in any order of maturity selected by the State (and within a maturity by lot), at 100% of the principal amount of the 2013B Bonds to be redeemed, plus interest accrued and unpaid to the redemption date.

Notice of Redemption

Notice of redemption will be mailed to registered owners of the 2013 Bonds not less than 20 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 2013 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 2013 Bonds. If at the time of mailing of a notice of redemption, the State shall not have deposited with the bank or depositary acting as refunding escrow agent money sufficient to redeem all 2013 Bonds called for redemption, the notice of redemption may state that it is conditional, i.e., that it is subject to the deposit of sufficient redemption money with a refunding escrow agent not later than the redemption date, and such notice shall be of no effect unless such money is so deposited

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 fund to maturity or advance 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
2005D	September 1, 2024 and 2025	$ 9,200,000	09/01/2013	100%
2006A	August 1, 2018-2026, inclusive	5,890,000	08/01/2014	100%
2006B	August 1, 2017, and 2019-2026, inclusive	43,135,000	08/01/2014	100%
2007A	May 1, 2018-2027, inclusive	53,250,000	05/01/2015	100%
2011	July 1, 2013	11,845,000	-	100%

In order to provide for the funding to maturity or 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 maturity date or call date, as the case may be, and to redeem on such call date Refunded Bonds which become due after such date. Neither the maturing principal of the Government Securities nor the interest thereon will secure or be available for the payment of principal of, interest or redemption premium, if any, on any obligations of the State other than the Refunded Bonds.

The Government Securities are to be held in a trust fund (the "Escrow Fund") by U.S. Bank National Association, as escrow agent (the "Escrow Agent") pursuant to an Escrow Agreement to be dated

February 28, 2013 (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:	**2013A Bonds**	**2013B Bonds**	**Total**
Par Amount:	$111,330,000.00	$225,000,000.00	$ 336,330,000.00
Net Original Issue Premium	21,168,068.50	23,467,332.80	44,635,401.30
Total Sources:	$ 132,498,068.50	$248,467,332.80	$ 380,965,401.30
Uses:			
Deposit to Escrow Fund	$131,991,195.01	$ -	$ 131,991,195.01
Capital Projects	-	247,669,127.07	247,401,677.07
Underwriters' Discount	320,091.44	798,205.73	1,118,297.17
Other Financing Expenses	186,782.05	-	454,232.05
Total Uses:	$132,498,068.50	$248,467,332.80	$ 380,965,401.30

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. Historically, the State has 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 Bond Debt Service[1][2]

(expressed in millions)

	Prior to Issuance of the Bonds				After Issuance of the Bonds			
Fiscal Year Ending June 30	Principal	Interest	Total Debt Service	Principal Outstanding	Principal	Interest	Total Debt Service	Principal Outstanding
2013	$156.4	$76.3	$232.7	$1,542.0	$156.4	$75.2	$231.6	$1,755.0
2014	154.7	67.7	222.3	1,387.3	154.7	74.9	229.6	1,600.3
2015	140.7	60.8	201.5	1,246.6	152.5	69.1	221.6	1,447.8
2016	134.7	54.2	188.9	1,111.9	146.5	62.1	208.7	1,301.3
2017	129.5	48.0	177.5	982.4	141.4	55.3	196.7	1,159.9
2018	117.2	42.1	159.3	865.3	129.1	48.6	177.7	1,030.8
2019	99.8	37.4	137.2	765.5	111.6	43.4	155.0	919.2
2020	82.4	33.4	115.8	683.1	94.2	38.9	133.0	825.0
2021	80.2	29.8	110.1	602.9	92.0	34.7	126.7	733.0
2022	80.1	26.3	106.4	522.8	91.8	30.5	122.4	641.2
2023	78.1	22.9	101.0	444.7	89.9	26.5	116.4	551.3
2024	71.2	19.3	90.6	373.5	83.1	22.3	105.4	468.2
2025	64.5	16.3	80.8	309.0	76.3	18.9	95.3	391.9
2026	61.2	13.5	74.7	247.8	73.1	15.7	88.8	318.8
2027	56.1	10.7	66.8	191.7	67.9	12.7	80.6	250.9
2028	46.4	8.2	54.6	145.3	58.2	10.0	68.2	192.7
2029	39.2	6.1	45.3	106.1	51.1	7.5	58.6	141.6
2030	71.9	3.3	75.3	34.2	71.9	4.4	76.3	69.7
2031	22.3	1.1	23.4	11.8	34.2	2.2	36.3	35.5
2032	11.8	0.3	12.1	-	23.7	1.0	24.6	11.8
2033	-	-	-	-	11.8	0.4	12.2	-
TOTAL	**$1,698.4**	**$577.7**	**$2,276.2**		**$1,911.4**	**$654.3**	**$2,565.8**	

(1) Totals may not add due to rounding.
(2) Outstanding gross debt service gross (excludes Federal Interest Subsidy on Build America Bonds and Qualified School Construction Bonds).

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 the Authorization Acts. 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 of issuance. Other than bonds issued in fiscal years 2010 through 2013, 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 Qualified School Construction Bonds issued in 2010 provided for higher principal payments in fiscal year 2030.

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 State Constitutional debt limit; however, the State has statutory debt limits as discussed herein.

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 2012 estimate of net general fund revenues for fiscal year 2013 was $3,689.7 million, thus a total of $184.5 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 for the current and next four (4) fiscal years is set out in the following table. The fiscal year 2013 figures are based on Senate Joint Resolution No. 12 which provides fiscal year 2013 official revenue, refund and unencumbered fund estimates. The revenue estimates for fiscal years 2014 and 2015 are estimated from the December 17, 2012 meeting of the Delaware Economic and Financial Advisory Council ("DEFAC"), See "STATE FINANCIAL OPERATIONS — Revenue Summary-Fiscal Year 2013E-Fiscal Year 2015E" herein. Fiscal year 2016 and fiscal year 2017 estimates are based on the long-term growth rates of 3.1% and 3.4%, respectively, adopted by DEFAC at its September 17, 2012 meeting. DEFAC projections are dependent on a variety of economic factors affecting the State's projected revenues. See "STATE FINANCIAL OPERATIONS - Revenue and Expenditure Forecasting".

The 5% Rule
(in millions)

	Fiscal 2013	**Fiscal 2014**	**Fiscal 2015**	**Fiscal 2016**	**Fiscal 2017**
Estimated Net Budgetary General Fund Revenue	$ 3,689.7	$ 3,663.3	$ 3,637.9	$ 3,750.7	$ 3,878.2
Projected New Tax-Supported Debt Authorizations	$ 184.5	$ 183.2	$ 181.9	$ 187.5	$ 193.9

Second, no "tax-supported obligations of the State" and no "Transportation Trust Fund ("Trust Fund" or "TTF") debt obligations" (each as 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"). Any such debt incurred would have to comply with this test, as illustrated in the following table:

The 15% Test
(in millions)

	Fiscal 2013[(1)]
General Obligation Debt Service	$ 231.6
Less: Excluded Debt Service [(2)]	(62.3)
Other Tax-Supported Debt Service [(3)]	25.7
Total Tax-Supported Debt Service	$ 195.0
Delaware Transportation Authority (TTF) Debt Service	$ 123.7
Total Debt Service	$ 318.7
Estimated Aggregate Budgetary General Fund and TTF Revenue [(4)]	$ 4,120.8
Total Debt Service as Percent of Total Revenue	7.7%

(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 and the Trust Fund.
(3) Includes projected payments on lease obligations of the State.
(4) Based upon December 17, 2012 revenue projections of DEFAC for fiscal year 2014. See "STATE FINANCIAL OPERATIONS - Revenue and Expenditure Forecasting."

"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.

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 2013 [1]
General Obligation Debt Service	$ 231.6
Less: Excluded Debt Service [2]	(62.3)
Net General Obligation Debt Service	$ 169.3
Projected Cumulative Cash Balances [3]	$ 248.8

(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 and the Trust Fund.
(3) As estimated by the Secretary of Finance based upon December 17, 2012 budgetary General Fund revenue projections by DEFAC for fiscal year 2014.

General Obligation Debt

On June 30, 2012, 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	$ 491.3
School Facilities (State Share)	659.4
Subtotal	$ 1,150.7

General Obligation Debt Supported by Budgetary Special Funds

Highways and Other Transportation Improvements	$ 0.4
School Facilities (Local Share)	545.3
Subtotal	$ 545.8
Total General Obligation Debt Outstanding	$1,696.5[(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, 2012, $0.4 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 public 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. 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.

No public school district has ever defaulted on any such obligation to the State.

Authorized but Unissued General Obligation Debt

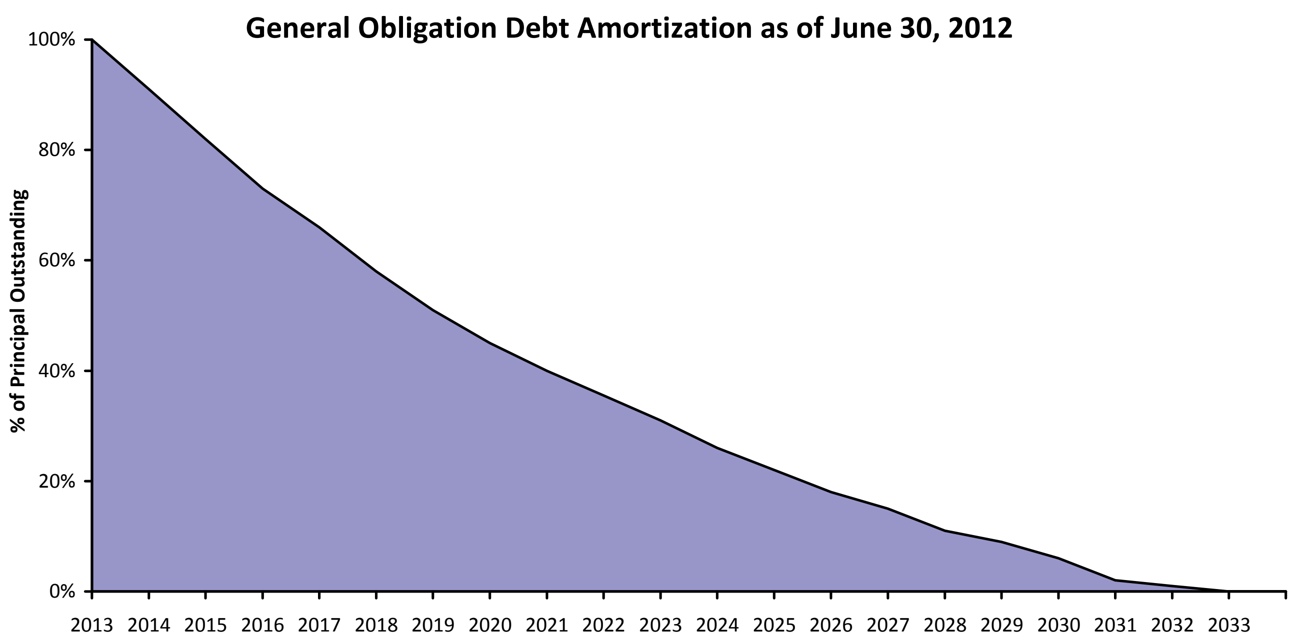
Prior to the issuance of the Bonds, statutory authorization exists for the issuance of additional general obligation debt of the State in the principal amount of $388.2 million.

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 $1,696.5 million on June 30, 2012 with approximately 70.0% 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 10th in state spending per pupil in elementary – secondary public schools. Of the $1,696.5 million of debt outstanding as of June 30, 2012, $545.3 million or 32.1% 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.

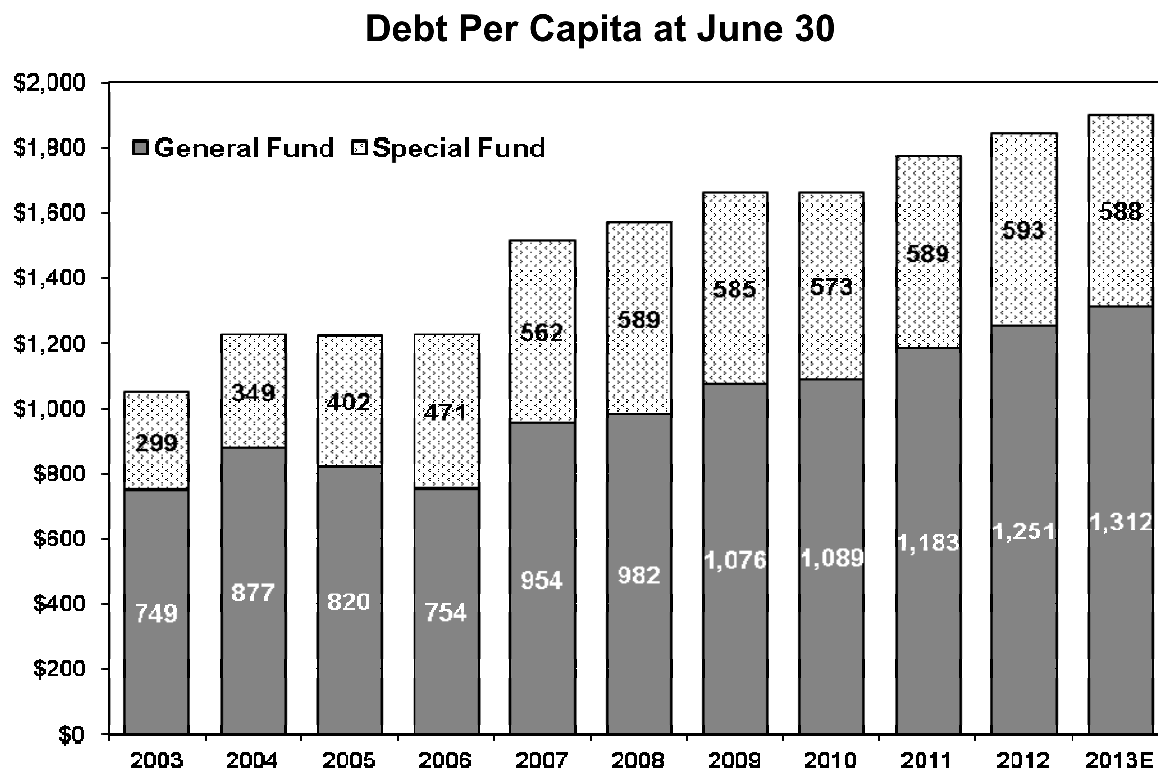
- **Aggressive Retirement of General Obligation Debt**: The State voluntarily retires its general obligation debt rapidly. Approximately 70.0% of current general obligation debt is scheduled to mature within ten years, as noted above.

- **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. 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 years 2002 and 2003 were reduced. However, between fiscal years 2004 and 2013, the cash funding exceeded $1.5 billion or 27.3% of capital expenditures.

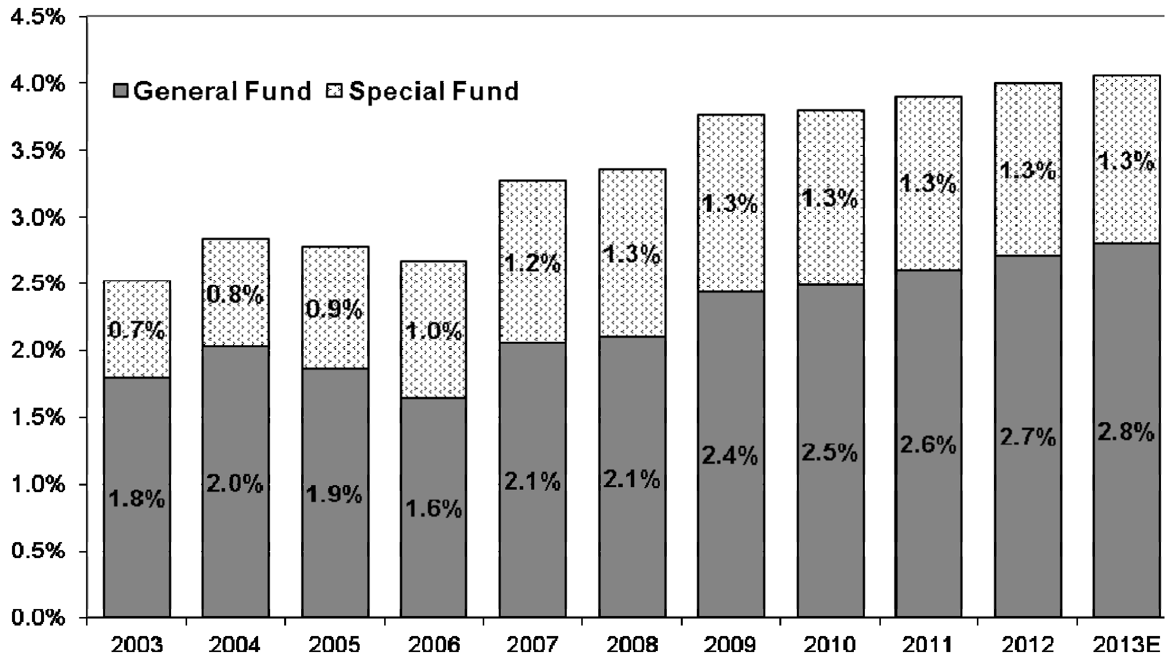
- **Numerous Bond Refundings**: The State has undertaken a series of bond refundings which have lowered the overall debt service on outstanding State general obligation debt. The savings identified in the following sentences reflect net present value savings. In fiscal year 2003, the State refunded over $167 million of its general obligation bonds for a combined savings of $8.7 million. In fiscal year 2004, savings of $2.9 million were realized after the State refunded $74.6 million of its general obligation bonds; in fiscal year 2005, savings of $1.9 million were realized after the State refunded $48.3 million of its general obligation bonds; in fiscal year 2008, savings of $0.7 million were realized after the State refunded $16.4 million of its general obligation bonds; in fiscal year 2010, savings of $26.4 million were realized after the State refunded $460.6 million of its general obligation bonds; and in fiscal year 2011, savings of $3.4 million were realized after the State refunded $54.6 million of its general obligation bonds. With the issuance of the 2013A Bonds, the State will realize net present value savings of approximately $14.4 million after refunding $123.3 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.



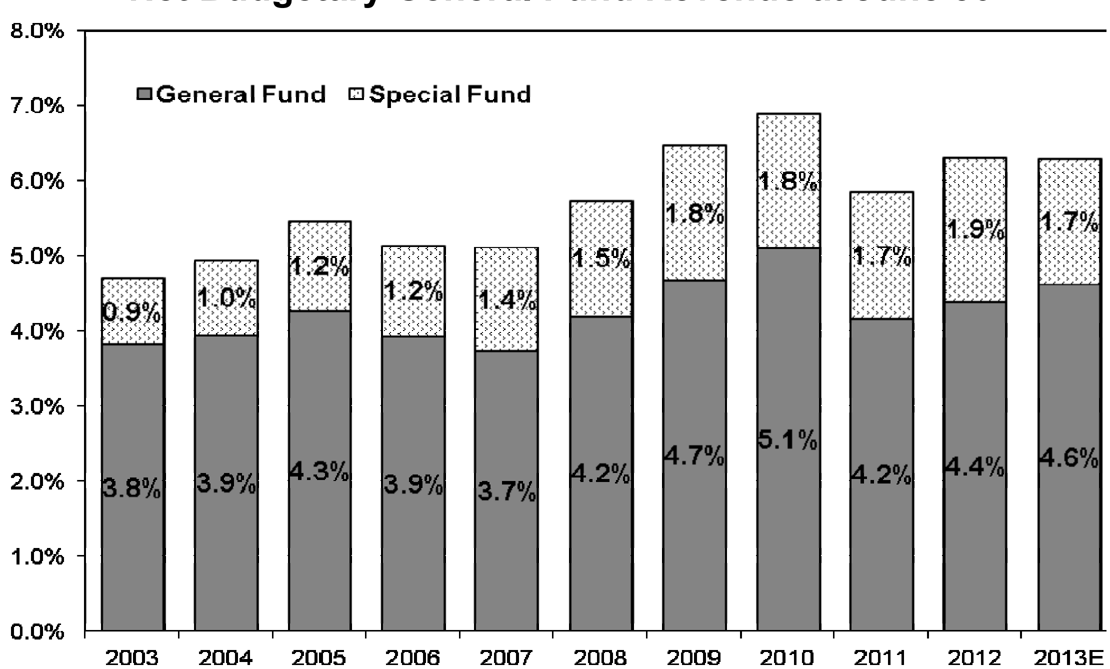
Notes: Shaded area represents portion of general obligation debt funded by the budgetary General Fund. The remainder is funded by budgetary Special Funds.
2013 data assumes a population growth rate of 1.1%.

Debt as a Percentage of Personal Income at June 30



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.

Debt Service as a Percent of Net Budgetary General Fund Revenue at June 30



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

Build America Bonds and Qualified School Construction Bonds

"Build America Bonds" are taxable general obligation bonds backed by the full faith and credit of the State and could only be issued in calendar years 2009 and 2010 to finance capital expenditures for which the State could issue tax-exempt bonds. In calendar years 2009 and 2010, the State issued $295,090,000 in aggregate principal amount of Build America Bonds and elected to receive periodic payments from the United States Treasury on each interest payment date equal to 35% of the corresponding interest payable on such Build America Bonds (the "BAB Subsidy Payments").

"Qualified School Construction Bonds" are taxable general obligation bonds backed by the full faith and credit of the State and could be issued to finance the construction, rehabilitation, or repair of a public school facility or for the acquisition of land on which such a facility is to be constructed. For calendar years 2009 and 2010, the State received Qualified School Construction Bond allocations of $29,784,000 and $29,797,000, respectively. The State carried forward the entire $29,784,000 from 2009 and issued $59,580,000 in aggregate principal amount of Qualified School Construction Bonds in 2010 and elected to receive periodic payments from the United States Treasury on each interest payment date equal to the lesser of: (i) the amount of interest payable on the such Bonds on such date; or (ii) the amount of interest that would have been payable on the such Bonds if the interest were determined at the applicable tax credit rate pursuant to Section 54A(b)(3) of the Code published by the United States Treasury on the sale date of such Bonds (the "QSCB Subsidy Payments").

Neither the BAB Subsidy Payments nor the QSCB Subsidy Payments were pledged to the payment of the Build America Bonds or the Qualified School Construction Bonds, respectively. Such subsidy payments are paid directly to the State and the holders of such Build America Bonds and Qualified School Construction Bonds are not entitled to a tax credit related thereto, and interest paid to holders of such bonds is subject to federal income tax.

Sustainable Energy Utility, Inc. Energy Efficiency Revenue Bonds

In August, 2011, pursuant to the Delaware Energy Act, 29 Del. C. §8059, Energy Utility, Inc. (the "SEU"), a Delaware nonprofit corporation created by and for the benefit of the State issued $67,435,000 of its Sustainable Energy Utility, Inc. Energy Efficiency Revenue Bonds, Series 2011 (the "SEU Bonds").

The SEU has developed a program (the "SEU Program") to issue bonds and utilize the proceeds to pay the costs of designing and implementing energy conservation measures ("ECMs") at the facilities of agencies (defined to include the State, municipalities and state and local governmental agencies and institutions of higher learning). The SEU Bonds were issued to finance the initial ECMs for several State agencies and departments participating in the SEU Program (the "Agencies" and each an "Agency"). Each Agency is obligated to make or cause to be made payments (the "Installment Payments") to the SEU for the ECMs under an Installment Payment Agreement in accordance with the Energy Performance Contracting Act, 29 Del. C. §6971. Each Installment Payment Agreement is the several obligation only of the applicable Agency under which Installment Payments are payable by such Agency out of funds appropriated to such Agency by the State and available for such purpose.

The SEU Bonds are limited obligations of the SEU payable primarily from the Installment Payments to be made by, or on behalf of, the Agencies. The Agencies' obligations to make Installment Payments are subject to appropriation by the State, and the State is not obligated to make any appropriation to an Agency. Neither the State nor any political subdivision thereof shall be obligated to make payments on the SEU Bonds. Neither the faith and credit nor the taxing power of the State or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the SEU Bonds. The issuance of the SEU Bonds does not directly or indirectly or contingently obligate the State or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor, or to make any appropriation for their payment.

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 such 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 year 2005, issued $224,177 QZABs to finance the renovations of the Charlton School in the Caesar Rodney School District, Kent County, Delaware. In fiscal year 2003, the State issued $760,000 QZABs and, in fiscal year 2002, issued $649,000 QZABs. The fiscal year 2003 QZAB proceeds funded the renovation of the Charlton School in the Caesar Rodney School District, Kent County, Delaware. The fiscal year 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, 2012, aggregate remaining lease payments total approximately $183.1 million with $127.3 million payable through fiscal year 2017. Real estate rentals account for 85.6% 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, UNIVERSITIES 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, 2012, the Delaware Transportation Authority had outstanding $923.79 million in Transportation System Revenue Bonds and $105.8 million in Grant Anticipation Revenue Vehicle Bonds, or "GARVEEs", which were issued to finance a portion of the costs of completing the final design and right-of-way acquisition activities for a new U.S. 301. The Authority may issue bonds to refund prior Authority obligations.

Additional bonds secured on parity with the TTF's senior 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's bonds.

Delaware State Housing Authority

The Delaware State Housing Authority ("DSHA"), created in 1968, had outstanding on June 30, 2012, $799.6 million of tax-exempt revenue bonds and $12.5 million of taxable revenue bonds. The total $812.1 million of the outstanding bonds were issued to finance the purchase of single-family homes. 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".

Bonds issued by DSHA ("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 DSHA's capital reserve fund if such fund is drawn upon to meet debt service payments on certain of the DSHA Bonds. As of June 30, 2012, 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 $862.4 million in economic development revenue bonds on June 30, 2012, 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 (the "DSWA") 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, 2012, DSWA had $115.4 million outstanding solid waste revenue bonds.

Delaware Health Facilities Authority

The Delaware Health Facilities Authority (the "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, 2012, there were outstanding $688.4 million of revenue bonds issued for the benefit of these facilities. The Health Facilities Authority has no taxing power and no source of funds other than from the contractual obligations of participating health care facilities.

Universities

Delaware State University

There were outstanding on June 30, 2012, $91.0 million of revenue bonds issued by Delaware State University. These bonds are secured by the Delaware State 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.

University of Delaware

There were outstanding on June 30, 2012, $354.0 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, as of June 30, 2012, is outlined in the following table:

General Obligation Debt of Political Subdivisions
(in millions)

New Castle County	$ 369.1
Sussex County	154.8
Kent County	50.1
Wilmington	286.4[(1)]
Other Cities and Towns	187.1[(2)]
School Districts	545.3[(3)]
Total	$1,592.8

(1) Of this total, $6.2 million in principal is supported by payments from the Diamond State Port Corporation, an instrumentality of the State. Excludes $23.3 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

During the most recent two business cycles, Delaware's economic performance has largely mirrored national trends in terms of employment and income growth. In this period, Delaware has consistently posted lower unemployment rates than the United States.

The State'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, N.A., JPMorgan Chase & Co., and Barclays Bank Delaware, for example, continue to maintain a major presence in the State and demonstrate the State's importance as a financial center. Most recently, Capital One announced plans to add approximately 500 jobs in the State by 2013 and JP Morgan Chase announced its intention to purchase a former MBNA America Bank, N.A. site where it will base 800 new marketing, technology and information security jobs, part of its commitment to add 1,200 Delaware employees. The State's long-established manufacturing sectors, oil-refining and fibers, have also suffered as a result of the worst economic downturn since World War II. In response to these setbacks, however, the State has made important strides to reinvigorate and modernize its manufacturing base. In October 2011, PBF Energy Partners restarted the former Valero refinery in Delaware City, Delaware. The refinery has a throughput capacity of 190,000 barrels of oil per day and employs approximately 435 full-time workers. In April 2012, Bloom Energy broke ground on a new manufacturing facility on the site of the State's former Chrysler assembly plant. Expected to begin operations in mid-2013, the electricity producing fuel cell manufacturer is expected to employ roughly 900 workers when fully operational.

Diversifying the State's economy has consistently ranked among State policymakers' highest priorities since the adoption of the Financial Center Development Act in 1981. The State's economic development efforts have followed a two-pronged approach. Broadly speaking, the State has continually improved its business climate using a combination of (i) prudent fiscal management, including judicious tax policy, and (ii) 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. One such result, the world's largest online retailer, Amazon.com, has completed construction of a fulfillment center in Middletown, Delaware. The center, which opened in October 2012, will employ, when fully operational, 850 full-time workers and an additional 2,000 employees for seasonal work.

In March 2010, the U.S. Department of Education announced that the State was one of only two recipients to be awarded "Race to the Top" federal funding. Race to the Top is a federal education program that is funded under the American Recovery and Reinvestment Act to reward states for aggressively reforming their education systems. The State will receive over $100 million in Race to the Top funding to be paid out over a four year period. As of November 30, 2012, $53.6 million has been drawn from the grant which began in June 2010.

In May 2009, Governor Jack Markell signed a sports betting bill into law that reactivated a sports lottery in the State, one of only four states exempt from the federal ban on sports betting under the Professional and Amateur Sports Protection Act enacted in 1992. In June 2012, Governor Markell signed a bill that expanded sports betting beyond the State's three racinos into various retail establishments. The bill also allows Keno at multiple retail venues and allows the introduction of internet gaming. The State continues to operate table games such as, blackjack, craps and roulette in its racinos to enhance its positions in an increasingly competitive gaming market and to increase employment. In fiscal year 2012, table games and sports betting accounted for $28.5 million in revenue.

The State 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, the State'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 the State 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 limited liability companies and limited partnerships.

Population

Between 2011 and 2012, Delaware's population was estimated to have increased by 1.0 percent, to 917,092 inhabitants. In comparison, there was 0.4 percent growth in the Mid-Atlantic region and 0.8 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 2007 through 2012.

Population
(in thousands)

	Delaware		Mid-Atlantic Region [1]		United States	
	Population	Change	Population	Change	Population	Change
2007	872	1.5%	46,899	0.3%	301,231	1.0%
2008	884	1.4	47,105	0.4	304,094	1.0
2009	892	0.9	47,352	0.5	306,772	0.9
2010	900	0.9	47,602	0.5	309,326	0.8
2011	908	0.9	47,828	0.5	311,588	0.7
2012	917	1.0	48,000	0.4	313,914	0.8

(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. The U.S. Census Bureau has population data for cities up to 2011. There are three major cities: Wilmington, the largest city, with a 2011 estimated population count of 71,305; Dover, the State capital and the site of a major U.S. Air Force base, with a 2011 estimated population count of 36,560 residents; and Newark, the site of the University of Delaware, with a 2011 estimated population count of 31,618.

The following table shows the population of the State's three counties for the years 2007 through 2012. Approximately 60 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 stronger growth, with Kent County at nearly twice New Castle County's growth rate and Sussex County at about three times the growth rate of New Castle County.

Population by County
(in thousands)

	New Castle	Change	Kent	Change	Sussex	Change
2007	528	0.63%	152	2.74%	185	2.50%
2008	531	0.62	155	2.23	190	2.51
2009	535	0.68	158	1.45	193	1.63
2010	538	0.66	160	1.47	197	2.17
2011	542	0.65	162	1.46	201	2.18
2012	545	0.62	164	1.16	205	1.82

Source: Delaware Population Consortium.

Personal Income

Personal income is the income received by all persons from all sources. The State's total personal income rose by 6.0 percent from calendar 2010 to 2011, compared with increases of 4.6 percent for the Mid-Atlantic region and 5.1 percent for the nation. Total State personal income in calendar 2011 was $37.6 billion.

The following table provides per capita personal income comparisons for calendar 2006 through 2011. (Per capita personal income is the annual total personal income of State residents divided by the population.) Per capita personal income of Delaware residents rose by 5.1 percent from calendar 2010 to 2011 compared with 4.2 percent in the Mid-Atlantic region and 4.3 percent in the U.S. over the same period. In comparison, State per capita personal income was approximately equal to 100 percent of U.S. per capita personal income in calendar 2011.

Per Capita Personal Income

	Delaware	Change	Mid-Atlantic Region$^{(1)}$	Change	United States	Change	Delaware as Percent of the United States
2006	$38,812		$43,011		$37,709		103%
2007	39,808	2.6%	45,634	6.1%	39,484	4.7%	101
2008	40,565	1.9	47,343	3.7	40,914	3.6	99
2009 ……….	38,695	-4.6	45,114	-4.7	38,625	-5.6	100
2010	39,425	1.9	46,799	3.7	39,777	3.0	99
2011	41,449	5.1	48,769	4.2	41,492	4.3	100

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 2012 fell to 6.9 percent from 7.3 percent in 2011. The region had an overall average unemployment rate of 8.3 percent in 2012, up from 8.2 percent in 2011. The following table presents the average annual unemployment rates for Delaware, the region, and the U.S. from 2004 through 2012.

Unemployment Rates (%)

	Delaware	Mid-Atlantic Region[1]	United States
2004	3.9	5.3	5.5
2005	4.0	4.8	5.1
2006	3.5	4.5	4.6
2007	3.5	4.3	4.6
2008	4.8	5.2	5.8
2009	7.9	8.2	9.3
2010	8.0	8.6	9.6
2011	7.3	8.2	8.9
2012	6.9	8.3	8.1

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 December 2012, Delaware's unemployment rate of 6.9 percent was 25th lowest in the nation. In the surrounding states, Maryland was tied for 18th at 6.6 percent, Pennsylvania was tied for 33rd at 7.9 percent, New York was tied for 37th at 8.2 percent, and New Jersey was 48th at 9.6 percent.

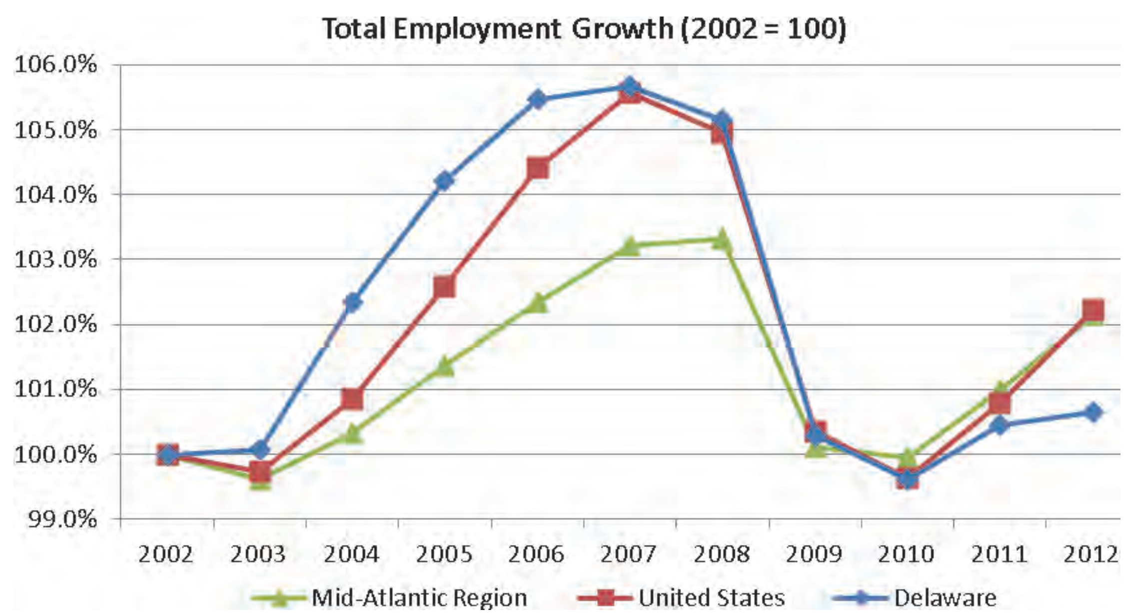
Employment

The rate of non-agricultural job growth in Delaware increased 0.2 percent in 2012. There were also job gains in the region and the nation of 1.1 percent and 1.4 percent, respectively.

Non-Agricultural Employment Growth Rates - %

	Delaware	Mid-Atlantic Region	United States
2004	2.3	0.7	1.1
2005	1.8	1.0	1.7
2006	1.2	1.0	1.8
2007	0.2	0.9	1.1
2008	(0.5)	0.1	(0.6)
2009	(4.6)	(3.1)	(4.4)
2010	(0.7)	(0.2)	(0.7)
2011	0.8	1.0	1.1
2012	0.2	1.1	1.4

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 2012. Total employment across all federal, state and local government entities averaged 63,100 over the year, a decrease of 1,000 jobs from 2011. Among private industry sectors, Health Care and Social Assistance remained as the state's largest industry sector with 61,100 jobs; Retail Trade was again the second largest with 50,100.

Six private industry sectors added jobs in 2012: Health Care and Social Assistance (+2,000); Finance and Insurance (+1,100); Transportation, Warehousing and Utilities (+1,000); Accommodation and Food Services (+600); Arts, Entertainment, and Recreation (+200); and Educational Services (+100).

Employment by Industry Sector
(in thousands)

	2007	2008	2009	2010	2011	2012
Construction	27.5	25.1	20.0	19.3	19.6	18.2
Manufacturing	33.2	31.7	27.9	25.9	25.7	25.6
Wholesale Trade	14.9	14.6	13.2	12.5	12.4	12.1
Retail Trade	54.3	53.0	49.7	49.8	50.1	50.1
Transportation, Warehousing and Utilities[1]	13.8	13.6	12.4	12.1	12.7	13.7
Information	6.9	7.0	6.5	6.0	5.7	5.6
Finance and Insurance	38.7	39.0	38.0	37.1	37.1	38.2
Real Estate and Rental and Leasing	6.6	6.5	5.9	5.6	5.6	5.6
Professional, Scientific and Tech. Services	25.3	25.7	24.2	24.5	25.8	25.8
Management of Companies	11.4	10.8	10.1	9.1	8.0	7.5
Administrative and Support Services	23.6	23.1	21.3	21.2	21.8	21.2
Educational Services	7.3	7.4	7.3	7.5	7.5	7.6
Health Care and Social Assistance	52.6	55.2	56.4	57.3	59.1	61.1
Arts, Entertainment and Recreation	8.1	8.1	7.8	8.5	8.8	9
Accommodation and Food Services	32.6	33.0	32.9	33.7	33.9	34.5
Other Services	20.2	20.3	19.8	19.6	19.5	19.2
Government	62.0	62.8	63.3	63.8	64.1	63.1
Total Nonfarm Employment	438.9	436.8	416.6	413.8	417.3	418.1

[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. Chemicals represent the leading export category for the State accounting for about 50% of Delaware's total manufactured exports. The chemical manufacturing industry is a 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.

The chemical industry in the State 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 global chemical and advanced materials industry is going through some of the most turbulent times in its history. The economic situation remains volatile, but many businesses are seeing a more stable environment for a continued recovery. Against this background, Delaware companies are making sure they are continually improving their processes and developing innovative solutions that meet the specific requirements of markets and consumers.

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 $39 billion in annual sales in 2011, 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.

Ashland Inc. ("Ashland") (NYSE: ASH) created a leading specialty chemicals company with the acquisition of Hercules in 2008. Ashland is a world leader in specialty chemicals used in consumer and industrial products. Ashland products are sold in over 100 countries worldwide and are used in architectural coatings, automotive, construction, energy, food and beverages, personal care, pharmaceuticals, tissues and towels and water treatment. Its operations in Delaware are part of one of four main operating groups, Ashland Specialty Ingredients. Ashland employs over 15,000 worldwide and approximately 500 in Delaware primarily at the research and technology center.

BASF Corporation ("BASF") is the world's leading chemical company (BASF shares are traded on the stock exchanges in Frankfurt (BAS), London (BFA) and Zurich (AN)) and operates a synthesis plant, a finishing plant and a metalized film plant in Newport, Delaware. This site is a global supply point for Quinacridone pigments and for Diketo Pyrrolo Pyrrol pigments. Both are a red-shade family of high-performance pigments that are in strong demand, particularly from the automotive industry. They are also used in inks, paints and plastics. The site is also home to part of BASF's technical services group. Since the site was first acquired from DuPont in 1984, more than $250 million has been invested in site improvements and BASF continues to value the site as a key supply point for customers around the world. In 2011, BASF had more than 111,000 employees worldwide and posted global sales of about €73.5 billion. In North America, the company has more than 16,000 employees and had sales of $20 billion in 2011. Approximately 165 employees are employed in Newport, DE. BASF also owns and operates a Joncryl Polymer chemical plant in Seaford, DE (which they acquired from Johnson Polymers in 2006).

The Dow Chemical Company ("Dow") (NYSE: DOW), is an industry-leading company with a portfolio of specialty chemical, advanced materials, agrosciences and plastics businesses and delivers a broad range of technology-based products and solutions to customers in approximately 160 countries and in high growth sectors such as electronics, water, energy, coatings and agriculture. In 2011, Dow had annual sales of $60 billion and employed approximately 52,000 people worldwide. Dow Electronic Materials, a global supplier of materials and technologies to the electronics industry has a significant presence in Delaware with over 500 employees. Chemical mechanical polishing products are developed and manufactured in Delaware for the fabrication of almost every type of electronic chip made today. It is expected that Dow's Delaware site will continue to be responsible for products and process R&D applications and customer support primarily in North America and Europe.

L'Air Liquide (OTC: AIQUY) is a worldwide leader in industrial and medical gases and related services. Founded in 1902, L'Air Liquide operates in more than 65 countries through 125 subsidiaries. L'Air Liquide has a state-of-the-art R&D facility in Delaware where it consolidated U.S. research and development operations along with some of its manufacturing engineering business. The total capital expenditures budget for this consolidated operation was nearly $30 million and it brought to Delaware many top scientists from around the globe.

Agilent Technologies Inc. ("Agilent") (NYSE: A) is a world leading provider of instrumentation, supplies, software and services to life science and chemical analysis markets. The Delaware site in Little Falls 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 750 people.

Croda International Plc ("Croda") (OTC: COIHF) is a world leader in natural based specialty chemicals which are sold to virtually every type of industry. The company has approximately 3400 employees, working in 34 countries. Croda conducts chemical research and development activities at two sites in New Castle, Delaware. The research and development center is located in New Castle, Delaware and is adjacent to its North American manufacturing plant. The facility helps to support Croda's global activities in the personal care, lubricants, polymers, oilfield, specialty cleaning, fibers and crop protection industries. Research activities are closely coordinated with the company's worldwide research program.

FMC Corporation (NYSE: FMC) is one of the world's leading specialty chemical companies that employs 5,500 people world-wide, and had gross revenues of $3.4 billion in 2011. FMC Biopolymers has a manufacturing plant located in Delaware which was originally opened for business in 1962. This site manufactures microcrystalline cellulose and has remained competitive on the world stage through a relentless focus on innovation, productivity and efficiency.

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. TAI 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 recently completed a $40 million expansion project.

Other companies in this cluster have been investing in their Delaware facilities. Kuehne Chemical has seen its volumes grow and continues to spend capital at its site. ILC Dover, known for making spacesuits for NASA, the airbag system for the Mars Rover and personal protection equipment for military, homeland security and industrial users is growing.

Life Sciences

The State is uniquely positioned in the center of one of our nation's life science corridors, as recognized by Pharmaceutical Research and Manufacturers of America. Most of the world's top pharmaceutical companies have major operations within a 50 mile radius of the state capital. Delaware is also home to Christiana Care Health Systems and Nemours A.I. duPont Hospital for Children, who in addition to actively participating in research and clinical trials, have launched a nationally recognized consortium known as the Delaware Health Science Alliance.

Delaware Health Science Alliance combines the priorities and assets of the member institutions, which are Christiana Care Health System, Nemours A.I. duPont Hospital for Children, Thomas Jefferson University and the University of Delaware. This new coalition of leading education, healthcare and medical research institutions has been formed to nurture research and the development of advanced technology with the State.

Other private industry investments help drive Delaware's leadership in life sciences, such as AstraZeneca, Plc, DuPont, Agilent, Hologic, Inc. ("Hologic"), Siemens AG, Dentsply Caulk and Merck Animal Health. Examples include DuPont's Center for Collaborative Research & Education at their Wilmington-based Experimental Station. The Experimental Station is home to the discovery and development of virtually every major DuPont product since 1903.

Dentsply Caulk recently upgraded their equipment and facility and provided customized training to their employees resulting in improved productivity. They are located in Milford, Delaware where they perform research, development and manufacturing of dental health composites and complementary instruments and work closely with researchers at University of Delaware and Delaware State University.

Merck Animal Health, located in Millsboro, Delaware continues their legacy of research, development and manufacturing of vaccines, primarily focused on poultry. They also continue to provide similar services and production for small and large animals. Although some of the backroom, office support functions were relocated soon after Merck acquired the Delaware facilities from Intervet/Schering Plough, they continue to create new, highly-skilled research and manufacturing jobs and to make significant capital investments in their Delaware facilities.

Hologic's 3D Mammography is growing in Delaware. In 2012, Hologic acquired a German-based coatings company, AEG Electrofotgraphie GmbH, and they are in the process of relocating that business to their Newark, Delaware site. In the first quarter of 2013, their building expansion is expected to be complete and will house the new equipment and new highly skilled workers. Hologic is a company that has been at the forefront of the industry's transformation from analog to digital mammography. Delaware is proud to be home to the research, development and manufacturing of the 3D panels.

In April 2007, the State and Siemens Healthcare announced the company's new Customer Solutions Center in Newark, Delaware. As a global powerhouse in electronics and electrical engineering, Siemens has always been synonymous with technological excellence, innovation, quality, reliability and internationality. By focusing its business on the industry, energy and healthcare segments, Siemens Healthcare is poised to respond to demographic change, urbanization, climate change and globalization - the megatrends of today and tomorrow.

As discussed previously, in November 2007, Agilent, the world's largest maker of scientific equipment, opened its Center of Excellence, an 8,000 square foot state-of-the-art demonstration laboratory in Delaware. The Center of Excellence is the eighth in the world and will revamp the way the company markets its products on the East Coast.

In addition, Delaware's colleges and universities continue to develop and update curriculum in direct support of the life sciences.

Delaware State University offers a Health Professions track in the BS degree in Biological Sciences that offers complete preparation for medical, dental, pharmacy, and veterinary schools, as well as other careers in health care.

Within the University of Delaware's College of Health Sciences (the "College"), research provides an evidence-based foundation for the education of the next generation of thought leaders and healthcare professionals. The College is also a place where partnerships play a key role in promoting health research and education. High-quality undergraduate and graduate programs, research seed grant programs, and clinical research projects provide the students with rich classroom, laboratory, and clinical experiences. The programs encompass a broad and dynamic collection of specialties, including medical laboratory science, kinesiology, applied physiology, nursing, physical therapy, behavioral health and wellness, and nutrition. In each program, the College creates an experience that shapes changes in practice based on scientific evidence. The College's approach is to translate strong platform in interdisciplinary science into health practices, therapies, and interventions that result in immediate improvements in people's lives.

Delaware Technical Community College ("DTCC") is Delaware's accredited and nationally recognized community college system. DTCC provides instruction through four campuses throughout the State, as well as through online instruction, offering associate degree and certificate programs designed to meet industry demand. In addition to traditional life sciences related to medical, dental, pharmacy and veterinary programs, DTCC offers degree programs related to basic biologics. DTCC graduates, along with those of other Delaware-based colleges and universities, provide a strong pipeline of highly-skilled workers for medical service providers, industrial, research and public health laboratories, as well as basic biotechnicians for a wide variety of laboratory settings.

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, 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 one of the leading states 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 ranked Delaware 2nd overall in the 2012 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 at the 1st in the nation for high-wage traded services and in industry investment in R&D, 2nd in foreign direct investment and in patents, and 9th in scientists and engineers.

Delaware's high quality workforce and innovative research and development environment provide excellent opportunities for technology-based business growth and entrepreneurial ventures. The State provides a variety of technology resource programs and innovative business development support to enhance commercialization opportunities. This support includes Delaware's status as a Kauffman FastTrac Affiliate and its Kauffman FastTrac New Venture and Growth Venture Entrepreneurial Training Initiatives, the Delaware Emerging Technology Center ("DE ETC"), a virtual web portal for entrepreneurs, innovators and small businesses offering a Service Provider Network, an interactive Forum, a regionally based business calendar and an Entrepreneurs Boot Camp and Business Plan Competition. As part of its service offerings to the region's emerging technology entrepreneurs, innovators and small businesses, DE ETC partners with initiatives statewide such as Startup Weekend Delaware and the Technology Forum of Delaware.

The University of Delaware's outstanding reputation for research in cooperation with industry is well recognized in many areas. Its 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 of Delaware has fostered growth and development in the chemical, computer, energy, food, agricultural and marine sciences industries.

The University of Delaware'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 Nemours 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 National Institutes of Health, Nemours Biomedical Research would rank 16th in overall awards to freestanding 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 54 high-tech companies, including the Delaware Biotechnology Institute. The mission behind DTP is to promote economic development and innovation and, to that end, has developed an integrated system of technology focused facilities and services. Since its inception, DTP has housed more than 75 companies, including 25 companies that have matured and graduated from DTP. There has been $300 million invested in DTP and an additional $300 million given to DTP organizations through research grants.

Biotechnology

The Delaware Biotechnology Institute ("DBI"), located in DTP, 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 140 faculty and student researchers and features 25 dedicated research laboratories, 10 common research laboratories, 6 state-of-the-art research instrumentation centers, and several large and small conference areas.

Some of the companies launched at DBI are: the Fraunhofer Center for Molecular Biotechnology, LLuminari, Neurologix, InfoQuest Systems, iBio, Occam BioLabs and Quantum Leap Innovations.

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, including the NIH and the National Science Foundation ("NSF"), participate in this program.

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, DTCC, 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.

In 2012, with support from the State, DBI launched The Bioscience Center for Advanced Technology (the "Bioscience CAT"), which synergizes efforts among the academic and industrial community to address the technology innovation gap and promote economic development in Delaware. The Bioscience CAT links researchers in Delaware institutions with Delaware bioscience companies with the goal of investing in the bioscience community to ensure Delaware competes on the world stage in biotechnology innovation. The Bioscience CAT has three key components: a grant program funded by the State, a technology access program, and an annual symposium. The Technology Access Program ("TAP") provides Delaware bioscience businesses with access - at a reduced fee - to high-end technology platforms available as part of the DBI network. Many businesses routinely send samples to these facilities for analysis and pay a certain rate for this service. Under TAP, businesses will be able to continue to do their work, but receive a discounted rate that is subsidized by Bioscience CAT.

Delaware's investments serve as seed funding for private investments, such as found in the example of Fraunhofer Center for Molecular Biotechnology ("CMB"). Established in July 2001 as a partnership between the Fraunhofer Society in Germany and the State, 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. With the addition of CMB manufacturing capability and the successful completion of two successful Phase I clinical trials, CMB's plant-based, protein production technology achieved several important developmental milestones. The advancement of FhCMB's work, as measured by the U.S. Department of Defense, has evolved from Level 1- Basic technology research, through proof of feasibility, technology development and demonstration to level 8 – System and subsystem development, which has made CMB eligible for new funding from various government departments including the NIH. This is a major accomplishment which both externally validates CMB's innovative technology and enables the organization to move closer to the goal of improving sustainability.

After several rounds of funding from the Bill and Melinda Gates Foundation to support the development of transmission-blocking vaccines against malaria, CMB recently received funding from the National Institute of Allergy and Infectious Diseases to advance development of candidate vaccine components and technologies that accelerate the immune response for use following intentional release of Bacillus anthracis or in response to naturally occurring outbreaks.

Another new project, funded by the U.S. Defense Threat Reduction Agency, will develop a cost-effective, high throughput, ex-vivo, lung tissue- based system for evaluating vaccine safety and immunogenicity directly in human tissue. This three year contract will address one of the largest obstacles in the current system of evaluating vaccine safety and immunogenicity - the lengthy testing in animal models that preceded clinical drug development.

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, while developing and implementing programs that build local, regional, national, and international recognition of and support for Delaware's bioscience industry. The membership has grown to include over 120 members including several global companies such as AstraZeneca, Endo Pharmaceuticals, QPS LLC, previously known as Quest Pharmaceutical Services and Siemens Healthcare.

Delaware State University ("DSU") is another proud contributor to Delaware's biotechnology research and technology transfer. In 2009, DSU launched the Center for Integrated Biological and Environmental Research designed as a regional faculty network hub that includes DSU, Wesley College, DTCC and the University of Delaware. Major functions of the center include: (1) identifying funding opportunities and assisting in bringing together groups of researchers in order to secure grants; (2) communicating the availability of and training on the use of research instrumentation and equipment across the network; (3) coordinating the use and maintenance of key common research facilities at DSU; and (4) integrating research and outreach activities for partner institutions. All students on the Biotechnology track at DSU complete an independent research project for their Senior Capstone course. Additionally, most biotechnology majors are invited to join research teams made up of senior faculty and graduate students as early as the sophomore year. The skills they gain through this experience offer invaluable preparation for advanced degrees and/or scientific careers to meet the demand of Delaware's growing biotechnology industry sector.

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 70 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 25,000 employees as of December 2012, according to the Delaware Department of Labor. Credit cards are a major industry. Prominent credit card issuers in Delaware include Bank of America, N.A., JPMorgan Chase & Co., Discover Bank and Barclays Bank Delaware. Other major bank employers include M&T Bank Corporation, PNC Financial Services Group, Inc., Capital One, N.A., Citigroup, BNY Mellon and HSBC. During the fiscal year ending June 30, 2012, the bank franchise tax contributed $112.5 million, about 3.2% of the State's total revenues.

Construction

During 2011, Delaware's housing production totaled 3,150 units. The following table outlines total housing production in the State by county for 2007 through 2011. Housing production includes single and multifamily housing, public and private. In 2011, single family housing (including condominiums) represented 89.2% of total production, and multifamily units represented 10.8%.

Production of Housing Units

	2007	2008	2009	2010	2011
New Castle County	1,460	822	796	608	711
Kent County	1,484	988	800	793	737
Sussex County	2,347	1,536	1,555	1,554	1,702
Total	5,291	3,346	3,151	2,955	3,150

Source: Delaware State Housing Authority.

Incorporations

As of December 2012 the total number of business entities registered with the Delaware Division of Corporations exceeded 995,000. More than 143,000 new business entities were formed in Delaware in

2012. 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 63% 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.

The Delaware General Corporation Law is widely regarded as the most modern and flexible corporate statute in the nation. 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. Delaware's legal entity statutes, combined with a well-developed body of case law in important areas of corporate governance such as director liability and takeovers; prompt resolution of commercial and corporate disputes by Delaware's Court of Chancery; and efficient 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. Recent laws extend 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. Delaware law provides incentives for businesses to locate headquarter services and captive insurance operations in Delaware. The State's legal entity laws provide a simple method for domesticating an entity in Delaware and 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 calendar year 2011, the Division of Corporations processed more than 375,000 UCC filings and searches. General Fund revenue from UCC transactions totaled $16.7 million in fiscal year 2012.

Agriculture

Agriculture is a very significant industry in Delaware. In 2011, there were 2,500 farms, and land in farms at 490,000 acres, accounted for 39% of Delaware's total land area. Farm size averaged 196 acres.

In 2011, the total market value of agricultural land and buildings was $3.97 billion, and the average value per farm was $1,588,000. The average market value per acre of farmland and buildings in Delaware was $8,100, over three times the national average of $2,390. Only four states had a higher value per acre of farm real estate. The average value per acre was unchanged from 2010.

In 2011, the value of agricultural sector production was $1.23 billion and the Delaware agricultural cash receipts total was $1.08 billion for all commodities. Cash receipts at $1.08 billion in 2011 was up 2 percent from the 2010 level of $1.06 billion.

Delaware's 2011 net farm income increased 4% from the 2010 level of $189 million to $197 million. Improved yields coupled with high commodity prices were primarily responsible for the increase in net farm income.

In 2011, Delaware ranked 1st in the United States in both the agricultural production value per farm at $492,984 and per acre at $2,515 as well as cash receipts per acre at $2,206 and net farm income per acre at $402. Delaware ranks 3rd nationally in the number of equine per county and equine-related expenditures in Delaware are estimated at $280 million annually. Delaware is ranked 1st in lima bean acreage and 8th in value of broiler production.

The cash receipts from Delaware farms as compared to the U.S. total in 2007-2011 are outlined in the table below.

FARM CASH RECEIPTS

	DELAWARE (in millions)				UNITED STATES (in billions)	
Year	**Livestock & Livestock Products**	**Crops**	**Total Cash Receipts**	**% Change from Previous Year**	**Total Cash Receipts**	**%Change from Previous Year**
2007	$ 790	$ 188	$ 978	20.4	$ 288.5	19.9
2008	781	261	1,042	6.6	316.4	9.7
2009	772	242	1,014	(2.7)	289.1	(8.6)
2010	828	231	1,059	4.4	321.1	11.1
2011	761	320	1,081	2.1	374.3	16.6

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, scrap metal, 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, rocket booster cores, 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 of Wilmington 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 of Wilmington 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. Loans from Bank of

America, N.A. and M&T Bank for equipment purchases were prepaid in December of 2011. The total long-term debt of the DSPC outstanding as of June 30, 2012 was $28.3 million. DSPC does not have the power to pledge the credit of the State.

In fiscal year 2012, a total of 5.1 million tons of cargo passed through the Port's facilities, an increase of 15% compared to fiscal year 2011. The combination of growth in cargo tonnage and changes to the mix of cargo increased operating revenue by 7% from $31.9 million to $34.0 million. Petroleum Liquid Bulk imports increased by 0.3 million tons in fiscal year 2012 to 1.4 million tons. Compared to fiscal year 2011, Dry-Bulk cargo tons increased by 10%, vehicle tons by 24%. Over $187 million has been provided by the State through fiscal year 2012 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 (hereinafter defined) financial reporting purposes. See "Appendix C - 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 joint-service mortuary facility and the only one located in the continental U.S. There are currently approximately 6,400 military personnel – 3,900 active duty, 1,500 reservists, and 1,000 civilians – who work at the Base. It is estimated that the economic impact of the Base on the local economy is $466 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, 2012, Basic Financial Statements as set forth in Appendix B, were prepared in accordance with accounting principles 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 34 members appointed by the Governor. Current members of DEFAC include five cabinet-level officials, the State Treasurer, the Controller General, one other governmental official, six legislators, and 20 private citizens from the business, financial and academic communities.

DEFAC is mandated by executive order to submit to the Governor and the General Assembly budgetary General Fund and Transportation Trust Fund revenue forecasts six times each fiscal year in

September, December, March, April, May and June for the current fiscal year and the succeeding two fiscal years. A forecast for the current fiscal year and the succeeding four fiscal years is generated once each year, not later than October 1. Budgetary General Fund and Transportation Trust Fund expenditure forecasts are generated for the current fiscal year in December, March, April, May and June. The various DEFAC forecasts contained in this Official Statement were provided as of December 17, 2012.

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 "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 by IHS Global Insight, Inc. (formerly DR1-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. A comparison of DEFAC's forecasts of budgetary General Fund revenue with actual year-end revenue is 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)

	2008	2009	2010	2011	2012
18 Months Before Fiscal Year-End	$3,367.8	$3,524.1	$2,937.7	$3,176.3	$3,444.9
9 Months Before Fiscal Year-End	3,390.0	3,411.7	3,143.1	3,363.0	3,379.5
Actual Fiscal Year-End Revenue.........	3,356.7	3,148.0	3,235.1	3,531.5	3,359.3

Economic Projections

Based upon national forecasts by Global Insight, Inc. in December 2012, the State's economy is expected to mirror the performance of the broader U.S. economy, which has been in modest recovery since the recession ended June 2009. The following chart compares forecasted population, employment and personal income growth rates for fiscal years 2013 through 2015 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 2013	Fiscal 2014	Fiscal 2015	Fiscal 2013	Fiscal 2014	Fiscal 2015
Population Growth..........................	1.3%	1.4%	1.4%	1.0%	1.0%	1.0%
Employment Growth........................	1.5	1.9	1.7	1.3	1.6	1.9
Personal Income Growth..................	2.9	3.7	4.2	3.1	4.1	5.0

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

Revenue Summary - Fiscal Year 2013E - Fiscal Year 2015E

The following table and chart include DEFAC's forecast of budgetary General Fund revenue from all sources as of December 17, 2012, for fiscal year 2013, fiscal year 2014 and fiscal year 2015. DEFAC forecasts General Fund revenue growth of 11.2%, -2.0% and -0.7% for fiscal years 2013, 2014 and 2015, respectively. See "Fiscal Year Ending June 30, 2013".

Budgetary General Fund Revenue
(in millions)

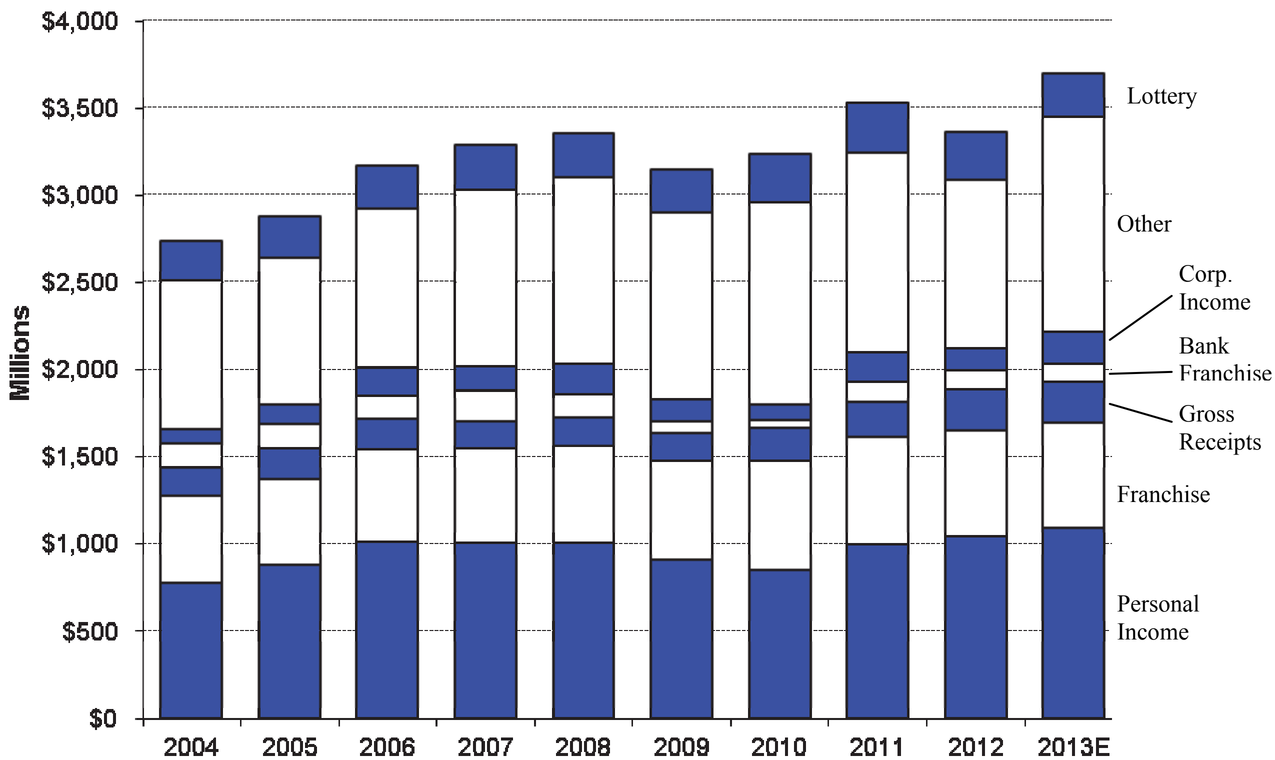
	DEFAC Forecasts as of December 17, 2012(1)					
	Fiscal Year 2013		Fiscal Year 2014		Fiscal Year 2015	
	Forecast	Change	Forecast	Change	Forecast	Change
Personal Income Tax	$1,305.3	6.0%	$1,330.2	1.9%	$1,354.5	1.8%
Less: Refunds	-197.5	4.0	-207.4	5.0	-217.8	5.0
PIT Less Refunds	1,107.8	6.3	1,122.8	1.4	1,136.7	1.2
Franchise Tax	604.2	-1.2	598.2	-1.0	518.2	-13.4
Limited Partnerships & LLC's	175.6	6.5	184.4	5.0	193.6	5.0
Subtotal Franchise Tax and Limited Partnerships & LLCs	779.8	0.4	782.6	0.4	711.8	-9.0
Less: Refunds	-11.0	2.4	-11.0	0.0	-11.0	0.0
Net Franchise Tax and Limited Partnerships & LLCs	768.8	0.4	771.6	0.4	700.8	-9.2
Business Entity Fees	88.7	4.9	91.4	3.0	94.1	3.0
Uniform Commercial Code	17.2	2.8	17.7	2.9	18.2	2.8
Corporation Income Tax	260.0	74.5	199.0	-23.5	208.9	5.0
Less: Refunds (1)	-38.6	29.2	-40.6	5.2	-42.6	4.9
CIT Less Refunds	221.4	-85.9	158.4	-28.5	166.3	5.0
Bank Franchise Tax	107.7	-4.3	116.8	8.4	122.6	5.0
Gross Receipts Tax	227.5	-2.5	234.6	3.1	239.3	2.0
Lottery	237.8	-11.6	238.1	0.1	245.5	3.1
Abandoned Property	566.5	77.3	514.0	-9.3	514.0	0.0
Hospital Board and Treatment	58.7	-9.9	59.3	1.0	59.7	0.7
Dividends and Interest	9.0	-15.5	10.0	11.1	10.9	9.0
Realty Transfer Tax	40.4	27.9	44.4	9.9	48.9	10.1
Estate Tax	15.0	25.0	12.0	-20.0	0.0	-100.0
Insurance Taxes	52.1	-17.8	57.2	9.8	58.2	1.7
Public Utility Tax	45.0	-0.8	46.4	3.1	48.0	3.4
Cigarette Taxes	125.0	3.4	120.4	-3.7	119.2	-1.0
Other Revenues	91.0	11.4	88.0	-3.3	95.4	8.4
Less: Other Refunds	-42.9	26.0	-39.8	-7.2	-39.9	0.3
Total(2)	$3,736.7	11.2%	$3,663.3	-2.0%	$3,637.9	-0.7%

(1) The State's Division of Revenue has received a request from a taxpayer for a $52 million corporate income tax refund, plus accrued interest. Until the claim has been evaluated, it has not been included in the revenue forecast. See Note 19 of the Basic Financial Statements for the fiscal year ending June 30, 2012 attached hereto as Appendix B.

(2) 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 2004.

Budgetary General Fund Revenue at June 30
(in millions)



Expenditure Summary - Fiscal Year 2010 - Fiscal Year 2013E

The following table compares total budgetary General Fund expenditures by major departments for the past three fiscal years ending with fiscal year 2012 and estimated expenditures for fiscal year 2013. 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 Year 2010	Change	Fiscal Year 2011	Change	Fiscal Year 2012	Change	Fiscal Year 2013E	Change
Correction	$238.0	(7.2)%	$245.4	3.1%	$262.3	6.9%	$262.3	0.0%
Health and Social Services	821.4	(1.4)	834.9	1.6	1,055.1	26.4	1,047.3	(0.7)
Higher Education	227.3	(9.9)	220.0	(3.2)	222.7	1.2	216.5	(2.8)
Public Education	1,116.9	(4.0)	1,091.7	(2.3)	1,155.8	5.9	1,168.7	1.1
Safety & Homeland Security	117.9	(5.1)	126.6	7.4	137.5	8.6	136.5	(0.7)
Services to Children, Youth & Their Families	118.2	(7.0)	120.7	2.1	134.5	11.4	140.0	4.1
Other Expenditures	436.8	(19.0)	631.5	44.6	624.5	(1.1)	615.5	(1.4)
Total	$3,076.5	(6.6)%	$3,270.8	6.3%	$3,592.4	9.8%	$3,586.8	(0.2)%

(1) Based on fiscal year 2013 budget.

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)

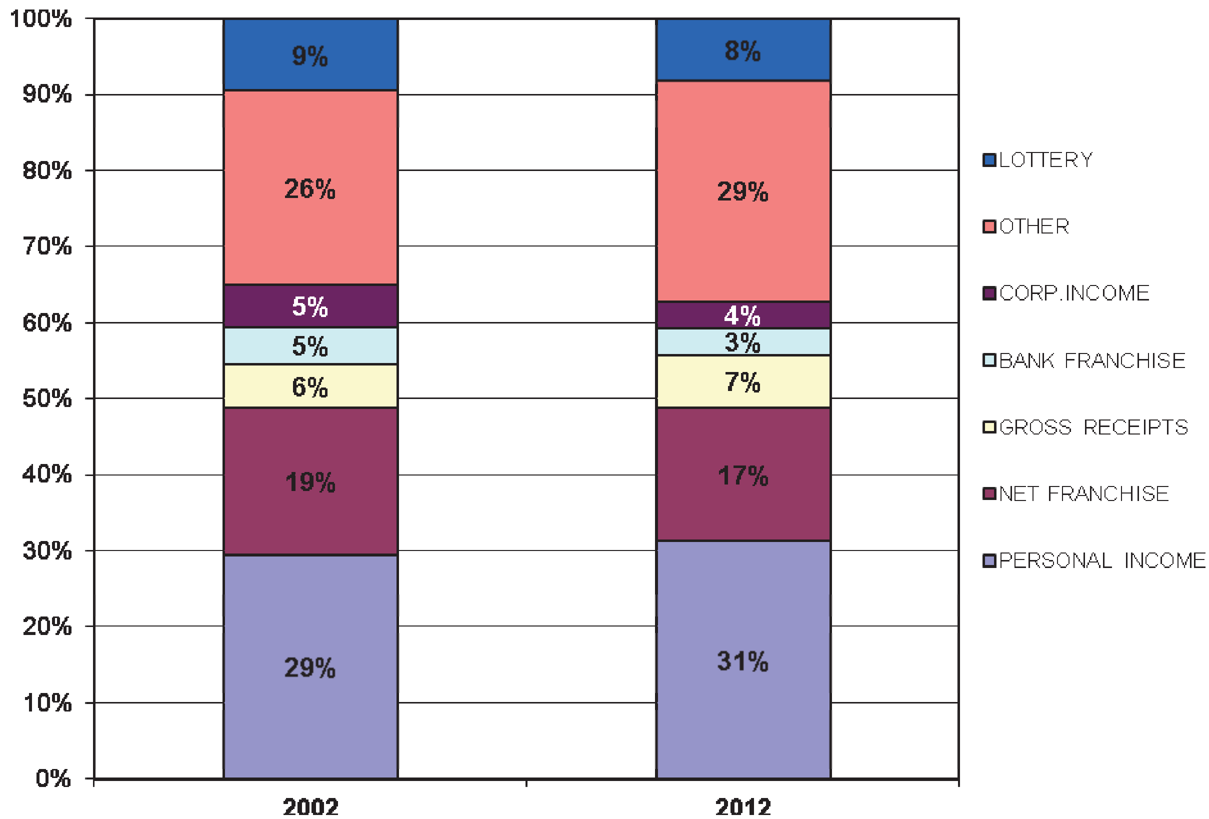
	2009	Change	2010	Change	2011	Change	2012	Change
Base Budget	$3,066.9	(2.4)%	$2,930.9	(4.6)%	$3,062.7	4.3%	$3,293.8	6.2%
Supplemental Appropriations	76.2	(6.7)	30.4	(151.1)	103.1	70.6	114.2	24.0
Prior Year Carryover	152.4	(23.1)	115.3	(32.2)	104.9	(9.9)	184.4	431.2
Total	$3,295.5	(3.7)%	$3,076.6	(32.2)%	$3,270.8	(9.9)%	$3,592.4[1]	21.3%

(1) Per December 17, 2012 DEFAC revenue and expenditures projections.
Note: Totals may not add due to rounding.

Sources and Uses of State Funds

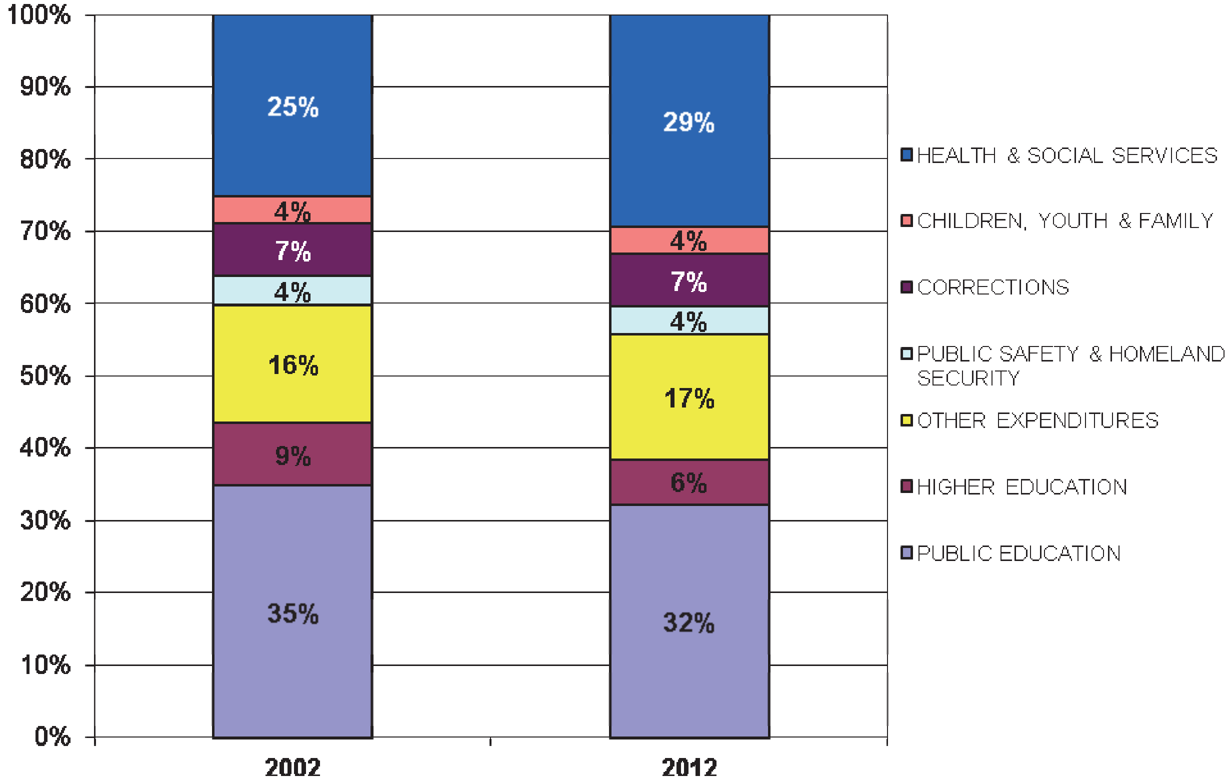
The distribution of budgetary General Fund revenues and appropriations is shown in the following bar charts, which compare fiscal year 2012 with ten years earlier.

SOURCES



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

USES

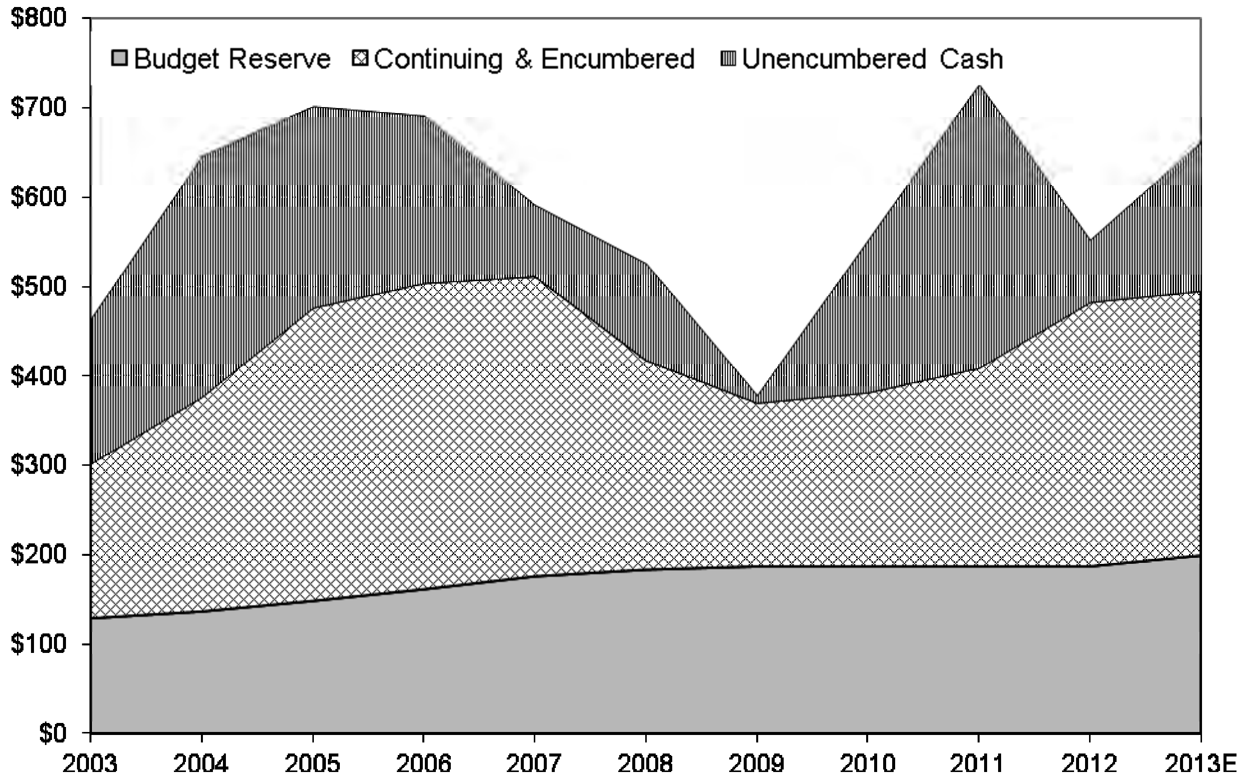


(1) Other uses include administrative services, fire prevention, National Guard, natural resources and environmental control, other elective offices, legislative and executive branches, and agriculture.

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 year 2003 to fiscal year 2013E.

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



FISCAL YEAR ENDED JUNE 30, 2011

The State ended fiscal year 2011 with a cumulative cash balance of $797.8 million. This balance represented 24.4% 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 $303.7 million was set aside for continuing and encumbered appropriations resulting in an unencumbered cash balance on June 30, 2011 of $307.7 million.

Revenue

Net budgetary General Fund revenue for fiscal year 2011 totaled $3,531.4 million, a 9.2% increase over fiscal year 2010.

Personal income taxes, after refunds, were $997.2 million, a 16.9% increase over fiscal year 2010. The fiscal year 2011 estimate includes the impact of a full year of a tax increase that took effect on January 1, 2010.

Franchise and Limited Partnership/LLC taxes, after refunds, were $759.7 million, a 0.7% decrease from fiscal year 2010. The fiscal year 2011 total included the impact of a full year franchise tax increase that took effect on January 1, 2009.

Business entity fees were $83.1 million, a 10.9% increase over fiscal year 2010.

Corporate income taxes, after refunds, were $168.3 million, a 91.5% increase over fiscal year 2010.

Bank franchise taxes were $119.7 million, a 121.7% increase over fiscal year 2010.

Business and occupational gross receipts taxes were $201.1 million, a 3.3% increase over fiscal year 2010. Fiscal year 2011 included a full year of a tax increase, which took effect on January 1, 2010.

Lottery revenue totaled $287.0 million, a 4.2% increase from fiscal year 2010. Fiscal year 2011 included the first full-year impact of both the sports lottery and table games.

Abandoned property revenue totaled $427.9 million, a 13.2% decrease from fiscal year 2010. Legislation adopted in fiscal year 2011 added $24 million to expected General Fund abandoned property collections.

Expenditures

Budgetary General Fund expenditures for fiscal year 2011 totaled $3,270.7 million, a 6.3% increase from fiscal year 2010. The fiscal year 2011 budgetary General Fund operating budget totaled $3,305.3 million, a 6.9% increase from the fiscal year 2010 operating budget. Grants-in-aid and supplemental appropriations of $35.2 million and $91.0 million, respectively, brought total appropriations to $3,431.5 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 year 2011.

Budgetary General Fund Balances - Fiscal Year 2011
(in millions)

Revenue				$3,531.4
Expenditures				
Budget	$3,305.3			
Grants	35.2			
Supplemental	<u>91.0</u>			
Total appropriations		$3,431.5		
Continued and encumbered (prior years)		<u>184.9</u>		
Total spending authorizations			$3,616.4	
Less: Continued and encumbered (present year)			(303.7)	
Less: Reversions			(41.9)	
Total expenditures				$ 3,270.7
Operating balance				260.7
Prior year cash balance				537.1
Cumulative cash balance				$797.8
Less: Continued and encumbered (present year)				(303.7)
Less: Budget Reserve Account				(186.4)
Unencumbered cash balance				<u>$307.7</u>[1]

(1) Totals may not add due to rounding.

In fiscal year 2009, the State received $89.9 million for Medicaid funding as a result of the American Recovery and Reinvestment Act of 2009 ("ARRA"). In fiscal year 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 year 2011, the State received ARRA funding of $80.5 million designated for Medicaid and $40 million designated for education for a total of $120.5 million. No additional ARRA funding is expected after fiscal year 2011.

FISCAL YEAR ENDED JUNE 30, 2012

The State ended fiscal year 2012 with a cumulative cash balance of $564.7 million. This balance represented 15.7% 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 $301.1 million was set aside for continuing and encumbered appropriations resulting in an unencumbered cash balance on June 30, 2012 of $77.2 million.

Revenue

Net budgetary General Fund revenue for fiscal year 2012 totaled $3,359.3 million, a 4.9% decrease from fiscal year 2011.

Personal income taxes, after refunds were $1,041.9 million, a 4.5% increase over 2011. Fiscal year 2012 was affected by a reduction in the highest personal income tax rate of 0.20% from 6.95% to 6.75%, effective on January 1, 2012.

Franchise and Limited Partnership/LLC taxes, after refunds, were $611.8 million, a 0.4% decrease from fiscal year 2011.

Business entity fees were $84.5 million, a 1.7% increase over the previous fiscal year.

Corporate income taxes, after refunds, were $119.2 million, a 29.5% decrease from fiscal year 2011.

Bank franchise taxes were $112.5 million, a 6.0% decrease from fiscal year 2011. Fiscal year 2012 represents the first full year of a legislative change enacted to reduce this tax.

Business and occupational gross receipts taxes were $233.4 million, a 16.1% increase from fiscal year 2011. Fiscal year 2012 included a partial year of a reduction in gross receipts tax rates.

Lottery revenue was $269.0 million, a 6.3% decrease from fiscal year 2011.

Abandoned property revenue was $319.5, a 25.3% decrease from fiscal year 2011. Legislative adjustments that transferred $131.0 million from this revenue category to Special Funds affected this revenue.

Expenditures

Budgetary General Fund expenditures for fiscal year 2012 totaled $3,592.4 million, an increase of 9.8% over fiscal year 2011. The fiscal year 2012 budgetary General Fund operating budget totaled $3,508.6 million, a 6.15% increase over the fiscal year 2011 operating budget. Cash appropriations of $115.3 million included in the capital budget and grants-in-aid appropriations of $41.2 million bring total fiscal year 2012 appropriations to $3,665.1 million. The appropriation package was within the constitutionally-prescribed limit of 98% of estimated revenues.

Balances

The following table outlines revenue, expenditures and remaining cash balances for fiscal year 2012.

Budgetary General Fund Balances - Fiscal Year 2012
(in millions)

Revenue				$3,359.3
Expenditures				
Budget	$3,508.6			
Grants	41.2			
Supplemental	115.3			
Total appropriations		$3,665.1		
Continued and encumbered (prior years)		303.7		
Total spending authorizations			$3,968.8	
Less: Continued and encumbered (present year)			(301.1)	
Less: Reversions			(75.3)	
Total expenditures				$ 3,592.4
Operating balance				(233.1)
Prior year cash balance				797.8
Cumulative cash balance				$ 564.7
Less: Continued and encumbered (present year)				(301.1)
Less: Budget Reserve Account				(186.4)
Unencumbered cash balance				$ 77.2[1]

(1) Totals may not add due to rounding.

FISCAL YEAR ENDING JUNE 30, 2013

Based upon the December 17, 2012 DEFAC revenue forecasts, net budgetary General Fund revenue for fiscal year 2013 is projected to total $3,736.7 million, an 11.2% increase over fiscal year 2012 revenue.

Revenue

Personal income taxes, after refunds, are projected to total $1,107.8 million, a 6.3% increase over fiscal **year** 2012.

Franchise and Limited Partnership/LLC taxes, after refunds, are expected to be $768.8 million, a 0.4% decrease from fiscal year 2012.

Business entity fees are projected to be $88.7 million, a 5.0% increase over the previous fiscal year.

Corporate income taxes, after refunds, are expected to be $221.4 million, an 85.9% increase from fiscal year 2012.

Bank franchise taxes are projected to be $107.7, a 4.3% decrease from fiscal year 2012.

Business and occupational gross receipts taxes are projected to be $227.5 million, a 2.5% decrease from fiscal year 2012.

Lottery revenue is expected to be $237.8 million, an 11.6% decrease from fiscal year 2012.

Abandoned property revenue is projected to total $566.5, a 77.3% increase over fiscal year 2012, but $131.0 million was transferred from this revenue category in fiscal year 2012 to Special Funds.

Appropriations

The fiscal year 2013 budgetary General Fund operating budget totaled $3,586.8 million, an increase of 2.2% over the fiscal year 2012 operating budget. Cash appropriations in the capital budget of $53.4 million and grant in aid appropriations of $44.2 million bring total fiscal year 2012 appropriations to $3,684.4 million. This appropriation package is within the constitutionally-prescribed limit of 98% of revenues.

The fiscal year 2013 capital budget totals $429.4 million. Of that amount, $202.4 million is allocated for general obligation capital projects, $173.5 million is allocated for the capital program of the Department of Transportation funded through the Transportation Trust Fund and general fund cash of $53.4 million has been allocated for "pay as you go" projects.

Balances

The following table outlines estimated revenue, expenditures and remaining cash balances for fiscal year 2013.

Budgetary General Fund Balances - Fiscal Year 2013
(in millions)

Revenue				$3,736.7[1]
Expenditures				
Budget	$3,586.8			
Grants	44.2			
Supplemental	53.4			
Total appropriations		$3,684.4		
Continued and encumbered (prior years)		301.1		
Total spending authorizations			$3,985.5	
Less: Continued and encumbered (present year)			(295.8)	
Less: Reversions			(50.0)	
Total expenditures				$ 3,639.7
Operating balance				97.0
Prior year cash balance				564.7
Cumulative cash balance				$661.7
Less: Continued and encumbered (present year)				(295.8)
Less: Budget Reserve Account				(198.9)
Unencumbered cash balance				$167.0[2]

(1) Revenue estimates per DEFAC's December 17, 2012 forecast.
(2) Totals may not add due to rounding.

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 has resulted 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 December 31, 2012, approximately $357.2 million has been received by the State from participating manufacturers. At December 31, 2012, the balance in the Delaware Health Fund was $3.3 million, a portion of which will be appropriated through the fiscal year 2013 budget process to various health related programs.

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 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.

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 under the Office of Management and Budget ("OMB") 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 OMB and the Delaware State Clearinghouse Committee for Federal Aid Coordination. The Committee is comprised of 10 members, including the Secretary of Finance, Director of OMB, 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 2012, the General Assembly authorized appropriations of $3,684.4 million for fiscal year 2013, 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 $198.9 million have been made which fully funded the Budget Reserve Account for fiscal year 2012. 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. In the beginning of fiscal year 2011, the State fully implemented and upgraded its financial systems to continue to safeguard its assets and properly record its 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.

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 OMB 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

Created by State law, the Cash Management Policy Board (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 investment of such money belonging to the State is executed by the State Treasurer in accordance with and pursuant to the Board's investment policies. 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		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
Michael L. Morton		Controller General
David F. Marvin		Partner, Marvin & Palmer Associates, Inc.
Chipman Flowers, Jr.		State Treasurer
Mike Karia		Chief Executive Officer, MK Consulting I Inc.

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, 2013, Delaware's rates on taxable income range from zero on the first $2,000 of net taxable income, to 6.75% 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 after four years, 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, 2011, tax rates include 0.6537% for contractors (with a monthly deduction from gross receipts of $100,000); 0.4023% for wholesalers (with a monthly deduction of $100,000); 0.1886% for manufacturers (with a monthly deduction of $1,250,000); 0.2013% for food processors (with a monthly deduction of $100,000); 0.1006% 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 $100,000); 0.6537% for restaurants (with a monthly deduction of $100,000); and 0.4023% of aggregate gross receipts on most occupational licenses (with a monthly deduction of $100,000). A use tax on leases of tangible personal property is levied on the lessee at the rate of 2.0114% of lease rentals and on the lessor at the rate of 0.3017% of rental payments received. Lessors are allowed a quarterly deduction of $300,000. Automobile manufacturers pay a 0.1414% tax (with a monthly deduction of $1,250,000).

Public Utility Tax: Gross receipts from the sale of telephone, telegraph, gas, electricity, and cable television services are subject to tax. Receipts from services sold to residential users are excluded, except for receipts from residential cable television services. Generally, public utilities are subject to a tax rate of 4.25%. Several exemptions/reductions apply. Receipts from sales of electricity to manufacturers, and agribusiness/food processors are taxed at 2.00%. 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 location benefit tax liability shall be $1.6 million, plus 0.012% of the value of the assets not in excess of $5 billion; 0.008% of the value of the assets in excess of $5 billion but not in excess of $20 billion; 0.004% of the value of the assets in excess of $20 billion but not in excess of $90 billion.

Additional Sources of Revenue

Lottery

Delaware's lottery is comprised of two separate entities. The traditional lottery consists of daily drawings, lotto, instant tickets, Keno, and multi-state games such as Powerball and Megamillions. Traditional lottery products are sold via a State-operated network of linked lottery terminals located in approximately 600 retail locations throughout the State. Casino operations consist of a video lottery, sportsbooks and table games. The video lottery is a State-operated network of linked video lottery machines restricted to three locations authorized by State law. Delaware shares the regional video lottery market with suburban Philadelphia and Maryland, both of which have added several venues in the past year.

In May 2009, the State was granted the ability to conduct a sports lottery limited to parlay-style betting on National Football League ("NFL") games, which began with the 2009 NFL season.

In January 2010, Delaware passed legislation permitting its racinos to operate table games, such as blackjack, craps and roulette. Table games were operational early in fiscal year 2011 and have enhanced the State's position in an increasingly competitive gaming market, increased employment and added revenue to the State's coffers.

In June of 2012, the Delaware Gaming Competitiveness Act of 2012 (the "Gaming Act") was passed and signed into law. The Act authorized sports wagering to expand outside of the casinos and sports terminals were placed in 31 new and existing lottery retail locations in time for the 2012-2013 professional football season. Sports lottery sales were up 42.5% over the 2011-2012 season. The Gaming Act also authorized Keno, a lotto/bingo type monitor game with drawings every 4 minutes that could be placed in retailer as well as casino locations. On January 22, 2013, Keno launched in 75 new and existing lottery retail locations, including the casinos, and early sales results are encouraging.

DEFAC monitors these developments and updates the State's revenue forecasts as they have unfolded. An aggregate of 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, 29.4% of the net proceeds from table games and 50% of the proceeds from sports lottery.

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, 2008 through 2012. See "STATE FINANCIAL OPERATIONS – Expenditure Summary – Fiscal Year 2010–Fiscal Year 2013E" for a detailed explanation of the expenditure figures.

Budgetary General Fund Disbursements
(in millions)

	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
Salaries	$1,222.9	$1,225.5	$1,154.7	$1,200.1	$1,277.4
Debt Service	151.1	156.4	174.3	169.5	144.3
Contractual Services	296.7	286.8	435.7	434.5	455.1
Fringe Benefits, except Pensions	332.7	332.9	330.9	365.4	379.5
Pensions	218.6	211.1	196.7	222.2	252.9
Welfare and Assistance Grants	591.4	504.7	428.6	466.2	637.3
Other Grants	259.1	265.8	276.6	327.3	364.1
Other	349.2	312.3	79.0	85.5	81.8
Total Disbursements	$3,421.7	$3,295.5	$3,076.5	$3,270.7	$3,592.4

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 year 2011, the State provided 58.6%, the federal government 13.2% and localities 28.2% of the cost for current operations and debt service. For fiscal year 2010, the U.S. Department of Education, National Center for Educational Statistics, Institute for Education Sciences reported that Delaware was exceeded by six other states and Puerto Rico 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 2011-2012 school year, the average State-local funded classroom teacher's salary was $57,292, of which $39,010 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 year 2012 totaled $1,109.7 million. Appropriations of $1,168.7 million have been made for fiscal year 2013.

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

Public School Enrollment[1]

	Enrollment	Change
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
2009	126,271	1.1
2010	127,944	1.3
2011	130,102	1.7
2012	131,029	0.7

(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 56,077 students in the 2011-2012 academic school year based upon Fall 2011 student headcount (44,046 on a full-time equivalent ("FTE") basis). The three State-supported institutions are Delaware Technical and Community College which enrolled 15,055 students (9,200 FTE); Delaware State University, a land grant college located in the City of Dover which enrolled approximately 4,154 students (3,928 FTE); and the University of Delaware, a land grant college located in the City of Newark, which enrolled 21,489 students (19,981 FTE). The five privately supported institutions of higher education in the State enrolled an additional 15,379 students in 2011-2012 (10,937 FTE).

Budgetary General Fund expenditures for higher education in fiscal year 2012 were $212.9 million. The State provides approximately 14% of the operating budget of the University of Delaware, 38% of the budget of Delaware Technical and Community College, and 38% of the budget of Delaware State University. Appropriations of $216.2 million have been made for fiscal year 2013, including $114.3 million for the University of Delaware (this includes $1.7 million in funding for Delaware Geological Survey), $69.1 million for Delaware Technical and Community College and $32.8 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 ("GA") to low-income single individuals who do not qualify for Supplemental Security Income ("SSI") or TANF payments; (3) service programs for qualified individuals including child care, employment & training services; (4) food benefits through the federal Supplemental Nutritional Assistance Program ("SNAP"); and (5) direct medical assistance to qualifying individuals ("Medicaid" & "CHIP").

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%. Each state's FFP is determined annually by a statutory formula designed to account for income variation across states. Delaware's rate has varied from a high of 64.38% (due to a provision of ARRA) to a low of 50% (the lowest rate) during the past five years. The current FFP for Delaware (beginning October 1, 2012) is 55.67%.

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. GA Program grants are entirely funded by the State. This program has experienced consistent growth since 2003. As of August 2012, the maximum benefit is $90 a month.

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.

After a period of gradual decline, the TANF caseload increased 29% between 2009 and 2011. Since 2012, the TANF caseload is again gradually declining. The State provides health care, child care assistance and help finding work for participants in the State's TANF program and provides health care and subsidized childcare to income eligible individuals or those who have left the welfare rolls and continue to be eligible for that coverage. In 2012, an average of 13,969 people per month received TANF cash assistance and 4,369 people per month received GA for 18,338 combined average monthly recipients.

Since fiscal year 2008, welfare caseloads and income maintenance expenditures increased, driven by a dramatic increase in applications for SNAP and medical assistance. While the TANF caseload declined slightly beginning in 2012, the GA caseload continues to increase as well as SNAP, Medicaid, and child care. The following table indicates the trends of selected State social services expenditures for fiscal year 2007 through fiscal year 2012.

Social Services Expenditures
(dollars in millions)

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
TANF						
Number of Recipients/month	11,382	10,307	11,312	13,027	14,537	13,969
Total Expenditures/year	$16.2	$15.3	$16.7	$21.8	$22.4	$20.8
State Share................................	$2.7	$11.1	$16.5	$16.3	$13.9	$19.9
GENERAL ASSISTANCE						
Number of Recipients/month	2,818	3,008	3,352	3,739	3,964	4,369
Total Expenditures/year	$3.9	$4.2	$4.7	$5.2	$4.4	$4.4
State Share................................	$3.9	$4.2	$4.7	$5.2	$4.4	$4.4
SSI						
Number of State Subsidized Recipients/month.....................	804	820	845	830	815	820
State Share................................	$1.1	$1.1	$1.2	$1.1	$1.0	$0.9
FOSTER CARE (DSCYF)						
Number of Children/month	843	857	740	640	627	661
Total Expenditures/year	$19.2	$20.4	$18.2	$16.5	$16.9	$17.3
State Share................................	$16.8	$17.6	$15.9	$13.5	$13.6	$14.7
DAY CARE						
Number of Children/month	15,039	14,009	13,496	13,668	14,459	14,609
Total Expenditures/year	$53.6	$49.0	$44.6	$38.5	$53.2	$61.4
State Share................................	$38.0	$26.0	$10.5	$10.9	$10.9	$24.0
MEDICAID						
Number of Eligibles/month.......	143,386	148,827	160,018	173,771	193,633	207,067
Total Expenditures/year	$990.0	$1,052.0	$1,201.6	$1,315.5	$1,424.0	$1,552.2
State Share................................	$495.0	$519.7	$499.4	$505.3	$550.9	$700.6
COMMUNITY HEALTH						
State Expenditures/year.............	$35.6	$39.8	$41.0	$33.5	$33.8	$33.8

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 25,068 clients in fiscal year 2012, some of these clients were shared by each of the three divisions. The Family Services division spent $40.2 million in fiscal year 2011, $53.3 million in fiscal year 2012 and has budgeted $47.9 million in fiscal year 2013. 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 $36.4 million in fiscal year 2011, $41.2 million in fiscal year 2012, and has budgeted $42.7 million for fiscal year 2013. The Division of Prevention and Behavioral Health Services ("DPBHS") provides mental health services for children and youth. The DPBHS spent $28.3 million in fiscal year 2011, $48.9 million in fiscal year 2012, and has budgeted $48.9 million for fiscal year 2013.

Corrections

The Department of Corrections ("DOC") is the only government operated correction agency in the State. Delaware operates under 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 1 (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 year 2012 were $262.3 million. The budget for fiscal year 2013 is $262.3 million. As of June 30, 2012, the incarcerated population in the custody of the Department is approximately 6,566, of which about 3,835 are prisoners. The jail population of approximately 2,418 is divided between offenders sentenced to less than 1 year of incarceration (1,144) and offenders held pending trial (1,274). Over 16,528 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, 2011.

Real Property Valuations
(in millions)

County	Assessed Valuation(1)	Estimated Full Valuation
New Castle	$ 18,448.5(2)	$70,163.6
Kent	3,507.9(3)	25,339.2
Sussex	2,875.7 (4)	37,579.8
Total	$24,832.1	$133,082.6

(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. As of December 31, 2012, the Unemployment Compensation Fund reflected a cumulative advance of $76,412,258.04.

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 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
Health & Social Services	61.6%	59.6%	61.0%	57.2%	60.1%	59.6%
Transportation	9.0%	12.3%	13.9%	13.0%	10.9%	12.0%
Public Education	12.0%	11.1%	10.3%	13.1%	13.2%	13.8%
Housing Authority	4.1%	3.9%	3.2%	3.9%	1.0%	0.6%
Labor	3.1%	2.8%	2.6%	2.3%	2.4%	2.5%
Higher Education	2.5%	2.6%	2.5%	3.1%	4.3%	4.1%
Natural Resources	2.9%	2.6%	2.3%	2.3%	3.0%	2.6%
Other	4.8%	5.1%	4.2%	5.1%	5.1%	4.8%
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

All pension-eligible 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 the Code, the annual limit on a participant's pre-tax contributions increased to $17,500 for calendar year 2013. Additional catch-up contributions are permitted for participants age 50 and older, who may contribute an additional $5,500 in calendar year 2013. An alternative to the age 50 catch-up provision is available for certain participants within three years of retirement, which serves to double the annual contribution limit to $35,000.

Employees make self-directed investment elections from a broad menu of investment options made available through the plan vendor, which range from ultra conservative to very aggressive. The total market value of plan assets as of December 31, 2012 was $419.7 million (unaudited).

The State also provides a $10 per-pay employer match to contributions by 457(b) deferred compensation plan participants, which began on January 1, 2001. The match plan is approved under Section 401(a) of the Code. However, the match plan was suspended by the General Assembly for fiscal years 2009 through 2012, and will remain suspended for fiscal year 2013.

Certain State employees working in the Department of Education, or for any school district or state-funded college or university, are eligible to participate in the State of Delaware 403(b) retirement plan, which is a tax-sheltered annuity (the "TSA Plan"). The TSA Plan is a qualified plan under Section 403(b) of the Code.

In accordance with the Code, the annual limit on a participant's pre-tax contributions increased to $17,500 for calendar year 2013. Additional catch-up contributions are permitted for participants age 50 and older, who may contribute an additional $5,500 in calendar year 2013. The 403(b) limits apply only to TSA Plan contributions; pension-eligible 403(b) participants are also eligible to participate in the 457(b) Plan. No alternative catch-up provision applies to the TSA Plan. No employer match program is established for the TSA Plan.

Employees make self-directed investment elections from a broad menu of investment options, including annuities and fund investments ranging from ultra conservative to very aggressive, made available through 13 plan vendors. The total market value of plan assets as of December 31, 2012 was $209.7 million (unaudited).

STATE PENSION PLAN

The State of Delaware Employees' Pension Plan (the "State Employees' Plan") is a cost-sharing single employer defined benefit plan that covers State employees and all local school district and other affiliated employees who qualify as full-time and regular part-time employees. As of June 30, 2012, participation in the State Employees' Plan, as well as the following state funded plans (collectively the "Plans") are as follows:

Plan	Retirees beneficiaries currently receiving benefits	Terminated Employees entitled to benefits but not receiving them yet	Active Participants	Total Membership
State Employees' Plan	22,811	2,796	35,427	61,034
New State Police Plan	159	11	671	841
Judiciary Plan	42	--	55	97
Closed State Police Plan	536	--	1	537
Special Plan	11	--	--	11
Total Membership:	23,559	2,807	36,154	62,520

The State Employees' Plan and the other plans managed by the State's Board of Pension Trustees (the "Pension Board") and funded by the State are referred to herein as the "Plans". The Plans, together with certain other plans which are managed by the Pension Board, but not funded by the State, are referred to herein as the "Fund".

The Pension Board is composed of five members from the private sector appointed by the Governor and confirmed by the Senate, and the Secretary of Finance and the Director of OMB serving as ex-officio members. The current members of the Pension Board are:

Suzanne B. Grant, Chair	Former Senior Vice President, Salomon Smith Barney, Consulting Group
Arturo F. Agra.........................	Vice President of Strategic Planning, Pepco Holdings Inc.
Thomas S. Shaw......................	Former Executive Vice President and Chief Operating Officer, PHI
Nancy J. Shevock....................	Former Director, Delaware Transit Corp.
Helen R. Foster, J.D................	President, CTW Consulting Associates
Thomas J. Cook	Secretary of Finance
Ann S. Visalli..........................	Director, Office of Management & Budget

Legislative authority for the Fund is contained in 29 Del. Code § 5541 which establishes a State Employees' Retirement Fund, mandates that state appropriations and other employer contributions, and employee contributions be deposited and benefits paid. The statute dictates that the assets of the Fund are to be held in trust and not be used for or diverted to any purpose other than for the exclusive benefit of the employees and their beneficiaries. Section 5541 allows the accumulated assets of the Fund to be commingled with the assets of local and other government entities.

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 year 2012 was 2.0% on a market value basis compared to 5.4% for the Standard & Poor's 500. However, due to the Fund's asset-smoothing technique which recognizes only a portion of the gains and losses, the return on the actuarial asset value was 6.2%.

The Fund provides retirement, disability and survivor benefits as detailed in Note 15 of the Comprehensive Annual Financial Report attached as Appendix B. In May 2011, the Delaware Code was amended in order to reduce benefits for and increase the contribution of all State employees hired on and after January 1, 2012 ("Post 2011 Employees"). In general, recipients, other than Post 2011 Employees, in the State Employees' Plan 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 credit service; (2) age 60 with 15 years of credit 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. Employees hired before January 1, 2012 are "fully vested" in benefits after 5 years of service, and Post 2011 Employees are "fully vested" in benefits after 10 years of service. Post 2011 Employees are entitled to receive a service pension if: (1) the employee has 10 years of credited service, and has attained age 65; (2) the employee has 20 years of credited service, and has attained age 60; or (3) the employee has 30 years of credited service. A Post 2011 Employee can receive a reduced service pension if: (1) the employee has 15 years of credited service, and has attained age 55, or (2) the employee has 25 years credited service regardless of age. All Plan participants also participate in the Old Age Disability Security Income component of the Federal Social Security System.

For members of the State Employees Plan, benefit payments are computed using the average monthly compensation for the 36 months of highest monthly compensation. Such compensation excludes overtime in the cast of Post 2011 Employees. The 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.

Post 2011 Employees will contribute 5% of annual compensation above $6,000. All other State employees contribute 3% of annual compensation above $6,000.

Except for the Closed State Police Plan, the State's annual contribution to the Plans are equal to the sum of the normal cost of each year and the annual payment required to amortize the unfunded accrued liability using an amortization period of 20 years. The State's contribution must also include an amount to fund post retirement pension increases in accordance with a formula contained in the code. The Closed State Police Plan is funded on a pay-as you-go basis; all other Plans are funded on an actuarially sound basis, as determined by the Pension Board, on the basis of actuarial analyses undertaken by Cheiron, Inc. ("Cheiron") annually. The most recent valuation, as of June 30, 2012, determined the State Employees' Plan to have a funded ratio of 91.5% based on the actuarial value of the assets. Each year the Pension Board certifies the required State contribution rate as a percentage of covered payroll, based on the results of the actuarial valuations of the Plans. The State Employees' Plan has an unfunded accrued liability of $679.4 million as of June 30, 2012. A Schedule of Funding Progress for the State Employees' Plans is shown below. See Schedule 1 – Schedule of Funding Progress in the Financial Section of the Delaware Public Employees' Retirement System Comprehensive Annual Financial Report for fiscal year 2012 for the funding progress of the New State Police Plan, the Judiciary Plan, the Closed State Police Plan and the Special Plan.

HISTORICAL FUNDING PROGRESS
ACTUARIAL VALUE
STATE EMPLOYEES' PLAN

Fiscal Year Ended June 30	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) – (1)	(4) Funded Ratios (1)/(2)	(5) Annualized Covered Payroll	(6) UAAL as a % of Covered Payroll (3)/(5)
2012	$ 7,270,430	$ 7,949,855	$ 679,425	91.5%	$ 1,881,097	36.1%
2011	7,091,821	7,547,951	456,130	94.0%	1,783,603	25.6%
2010	6,808,957	7,096,326	287,369	96.0%	1,740,622	16.5%
2009	6,744,050	6,827,006	82,956	98.8%	1,753,129	4.7%
2008	6.751,949	6,549,856	(202,093)	103.1%	1,711,473	(11.8%)
2007	6,437,916	6,208,025	(229,891)	103.7%	1,654,609	(13.9%)
2006	5,998,746	5,901,072	(97,674)	101.7%	1,589,185	(6.1%)
2005	5,660,057	5,572,719	(87,338)	101.6%	1,471,931	(5.9%)
2004	5,387,560	5,229,927	(157,633)	103.0%	1,399,279	(11.3%)
2003	5,125,442	4,794,944	(330,498)	106.9%	1,355,800	(24.4%)

Summary of Pension Contribution Funding Policy

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 Pension Board. The State has appropriated the amount based on the percentage of covered payroll which is determined by the Pension Board based on the actuarial report. The following table sets forth the annual required contribution of the State Employees' Plan as well as the percentage contributed.

Fiscal Year Ended	Annual Required Contribution (000)[1]	Percentage Contributed	General Fund Expenditures (000,000)	% of Total Gen. Fund Expenditures	% of Covered Payroll
2012	$147,464	100.0%	$3,592.4	4.1%	8.4%
2011	128,019	100.0%	3,270.8	3.6%	7.4%
2010	101,457	100.0%	3,076.5	3.3%	6.0%
2009	96,576	100.0%	3,295.5	2.9%	5.7%
2008	101,660	100.0%	3,421.6	3.0%	6.1%
2007	97,000	100.0%	3,389.5	2.9%	5.9%

(1) Does not include contributions to the Post-Retirement Increase Fund

The following table sets forth the actual cash inflows, including investment earnings, and cash outflows for the State Employees' Plan for the last five years. For detailed cash flows for the New State Police Plan, the Judiciary Plan, the Closed State Police Plan and the Special Plan, see the Schedule of Additions by Source and the Schedule of Deductions by Type in the Statistical Section of the Delaware Public Employees' Retirement System Comprehensive Annual Financial Report for fiscal year 2012.

State Employees' Pension Plan
(in millions)

	Fiscal 2008	**Fiscal 2009**	**Fiscal 2010**	**Fiscal 2011**	**Fiscal 2012**
Income					
Employee Contributions	$ 45.7	$ 45.9	$ 44.9	$ 46.4	$ 47.9
State Contributions[1] (budgetary General Fund and budgetary Special Funds)...........	148.5	135.4	127.6	141.6	155.6
Investment Income........................	(110.5)	(1,048.3)	756.6	1,391.2	112.7
Total Income	$83.7	$(867.0)	$929.1	$1,579.2	$316.2
Disbursements					
Pension Benefits Paid	$348.1	$369.2	$399.2	$418.5	$443.9
Refunds	3.0	3.1	3.1	3.0	4.0
Other Disbursements.....................	10.3	11.1	10.2	9.9	10.4
Total Disbursements	$361.4	$383.4	$412.5	$431.4	$458.3
Excess of Income over Disbursements............................	($277.7)	($1,250.4)	$516.6	$1,147.8	($142.1)
Total Plan Assets...........................	$6,642.9	$5,396.5	$5,909.1	$7,056.9	$6,914.8

(1) Includes contributions to a Post-Retirement Increase Fund.

General Funding Practices

Since 1993, the Pension Board has commissioned actuarial studies annually. Cheiron has served as the independent actuary since 2006 and uses the assumptions described in the following table for the State Employees Plan:

Actuarial Cost Method	Entry Age Normal
Amortization method	Level Percent closed for Plan Bases and Open for Aggregate Gain/Loss
Amortization period	20 years
Asset Valuation Method	5-Year smoothed market
Actuarial Assumption:	
Investment Rate of Return	7.5%*
Salary Increases attributable to inflation	3.25%
Salary Increases attributable to merit and productivity	3.8% to 11.8%

*Prior to fiscal year 2011, the assumed Investment Rate of Return was 8%.

The actuarial assumptions used have been recommended by Cheiron and adopted by the Pension Board based on the Fund's recent experience.

For the State Employees' Plan, the information in the following table provides a comparison of the actuarial value of assets to the market values, the ratio of the AVA to market value, and the funded ratio based on AVA compared to funded ratio based on the market value of assets.

Fiscal Year Ended June 30	Actuarial Value of Assets (000)	Market Value of Assets (000)	% of AVA to market value	Funded Ratio (actuarial value)	Funded Ratio (market value)
2012	$ 7,270,430	$ 6,914,826	95.1%	91.5%	87.0%
2011	7,091,821	7,056,916	99.5%	94.0%	93.5%
2010	6,808,957	5,909,160	86.8%	96.0%	83.3%
2009	6,744,050	5,392,660	80.0%	98.8%	79.0%
2008	6,643,048	6,751,949	101.6%	103.1%	103.1%
2007	6,920,608	6,437,916	93.0%	103.7%	103.7%

Pension Plan Investment Policy and Practices

The Investment Committee of the Pension Board seeks the following investment objectives established by the Pension Board:

- Achieve a real return of 3% per year over long periods,
- Manage portfolio risk that limits downside price fluctuation,
- Maximize total investment returns, consistent with Pension Board objectives.

While not governed by a mandated target asset allocation, investment decisions are shaped by the Pension Board's internal investment guidelines which provide for a minimum of 20% of the total assets of the Fund be invested in fixed income investments, such as bonds, cash equivalents and certain real estate investments. This guideline is monitored with the assistance of an independent investment advisor. The committee strives for appropriate investment diversification by allocating funds across a variety of asset classes and by selecting managers whose demonstrated performance reflects different management styles and asset class expertise. The performance of all investment managers is closely monitored, not only in relation to specific absolute objectives, but also in relation to other fund managers following the same or similar investment objectives.

Litigation, Investigations and Labor Relations

There has been no material litigation brought or any investigation initiated in connection with the pension plan or members of its governing body. Audits of the pension plan's financial statements have been conducted annually by an independent auditor and that auditor has expressed an unqualified opinion.

Transfers of Investment Earnings

Earnings generated over and above the investment rate of return are retained as part of the plan assets.

Pension Plan Reserves

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 Plan beginning in fiscal 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate Post-Retirement Increase Fund ("PRI") managed by the Pension Board. The actuary uses the current actuarial assumptions, methods and population data to calculate the estimated additional liability resulting from the potential benefit increases. 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, 2012, $8,371.0 million was transferred to the appropriate plan.

No post-retirement increase was granted by the General Assembly in fiscal years 2008, 2009 and 2010. As of June 30, 2012, previously granted post-retirement increases have outstanding liabilities totaling $132.7 million, which will be funded by the State and transferred to the appropriate plans over the remaining fiscal year.

The Pension Board adopts actuarially determined funding for the Post-Retirement Increase Fund. Funding for fiscal year 2012 was 0.5% of covered payroll. Funding for fiscal year 2013 will be 1.49%.

Pension Obligation Bonds

No pension obligation bonds have been issued and the State does not anticipate issuing any Pension Obligation Bonds in the future.

Other Relevant Reports

The Delaware Public Employees' Retirement System, a component unit of the State, annually issues a comprehensive annual financial report. This report, along with the Cheiron's actuarial valuation, can be found on the state's website at http://www.delawarepensions.com/financials.shtml. The information included in this section relies on information produced by the State together with Cheiron, its independent actuary. Actuarial assessments are "forward-looking" and reflect the judgment of the fiduciaries of the Plans. Such assessments are based upon a variety of assumptions, one or more of which may provide to be inaccurate or be changed in the future, and will change with the future experience of the Plans.

OTHER POST EMPLOYMENT BENEFITS

The State provides post-employment health care to its employees and, in fiscal year 2008, began accounting for these benefits according to 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, 2012, has been determined to be about $5.8 billion using a discount rate of 4.25%.

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 year 2007, the amount contributed as a percentage of payroll was approximately $5 million and increased to approximately $10 million in fiscal years 2008 and 2009. In both fiscal years 2010 and 2011, the State contributed $10 million from abandoned property revenue and, in 2011, an additional $9.7 million was contributed by the State primarily from Medicare Part D subsidies received. The fiscal year 2012 contribution, based on a 0.9% of payroll, was $16.8 million.

The State has established an irrevocable trust and, at December 31, 2012, has accumulated $174 million in assets at market value. Based on the actuarial value of assets, or $163 million, the funding ratio is 2.8%. At a 4.25% discount rate, the State's fiscal year 2013 annual required contribution ("ARC") is $397.8 million, which is expected to be only partially met with cash contributions and paid benefits. Paid benefits are estimated to be in the amount of $180.6 million.

On May 2, 2011, the Governor signed House Bill 81, which made significant modifications to employee's health care insurance and pension plan programs. The legislation establishes a fixed cost share in the State's health insurance programs for both active employees and retirees and increases the time to vest for retiree health care benefits. Further reducing this liability was the State's participation, effective January 1, 2013, in an Employee Group Waiver Plan, or EGWP, which shifts the cost of retiree pharmacy benefits to the Centers for Medicare and Medicaid Services.

EMPLOYEE RELATIONS

The State currently has 31,347.4 full-time equivalent ("FTE") positions budgeted for fiscal year 2013, an increase of 159.8 FTEs from fiscal year 2012. This includes 13,873.7 FTEs in the public schools, 1,090.0 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 16,383.7 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 OMB 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 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	Chipman Flowers, Jr.
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	Mark T. Murphy
Finance	Thomas J. Cook
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	Shailen Bhatt

* Appointed for judicial positions on 1/22/2013.

LITIGATION

The State recognized $3.1 million in governmental activities as probable litigation expenses as of June 30, 2012. Additionally, 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 $9.3 million, as of January 8, 2013.

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 interest rate, and will be deposited with DTC.

DTC, the world's largest securities 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 is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 rating of: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI 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

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 2013 Bonds. These provisions include, but are not limited to, requirements relating to the use and investment of the proceeds of the 2013 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 2013 Bonds in order for interest thereon to be and remain excludable from gross income for purposes of federal income taxation. The State has made covenants to comply with such requirements.

In the opinion of Bond Counsel, interest (including accrued original issue discount) on the 2013 Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion of Bond Counsel is subject to the condition that the State comply with all applicable federal income tax law requirements that must be satisfied subsequent to the issuance of the 2013 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 2013 Bonds to be so includable in gross income retroactive to the date of issuance of the 2013 Bonds. The State has covenanted to comply with all such requirements. Interest on the 2013 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 2013 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 2013 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 2013 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 2013 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 2013 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 2013 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 2013 Bonds, denies the interest deduction for indebtedness incurred or continued to purchase or carry tax-exempt obligations, such as the 2013 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 2013 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 2013A Bonds maturing on August 1, 2024 and bearing interest at 2.000% are herein referred to as the "Discount Bonds." In the opinion of Bond Counsel, the difference between the initial public offering price of the Discount Bonds set forth on the cover page and the stated redemption price at maturity of each such 2013 Bonds 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.

All of the 2013A Bonds (other than the 2013A Bonds maturing on August 1, 2024 and bearing interest at 2.000%) and all of the 2013B Bonds (other than the 2013B Bonds maturing on February 1, 2030) 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.

Delaware State Tax Opinion

In the opinion of Bond Counsel under existing statutes interest on the 2013 Bonds is exempt from personal and corporate income tax imposed by the State.

CHANGES IN FEDERAL TAX LAW

From time to time, there are presidential proposals, proposals by various federal committees and legislative proposals in Congress that, if enacted, could alter or amend the tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposals may be enacted or whether if enacted such proposals would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

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, 2012, 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 2013A Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith, Incorporated, as representative of a group of underwriters (the "2013A Underwriters"). The 2013A Underwriters have agreed to purchase said 2013A Bonds at a purchase price of $132,177,977.06 (which is equal to the aggregate principal amount of $111,330,000.00 plus net original issue premium of $21,168,068.50 less underwriters' discount of $320,091.44). The 2013A 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.

The 2013B Bonds are being purchased by J.P. Morgan Securities LLC, as representative of a group of underwriters (the "2013B Underwriters," and together with the 2013A Underwriters, the "Underwriters"). The 2013B Underwriters have agreed to purchase said 2013B Bonds at a purchase price of $247,669,127.07 (which is equal to the aggregate principal amount of $225,000,000.00 plus original issue premium of $23,467,332.80 less underwriters' discount of $798,205.73). The 2013B Underwriters' obligation to make such purchase is subject to the approval of certain legal matters by Bond Counsel and certain other conditions.

The Underwriters reserve the right to change the initial prices of the Bonds in connection with the marketing of the Bonds and may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the initial public offering price or prices set forth in the Official Statement.

Raymond James Financial, Inc. ("Raymond James Financial"), which is the parent company of Raymond James & Associates, Inc. ("Raymond James"), acquired during 2012 all of the stock of Morgan Keegan & Company, Inc. ("Morgan Keegan"). Morgan Keegan and Raymond James are each registered broker-dealers. Both Morgan Keegan and Raymond James are wholly owned subsidiaries of Raymond James Financial and, as such, are affiliated broker-dealers that operate under the common control of Raymond James Financial and utilize the trade name Raymond James | Morgan Keegan. It is anticipated that the Public Finance businesses of Raymond James and Morgan Keegan will be combined in the near future. Raymond James has entered into a distribution agreement with Morgan Keegan for the distribution of the 2013A Bonds at the original issue prices. Such arrangement generally provides that Raymond James will share a portion of its underwriting compensation or selling concession with Morgan Keegan.

Loop Capital Markets LLC, one of the underwriters of the 2013A 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, Loop Capital Markets LLC will share a portion of its underwriting compensation with respect to the Bonds with UBS Financial Services Inc.

TD Securities (USA) LLC, one of the underwriters for the 2013A Bonds, has entered into a negotiated dealer agreement (the "TD Dealer Agreement") with TD Ameritrade for the retail distribution of certain securities offerings, including the 2013A Bonds, at the original issue prices. Pursuant to the TD Dealer Agreement, TD Ameritrade will purchase 2013A Bonds from TD Securities (USA) LLC at the original issue prices less a negotiated portion of the selling concession applicable to any 2013A Bonds that TD Ameritrade sells.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates may have, from time to time, performed and may in the future perform, various investment banking services for the State, for which they may have received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the State. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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 2013 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

General. The State has covenanted for the benefit of the Holders of the Bonds in a Continuing Disclosure Agreement dated November 15, 2011, which is being supplemented and amended to make it applicable to the 2013 Bonds (as so supplemented and amended, the "Disclosure Agreement") to (a) provide notices of the occurrence of certain enumerated events; and (b) provide certain financial information and operating data relating to the State not later than the first day of the eleventh calendar month immediately following the end of the State's fiscal year (the "Annual Report"). The Annual Report and the notices of significant events, both summarized below, will be filed by the State with the Electronic Municipal Market Access System ("EMMA") maintained by the Municipal Securities Rulemaking Board. The specific nature of the information to be contained in the Annual Report or the notices of significant events is summarized below. These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12, as amended (the "Rule").

Annual Reports. The State's Annual Report filed with EMMA shall contain or incorporate by reference the information with respect to the relevant fiscal year as set forth in Exhibit "A" to the Continuing Disclosure Agreement attached hereto as Appendix C.

Notices of Significant Events. Upon the occurrence of any of the following notice events, the State shall in a timely manner not in excess of ten (10) business days after the occurrence of any of the following events, file with EMMA notice of such occurrence: (1) principal and interest payment delinquencies; (2) non payment-related defaults, if material; (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 status of the Bonds; (7) modifications to rights of Holder, if material; (8) bond calls (other than mandatory sinking fund redemptions), if material, and tender offers; (9) defeasances of Bonds; (10) release, substitution, or sale of property securing repayment of any Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the State; (13) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; or (15) failure to provide annual financial information as required.

Accounting Standards. The financial statements described above shall be audited in accordance with generally accepted accounting principles applicable in the preparation of financial statements of the State 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 shall also comply with applicable federal and state auditing statutes, regulations, standards and/or guidelines. 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. Audited financial statements of the State not submitted as part of the Annual Report shall be provided to EMMA 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 above.

Termination of Reporting Obligation. The State's obligations under the 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 under the Disclosure Agreement and under the Bonds.

Amendments. Notwithstanding any other provision of the Disclosure Agreement, the State may modify or amend the Disclosure Agreement. Under the current SEC interpretation of the Rule, the following preconditions must be satisfied: (a) the 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; (b) the 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 (c) the amendment does not materially adversely effect the interests of Holder as determined either by a party unaffiliated with the State (such as the Paying Agent or nationally recognized bond counsel) or by an approving vote of a majority of Holders.

To the extent required by the Rule, the State shall disclose in the next Annual Report the amendment and its impact on the information being provided.

Defaults. In the event of a failure of the State to comply with any provision of the Disclosure Agreement, the 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 the Disclosure Agreement. A default under the Disclosure Agreement shall not be deemed an Event of Default under the Resolutions or the Bonds, and the sole remedy under the Disclosure Agreement in the event of any failure of the State to comply with the Disclosure Agreement shall be an action to compel performance, provided, however, that nothing in the Disclosure Agreement shall limit any Holder's rights under applicable federal securities law.

Due to an oversight, the State was not in compliance with its obligations under a continuing disclosure agreement to which it is a party to make certain filings with respect to its fiscal year ended June 30, 2011. However, as of the date of this Official Statement, the State has supplied the corrected information to EMMA and is now in compliance with the Disclosure Agreement. Otherwise, the State has complied with all of its obligations under the continuing disclosure agreements to which it is a party in each of the past five years.

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,
Secretary of Finance

JEFFREY W. BULLOCK,
Secretary of State

CHIPMAN FLOWERS, JR.,
State Treasurer

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APPENDIX A

SUMMARY OF CASH BASIS FINANCIAL STATEMENTS
For Fiscal Years 2008 Through 2012

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

	Fiscal Years Ended June 30				
	2008[1]	**2009[1]**	**2010[1]**	**2011[1]**	**2012[1]**
Receipts					
Tax Revenue					
Personal Income	$1,198,756	$1,105,248	$1,061,486	$1,175,933	$1,231,722
Franchise	566,308	574,213	633,108	614,486	611,812
Corporation Income	227,791	162,134	125,575	221,181	149,012
Gross Receipts	162,117	164,079	194,594	201,104	233,358
Public Utility	48,106	55,857	56,694	57,174	45,351
Cigarette	125,338	125,681	132,278	129,105	120,848
Pari-Mutual	143	121	116	110	96
Inheritance and Estate	334	78	293	16,165	12,001
Realty Transfer	75,967	44,586	46,875	44,054	31,598
Alcoholic Beverage	14,736	15,519	16,446	16,883	17,654
Insurance Taxes	80,828	77,271	51,838	62,881	63,398
Bank Franchise	129,704	81,783	54,005	119,739	112,541
All Other	493,910	539,152	648,803	595,046	495,753
Total Taxes	3,124,038	2,945,722	3,022,111	3,253,861	3,125,144
Revenue Refunds	291,777	298,220	296,348	291,815	264,557
Net Taxes	2,832,261	2,647,502	2,725,763	2,962,046	2,860,587
Other Revenue					
Fees	107,690	90,494	114,091	124,567	126,699
Interest Earnings	32,948	8,892	10,900	8,867	10,648
Sales[2]	323,847	325,053	350,483	357,561	334,320
Grants, Donations & Special Income	0	0	0	91	-
Licenses	11,666	15,832	11,775	17,447	12,272
Other Revenue	6,188	3,332	8,916	4,186	5,832
Non-revenue and Transfers	42,141	56,922	13,214	56,652	8,937
Total Other Revenue	524,480	500,525	509,379	569,371	498,708
Total Receipts	**$3,356,741**	**$3,148,027**	**$3,235,142**	**$3,531,417**	**$3,359,295**
Disbursements					
Legislative	$ 14,015	$ 12,886	$ 11,768	$ 12,047	$ 13,149
Judicial	92,279	88,921	86,357	90,445	95,256
Executive	161,064	150,286	89,887	124,161	144,678
Technology and Information	36,926	37,066	32,258	36,292	35,462
Other Elective Offices	79,380	54,367	54,173	190,261	168,666
Legal	44,759	43,770	41,289	44,051	49,638
Dept. of State	31,890	38,060	27,396	26,653	28,037
Dept. of Finance	33,382	26,597	24,332	21,092	18,939
Dept. of Administrative Services	-	-	-	-	-
Dept. of Health & Social Services	918,685	832,935	821,414	834,901	1,055,134
Dept. of Children, Youth & Their Families	135,344	127,140	118,206	120,678	134,493
Dept. of Correction	263,196	256,627	237,987	245,402	262,307
Dept. of Natural Resources & Env. Control	66,750	56,900	44,137	42,585	41,766
Dept. of Safety & Homeland Security	126,543	124,196	117,906	126,594	137,524
Dept. of Transportation	3	-	-	14,000	-
Dept. of Labor	8,110	7,360	6,178	6,522	7,239
Other	23,652	22,923	18,951	23,370	21,629
Total Departments	2,035,978	1,880,034	1,732,239	1,959,054	2,213,917
Higher Education	253,029	252,403	227,323	220,023	222,656
Public Education	1,132,639	1,163,102	1,116,947	1,091,673	1,155,825
Total Education	1,385,668	1,415,505	1,344,270	1,311,696	1,378,481
Total Disbursements	**$3,421,646**	**$3,295,539**	**$3,076,509**	**$3,270,750**	**$3,592,398**
Receipts Over (Under) Disbursements	(64,905)	(147,512)	158,633	260,667	(233,103)
Cash Balance-Beginning of Period	590,888	525,983	378,471	537,104	797,771
General Fund Advances to Other Funds	-	-	-	-	-
Cash Balance	**$ 525,983**	**$ 378,471**	**$ 537,104**	**$ 797,771**	**$ 564,668**

(1) Unaudited. The State has audited GAAP financial statements for the fiscal years ending June 30, 2008 through June 30, 2012.
(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				
	2008[1]	2009[1]	2010[1]	2011[1]	2012[1]
Receipts					
Taxes					
Insurance	$ 30,494	$ 26,209	$ 24,321	$ 31,223	$ 21,857
Local School Property	416,881	427,014	435,961	402,552	474,829
All Other	372,447	425,131	356,336	341,242	382,675
Total Taxes	819,822	878,354	816,618	775,017	897,361
Other Revenue					
Federal Grants and Reimbursements	1,291,847	1,521,071	1,884,666	1,478,960	1,836,862
Pension Fund Receipts	181,024	176,382	180,576	209,888	238,767
Interest Earnings	51,361	25,328	16,661	11,178	21,104
All Other	965,447	981,174	983,269	857,267	390,504
Total Other Revenue	2,489,679	2,703,955	3,065,172	2,557,293	2,487,237
Non-Revenue and Transfer					
Sale of Bonds	210,666	252,202	211,693	269,862	257,391
Receipts from Pension Fund	535,836	558,052	575,419	497,978	477,541
All Other	857,656	860,229	873,255	329,243	1,046,607
Total Non-Revenue and Transfer	1,604,158	1,670,483	1,660,367	1,097,083	1,781,539
Total Receipts	4,913,659	5,252,792	5,542,157	4,429,393	5,148,137
Total Disbursements	4,923,979	5,164,419	5,643,645	4,347,718	5,085,043
Receipts Over (Under) Disbursements	(10,320)	88,373	(101,488)	81,675	63,094
Operating Cash Balance-Beginning of Period	1,298,653	1,291,554	1,379,132	1,277,667	1,398,763
Operating Cash Balance-End of Period	**$1,288,333**	**$1,379,927**	**$1,277,644**	**$1,359,342**	**$1,461,857**
Other Cash					
Payables[2]	3,221	(795)	23	39,421	65,135
Cash Balance	**$1,291,554**	**$1,379,132**	**$1,277,667**	**$1,398,763**	**$ 1,526,992**

(1) Unaudited. The State has audited GAAP financial statements for the fiscal years ending June 30, 2008 through June 30, 2012.
(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				
	2008[(1)]	2009[(1)]	2010[(1)]	2011[(1)]	2012[(1)]
Receipts					
Net Taxes	$ 3,637,083	$ 3,525,849	$ 3,546,383	$ 3,737,064	$ 4,004,507
Interest Earnings	84,309	34,220	27,561	20,053	31,752
Grants, Donations and Special Income	1,241,077	1,451,838	1,800,487	1,433,101	1,791,868
Licenses	16,485	23,523	18,268	29,987	18,933
Fees	260,996	233,779	274,355	537,145	606,463
Sales	413,913	417,857	448,708	449,671	430,130
Other Revenue	1,121,125	1,144,708	1,166,632	563,521	599,758
Total Revenue	6,774,988	6,831,774	7,282,394	6,806,542	7,483,411
Non-Revenue and Transfers	1,495,415	1,569,041	1,494,905	1,154,269	1,288,578
Total Receipts	8,270,403	8,400,815	8,777,299	7,960,811	8,771,989
Total Disbursements	8,345,624	8,459,958	8,720,154	7,618,468	8,941,998
Receipts Over (Under) Disbursements	(75,221)	(59,143)	57,145	342,343	(170,009)
Cash Balance-Beginning of Period	1,889,541	1,817,541	1,757,603	1,814,771	2,196,534
General Fund Advances to Other Funds	-	-	-	-	-
Operating Cash Balance-End of Period	**$1,814,320**	**$1,758,398**	**$1,814,748**	**$2,157,114**	**$2,026,525**
Other Cash Payables[(2)]	3,221	(795)	23	39,421	65,135
Cash Balance	**$1,889,541**	**$1,757,603**	**$1,814,771**	**$2,196,535**	**$2,091,660**

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(1) Unaudited. The State has audited GAAP financial statements for the fiscal years ending June 30, 2008 through June 30, 2012.
(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.

APPENDIX B

BASIC FINANCIAL STATEMENTS
For The Year Ended June 30, 2012

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STATE OF DELAWARE
Basic Financial Statements
June 30, 2012
(With Independent Auditor's Report Thereon)

STATE OF DELAWARE

Table of Contents

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditor's 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 (the State), as of and for the year ended June 30, 2012, 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 entities within the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously 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, 2012, 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.

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplementary information as listed in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

January 18, 2013

STATE OF DELAWARE
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, 2012. 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 $5,022.1 million (net assets). Component units reported net assets of $828.8 million, an increase of $40.1 million from the previous year.

- As a result of its operations, the primary government's total net assets decreased by $356.6 million (6.6%) in fiscal year 2012 when compared to the previous year's ending net assets. Net assets of governmental activities decreased by $391.1 million (16.5%) from the previous year, while net assets of the business-type activities increased $34.6 million (1.2%) from the previous year.

- The State's governmental funds reported combined ending fund balances of $1,829.3 million, an increase of $37.0 million (2.1%) in comparison with the prior year.

- The general fund reported unassigned fund balance of $964.0 million which was 22.6% of total general fund expenditures.

- The State's total general obligation debt increased $83.9 million (5.2%) during fiscal year 2012 to $1,696.5 million. Of the State's outstanding debt, $545.0 million (32.1%) has been issued on behalf of local school districts, which is 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 22 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 19 - 20 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's governmental funds include the general, federal, local school district, and capital projects funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance (deficit) for these funds.

The basic governmental funds financial statements can be found on pages 21 - 24 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 116 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 basic proprietary fund financial statements can be found on pages 25 - 27 of this report.

- *Fiduciary Funds* The State acts as a fiduciary 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 of Delaware's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. These funds are used where the State holds assets in trust or as an agent for others, including the pension trust funds and agency funds.

The basic fiduciary fund financial statements can be found beginning on pages 28 – 29 of this report. The combining fiduciary and agency fund statements can be found on pages 126 - 134.

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 32 - 112 of this report.

Required Supplementary 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 114 - 123 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 its liabilities by $5,022.1 million at the close of the most recent fiscal year.

The largest portion of the State's net assets (95.7%) 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 14.2% 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 of the State's net assets represents the unrestricted net assets (9.9%).

Condensed Financial Information - Primary Government
As of June 30, 2012
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Non-Current Assets	$ 2,930,951	$ 2,964,936	$ 542,418	$ 644,226	$ 3,473,369	$ 3,609,162
Capital Assets	3,630,903	3,528,015	4,034,852	3,943,634	7,665,755	7,471,649
Total Assets	6,561,854	6,492,951	4,577,270	4,587,860	11,139,124	11,080,811
Long-Term Liabilities Outstanding	3,734,563	3,274,314	1,232,755	1,296,406	4,967,318	4,570,720
Other Liabilities	845,643	845,853	304,045	285,553	1,149,688	1,131,406
Total Liabilities	4,580,206	4,120,167	1,536,800	1,581,959	6,117,006	5,702,126
Net Assets:						
Invested in Capital Assets, Net of Related Debt	1,851,218	1,831,490	2,956,316	2,840,595	4,807,534	4,672,085
Restricted	519,836	186,430	169,954	173,445	689,790	359,875
Unrestricted	(389,406)	354,864	(85,800)	(8,139)	(475,206)	346,725
Total Net Assets	$ 1,981,648	$ 2,372,784	$ 3,040,470	$ 3,005,901	$ 5,022,118	$ 5,378,685

The capital assets of the governmental activities increased by $102.9 million (2.9%), since June 30, 2011. Increases are a result of significant renovations to, and expansions of, existing school buildings across all counties to accommodate the rise in student population.

The decrease in current assets is due to a decrease in grant receivables from the federal government.

The increase in governmental activities long-term liabilities outstanding of $460.2 million (14.1%) is primarily due to an increase in the other post employment benefits liability. At June 30, 2012, the long-term obligation for OPEB was $1,496.5 million, an increase of $292.4 million (24.3%) from fiscal year 2011. The OPEB obligation will increase each year as the State continues to defer full funding of its annual required contribution. Additional information for the OPEB obligation can be found in Note 14 of the financial statements.

In addition, the general obligation long term debt increased by $83.9 million (5.2%) from fiscal year 2011. The State's debt as a percentage of the State's personal income was 8.0% in fiscal year 2011 and 4.8% in fiscal year 2012. The State's debt burden reflects its centralized role in financing facilities, such as schools and prisons.

Additionally, the accounts payable of various organizations reflected an increased by $38.6 million. This is due to the rising costs and timing of payments to vendors.

The following condensed financial information is 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, 2012
(Expressed in Thousands)

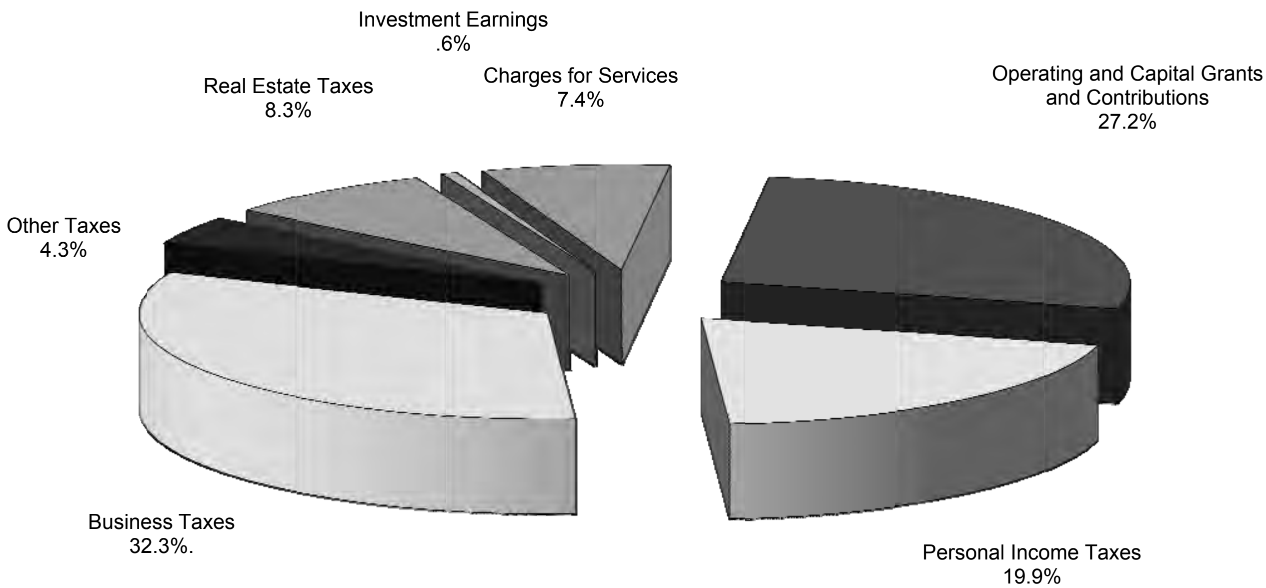
	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	$ 421,594	$ 475,026	$ 1,285,907	$ 1,290,650	$ 1,707,501	$ 1,765,676
Operating Grants and Contributions	1,541,931	1,735,026	109,037	170,681	1,650,968	1,905,707
Capital Grants and Contributions	-	-	199,214	195,030	199,214	195,030
General Revenues:						
Taxes:						
Personal Income Taxes	1,126,014	986,002	-	-	1,126,014	986,002
Business Taxes	1,834,684	1,926,473	-	-	1,834,684	1,926,473
Real Estate Taxes	473,351	456,772	-	-	473,351	456,772
Other Taxes	241,525	246,268	-	-	241,525	246,268
Investment Income (Loss)	32,849	28,356	4,029	2,815	36,878	31,171
Gain (Loss) on Sale of Assets	-	-	308	587	308	587
Miscellaneous	24,103	29,201	-	-	24,103	29,201
Total Revenues	5,696,051	5,883,124	1,598,495	1,659,763	7,294,546	7,542,887
Expenses:						
General Government	654,311	660,931	-	-	654,311	660,931
Health and Children's Services	2,386,475	2,186,189	-	-	2,386,475	2,186,189
Judicial and Public Safety	660,053	596,764	-	-	660,053	596,764
Natural Resources and Environmental Control	161,354	189,301	-	-	161,354	189,301
Labor	79,706	74,063	-	-	79,706	74,063
Education	2,372,080	2,304,468	-	-	2,372,080	2,304,468
Interest Expense	61,111	75,522	-	-	61,111	75,522
Lottery	-	-	386,241	385,611	386,241	385,611
Transportation	-	-	641,850	593,632	641,850	593,632
Unemployment	-	-	247,932	300,262	247,932	300,262
Total Expenses	6,375,090	6,087,238	1,276,023	1,279,505	7,651,113	7,366,743
Increase (Decrease) in Net Assets Before Transfers	(679,039)	(204,114)	322,472	380,258	(356,567)	176,144
Transfers	287,903	320,891	(287,903)	(320,891)	-	-
Increase (Decrease) in Net Assets	(391,136)	116,777	34,569	59,367	(356,567)	176,144
Net Assets - Beginning of Year	2,372,784	2,256,007	3,005,901	2,946,534	5,378,685	5,202,541
Net Assets - End of Year	$ 1,981,648	$ 2,372,784	$ 3,040,470	$ 3,005,901	$ 5,022,118	$ 5,378,685

Governmental Activities Since fiscal year 2011, the net assets for primary government has decreased by $356.6 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 decrease in the State's net assets from governmental activities are as follows:

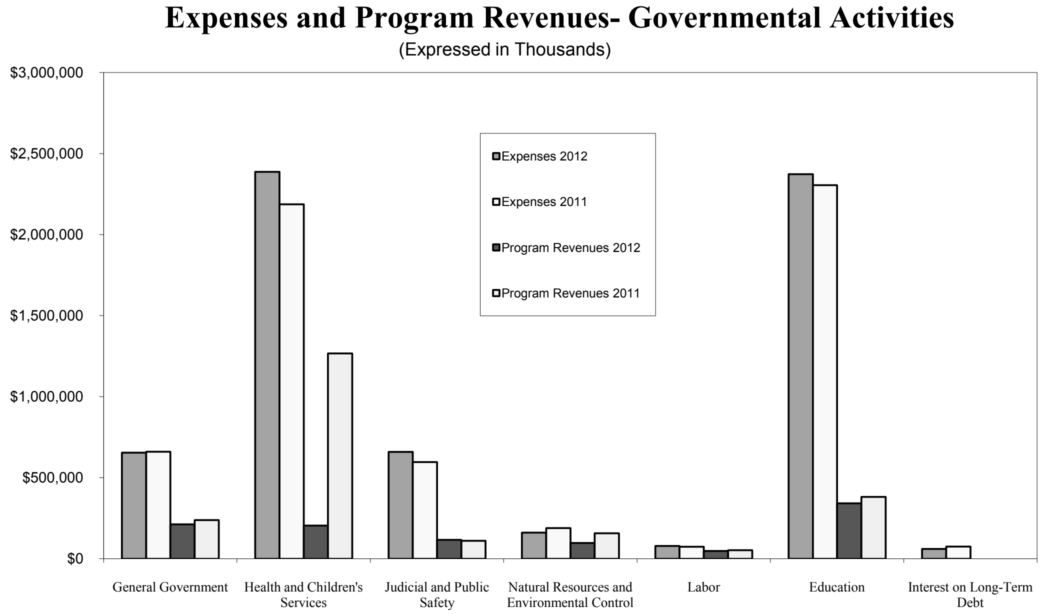
Total general revenues of governmental activities increased overall by $59.5 million (1.6%) relating to increases in net personal income taxes of $140.0 million, real estate taxes of $16.6 million and investment earnings of $4.5 million. There was a decrease in business tax of $91.8 million. The increases in the tax revenues were primarily attributable to the increased efforts in collections of taxes and a the decrease in tax refunds paid during the year.

Program revenues decreased by $246.5 million (11.2%) from the prior year primarily due to an decrease in operating grants of $193.1 million. Health and Social Services received $153.0 and Education received $26.6 million less in operating grants due to decease in federal programs, such as, ARRA. Also, charges for services decreased by $53.4 million compared to the prior fiscal year, there was a decrease in charges relating to licenses, fines, fees and permits with the Department of Natural resources and Control and the Department of Agriculture.

Revenues by Source – Governmental Activities



Expenses for governmental activities increased during fiscal year 2012 by $287.9 million (4.7%). The increase in governmental activities is also due to the increased spending of $200.3 million at Health and Children's Services as a result of a general increase in the population served and rising health care costs. Educational expenses also increased by $67.6 million due to the continued increase in student population resulting in additional personnel and other operating costs.



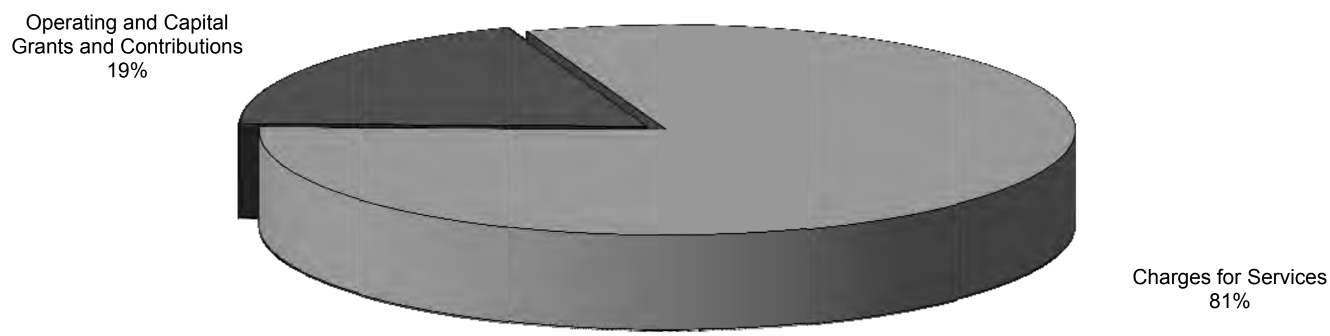
Business-type Activities The net assets for business-type activities increased by $34.6 million in fiscal year 2012. This increase is comprised of a $47.7 million increase in net assets for DelDOT and offset by $13.1 million decrease in the Unemployment Insurance Trust Fund.

The decrease of $13.1 million in Delaware Unemployment Insurance Trust Fund net assets is due to the continued demand in benefits paid by the Trust Fund. The operating revenues and operating expenses decrease by $56.4 million and $53.2 million, respectively.

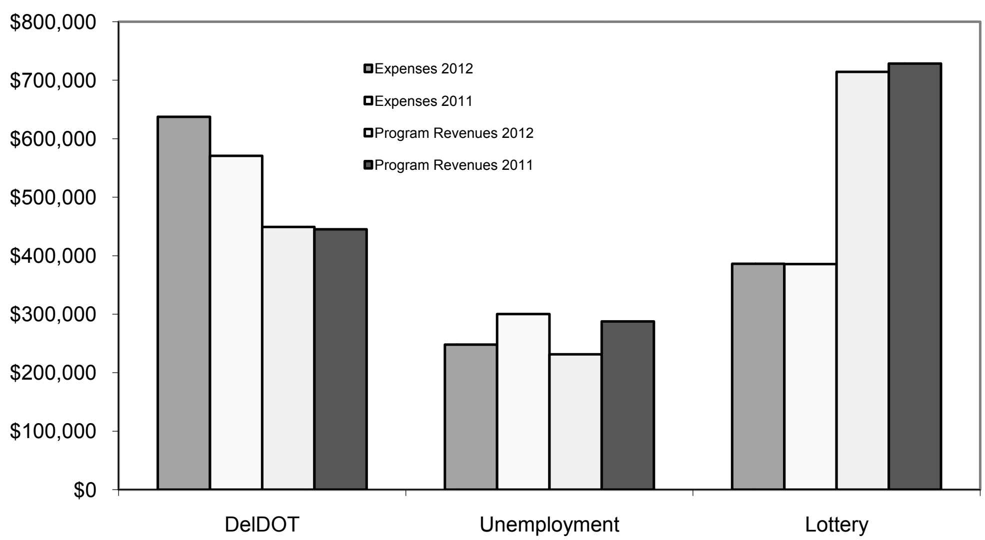
DelDOT's net assets at June 30, 2012 were $47.7 million higher than at June 30, 2011. DelDOT's total operating revenues increased by $4.2 million (1.0%) while operating expenses increased by $52.6 million (9.6%). The change is primarily attributable to an increase in motor vehicle and related revenues as a result of increased auto sales. The increase in operating expenditures is due to increased capital preservation.

There was no change in the Lottery's net assets. By law, the Lottery's net assets cannot exceed $1.0 million. Revenue for the Lottery decreased by $14.2 million (4.8%) over last year mainly due to a increased competition from casinos operating in Maryland and Pennsylvania. The Lottery transferred $328.0 million in gaming revenues to the State, a decrease from fiscal year 2011 of $14.8 million. The total costs of games and prizes increased by $.3 million (0.1%) over the previous year due to the increase in table game activity.

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. Unassigned fund balances may serve as a useful measure of a government's net resources at the end of the fiscal year.

During the prior fiscal year, the State adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constrains imposed upon the use of the resources reporting in the governmental funds. This is further described in note 1 and note 16 of the financial statements.

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $1,829.3 million, an increase of $37.0 million over the prior year.

Of this amount, $8.1 million is nonspendable (less than .5%), either due to its form or legal constraints, $519.8 million or 28.4% is restricted for specific programs by external constraints and $236.9 million or 13.0% is committed for specific purposes pursuant to constraints imposed by a formal action of the Delaware Legislature. An additional $100.5 million or 5.4% has been assigned to specific purposes by management. The remaining $964.0 million or 52.7% of fund balance is unassigned.

General Fund The General Fund accounts for the operation and administration of the State. Total general fund balance decreased by less than million for the fiscal year.

Total General Fund revenues increased by $99.4 million (2.7%) due to several factors. The main increases were in personal taxes which increased by $109.5 million and business taxes which decreased by $115.0 million. This was partially due to increased effort with enforcement efforts and a decrease in business profits. Also, there was an $108.8 million increase in other income. This was due to repayment of loans for the state revolving fund at Department of Natural Resources and Environmental Control, Department of Health and Social Services and Delaware Economic Development Office.

Total General Fund expenditures increased by $294.6 million (7.4%). This was primarily due to increases in Health and Children's Services of $229.4 million, General Government of $65.2 million, Public Safety of $11.6 million, Education of $48.8 million offset by a decrease of expenditures in the Department of Natural Resources and Environmental Control of $21.1 million. The increase in expenditures for Health and Children's Services, General Government, Public Safety, Education, and Natural Resources and Environmental Control, were attributable to the decrease in the federal funding received from the stimulus package from the prior year.

At the end of the current fiscal year, unassigned fund balance of the general fund was $964.0 million, while total fund balance reached $1,397.0 million.

Federal Funds Federal Funds represent pass through grants used for designated purposes. These funds report federal grant revenues and the related expenditures to support the State's grant programs. Total federal fund revenues and expenditures decreased by $123.1 million and $66.4 million, respectively. The primary decrease in federal revenues was due to expiration of the ARRA funding received by the Department of Education and funding for the Medicaid and supplemental program administered by Health and Children's Services.

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 decreased by $31.9 million to $306.4 million due to an increase of expenditures to serve the increasing population.

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 $187.7 million in fiscal year 2012, a decrease of $7.7 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 part of the primary government and major funds of the State.

Total Proprietary Fund net assets increased in fiscal year 2012 by $34.6 million as a result of operations. 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 $233.0 million.

Revenues were $172.1 million (4.9%) less than the previous fiscal year. This was primarily due to decreases in the corporate income tax of $49.1 million (29.2%), abandoned property of $109.8 million (26.8%), and hospital board and treatment of $5.3 million (7.6%). Offsetting these revenue decreases were increases in personal income tax collections of $44.7 million (4.5%), gross receipts tax of $45.0 million (24.2%) bank franchise tax of $9.1 million (7.7%), and insurance tax of $4.2 million (8.0%).

Expenditures were $321.7 million (9.8%) more than the previous fiscal year. Salaries and wages increased by $77.4 million (6.4%). Grants-in-Aid increased by $36.9 million (11.3%) while Medicaid increased by $171.1 million (36.7%). In addition, contractual services increased by $20.6 million (4.7%) and capital outlays decreased by $10.1 million (38.3%). Debt service payments decreased by $25.2 million (14.9%).

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 until the funds are spent. This was the case for the Medicaid program at Department of Health and Social Services and the Education services for Department of Education.

Where actual expenditures were within the final budget in departments the significant budget variances were as follows:

- $139.3 million in the Executive Department for funds budgeted, but not spent on ongoing capital improvement projects, technology projects, and contingency items,
- $14.0 million in Department of Finance for expenditures anticipated for upgrade of computer system but not yet expended.

Funded projects, which are not completed by year-end, may carry over unspent funds into fiscal year 2012. 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, 2012, amounted to $7,665.8 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 $102.9 million (2.9%) and the increase for business-type activities was $91.2 million (2.3%).

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

- The increase in governmental activities is due to continued completion of school renovations,
- The increase in business-type activities is due to increased spending at DelDOT for 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 4,378 center line miles of roads and 1,591 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 two years. Historically, road condition assessments were conducted every year. The Department's assessment plan will ensure that all infrastructure assets are assessed and evaluated within the three-year period, as required. Due to timing of these conditions assessments, information for the fiscal year ended June 30, 2012 is not available for all assessments.

Of the State's 1,591 bridges that were rated in fiscal year 2012, 72.2% received a good or better Bridge Condition Rating (BCR) rating, 20.2% were rated fair, and 7.6% received a substandard rating. Of the 7,174,339 square feet of bridge deck that was rated, 90.3% or 6,476,158 square feet received an Overall Pavement Condition (OPC) condition rating of good or better, 9.6% received a fair rating, and 0.1% received a substandard deck rating. In 2012, 4,378 center line miles were rated; 95.8% received a fair or better OPC rating and 4.2% received a poor rating.

The fiscal year 2012 estimate to maintain and preserve DelDOT's infrastructure was $341.0 million, but the actual expenditures were $294.5 million, which is $46.5 million under 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 35 - 44, Note 12 on pages 84 - 86 and on pages 120 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, 2012
Net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 447,812	$ 440,129	$ 276,761	$ 276,761	$ 724,573	$ 716,890
Land Improvements	155,604	147,656	-	-	155,604	147,656
Buildings	2,416,856	2,383,096	73,724	70,029	2,490,580	2,453,125
Easements	291,105	274,871	-	-	291,105	274,871
Equipment, Vehicles and Computer Software	74,743	81,243	117,533	115,768	192,276	197,011
Infrastructure	-	-	3,564,347	3,481,075	3,564,347	3,481,075
Construction-In-Progress	244,783	201,020	2,487	-	247,270	201,020
Total	$ 3,630,903	$ 3,528,015	$ 4,034,852	$ 3,943,633	$ 7,665,755	$ 7,471,648

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 $1,696.5 million backed by the full faith and credit of the State. The State's debt burden reflects its centralized role in financing school construction projects. As of June 30, 2012, $545.3 million, or 32.1%, of the State's outstanding debt was issued on behalf of local school districts. Local school districts transferred $62.3 million of property tax revenue to the State to cover related debt service during fiscal year 2012.

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 by DEFAC in June for the next fiscal year. Should actual revenue collections increase during the year, no additional authorizations are made. For fiscal year 2012, debt issuance was limited to $171.1 million.
- A 15% test restricts debt issuance if the annual payments on all outstanding debt exceed 15% of estimated budgetary general fund and Transportation Trust Fund Revenue for the next fiscal year. Currently, these annual payments represent approximately 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 2012, 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 2012. On November 15, 2011, the State issued $275.4 million of its general obligation bonds maturing between July 1, 2012 and July 1, 2031. Of the $275.4 million issued as Series 2011, $50.4 million was issued to refund higher priced bonds resulting in a net present value savings of $2.8 million, or 5.2% of the principal refunded.

The Sustainable Energy Utility does not constitute a debt of the State or a pledge of its general taxing power or of its full faith and credit. The bonds are secured by appropriations of the state agencies that are participating in the SEU program. The Sustainable Energy Utility, Inc. had $56.2 million of Revenue Bonds, Series 2011 outstanding as of June 30, 2012. These bonds are currently used to finance construction on energy efficient upgrades to facilities in the State.

Debt issued by the Delaware Transportation 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 Delaware Transportation Authority has revenue bonds outstanding of $1,106.7 million to support its ongoing capital transportation program and $111.2 million in Grant Anticipation Vehicle Bonds (GARVEEs), to finance a portion of the costs of completing the final design and right-of-way acquisition for a new U.S. 301.

Additional information on the State of Delaware's long-term debt can be found in Notes 5, 6 and 7 on pages 65 - 81 of this report.

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 budgetary general fund revenue;
- budgetary general fund revenue forecasts that are frequent, objective and often conservative;
- three-part debt affordability test that limits debt authorization to 5% of budgetary general fund; revenue and debt service to 15% of tax supported revenue; and cash balance test;
- 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; and
- full funding of its pension plan.

Economic Factors and Next Year's Budgets and Rates

DEFAC met on June 15, 2012 to prepare the final revenue and expenditure estimates upon which the fiscal year 2013 operating and capital budgets would be based. The most recent employment data for the State of Delaware has indicated that growth has ceased, therefore, the FY 2013 forecast anticipates no growth. There is an assumption in the forecast that the scheduled expiration of tax cuts in 2013 will be delayed for a year.

The fiscal year 2013 operating and capital budgets meet budgetary spending limitations imposed by law. The fiscal year 2013 operating budget is $3,544.5 million, 1.0% more than fiscal year 2012. The fiscal year 2013 operating budget included $115.3 million in supplemental appropriations (historically in the form of cash allocated to the capital budget), an increase of 26.7% over the fiscal year 2012 budget.

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 directed to the Department of Finance, Division of Accounting, 820 Silver Lake Boulevard, Suite 200, Silver Lake Plaza, Dover, Delaware 19904 or visit our website at http://accounting.delaware.gov.

The State's component units publish their own separately issued audited financial statements. These statements may be obtained from their respective administrative offices.

STATE OF DELAWARE
STATEMENT OF NET ASSETS
JUNE 30, 2012
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
ASSETS				
Cash and Pooled Investments	$ 1,695,854	$ 167,400	$ 1,863,254	$ 72,881
Receivables, Net (Note 3)	645,054	86,507	731,561	1,049,952
Internal Balances	6,753	(6,753)	-	-
Deferred Bond Issuance Costs	1,157	-	1,157	13,079
Other Post-Employment Benefits Asset	-	-	-	3
Inventories	8,121	18,528	26,649	920
Prepaid Items	-	3,806	3,806	4,351
Escrow insurance Deposits	-	317	317	-
Investments - Noncurrent	-	25,809	25,809	182,868
Deposit on Hold with Trustee	54,175	-	54,175	-
Other Assets	-	2,437	2,437	6,544
Restricted Assets:				
Cash and Pooled Investments	519,836	244,367	764,203	59,253
Other Restricted Assets	-	-	-	12,995
Capital Assets: (Note 12)				
Non-Depreciable Assets	983,700	3,843,595	4,827,295	182,708
Depreciable Capital Assets, Net	2,647,203	191,257	2,838,460	401,292
Total Capital Assets	3,630,903	4,034,852	7,665,755	584,000
Total Assets	6,561,853	4,577,270	11,139,123	1,986,846
LIABILITIES				
Accounts Payable	510,474	51,562	562,036	11,270
Accrued Liabilities	43,529	43,114	86,643	22,313
Accrued Interest Payable	33,242	24,416	57,658	-
Unearned Revenues	13,725	-	13,725	2,972
Escrow Deposits	-	3,952	3,952	32,237
Other Liabilties	-	-	-	3,432
Advances From Federal Government	-	77,061	77,061	-
Long-term Liabilitites:				
Due Within One Year: (Note 10)	244,673	103,940	348,613	41,193
Due In More Than One Year: (Note 10)	3,734,563	1,232,755	4,967,318	1,044,637
Total Liabilities	4,580,206	1,536,800	6,117,006	1,158,054
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	1,851,218	2,956,316	4,807,534	379,071
Restricted For:				
Debt Service	-	169,954	169,954	-
Federal and State Regulations	409,534	-	409,534	290,806
Bond Covenants	-	-	-	22,773
Capital Projects	-	-	-	41,429
Other Purposes	110,302	-	110,302	13,631
Unrestricted	(389,406)	(85,800)	(475,206)	81,082
Total Net Assets	$ 1,981,648	$ 3,040,470	$ 5,022,118	$ 828,792

See Accompanying Notes to the Financial Statements

State of Delaware

Statement of Activities
For the Year Ended June 30, 2012
(Expressed in Thousands)

		Program Revenues			Net (Expense) Revenues and Changes in Net Assets			
			Grants and Contributions		Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating**	**Capital**	**Governmental Activities**	**Business-type Activities**	**Total**	**Component Units**
Primary Government:								
Governmental Activities:								
General Governmental Services	$ 654,311	$ 166,979	$ 45,485	$ -	$ (441,847)	$ -	$ (441,847)	$ -
Health and Children Services	2,386,475	98,430	1,046,628	-	(1,241,417)	-	(1,241,417)	-
Judicial and Public Safety	660,053	75,713	41,237	-	(543,103)	-	(543,103)	-
Natural Resources and Environmental Control	161,354	50,587	47,477	-	(63,290)	-	(63,290)	-
Labor	79,706	7,089	41,667	-	(30,950)	-	(30,950)	-
Education	2,372,080	22,796	319,437	-	(2,029,847)	-	(2,029,847)	-
Interest on Long-term Debt	61,111	-	-	-	(61,111)	-	(61,111)	-
Total Governmental Activities	6,375,090	421,594	1,541,931	-	(4,411,565)	-	(4,411,565)	-
Business-type Activities:								
Lottery	386,241	714,303	-	-	-	328,062	328,062	-
DelDot	641,850	449,270	-	199,214	-	6,634	6,634	-
Unemployment	247,932	122,334	109,037	-	-	(16,561)	(16,561)	-
Total Business-type Activitites	1,276,023	1,285,907	109,037	199,214	-	318,135	318,135	-
Total Primary Governments	$ 7,651,113	$ 1,707,501	$ 1,650,968	$ 199,214	$ (4,411,565)	$ 318,135	$ (4,093,430)	$ -
Component Units:								
Delaware State Housing Authority	$ 115,676	$ 52,685	$ 86,530	$ 1,133	-	-	-	24,672
Diamond State Port Corporation	34,828	33,965	-	516	-	-	-	(347)
Riverfront Development Corporation	10,084	1,980	294	3,948	-	-	-	(3,862)
Delaware State University	117,182	53,618	30,880	14,996				(17,688)
Delaware Technical & Community College Educational Foundation	907	506	1,185	-	-	-	-	784
Delaware Charter Schools	111,644	9,912	8,259	605	-	-	-	(92,868)
Total Component Units	$ 390,321	$ 152,666	$ 127,148	$ 21,198	-	-	-	(89,309)
General Revenues:								
Taxes:								
Personal Income					1,126,014	-	1,126,014	-
Business					1,834,684	-	1,834,684	-
Real Estate					473,351	-	473,351	-
Other					241,525	-	241,525	-
Unrestricted Payments from Primary Government					-	-	-	131,268
Investment Income (Loss)					32,849	4,029	36,878	(2,915)
Gain (Loss) on Disposal of Assets					-	308	308	1,518
Miscellaneous					24,103	-	24,103	(468)
Transfers In (Out)					287,903	(287,903)	-	-
Total General Revenues					4,020,429	(283,566)	3,736,863	129,403
Changes in Net Assets					(391,136)	34,569	(356,567)	40,094
Net Assets - Beginning					2,372,784	3,005,901	5,378,685	788,698
Net Assets - Ending					$ 1,981,648	$ 3,040,470	$ 5,022,118	$ 828,792

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012
(Expressed in Thousands)

	General	Federal	Local School District Fund	Capital Projects	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	$ 357,377	$ 6,938	$ 12,557	$ -	$ 376,872
Cash on Hold in Trust	54,175	-	-	-	54,175
Investments	1,402,242	-	307,416	128,528	1,838,186
Accounts Receivable, Net	71,813	14,918	473	-	87,204
Taxes Receivable, Net	87,770	-	34,374	-	122,144
Intergovernmental Receivables, Net	-	148,903	-	-	148,903
Loans and Notes Receivable	37,587	249,216	-	-	286,803
Due from Other Funds	46,016	-	-	-	46,016
Prepaid Items	72	-	-	-	72
Inventories	8,121	-	-	-	8,121
Total Assets	2,065,173	419,975	354,820	128,528	2,968,496
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	386,666	87,701	17,881	18,226	510,474
Accrued Liabilities	43,529	-	-	-	43,529
Claims and Judgments	1,331	-	-	-	1,331
Escheat Liability	95,000	-	-	-	95,000
Due to Other Funds	1,689	37,574	-	-	39,263
Deferred Revenues	139,965	279,070	30,542	-	449,577
Total Liabilities	668,180	404,345	48,423	18,226	1,139,174
Fund Balances					
Nonspendable	8,121	-	-	-	8,121
Restricted	87,507	15,630	306,397	110,302	519,836
Committed	236,896	-	-	-	236,896
Assigned	100,483	-	-	-	100,483
Unassigned	963,986	-	-	-	963,986
Total Fund Balances	1,396,993	15,630	306,397	110,302	1,829,322
Total Liabilities and Fund Balances	$ 2,065,173	$ 419,975	$ 354,820	$ 128,528	$ 2,968,496

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, 2012
(Expressed in Thousands)

Total Fund Balances - Governmental Funds		$ 1,829,322
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	447,812	
Land Improvements	155,604	
Buildings	2,416,856	
Easements	291,105	
Equipment, Vehicles and Software	74,743	
Construction-In Progress	244,783	
		3,630,903
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.		435,852
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	(33,242)	
Claims and Judgments (Current and Long-term)	(158,419)	
Compensated Absences (Current and Long-term)	(166,879)	
Net Other Post Employment Benefits Obligation	(1,496,513)	
Pollution Remediation Obligations (Current and Long-term)	(29,786)	
Net Pension Obligation	(117,874)	
General Obligation Long-term Debt and Related Accounts	(1,907,300)	
Other Long-term Obligations	(4,416)	
		(3,914,429)
Net Assets of Governmental Activities		$ 1,981,648

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES (DEFICITS)
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Expressed in Thousands)

	General	Federal	Local School District Fund	Capital Projects	Total Governmental Funds
Revenues					
Personal Taxes	$ 1,095,477	$ -	$ -	$ -	$ 1,095,477
Business Taxes	1,811,522	-	-	-	1,811,522
Other Tax Revenue	241,276	-	473,322	-	714,598
Licenses, Fees, Permits and Fines	330,081	9,891	379	-	340,351
Rentals and Sales	108,131	8	10,700	-	118,839
Grants	32,590	1,493,629	1,815	-	1,528,034
Interest and Other Investment Income	30,039	53	2,758	-	32,850
Other	185,655	1,331	19,370	-	206,356
Total Revenues	3,834,771	1,504,912	508,344	-	5,848,027
Expenditures					
Current:					
General Government	598,208	26,408	-	-	624,616
Health and Children's Services	1,313,114	1,045,179	-	-	2,358,293
Judicial and Public Safety	562,523	40,112	-	-	602,635
Natural Resources and Environmental Control	109,554	44,932	-	-	154,486
Labor	31,997	40,447	-	-	72,444
Education	1,325,997	274,200	469,272	-	2,069,469
Unrestricted Payments to Component Unit - Education	104,511	-	26,757	-	131,268
Capital Outlay	-	-	-	187,704	187,704
Debt service:					
Principal	139,325	-	-	-	139,325
Interest and Other Charges	72,293	-	-	-	72,293
Costs of Issuance of Debt	548	-	-	-	548
Total Expenditures	4,258,070	1,471,278	496,029	187,704	6,413,081
Excess (Deficiency) of of Revenues Over (Under) Expenditures	(423,299)	33,634	12,315	(187,704)	(565,054)
Other Sources (Uses) of Financial Resources					
Transfers In	486,535	-	54,178	-	540,713
Transfers Out	(64,851)	(34,758)	(98,367)	(54,834)	(252,810)
Issuance of General Obligation Bonds	-	-	-	275,425	275,425
Issuance of Revenue Bonds - SEU	56,170	-	-	-	- 56,170
Issuance of Advanced Refundings	(54,834)	-	-	-	- (54,834)
Premiums on Bond Sales	-	-	-	37,347	37,347
Total Other Sources (Uses) of Financial Resources	423,020	(34,758)	(44,189)	257,938	602,011
Net Change in Fund Balances	(279)	(1,124)	(31,874)	70,234	36,957
Fund Balances - Beginning	1,397,272	16,754	338,271	40,068	1,792,365
Fund Balances (Deficits) - Ending	$ 1,396,993	$ 15,630	$ 306,397	$ 110,302	$ 1,829,322

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, 2012
(Expressed in Thousands)

Net Changes in Fund Balances		$ 36,957
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	204,261	
Depreciation Expense	(101,373)	
		102,888
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(50,311)
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	139,325	
Advanced Refunding Payments	54,834	
SEU Revenue Bonds	(56,170)	
New Debt Issued (Face Value)	(275,425)	
Premium Received	(37,347)	
Issuance costs	548	
Amortization of Premium/Issuance Costs	15,679	
		(158,556)
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		(4,493)
Claims and Judgments		(17,302)
Compensated Absences		4,079
Other Post Employment Benefits		(292,412)
Pollution Remediation Obligation		(11,275)
Pension Obligation		(106)
Notes Payable		77
Other Liabilities		(682)
Change in Net Assets of Governmental Activities		$ (391,136)

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
ASSETS				
Current assets:				
Cash and Cash Equivalents	$ 22,493	$ 6,951	$ 43,307	$ 72,751
Cash and Cash Equivalents - Restricted	-	-	9,197	9,197
Investments	-	-	94,649	94,649
Investments - Restricted	-	273	171,577	171,850
Accounts Receivable, Net	12,036	10,508	16,520	39,064
Taxes Receivable, Net	18,707	-	-	18,707
Intergovernmental Receivables, Net	5,693	-	22,400	28,093
Interest Receivable	-	-	643	643
Inventories	-	-	18,528	18,528
Escrow Insurance Deposits	-	-	317	317
Due from Other Funds	1,689	-	-	1,689
Prepaid Items	-	-	786	786
Total Current Assets	60,618	17,732	377,924	456,274
Noncurrent Assets:				
Investments	-	-	25,809	25,809
Investments - Restricted	-	207	63,113	63,320
Interest Receivable				-
Other Assets	-	2,437	-	2,437
Prepaid Pension	-	-	3,020	3,020
Capital Assets, Non-depreciable	-	-	3,843,595	3,843,595
Capital Assets, Depreciable, Net	-	-	191,257	191,257
Total Noncurrent Assets	-	2,644	4,126,794	4,129,438
Total Assets	60,618	20,376	4,504,718	4,585,712
LIABILITIES				
Current Liabilities:				
Accounts Payable	-	6,229	45,333	51,562
Accrued Liabilities	32,192	-	6,557	38,749
Interest Payable	1,689	-	22,727	24,416
Compensated Absences	-	-	6,841	6,841
Prizes Liability	-	4,365	-	4,365
Escrow Deposits	-	-	3,952	3,952
Pollution Remediation Obligations	-	-	891	891
Insurance Loss Reserve	-	-	2,922	2,922
General Obligation Long-term Debt	-	-	195	195
Revenue Bonds, Net of Unamortized Premium	-	-	93,091	93,091
Tax Refunds Payable	-	-	-	-
Advances from Federal Government	76,412		649	77,061
Due to Other Funds	-	3,916	4,526	8,442
Total Current Liabilities	110,293	14,510	187,684	312,487
Noncurrent Liabilities:				
Other Post-employment Benefits Payable	-	2,222	143,670	145,892
Compensated Absences	-	-	9,992	9,992
Return of Federal Funds	-	-	3,000	3,000
Pollution Remediation Obligations	-	-	4,448	4,448
Insurance Loss Reserve			6,087	6,087
Liabilities Payable from Restricted Assets	-	2,644	-	2,644
General Obligation Long-term Debt	-	-	246	246
Revenue Bonds, Net of Unamortized Premium	-	-	1,060,446	1,060,446
Total Noncurrent Liabilities	-	4,866	1,227,889	1,232,755
Total Liabilities	110,293	19,376	1,415,573	1,545,242
Net Assets:				
Invested in Capital Assets, Net of Related Debt	-	-	2,956,316	2,956,316
Restricted for:				
Debt Service	-	-	169,954	169,954
Unrestricted	(49,675)	1,000	(37,125)	(85,800)
Total Net Assets	(49,675)	$ 1,000	$ 3,089,145	$ 3,040,470

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, 2012
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
Operating Revenues:				
Unemployment Taxes-State Funded	$ 101,279	$ -	$ -	$ 101,279
Unemployment Taxes-Federal Funded	109,037	-	-	109,037
Gaming Revenue	-	714,303	-	714,303
Pledged Revenues:				
Turnpike Revenue	-	-	117,133	117,133
Motor Vehicle and Related Revenue	-	-	258,667	258,667
Turnpike Revenue	-	-	44,889	44,889
Passenger Fares	-	-	14,573	14,573
Miscellaneous	21,055	-	14,008	35,063
Total Operating Revenues	231,371	714,303	449,270	1,394,944
Operating Expenses:				
Unemployment Benefits - State Funded	134,414	-	-	134,414
Unemployment Benefits - Federal Funded	111,330	-	-	111,330
Cost of Sales	-	288,229	-	288,229
Prizes	-	85,649	-	85,649
Transportation	-	-	567,971	567,971
Depreciation	-	1	23,026	23,027
General and Administrative	-	11,362	8,781	20,143
Total Operating Expenses	245,744	385,241	599,778	1,230,763
Operating Income (Loss)	(14,373)	329,062	(150,508)	164,181
Nonoperating Revenues (Expenses):				
Investment Income	-	-	4,029	4,029
Interest Expense	(2,188)	-	(42,072)	(44,260)
Loss on Note Receivable	-	-	-	-
Contributions to Thoroughbred Program	-	(1,000)	-	(1,000)
Loss on Disposal of Assets	-	-	308	308
Total Nonoperating Revenues (Expenses)	(2,188)	(1,000)	(37,735)	(40,923)
Income (Loss) Before Transfers and Capital Contributions	(16,561)	328,062	(188,243)	123,258
Capital Contributions	-	-	199,214	199,214
Transfers In	3,422	-	43,247	46,669
Transfers Out	-	(328,062)	(6,510)	(334,572)
Increase (Decrease) in Net Assets	(13,139)	-	47,708	34,569
Net Assets - Beginning of Year	(36,536)	1,000	3,041,437	3,005,901
Net Assets - End of Year	$ (49,675)	$ 1,000	$ 3,089,145	$ 3,040,470

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
Cash Flows from Operating Activities:				
Receipts from Employers	$ 102,029	$ -	$ -	$ 102,029
Receipts from Federal Government	107,563	-	-	107,563
Payments for Insurance Claims	(252,095)	-	(2,907)	(255,002)
Receipts from Customers and Users	-	709,210	445,181	1,154,391
Other Operating Receipts	21,055	-	2,249	23,304
Payments to Suppliers for Goods and Services	-	(43,178)	(407,817)	(450,995)
Payments to Employees for Services	-	(5,772)	(122,416)	(128,188)
Payments for Prizes	-	(85,817)	-	(85,817)
Payment for Commissions	-	(248,532)	-	(248,532)
Net cash Provided (Used) by Operating Activities	(21,448)	325,911	(85,710)	218,753
Cash Flows from Noncapital Financing Activities:				
Advances from Federal Government	15,622	-	-	15,622
Transfers In	-	-	43,247	43,247
Transfers Out	-	(325,779)	(6,511)	(332,290)
Net Cash Provided (Used) by Noncapital Financing Activities	15,622	(325,779)	36,736	(273,421)
Cash Flows from Capital and Related Financing Activities:				
Capital Grants	-	-	185,410	185,410
Purchases of Capital Assets	-	-	(115,201)	(115,201)
Principal Paid on Capital Debt	-	-	(76,667)	(76,667)
Interest Paid on Capital Debt	(1,826)	-	(56,566)	(58,392)
Proceeds from Sale of Land and Equipment	-	-	1,262	1,262
Proceeds from Issuance of Debt	-	-	222,870	222,870
Premium from Bond Sale	-	-	41,765	41,765
Payment to Escrow Agent for Refunding of Debt	-	-	(270,163)	(270,163)
Federal Reimbursement of Debt Service	-	-	12,076	12,076
Net Cash Used by Capital and Related Financing Activities	(1,826)	-	(55,214)	(57,040)
Cash Flows from Investing Activities:				
Interest and Investment Revenues	-	-	3,274	3,274
Repayment on Loan Receivable	-	-	821	821
Escrow Deposits Received	-	-	(41)	(41)
Purchase of Investments	-	-	3,287,877	3,287,877
Proceeds from Sales and Maturities of Investments	-	635	(3,253,407)	(3,252,772)
Net Cash Provided by Investing Activities	-	635	38,524	39,159
Net Increase (Decrease) in Cash and Cash Equivalents	(7,652)	767	(65,664)	(72,549)
Cash and Cash Equivalents - Beginning of Year	30,145	6,184	118,168	154,497
Cash and Cash Equivalents - End of Year	22,493	6,951	52,504	81,948
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	(14,373)	329,062	(150,508)	164,181
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	-	1	23,026	23,027
Decrease (Increase) in Assets:				
Receivables, Net	784	(5,093)	(2,490)	(6,799)
Inventories	-	-	(1,428)	(1,428)
Prepaid Items	-	-	(518)	(518)
Increase (Decrease) in Liabilities:				
Accounts and Other Payables	(6,351)	-	8,572	2,221
Accrued Liabilities	-	(41)	4,231	4,190
Accrued Expenses	-	(169)	(1,277)	(1,446)
Accrued Payroll and Related Expenses	-	2,151	(2,179)	(28)
Post-Employment Benefits	-	-	32,335	32,335
Due To/From Government	(1,508)	-	4,526	3,018
Net Cash Provided (Used) by Operating Activities	$ (21,448)	$ 325,911	$ (85,710)	$ 218,753

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012
(Expressed in Thousands)

	Pension Trust	OPEB Trust	Investment Trust	Agency
Assets:				
Cash and Cash Equivalents	$ 503,267	$ 26,781	$ 2,793	$ 28,256
Receivables:				
Accrued Interest	17,892	-	89	-
Investment Sales Pending	24,100	-	125	-
Employer Contributions	9,504	6,499	-	-
Member Contributions	2,805	65	-	-
Other Receivables	-	-	-	42,612
Investments, at Fair Value:				
Domestic Fixed Income	619,698	56,966	7,253	-
Domestic Equities	1,585,152	55,699	12,152	-
Pooled Equity and Fixed Income	1,867,379	-	9,652	-
Alternative Investments	1,892,697	-	9,782	-
Short Term Investments	-	-	-	29,619
Foreign Fixed Income	160,277	-	828	-
Foreign Equities	835,398	29,790	6,437	-
Total Assets	7,518,169	175,800	49,111	100,487
Liabilities:				
Accounts Payable	-	-	-	100,487
Investment Purchase Payable	14,499	-	75	-
Benefits/Claims Payable	1,355	12,702	-	-
Accrued Investment Expense	4,304	5	22	-
Accrued Administrative Expenses	255	6	-	-
Total Liabilities	20,413	12,713	97	100,487
Net Assets:				
Assets Held in Trust for Benefits and Pool Participants	$ 7,497,756	$ 163,087	$ 49,014	$ -

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, 2012
(Expressed in Thousands)

	Pension Trust	OPEB Trust	Investment Trust
Additions:			
Contributions:			
Employer Contributions	$ 204,062	$ 186,129	$ -
Transfer from Post-Retirement Increase Fund	8,371	-	-
Transfer of Assets from Outside the System	2,918	-	661
Member Contributions	57,226	-	-
Other	29	6,494	-
Total Contributions	272,606	192,623	661
Investments:			
Investment Earnings	115,525	3,280	587
Net Increase (Decrease) in Fair Value of Investments	28,769	(963)	324
Total Investment Earnings	144,294	2,317	911
Less Investment Manager/Advisor/Custody Fees	(20,791)	(63)	(112)
Less Investment Administrative Expenses	(620)	-	-
Net Investment Earnings	122,883	2,254	799
Total Additions	395,489	194,877	1,460
Deductions:			
Transfer of Assets from Post-Retirement Increase Fund	8,371	-	-
Transfer of Assets from Outside the System	-	-	803
Pension/Claim Payments	484,592	175,227	-
Refunds of Contributions to Members	4,490	-	-
Group Life Payments	5,130	-	-
Administrative Expenses	5,739	51	1
Total Deductions	508,322	175,278	804
Change in Net Assets	(112,833)	19,599	656
Net Assets - Beginning of Year	7,610,589	143,488	48,358
Net Assets - End of Year	$ 7,497,756	$ 163,087	$ 49,014

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2012
(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	$ 16,365	$ 4,889	$ 287	$ 21,226	$ 694	$ 29,420	$ 72,881
Investments	95,360	-	-	-	11,583	6	106,949
Investments - Restricted	-	-	-	661	-	-	661
Accounts and Other Receivabless, Net	39,489	2,337	200	13,876	-	697	56,599
Loans and Notes Receivables, Net	12,621	-	275	-	-	-	12,896
Other Post-Employment Benefits (OPEB) Asset	3	-	-	-	-	-	3
Inventories	-	920	-	-	-	-	920
Prepaid Items	3,661	561	64	-	-	65	4,351
Deferred Bond Issuance Costs	528	-	-	-	-	-	528
Other Restricted Assets	-	-	-	-	55	-	55
Other Current Assets	-	-	-	16	-	28	44
Total Current Assets	168,027	8,707	826	35,779	12,332	30,216	255,887
Noncurrent Assets:							
Cash and Cash Equivalents	933	13,895	2,000	27,831	-	13,933	58,592
Long-term Investments	54,954	-	-	20,915	50	-	75,919
Long-term Investments - Restricted	-	-	-	-	-	-	-
Accounts and Other Receivables, Net	8,644	-	-	-	-	-	8,644
Loans and Notes Receivable, Net	968,839	-	2,568	-	-	406	971,813
Capital Assets - Non-Depreciable	4,983	26,458	102,432	27,092	-	21,743	182,708
Capital Assets - Depreciable, Net	14,407	136,857	16,451	186,286	-	47,291	401,292
Deferred Bond Issuance Costs	7,670	-	-	1,843	-	3,038	12,551
Other Restricted Assets	-	-	-	5,486	7,454	-	12,940
Other Noncurrent Assets	-	-	1,507	288	-	4,705	6,500
Total Noncurrent Assets	1,059,497	163,315	122,958	241,910	7,504	77,183	1,672,367
Total assets	1,227,524	172,022	123,784	277,689	19,836	107,399	1,928,254
LIABILITIES							
Current liabilities:							
Accounts Payable	1,240	197	512	7,911	50	1,360	11,270
Accrued Liabilities	4	4,352	115	7,947	-	9,895	22,313
Deferred Revenue	-	42	60	2,670	-	200	2,972
Compensated Absences	22	-	-	-	-	166	188
Notes Payable	15,955	1,638	-	-	-	457	18,050
Revenue Bonds	18,644	-	-	-	-	556	19,200
Other Long-term Debt	-	-	985	1,631	-	1,139	3,755
Other Liabilities	-	-	-	-	7	-	7
Total Current Liabilities	35,865	6,229	1,672	20,159	57	13,773	77,755
Noncurrent Liabilities:							
Compensated Absences	938	-	-	5,754	-	1,488	8,180
Escrow Deposits	32,198	-	-	-	-	39	32,237
Notes Payable	-	26,706	-	-	-	18,208	44,914
Revenue Bonds	793,466	-	-	-	-	53,379	846,845
Long-term Debt	-	-	16,669	111,769	-	16,260	144,698
Other Liabilities	-	-	-	1,336	77	2,012	3,425
Total Noncurrent Liabilitites	826,602	26,706	16,669	118,859	77	91,386	1,080,299
Total Liabilities	862,467	32,935	18,341	139,018	134	105,159	1,158,054
Net Assets							
Invested in Capital Assets, Net of Related Debt	19,390	134,970	103,229	114,630		6,852	379,071
Restricted for:							
Federal and State Regulations	279,376	-	-	341	11,089	-	290,806
Bond Covenants	21,732	-	-	1,041	-	-	22,773
Capital Projects	6,345	13,895	-	16,400	-	4,789	41,429
Other Purposes	-	-	-	13,508	-	123	13,631
Unrestricted	39,147	4,117	4,214	20,582	8,613	4,409	81,082
Total Net Assets	$ 365,990	$ 152,982	$ 107,443	$ 166,502	$ 19,702	$ 16,173	$ 828,792

* Fiscal year-end December 31, 2011

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE

Combining Statement of Activities
Component Units
For the Year Ended June 30, 2012
(Expressed in Thousands)

		Program Income			Net (Expenses) Revenues and Changes in Net Assets						
			Grants and Contributions								
	Expenses	Charges for Services	Operating	Capital	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	DTCC * Educational Foundation	Delaware Charter Schools	Total
Components Units											
Delaware State Housing Authority	$ 115,676	$ 52,685	$ 86,530	$ 1,133	$ 24,672	$ -	$ -	$ -	$ -	$ -	$ 24,672
Diamond State Port Corporation	34,828	33,965	-	516	-	(347)	-	-	-	-	(347)
Riverfront Business Improvement District	10,084	1,980	294	3,948	-	-	(3,862)	-	-	-	(3,862)
Delaware State University	117,182	53,618	30,880	14,996	-	-	-	(17,688)	-	-	(17,688)
Delware Technical Community College (DTCC) Educational Foundation	907	506	1,185	-	-	-	-	-	784	-	784
Delaware Charter Schools	111,644	9,912	8,259	605	-	-	-	-	-	(92,868)	(92,868)
	$ 390,321	$ 152,666	$ 127,148	$ 21,198	24,672	(347)	(3,862)	(17,688)	784	(92,868)	(89,309)
General Revenues											
Unrestricted Payments from Primary Government					-	-	-	32,771	-	98,497	131,268
Investment Income (Loss)					1,661	(1,176)	48	(3,455)	(159)	166	(2,915)
Gain (Loss) on Disposal of Assets					-	-	1,981	(463)	-	-	1,518
Miscellaneous					-	-	-	(1,024)	-	556	(468)
Total General Revenues					1,661	(1,176)	2,029	27,829	(159)	99,219	129,403
Change in Net Assets					26,333	(1,523)	(1,833)	10,141	625	6,351	40,094
Net Assets - Beginning of Year					339,657	154,505	109,276	156,361	19,077	9,822	788,698
Net Assets - Ending of Year					$ 365,990	$ 152,982	$ 107,443	$ 166,502	$ 19,702	$ 16,173	$ 828,792

(*) The fiscal year ended December 31, 2011

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 are fiscally dependent and not legally separate from the State. As per the interpretation of Article X, Section 2 of the State's Constitution, the local school districts 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 Units

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, 2012 may be obtained in writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

The Delaware Other Post Employment Benefit 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 an OPEB trust fund.

The Sustainable Energy Utility (SEU) is a 501(c)3 nonprofit organization, which was established to reduce energy waste and foster a sustainable energy future for the State. It provides benefits almost exclusively to the primary government. The SEU is considered a blended component unit and is shown as part of the Natural Resources and Environmental Control function throughout the financial statements for the primary government.

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, 2011, each discretely presented component unit has a June 30, 2012 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 component unit of the State. 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, 2011.

Delaware Charter Schools

The State's 22 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 or financial responsibility.

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. 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 segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items 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 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 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 in governmental-wide financial statements 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 non-exchange 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.

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 other long term liabilities including 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 to the extent earned and available. 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 is used to account for aggregate financial activity of the State's local school districts that is funded by locally-raised real estate taxes, interest, and minor miscellaneous revenue. All other financial activity that is funded from sources, such as federal grant programs, major and minor capital project programs, and subsidized government programs are accounted for in the general fund, federal fund, and capital projects fund.

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 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 are charges to employers for taxes against wages. The principal operating revenues of the lottery fund and DelDOT fund are charges to customers for sales and services.

The Lottery fund recognizes revenue from online games on 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, 90 days from the date of activation, or when the next pack of the same game is activated. Revenue from video lottery and table games is recognized, net of prizes paid, at the time the public plays the game. Revenue from sports lottery is also recognized at time public plays the game.

Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. For the unemployment fund, expenses are payments of benefits to recipients. All expenses not meeting this definition are reported as non-operating expenses.

The State reports the following major proprietary funds:

DelDOT Fund – The DelDOT fund accounts for the activities relating to the operation of the State's Department of Transportation, including the Delaware Transportation Trust (Authority), which is comprised of the Transportation Trust Fund and Delaware Transit Corporation.

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 State's 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, 2012, 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, 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 DPERS's external investment pool and for the OPEB Fund Investment Trust fund.

OPEB Trust Fund – The 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.

Impact of Future Accounting Pronouncements

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity: Omnibus and amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity and to better meet user needs and to address reporting entity issues that have arisen since the issuance of Statements No. 14 and No. 34. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. This Statement also clarifies the reporting of equity interests in legally separate organizations. The State is currently evaluating the future impact of this statement.

In June of 2011, the GASB issued No. 63 "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*." This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Concept Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. GASB Concept Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The State is currently evaluating the future impact of this statement.

In 2012, the GASB issued No. 65 "*Items Previously Reported as Assets and Liabilities*."
This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Concept Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, GASB Concept Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in GASB Concept Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting

the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The State is currently evaluating the future impact of this statement.

(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.

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 public 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

Activities 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 asset:

- The Authority restricts revenue bond proceeds that are accounted for in the Transportation Fund.
- The governmental activities have funds that are required to be restricted that are in Note 16.

The component units have the following restricted assets:

- 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 have restricted assets to cover debt service payments.
- Delaware Technical and Community College foundation has restricted assets based on donor stipulations.
- Delaware State Housing Authority has restricted assets used for the specific purpose of housing development fund activities per enabling legislation.

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 $1.0 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 Unit Years
Buildings and Building Improvements	10 - 40	15 - 75
Land Improvements	20	N/A
Furniture and Equipment	3 - 12	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.

Advance from Federal Government

During the fiscal year ended June 30, 2012, the amount of unemployment insurance taxes collected by the Division of Unemployment Insurance from Delaware employers was not sufficient to cover the amount of benefits paid to Delaware residents. As a result, the unemployment fund received advances from the federal government to be used for benefit payments. Pursuant to Subchapter XII – *Advances to State Unemployment Funds, 42 U.S.C. §1321*, advances are made to the unemployment fund once all funds in the trust have been extinguished, and amounts borrowed must be no more than the aggregate amount necessary to provide benefit payments in any three-month period, as certified by the Federal Secretary of Labor. These advances must be repaid when the unemployment fund is able. The *American Recovery and Reinvestment Act, Public Law 111-5, §2004*, provides that no interest shall accrue on advances to states covered by *Subchapter XII* during the period from the enactment of the law (February 11, 2009) through December 31, 2010. Interest on the outstanding balance began to accrue on January 1, 2011, and accrued interest totaled $1.7 million as of June 30, 2012. The outstanding advance balance totaled $76.4 million as of June 30, 2012.

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 governmental fund type accounts, fund equity is called "fund balance." Fund Balances are reported as nonspendable, restricted, committed, assigned, or unassigned as described in note 16.

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 mitigate the operational impact of any future unanticipated deficits, and 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, 2012.

When resources meeting more than one of the classifications (excluding nonspendable) are comingled in an account, assuming that expenditure meets the constraints of the classification, the assumed order of spending is restricted first, committed second, assigned third and finally unassigned.

In proprietary funds, fund equity is called net assets. Net assets are comprised of three components: invested in capital assets, net of related debt; restricted; and unrestricted.

(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 the governmental funds. In addition to monetary transactions, federal grants also include non-monetary transactions related to the supplemental nutrition assistance program.

(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 $13.9 million has been recorded pursuant to the settlement. The Master Settlement agreement receipts of $26.7 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 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 such investments 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, 2012, investments of the primary government were 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 by request through the Office of the State Treasurer.

Risks

The following deposits and investments disclosure of the primary government excludes the OPEB Trust and DPERS, which are described on pages 53 - 57.

Custodial Credit Risk

<u>*Deposits*</u>

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.

At June 30, 2012, the carrying amount of the primary government's deposits was $458.8 million and the bank balance was $476.2 million. Of the $476.2 million bank balance, $106.1 million was fully insured; $22.5 million represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury; and the remaining $370.1 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 $28.3 million and the bank balance was $31.7 million. Of the $31.7 million bank balance, $19.1 million was fully insured and the remaining $12.6 million was subject to custodial credit risk because the deposits were not covered by depository insurance or the deposits were uncollateralized, collateralized with securities held by the pledging financial institutions, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the government's name. State law permits the Treasurer to deposit in a financial institution in the State in which the Treasurer has custody if the deposit is interest bearing; the financial institution provides collateral that has a market value that exceeds the amount by which a deposit exceeds the deposit insurance, and a custodian holds the collateral.

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, 2012, the primary government's investments were $2,216.7 million. Of the primary government's investments, $383.0 million was fully insured and collateralized. Included in the primary government's investments of $2,216.7 million are agency funds. The amount of the agency funds' investments was $29.6 million.

The following table provides information on $1,833.7 million of the primary government's investments that are exposed to custodial credit risk; $721,665 of this amount represents the agency funds' investments:

Investment Type		Fair Value (Expressed in Thousands)
Corporate Obligations	$	362,131
Municipal Obligations		10,013
U.S. Government Obligations		1,040,173
Other Obligations		240,731
Commercial Paper		71,494
Certificates of Deposit		109,064
	$	1,833,606

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, 2012:

Investment Type		**Fair Value** (Expressed in Thousands)	**Effective Duration (In Years)**
Corporate Obligations	$	362,131	1.34
Municipal Obligations		10,013	6.41
U.S. Government Obligations		1,224,323	1.52
Other Obligations		266,598	2.06
Commercial Paper		243,868	0.25
Certificates of Deposit		109,733	0.55
	$	2,216,666	

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, 2012, 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	$ 321,203	$ 204,518	$ 105,684	$ 11,001	$ -
Asset-Backed Securities	40,928	5,173	35,755	-	-
Municipal Obligations	10,013	1,622	5,466	-	2,925
U.S. Government Obligations					
U.S. Treasury Bonds, Notes	375,839	18,999	348,945	7,895	-
U.S. Agency Bonds, Notes	295,466	-	223,594	29,175	42,697
Non US Gov't Obligations	36,853	1,919	32,910	-	2,024
Other Obligations					
Private Placements	239,503	98,355	139,332	1,816	-
Pooled Investments	27,095	27,095	-	-	-
Short Term Investments					
Commercial Paper	243,868	243,868	-	-	-
Certificate of Deposit	109,733	109,133	600	-	-
U.S. Government Obligations					
U.S. Treasury Bonds, Notes	265,776	235,996	15,640	14,140	-
U.S. Agency Bonds, Notes	250,389	191,246	34,578	19,846	4,719
Total Investments	**$ 2,216,666**	**$ 1,137,924**	**$ 942,504**	**$ 83,873**	**$ 52,365**

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 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, 2012 the ratings are presented using S & P's rating scale:

Credit Risk - Quality Ratings
(Expressed in Thousands)

Investment Type	TOTAL	TSY	AGY	AAA	AA	A	BBB	A-1	NR
Long Term Investments									
Corporate Obligations									
Corporate Bonds	$ 321,203	$ -	$ -	$ 12,929	$ 249,120	$ 55,543	$ -	$ -	$ 3,611
Asset-Backed Securities	40,928	-	-	32,743	-	-	-	-	8,185
Municipal Obligations	10,013	-	-	415	6,325	-	970	-	2,303
U.S. Government Obligations									
U.S. Treasury Bonds, Notes	375,840	375,840	-	-	-	-	-	-	-
U.S. Agency Bonds, Notes	295,466	-	295,466	-	-	-	-	-	-
Other Obligations	36,853	-	-	33,831	-	3,022	-	-	0
Private Placements	239,503	568	-	51,784	113,993	2,672	-	-	70,486
Pooled Investments	27,095	26,615	-	-	-	-	-	-	480
Short Term Investments									
Certificate of Deposit	243,867	1,407	-	-	28,524	-	-	196,743	17,193
U.S. Government Obligations	109,733	-	-	-	36,735	24,750	-	-	48,248
U.S. Treasury Bonds, Notes	265,776	265,776	-	-	-	-	-	-	-
U.S. Agency Bonds, Notes	250,389	109,550	140,839	-	-	-	-	-	-
Total Investments	**$ 2,216,666**	**$ 779,756**	**$ 436,305**	**$ 131,702**	**$ 434,697**	**$ 85,987**	**$ 970**	**$ 196,743**	**$ 150,506**

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; 5% in any one issuer.

    1. Domestic - No additional restrictions.
    2. Non-domestic - 25%, 5% in any one issuer.
    3. Delaware domiciled – Not more than the lesser of $10 million or 25% of an issuer’s total equity capital may be invested in any one issuer. (Investments due to mature in one business day may be excluded from the computation of this percentage.)

D. Corporate debt - 50% total; 25% in any one industry; 5% in any one issuer, 5% of any issuer's total outstanding securities.

    1. Domestic - No additional restrictions.
    2. Non-Domestic - 25%; 5% 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. Mortgage-backed and asset-backed securities – 10% total (when combined with asset-backed securities and trust certificates if applicable).

K. Municipal obligations - 5% in any one issuer.

L. 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.

M. Asset-backed securities and trust certificates – 10% total (when combined with mortgage-backed and asset-backed securities if applicable).

At June 30, 2012, 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 permits investments denominated in U.S. dollars; therefore, the State's investments are not exposed to foreign currency risk.

Commitments

At June 30, 2012 the State did not enter into any commitment agreements with any investment managers for future funding of various asset classes.

OPEB Trust Fund (OPEB Trust)

Investment Policy

The State Board of Pension Trustees is responsible for the management and investment of the funds in the OPEB Trust. The Board authorized its Investment Committee to select the investment managers of the OPEB Trust following the established investment guidelines for the Delaware Public Employees' Retirement System (System) until a separate investment policy is adopted for the OPEB Trust. The System follows the prudent person standard, which requires fiduciaries to discharge their duties solely in the interests of participants and their beneficiaries with such care, skill, prudence, and diligence as a person acting in like circumstances would exercise in the conduct of an enterprise with similar character and with similar aims. The OPEB Trust investment objectives and policies currently include indexed exposure to approximate the System's policy benchmark. The Investment Committee regularly reviews the OPEB investment performance, and considers investment vehicles which strike a balance between risk and return while being mindful of the government's time horizon for the OPEB investments. Of the OPEB trust's investment balance of $142.5 million, all is invested in three mutual funds and are not in individual investments registered in the Trust's name. For the fixed income type of mutual fund, the investments in maturities is in government agencies and hold a maturity of six to ten years at a fair market value of $57.0 million. The foreign equities type of mutual fund represents $29.8 million of balance of the trust. These are denominated in US Dollars and are invested in no individual country but an international region. The other $55.7 million is in an index fund.

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:

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

For the fiscal year ended June 30, 2012, 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 to allow participation in its securities lending program. The objective of securities lending is to earn income through a conservatively operated and well-controlled program. The System elected not to participate in the program during fiscal years 2012 and 2011, but may elect to participate at some time in the future.

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, 2012. It is the System's policy to classify corporate convertible bonds as equity securities because those securities generally convert to preferred equity interests upon maturity. Corporate convertible bonds in the amount of $530.5 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 +
Asset Backed Securities	$ 668	$ -	$ -	$ 668	$ -
Cash equivalents	434,338	434,338	-	-	-
Commercial Mortgage-Backed	1,429	-	-	-	1,429
Corporate Bonds	678,796	4,622	370,032	167,007	137,135
Corporate Convertible Bonds	530,520	18,184	388,974	36,806	86,556
Government Agencies	28,427	1,621	21,368	5,438	-
Government Bonds	57,468	27,627	6,056	7,186	16,598
Municipal/Provincial Bonds	17,189	-	13,173	-	4,016
Pooled Investments	934,405	-	-	931,362	3,043
Total	$ 2,683,240	$ 486,392	$ 799,603	$ 1,148,467	$ 248,777

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 is 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, 2012, 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	19.6%	$ 1,498,858
BBB to B	10.2%	778,307
CCC to C	0.8%	62,251
Less than C	0.0%	2,100
Less than C	0.1%	8,438
Not Rated	4.4%	333,286
Total:	35.1%	$ 2,683,240

Custodial Credit Risk

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. At June 30, 2012, the $505.9 million carrying amount of the System's cash and cash equivalents was comprised of $494.9 million of short-term investments and $11.0 million in deposits. The $10.8 million bank balance of deposits was subject to custodial credit risk because it was uninsured and uncollaterized. This amount includes pooled deposits of $181,000 which were held by the State Treasurer's Office.

Investment Concentration Risk

As of June 30, 2012, 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.

Management Fees

The System paid $25.7 million in management fees to the venture alternative investment funds and partnerships for the fiscal year ended June 30, 2012. These fees are netted against investment income. Management fees charged at the underlying fund level for the investments held by the First State Independence Fund I, LLC ranged from 1% to 2% of net assets, plus a performance fee of 20% on positive investment earnings, which were netted against earnings.

Investment Commitments

The System has commitments to invest up to an additional $842.0 million in venture capital limited partnerships in varying amounts as of June 30, 2012, to be drawn down, as called upon at any time during the term of each partnership, which is usually a ten-year period. Generally, these commitments are self-funding, in that the capital calls are met using cash flows generated by the existing venture capital/limited partnerships as managers in this asset class realize the proceeds of their investments.

Foreign Investments

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, 2012. The listing includes $4.7 million of investments of domestic issuers which have been classified as domestic, but are denominated in a foreign currency.

Investment Types
(Expressed in Thousands)

Currency	Fair Value in U.S. Dollars	Equities	Fixed Income	Cash and Cash Equivalents
Australian Dollar	$ 33,694	$ 19,639	$ 13,884	$ 171
Brazilian Real	21,681	13,397	8,284	-
British pound sterling	110,656	109,308	897	451
Canadian Dollar	42,342	20,165	21,933	244
Danish Krone	6,790	6,790	-	-
Euro	194,835	170,130	15,535	9,170
Hong Kong Dollar	62,795	62,545	-	250
Indonesian Rupiah	20,050	11,712	8,301	37
Japanese Yen	30,903	30,655	-	248
Mexican Peso	2,623	-	2,623	-
New Zealand Dollar	18,377	-	18,377	-
Norwegian Krone	17,233	2,640	14,593	-
Philippine Peso	14,307	14,307	-	-
Singapore Dollar	9,035	5,010	4,003	22
South Korean won	11,294	11,294	-	-
Swedish Krona	17,453	17,453	-	-
Swiss Franc	31,724	31,679	-	45
Thai Baht	6,722	6,722	-	-
Turkish Iira	11,236	11,095	-	141
Malaysian Ringgit	4,110	4,110	-	-
Total Foreign Currencies	$ 667,860	$ 548,651	$ 108,430	$ 10,779
Foreign Issued Investments Denominated in U.S. Dollars	348,441	291,050	57,391	-
Pooled International Investments Denominated in U.S. Dollars	191,169	191,169	-	-
Total	$ 1,207,470	$ 1,030,870	$ 165,821	$ 10,779

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. 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; counterbalance portfolio duration; enhance return
Exchange traded options contracts	Enhance return; reduce transaction costs
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. 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. Total derivative instruments at June 30, 2012 were not material to the system.

Risk and Uncertainty

The System 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 change could affect the amounts reported.

COMPONENT UNITS

Diamond State Port Corporation (DSPC)

At June 30, 2012, the carrying value and the bank balances of the DSPC's deposits were $5.2 million and $2.2 million, respectively. Of the bank balances, $5.2 million is insured by the Federal Deposit Insurance Corporation (FDIC).

Riverfront Development Corporation (RDC)

At June 30, 2012, the book balance of RDC's deposits was $2,287 and the bank balance was $2,418. As of June 30, 2012 and 2011, the RDC had cash and cash equivalents of $6,532 and $32,667, respectively, held by Office of the State Treasurer in Dover, Delaware. Deposits include $2,000,109 and $116,677, respectively, 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. The deposits held by the State investment pool are uninsured and uncollateralized.

Delaware State University (DSU)

At June 30, 2012, the carrying value and bank balance of DSU's deposits were $24.8 million and $28.7 million, respectively. Of the bank balances, $.8 million is insured by the FDIC and $27.9 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 $17.6 million of cash and cash equivalents related to unexpended State appropriations are held by Office of the State Treasurer. The credit risk for these deposits depends on the investment decisions made by the Office of the State Treasurer.

Delaware Technical and Community College Educational Foundation (DTCC Foundation)

At December 31, 2011, the DTCC Foundation's carrying value and bank balance was $694,358 and $250,000, respectively. The Foundation maintains cash balances at one financial institution located in Delaware. Accounts at the institution are insured by the FDIC up to $250,000. 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, 2012, the Delaware Charter Schools deposits carrying value was $43.4 million.

Deposits include $29.8 million held in the State Investment Pool. Carrying value of the remainder of deposits was $13.6 million. Bank balances totaled $14.1 million, consisting of $.6 million insured by FDIC and $13.5 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 Subchapter II, Section 4013, Chapter 40, Title 31, of the Delaware Code and DSHA's formal investment policy. Subject to certain limitations, such as the credit ratings on bonds and the capitalization level of depositories, "qualified investments" include:

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

Certain federal funds administered by 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 the State's investments and the related maturities:

Investment Maturities (in Years)
(Expressed in Thousands)

Investment Type	Fair Value	Less than 1	1 - 5	5 - 10	10 - 20	20 - 30
U.S. Treasury Notes	$ 13,993	$ 3,038	$ 10,675	$ -	$ 334	$ -
US Treasury Strips	927	463	368	-	133	-
U.S. Treasury Bonds	29	-	-	-	19	-
U.S. Agencies	44,505	10,539	17,735	-	-	15,954
Certificates of Deposit	40	40	-	-	-	-
Commercial Paper	12,946	12,996	-	-	-	-
Corporate Notes	9,654	567	8,975	-	-	-
Investment Agreements	1,646	-	-	-	382	1,264
Money Market Savings Accounts	27,306	27,306	-	-	-	-
Bank Money Market accounts	21,247	21,247	-	-	-	-
State of Delaware Investment Pool	18,021	18,021	-	-	-	-
Total Investments:	$ 150,314	$ 94,217	$ 37,753	$ -	$ 868	$ 17,218

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 DSHA should have a maximum maturity of one year. HUD-related funds held by 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. 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. 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 DSHA's Single and Multi-Family Programs, the investment rating must be equal or exceed the bond rating. 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, 2012, DSHA's investments were rated as follows:

Ratings (S & P)
(Expressed in Thousands)

Investment Type	AA+	AA-	AA-	A1+	A1	A
U.S. Agencies	$ 44,505	$ -	$ -	$ -	$ -	$ -
Corporate Notes	1,867	1,001	6,296	-	-	396
Commercial Paper	-	-	-	1,996	10,950	-
Total	$ 46,372	$ 1,001	$ 6,296	$ 1,996	$ 10,950	$ 396

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 DSHA's $150.3 million investment balance, $1.6 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.

Diamond State Port Corporation (DSPC)

Assets restricted for capital improvements totaled $13.9 million as of June 30, 2012. These assets are invested in a mutual funds account with a Moody's rating of AAA.

Delaware State University (DSU)

Investments of DSU totaled $33.7 million stated at quoted market value, which consist of pooled investments. The investments are owned by DSU and are subject to categorization.

Delaware Technical and Community College Educational Foundation (DTCC Foundation)

Investments of the DTCC Foundation totaled $11.5 million, stated at quoted market value. These investments consist of pooled investments where the DTCC Foundation does not own specific securities. An additional $49,770 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 uncollectible 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 at June 30, 2012. 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 Fund	Federal Funds	Local School District Funds	Total Receivables
Receivables:				
Taxes	$ 215,052	$ -	$ 34,545	$ 249,597
Accounts	504,432	113,609	473	618,514
Loans and Notes	39,558	249,230	-	288,788
Intergovernmental	-	148,903	-	148,903
Total Receivables	759,042	511,742	35,018	1,305,802
Allowance for Doubtful Accounts	(561,872)	(98,705)	(171)	(660,748)
Total Receivables, Net	$ 197,170	$ 413,037	$ 34,847	$ 645,054
Amounts not Scheduled for Collection During the Subsequent Year	$ 72,269	$ 222,221	$ 22,724	$ 317,214

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

	Unemployment	Lottery	DelDOT	Total Receivables
Receivables:				
Taxes	$ 42,807	$ -	$ -	$ 42,807
Interest	-	-	643	643
Accounts	19,006	11,242	16,520	46,768
Intergovernmental	5,693	-	22,400	28,093
Total Receivables	67,506	11,242	39,563	118,311
Allowance for Doubtful Accounts	(31,070)	(734)	-	(31,804)
Total Receivables, Net	$ 36,436	$ 10,508	$ 39,563	$ 86,507
Amounts not Scheduled for Collection During the Subsequent Year	$ -	$ -	$ -	$ -

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	$	84,517
Loans and Notes Receivables		284,622
Intergovernmental		13,897
Accounts Receivables		52,816
Subtotal Unavailable		435,852
Unearned		
Advance Park Reservation Fees		966
Federal Grant Advance Drawdowns		12,759
Subtotal Unearned		13,725
Total Deferred Revenue	$	449,577

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, 2012, expressed in thousands, is as follows:

Receivable Fund	Payable Fund	Amount
General	Federal	$ 37,574
Unemployment	General Fund	(1,689)
General	Lottery	3,916
General	Deldot	4,526
	Total	$ 44,327

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.

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.

The amount due from DelDot is due to a borrowing from the State's general fund cash accounts.

The amount due to unemployment is from interest that the general fund owes the unemployment due to an overpayment of a temporary borrowing.

(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 and the statement of revenues, expenses and changes in fund net assets, proprietary funds 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, 2012 is presented below (expressed in thousands):

	Transfers In	Transfers Out
Governmental funds		
General	$ 486,535	$ 64,851
Federal	-	34,758
Local School District	54,178	98,367
Capital	-	54,834
Proprietary Funds		
Unemployment	3,422	-
Lottery	-	328,062
DelDOT	43,247	6,510
Total of All Funds	$ 587,382	$ 587,382

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, corrections 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 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 November 15, 2011, the State issued $275.4 million of its general obligation bonds maturing between July 1, 2012 and July 1, 2031. Of the $275.4 million issued as Series 2011, $50.4 million was issued to refund higher priced bonds resulting in a net present value savings of $2.8 million, or 5.2% of the principal refunded. The Series 2011 bonds were sold to retail and institutional investors and bore coupons between 2% and 5% and yield between .21% and 3.46%.

The refunding Series 2011 resulted in an economic gain of $2.2 million and a debt service cash saving over the next four years of $2.8 million.

Bonds issued and outstanding totaled $1,696.5 million at June 30, 2012. Of this amount, $545.3 million is supported by property taxes collected by the local school districts. During fiscal year 2012, the local school district funds transferred $62.3 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 $161.1 million of general obligation bonds at June 30, 2012. Interest rates and maturities of the outstanding general obligation bonds are detailed as follows:

General Obligation Bonds
(Expressed in Thousands)

Sale #	Description	Interest Rates	Maturity Date (Fiscal Year)		Balance Outstanding at June 30, 2012
216	GO 2011A2	2.000%-5.000%	2031	$	174,520
215	GO 2011A1	2.000%-5.000%	2031		100,905
214	GO 2010D	4.550%	2029		59,580
213	GO 2010C	3.100%-4.600%	2030		115,775
212	GO 2010B2	5.00%	2023		95,570
211	GO 2010B1	2.000%-4.000%	2024		29,210
210	GO 2010A2	2.000%-3.000%	2018		26,250
209	GO 2010A1	1.500%-5.000%	2024		122,000
208	GO 2009D	3.700%-5.300%	2029		179,315
207	GO 2009C2	2.000%-3.000%	2024		41,350
206	GO 2009C1	3.000%-5.000%	2027		268,980
205	GO 2009B	4.750%-5.000%	2026		83,200
204	GO 2009A2	4.750%-5.000%	2017		5,275
203	GO 2009A1	4.750%-5.000%	2029		68,325
202	GO 2008B	4.750%-5.000%	2016		50,960
201	GO 2008A	3.000%-5.000%	2016		5,040
200	GO 2007A	4.000%-5.000%	2027		95,025
199	GO 2006C	0%	2022		1,433
198	GO 2006B	4.000%-5.500%	2026		76,960
197	GO 2006A	3.75%-4.500%	2026		12,925
196	GO 2005D	3.50%-5.0%	2025		26,400
195	GO 2005C	5%	2023		45,335
194	GO 2005B	2.625%-5.0%	2024		8,445
193	GO 2005A	2.25%-4.25%	2025		930
192	QZAB 2004B	0%	2020		224
190	QZAB 2003D	0%	2018		908
186	QZAB 2002B	0%	2016		760
170	GO 1992B	4.7%-6.1%	2012		859
		Total, Gross			1,696,459
		Plus: Unamortized Bond Premium			156,828
		Total General Obligation Bonds		$	1,853,287

The following table sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2012:

Total General Obligation Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2013	$ 154,439	$ 78,234	$ 232,673
2014	154,695	67,652	222,347
2015	140,695	60,822	201,517
2016	134,685	54,213	188,898
2017	129,510	47,980	177,490
2018-2022	459,602	169,129	628,731
2023-2027	331,133	82,661	413,794
2028-2032	191,700	19,020	210,720
Total	$ 1,696,459	$ 579,711	$ 2,276,170

Changes in general obligation bonded debt during the year ended June 30, 2012 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, 2012, a total of $282.3 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.

Primary Government

Blended Component Units

In August, 2011, pursuant to the Delaware Energy Act, 29 Del. C. §8059, the Sustainable Energy Utility, Inc. (the "SEU"), a Delaware nonprofit corporation created by and for the benefit of the State issued $67.4 million of its Sustainable Energy Utility, Inc. Energy Efficiency Revenue Bonds, Series 2011 (the "SEU Bonds"). Of the total amount, $56.2 million of the SEU Bonds were issued to finance energy conservation measures for multiple State agencies and the remaining amount of $11.3 million was issued on behalf of Delaware State University. Under separate Installment Payment Agreements, each agency and Delaware State University, is obligated to make installment payments to the SEU in accordance with the Energy Performance Contracting Act, 29 Del. C. §6971. Further, each agency and Delaware State University separately entered into Guaranteed Energy Savings Agreements with various energy services companies, which guaranteed that the savings achieved will be sufficient to cover the financing costs associated with the SEU bonds upon completion of the energy conservation measures. In the event that savings are not realized, the energy services companies will be held responsible for the deficiency.

The SEU Bonds are limited obligations of the SEU, secured by the trust estate and payable only from amounts appropriated by the State that are eligible for payment under the Installment Payment Agreements. No funds appropriated to any agency for any purpose are available to pay the Installment Payments of any other agency or Delaware State University.

The final maturity of the SEU bonds is September 15, 2034. As of June 30, 2012, $56.2 million of the SEU Bonds issued to finance projects at State agencies remained.

Total Sustainable Energy Utility Revenue Bonds
(Expressed in Thousands)

Year	Principal	Interest	Total
2013	$ 1,775	$ 2,565	$ 4,340
2014	1,845	2,533	4,378
2015	3,185	2,485	5,670
2016	3,005	2,393	5,398
2017	3,155	2,254	5,409
2018-2022	10,570	9,642	20,212
2023-2027	13,005	7,002	20,007
2028-2032	16,210	3,696	19,906
2033-2037	3,420	384	3,804
Total	$ 56,170	$ 32,954	$ 89,124

DelDOT Fund

Delaware Transportation Authority (Authority)

The Authority is subject to oversight by the DelDot 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.

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, 2012, the amount of defeased debt outstanding amounted to $312.8 million.

The Authority has a total of $235.6 million in authorized but unissued revenue bonds at June 30, 2012. Bonds outstanding at June 30, 2012 amounted to $1,087.7 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, 2012
Transportation System Senior Revenue Bonds - Series			
2002	5.25%	2022	$ 8,675
2003	5.00%	2023	51,720
2004	4.0% - 5.0%	2024	71,195
2005	4.25% - 5.0%	2025	70,825
2006	3.5% - 5.0%	2026	106,725
2007	4.0% - 5.0%	2021	66,485
2008	4.0% - 5.0%	2028	71,840
2008	4.0% - 5.0%	2029	110,245
2009	5.00%	2029	103,815
2010	4.0% - 5.0%	2019	44,385
2010	3.95% - 5.80%	2030	72,120
2012	3.0% - 5.0%	2024	222,870
Transportation System Grant Anticipation Bonds			
2010 Series	5.00%	2025	105,835
	Total, Gross		1,106,735
	Less: Deferred Amount on		(19,066)
	Total, Net		1,087,669
	Less: Current Portion of Debt Outstanding		(80,538)
	Long-term Portion of Debt Outstanding		$ 1,007,131

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
2013	$ 83,230	$ 48,097	$ 131,327
2014	75,205	47,162	122,367
2015	77,655	43,465	121,120
2016	75,350	39,754	115,104
2017	72,840	36,243	109,083
2018-2022	366,785	128,329	495,114
2023-2027	271,790	49,290	321,080
2028-2031	83,880	7,362	91,242
Total	$ 1,106,735	$ 399,702	$ 1,506,437

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, 2012 for the trust funds, which is the segment of DelDOT that supports the revenue bonds, is presented below and on the following page:

Condensed Balance Sheets
(Expressed in Thousands)

Assets:		
Current Assets	$	301,710
Capital Assets		1,234,701
Other Assets		91,296
Total Assets	$	1,627,707
Liabilities:		
Current Liabilities		146,103
Noncurrent Liabilities		1,066,306
Total Liabilities		1,212,409
Net Assets:		
Invested in Capital Assets, Net of Related Debt		156,164
Unrestricted		92,264
Restricted		166,870
Total Net Assets		415,298
Total Liabilities and Net Assets	$	1,627,707

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

Operating Revenues (Pledged Against Bonds)	$ 375,800
Other Operating Revenues	52,966
Depreciation Expense	(192)
Other Operating Expenses	(374,486)
Operating Income	54,088
Nonoperating Revenues (Expenses):	
Investment Income (Pledging Against Bonds)	3,160
Other Investment Income (Loss)	13,703
Interest Expense	(42,071)
Transfer from State General Fund	43,247
Change in Net Assets	72,127
Beginning Net Assets	343,172
Ending Net Assets	$ 415,299

Condensed Statements of Cash Flows
(Expressed in Thousands)

Net Cash Provided by (Used In):	
Operating Activities	$ 59,210
Noncapital Financing Activities	43,247
Capital and Related Financing Activities	(196,377)
Investing Activities	36,906
Net Increase (Decrease)	(57,014)
Beginning Cash and Cash Equivalents	81,544
Ending Cash and Cash Equivalents	$ 24,530

Discretely Presented 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)

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 DSHA.

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 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 0.53% to 7.75% with maturities of such bonds up through January 1, 2049.

On July 18, 2011, the Authority issued $99.6 million of Single Family Mortgage Revenue Bonds 2011-1 pursuant to the New issue Bond Program (NIBP) established jointly by Fannie Mae, Freddie Mac, the Federal Housing Finance Agency, and the U.S. Department of the Treasury (US Treasury) under the US Treasury provides funding for bond assistance. The proceeds from the sale were used to provide low rate mortgages to first-time homebuyers.

On October 28, 2011, the Authority issued $36.8 million of Single Family Mortgage Revenue Bonds 2011 Series A/B to fully refund the Single Family Mortgage Revenue Bonds 1997 Series B, 1999 Series A, 2000 Series A, 2001 Series A and Series 2002 Series A and to make funds available for second mortgage loans. The outstanding mortgage loans in these refunds issues were transferred to the 2011 B issue.

On November 22, 2011, the Authority issued $76.7 million of Single Family Mortgage Revenue Bonds 2011-2 pursuant to the New issue Bond Program (NIBP) established jointly by Fannie Mae, Freddie Mac, the Federal Housing Finance Agency, and the U.S. Department of the Treasury (US Treasury) under the US Treasury provides funding for bond assistance. The proceeds from the sale were used to provide low rate mortgages to first-time homebuyers.

Revenue bonds payable decreased by $18.0 million due to accretion on capital appreciation bonds, netted by deferred amounts on refunding and bond forgiveness.

Outstanding bonds at June 30, 2012 amounted to $812.0 million. Future debt service requirements for 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
2013	$ 18,644	$ 35,260	$ 53,904
2014	17,645	34,586	52,231
2015	17,995	33,869	51,864
2016	18,525	33,120	51,645
2017	19,105	32,335	51,440
2018-2022	106,345	147,684	254,029
2023-2027	129,174	119,616	248,790
2028-2032	147,804	86,378	234,182
2033-2037	198,979	50,882	249,861
2038-2042	102,217	13,546	115,763
2043-2047	20,875	4,067	24,942
2048-2049	14,802	178	14,980
Total	$ 812,110	$ 591,521	$ 1,403,631

Delaware State University (DSU)

Revenue bonds payable at June 30, 2012 are as follows:

Revenue Bonds Payable
(Expressed in Thousands)

Revenue Bonds	$ 3,107
Revenue Refunding Bonds	47,853
Energy Efficiency Revenue Bonds	12,099
Revenue Refunding Bonds Series 2012	33,988
Student Housing Foundation Bonds	15,674
Total Revenue Bonds Outstanding as of June 30, 2012	$ 112,721

On May 6, 1999, the University issued revenue refunding bonds in the amount of $15.9 million (par value) through the Delaware Economic Development Authority (the "Authority"). The bonds are due on October 1, 2017 and are secured by un-appropriated gross revenues of the University.

The Bond Trust Indenture requires the University to maintain a debt service reserve fund equal to the maximum annual debt service on all bonds outstanding under the Indenture. The University meets this requirement by providing for the deposit through a surety bond in the Debt Reserve Fund. This bond was obtained from MBIA Insurance Corporation in the amount of $1.6 million. The University has pledged all 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. The 1999 bonds were backed by MBIA, and have no letter of credit expiration date.

On March 1, 2012 the University issued revenue refunding bonds in the amount of $32.1 million (par value) through the Authority which were in part used to refund certain maturities of Series 1999 bonds. The issuance of Series 2012 bonds and refunding resulted in a $2.7 million reduction in Series 1999 bond obligations. As of June 30, 2012, $3.1 million including less than a million of unamortized bond discount remained outstanding on the 1999 Revenue Bonds. The refunding of the callable portion of the Series 1999 Bonds resulted in a net present value savings of $.1 million.

On December 20, 2007, 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, 2036 and are secured by un-appropriated gross revenues of DSU. 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 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 rooms and administrative offices. The primary function of the pool is to provide a recreational environment. The student wellness/recreation center will serve 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. It was noted that the 2007 bonds were backed by MBIA who had no letter of credit expiration date.

The University entered into a Guaranteed Energy Savings Agreement with Johnson Controls, Inc. in the amount of $11.3 million. In connection with this agreement and to fund energy efficiency projects, energy efficiency revenue bonds were issued through the State of Delaware Sustainable Energy Utility, Inc. on August 1, 2011. The bonds are due September 15, 2032 and are limited obligations of the University, payable only from amounts appropriated by the State that are eligible for payment of the Installment Payments pursuant to the Energy Performance

Contracting Act. The 2011 bonds are equally and ratably secured by the trust estate, and failure of the State to appropriate each year sufficient available funds will cause insufficient funds to be deposited into the bond fund to pay all principal and interest on the bonds when due. Johnson Controls, Inc. guaranteed that the savings achieved will be sufficient to cover the financing cost associated with the bond, upon completion of the energy upgrades to various buildings and systems throughout the University. In the event that the savings are not realized, Johnson Controls, Inc. will be responsible for the amount of that deficiency. As of June 30, 2012, $12.1 million including $.8 million of unamortized bond premium remained outstanding on the 2011 energy efficiency bonds.

On March 1, 2012 the University issued revenue refunding bonds in the amount of $32.1 million (par value) through the Delaware Economic Development Authority. The bonds are due October 1, 2036 and are secured by a pledge of certain un-appropriated revenues of the University. The 2012 bonds were 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. The proceeds of the 2012 bonds were used to finance: (1) the refunding of certain maturities of The Delaware Economic Development Authority Revenue Refunding Bonds (Delaware State University Project) Series 1999; (2) the purchase of the University Village, a four building, 628 bed student housing facility and dining hall located on the campus of the University, the construction of which was financed by the Kent County, Delaware Variable Rate Demand Student Housing Revenue Bonds (Delaware State University Student Housing Foundation Project) Series 2004B; (3) the funding of any required reserve funds relating to the 2012 Bonds; and (4) the costs of issuance and any credit enhancement of the 2012 Bonds. As of June 30, 2012 $34.0 million including $1.8 million of unamortized bond premium remained outstanding on the 2012 revenue bonds.

Delaware State University Revenue Bonds

Remaining maturities and interest due relating to the university's revenue bonds at June 30, 2012, follows:

Fiscal year	Principal Amount	Interest Amount	Balance Outstanding At June 30, 2012
2013	$ 1,180	$ 4,129	$ 5,309
2014	1,640	4,101	5,741
2015	2,030	4,054	6,084
2016	2,100	3,981	6,081
2017	2,230	3,886	6,116
2018 - 2022	13,695	17,751	31,446
2023 - 2027	17,215	14,410	31,625
2028 - 2032	21,470	10,154	31,624
2033 - 2037	22,805	4,755	27,560
2038 - 2041	9,755	546	10,301
Total	94,120	67,767	161,887
Plus Unamortized Bond Premiums and Discount -	2,926		
Total Revenue Bonds Payable	$ 97,046		

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 June 30, 2012. 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 Housing Foundation refinanced its Series 2000A and 2002A Bonds (the Prior Bonds) with a loan payable in an aggregate amount of $18.4 million funded with proceeds from the issuance of student housing revenue bonds, Series 2004A (Delaware State University Student Housing Foundation Project). Pursuant to the trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004A Bonds are restricted to refunding the Prior Bonds, to fund a debt service reserve fund for the Series 2004A Bonds, to fund an operating reserve fund for the Series 2004A Bonds, and to pay a portion of the costs of issuance of the Series 2004A Bonds. Effective February 21, 2004 the Housing Foundation defeased the tax-exempt series 2000A and the tax exempt series 2002A term bonds at face value. Further, the letter of credit for the 2004A bonds were backed by ACA Financial Guaranty Corporation with no letter of credit expiration, whereas the 2004B bonds was backed by Wachovia (now Wells Fargo), who provided a letter of credit extension through January 2012. The letter of credit supporting the 2004B Bonds expired on January 20, 2012. As a result, the principal amount of $33.6 million was classified as a current liability in the June 30, 2011 Housing Foundation's Statement of Net Assets. This did not constitute a violation of the financial covenants contained in the Reimbursement Agreement between the Housing Foundation and Wells Fargo, the letter of credit bank. Effective March 1, 2012, the Housing Foundation's Series 2004B bonds were repaid by the University with proceeds of the University's Series 2012 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. The first monthly interest payment on the Series 2004 Bonds began on July 1, 2004. Total accrued interest on all bonds as of June 30, 2012 is $0.4 million.

Maturities of long-term debt at June 30, 2012 are as follows:

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

Description	Interest Rates	Principal Amount	Interest Amount	Balance Outstanding At June 30, 2012
2013	3.70%	$ 405	$ 769	$ 1,174
2014	4.00%	420	753	1,173
2015	4.00%	435	736	1,171
2016	4.20%	455	717	1,172
2017	4.30%	475	698	1,173
2018 - 2022	4.40-5.0%	2,710	3,133	5,843
2023 - 2027	5.00%	4,240	2,373	6,613
2028 - 2032	5.0-5.125%	4,610	1,398	6,008
2033 - 2037	5.125%	2,195	252	2,447
Total, Gross		15,945	10,829	26,774
Less: Unamortized Bond		(271)		
Long Term Portion of Debt Outstanding Revenue Bonds as of June 30, 2012		$ 15,674		

NOTE 7 LOANS AND NOTES PAYABLE

Component Units

Diamond State Port Corporation (DSPC)

Loan and notes payable of the DSPC at June 30, 2012 are shown below:

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

Transportation Trust Fund Loan	$ 19,433
City of Wilmington Port Debt Service Notes	5,956
Delaware River and Bay Authority	2,955
Total	$ 28,344

Transportation Trust Fund Loan

On November 30, 2001, DSPC entered into a loan agreement with DelDOT. DSPC borrowed $27.5 million. The funds were used to repay the balances in full of the original 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 on July 1, 2007. Beginning March 31, 2007, principal and interest payments are March 31 and May 31 each year. In June 2009, the loan was restructured to allow for the deferral of debt service principal and interest payments due March 31, 2010 and May 31, 2010, and to restructure the principal balance effective July 1, 2009 over the next 21 years. The interest rate was 3.99% during 2012 and 2011. The loan matures March 2029.

Interest expense charged to operations in 2012 was $0.8 million.

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
2013	$ 853	$ 774	$ 1,627
2014	888	740	1,628
2015	923	704	1,627
2016	960	667	1,627
2017	999	629	1,628
2018-2022	5,629	2,510	8,139
2023-2027	6,853	1,286	8,139
2028-2029	2,327	115	2,442
Total	$ 19,432	$ 7,425	$ 26,857

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, 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 $51.1 million. These notes are secured by a first lien on substantially all of the DSPC's assets. These notes obligate 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 3.70% 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%. DSPC-related portions of the new bonds issued and old bonds redeemed were $7.2 million and $6.9 million, respectively, passed through to DSPC. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $0.3 million for the year ended June 30, 2002, it reduced DSPC's debt service payments by $0.3 million over eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven year life of the debt.

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 $0.2 million due January 1, 2005. DSPC-related portions of the new bonds issued and old bonds redeemed were $4.0 million and $3.6 million, respectively, passed through to DSPC. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $0.4 million, it reduces DSPC's debt service payments by $0.3 million 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, 2012 was $0.3 million.

On April 19, 2010, the City of Wilmington refunded Series 1993B, 2004B, and 2008A bonds, and those bonds were replaced by Series 2010A bonds, which the Corporation has correlating notes with the City. The immediate impact is a reduction in debt service of $1.06 million for 2011 and 2012. Overall, the Corporation will save $0.1 million in principal, resulting in an economic gain; however, the Corporation will pay an additional $0.9 million in interest over the next 13 years.

Total deferred loss balance as of June 30, 2012 was $0.3 million. The amortization of deferred loss is $0.01 million.

Principal and interest payments made on the note during 2012 were each $1.2 million.
Interest expense on the note in 2012 was less than a million.

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

Port Debt Service Note
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2013	$ 610	$ 291	$ 901
2014	661	264	925
2015	701	233	934
2016	742	195	937
2017	683	157	840
2018-2022	2,305	476	2,781
2023	540	13	553
Subtotal	6,242	1,629	7,871
Deferred Loss on Refunding	(286)	-	(286)
Total	$ 5,956	$ 1,629	$ 7,585

Delaware River and Bay Authority (DRBA) Obligation

On March 1, 2005, 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, DSPC and the DRBA entered into an operating agreement in which DSPC agreed to make guaranteed payments to the DRBA, 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. DSPC began making guaranteed payments on July 1, 2007.

Interest expense incurred on this obligation was less than a million during 2012.

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
2013	$ 175	$ 86	$ 261
2014	181	81	262
2015	186	75	261
2016	192	70	262
2017	197	64	261
2018-2022	878	429	1,307
2023-2027	1,146	161	1,307
Total	$ 2,955	$ 966	$ 3,921

Wilmington Trust Company (WTC) Loan

DSPC entered into a loan agreement with WTC (now M&T Bank) on August 17, 2007 for $0.4 million to purchase two 45,000 lbs. Hyster forklifts. Monthly payments to WTC of $6,168 began on September 17, 2007. The loan was repaid early in December 2011.

Interest expense incurred on this obligation was less than a million during 2012.

Bank of America Master (BOA) Lease

In 2008, DSPC utilized the State of Delaware's Master Lease program (as administered by BOA) to purchase the twelve forklifts for $0.3 million using two loans. Both loans are for ten years at interest rates of 2.88% and 3.23%, respectively. Payments began one month after the purchase dates. The obligation was repaid early in December 2011.

Interest expense incurred on this obligation was less than a million during 2012.

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 $17.7 million at June 30, 2012. Interest rates for the mortgages vary between 5.45% and 8.00% and mature between June 2012 and November 2014.

Estimated future annual debt service requirements are shown as follows:

Riverfront Development Mortgage Debt
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2013	$ 985	$ 604	$ 1,589
2014	1,007	579	1,586
2015	10,121	392	10,513
2016	737	159	896
2017	4,625	80	4,705
Thereafter	179	5	184
Total	$ 17,654	$ 1,819	$ 19,473

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 $183.1 million, of which $156.8 million relates to property leases and $26.3 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. Lease payments for fiscal year 2012 were approximately $44.0 million, of which $24.1 million was for office space and $19.8 million, was for equipment. The equipment leases held by the State consists mainly of computers, data processing equipment and fleet vehicles.

Significant annual State's equipment rentals include $3.9 million for fleet vehicles and data processing equipment for the Office of Management and Budget and $1.1 million for data processing equipment for the State's Department of Education. Significant annual real estate rentals include $6.0 million for leases for Health and Social Services facilities, $2.2 million for the State's Department of Services for Children, Youth and Their Families, $2.9 million for office space for the State's Department of Correction, and $3.0 million for the State's Department of Labor.

Future minimum lease commitments for operating leases as of June 30, 2012 are shown in the following table:

Lease Commitments
(Expressed in Thousands)

Year Ending June 30	Operating Leases
2013	$ 35,754
2014	29,903
2015	23,070
2016	20,140
2017	18,469
2018-2022	45,053
2023-2027	9,363
2028-2032	1,385
Total	$ 183,137

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, 2012. 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. $166.9 million has been accrued for the Governmental Activities and $16.8 million in the Business-type Activities for the total compensated absences liability. The current portion of the long-term obligation for compensated absences is $12.8 million in the Governmental Activities and $6.8 million in the Business-type Activities. Approximately $140.3 million (84.0%) of the long-term obligation for compensated absences will be liquidated by the General Fund. Of the remainder, approximately $10.3 million (6.2%) and $16.3 million (9.8%) will be paid with Federal Funds and Local School District Funds, respectively.

The State has recorded $95.0 million relating to the accrual of the obligation for escheated (abandoned) property of which $19.0 million was recorded as the current portion.

The State has incurred obligations relating to scholarship and physician loan repayment programs, resulting in an obligation of $5.7 million, of which $1.3 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, 2012:

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Net pension Obligation (Note 15)	$ 117.8	$ 10.4	$ (10.2)	$ 118.0	$ -
Other Postemployment Benefits	1,204.1	515.0	(222.6)	1,496.5	-
Compensated Absences	171.0	6.2	(10.3)	166.9	12.8
Claims and Judgments (Notes 13 and 17)	141.1	56.7	(39.4)	158.4	34.8
Escheat Payable	87.5	26.3	(18.8)	95.0	19.0
Notes Payable	0.1	-	(0.1)	-	-
Pollution Remediation Obligations	18.5	15.1	(3.8)	29.8	6.5
Bonds Payable:					
General Obligation Bonds	1,611.8	224.3	(139.7)	1,696.4	154.4
Bond Issue Premium, Net of Accumulated Amortization	136.6	32.9	(12.7)	156.8	11.1
Revenue Bonds	-	56.2	-	56.2	1.8
Physician and Scholarship Programs	4.8	2.1	(1.7)	5.2	1.3
Governmental Activities Long-term Liabilities Total:	$ 3,493.3	$ 945.2	$ (459.3)	$ 3,979.2	$ 241.7
Business-type Activities:					
Other Postemployment Benefits	$ 113.0	$ 45.4	$ (12.5)	$ 145.9	$ -
Compensated Absences	14.4	2.7	(0.3)	16.8	6.8
Claims and Judgments (Notes 13 and 17)	6.0	-	(3.0)	3.0	-
Pollution Remediation Obligations	1.8	3.6	-	5.4	0.8
Liabilities Payable from Restricted Assets	9.9	4.8	(3.0)	11.7	2.9
Bonds Payable:					
General Obligation Bonds	0.8		(0.4)	0.4	0.2
Revenue Bonds	1,206.8	207.0	(326.1)	1,087.7	80.5
Bond issue Premium, Net of Accumulated Amortization	37.4	42.2	(13.8)	65.8	12.7
Business-type Activities Long-term Liabilities Total:	$ 1,390.1	$ 305.7	$ (359.1)	$ 1,336.7	$ 103.9

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, 2012 for these entities amounted to $861.0 million and $688.4 million, respectively.

NOTE 12 CAPITAL ASSETS

(a) Primary Government

Capital asset activities for the fiscal year ended June 30, 2012 were as follows:

Capital Assets
(Expressed in Thousands)

Governmental Activities	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Capital Assets, Not Being Depreciated				
Land	$ 440,129	$ 9,177	$ (1,494)	$ 447,812
Easements	274,871	16,970	(736)	291,105
Construction-In-Progress	201,020	167,037	(123,274)	244,783
Total Capital Assets, Not Being Depreciated	916,020	193,184	(125,504)	983,700
Capital Assets, Being Depreciated				
Vehicles	75,733	6,720	(2,750)	79,703
Buildings	3,405,749	109,260	(483)	3,514,526
Equipment	90,564	10,106	(4,425)	96,245
Land Improvements	203,860	14,085	(422)	217,523
Computer Software	58,171	-	-	58,171
Total Capital Assets Being Depreciated	3,834,077	140,171	(8,080)	3,966,168
Less Accumulated Depreciation For:				
Vehicles	(60,594)	(4,925)	2,620	(62,899)
Buildings	(1,022,653)	(75,147)	130	(1,097,670)
Equipment	(69,008)	(4,508)	1,740	(71,776)
Land Improvements	(56,204)	(5,715)	-	(61,919)
Computer Software	(13,623)	(11,078)	-	(24,701)
Total Accumulated Depreciation	(1,222,082)	(101,373)	4,490	(1,318,965)
Total Capital Assets, Being Ddepreciated, Net	2,611,995	38,798	(3,590)	2,647,203
Governmental Activities Capital Assets, Net	$ 3,528,015	$ 231,982	$ (129,094)	$ 3,630,903

Capital Assets
(Expressed in Thousands)

Business-type Activities Lottery	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Capital Assets, Being Depreciated				
Computer Euipment & Software	$ 1,395	$ -	$ -	$ 1,395
Total Capital Assets Being Depreciated	1,395	-	-	1,395
Less Accumulated Depreciation	(1,394)	(1)	-	(1,395)
Total Capital Assets, Being Depreciated, Net	$ 1	$ (1)	$ -	$ -

Capital Assets
(Expressed in Thousands)

Business-type Activities DelDOT	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Capital Assets, Not Being Depreciated				
Land	$ 276,761	$ -	$ -	$ 276,761
Infrastructure	3,481,075	83,272	-	3,564,347
Construction In Progress	-	2,487	-	2,487
Total Capital Assets, Not Being Depreciated	3,757,836	85,759	-	3,843,595
Capital Assets, Being Depreciated				
Buildings & Improvements	98,057	6,917	(138)	104,836
Furniture & Equipment	239,415	22,525	(7,433)	254,507
Total Capital Assets, Being Depreciated	337,472	29,442	(7,571)	359,343
Less Accumulated Depreciation For:				
Buildings & Improvements	(28,028)	(3,199)	115	(31,112)
Furniture & Equipment	(123,647)	(19,828)	6,501	(136,974)
Total Accumulated Depreciation	(151,675)	(23,027)	6,616	(168,086)
Total Capital Assets, Being Depreciated, Net	185,797	6,415	(955)	191,257
Total Capital Assets	$ 3,943,633	$ 92,174	$ (955)	$ 4,034,852
Business-type Activities Capital Assets, Net	$ 3,943,634	$ 92,173	$ (955)	$ 4,034,852

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

Depreciation Expense
(Expressed in Thousands)

Governmental Activities:		
General Government	$	23,250
Health and Children's Services		2,367
Judicial and Public Safety		13,148
Natural Resources and Environmental Control		3,211
Labor		69
Education		59,328
Total Depreciation Expense - Governmental Activities	$	101,373
Business-Type Activities:		
DelDOT	$	23,027
Lottery		1
Total Depreciation Expense - Business-type Activities	$	23,028

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, 2012, for workers' compensation, automobile accident and health-care claim liabilities is $198.9 million. The claim liabilities relating to health-care totaling $43.5 million have been recorded as accrued liabilities in governmental activities. The liability for workers' compensation and automobile accident liabilities totaling $155.4 million has been recorded in governmental activities as claims and judgments. The current portion of these claims totals $34.8 million. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2012 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2012 and 2011 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
2011	$ 162,590	$ 586,537	$ (572,198)	$ 176,929
2012	$ 176,929	$ 639,514	$ (617,548)	$ 198,895

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 $9.0 million of claim liabilities as Insurance Loss Reserve. Of this amount, $2.9 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, 2012:

Retirees and Beneficiaries Receiving Benefits	$ 19,530
Terminated Plan Members Entitled to But Not Yet Receiving the Benefits	2,301
Active Eligible Plan Members	36,154
Total	$ 57,985

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

Eligibility:

State Employees:

Early Retirement:

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

Normal Retirement:

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

Benefits:

During the fiscal year ended June 30, 2012, the State provided health insurance options through several providers.

Spouse and Survivor Coverage:

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

Employee Contributions:

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

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

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 Chapter 52, Title 29 of the Delaware Code, 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. For fiscal year 2012, the State contribution in relation to the annual required contribution (ARC) totaled $186.1 million.

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 $6.5 million.

Annual OPEB Cost and Net OPEB Obligation

The State's annual OPEB cost is calculated based on 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 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 for fiscal year 2012 and the preceding fiscal 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, 2010	$ 986.9	$ 906.1	$ 80.8
Annual Required Contribution	553.4	506.6	46.8
Adjustment to Annual Required Contribution	(39.7)	(36.4)	(3.3)
Subtotal	1,500.6	1,376.3	124.3
Employer Contributions	(183.5)	(172.2)	(11.3)
Net OPEB Obligation at June 30, 2011	$ 1,317.1	$ 1,204.1	$ 113.0

	Total	Governmental Activities	Business-Type Activities *
Net OPEB Obligation at June 30, 2011	$ 1,317.1	$ 1,204.1	$ 113.0
Annual Required Contribution	563.8	515.0	48.8
Adjustment to Annual Required Contribution	(51.2)	(46.7)	(4.5)
Subtotal	1,829.7	1,672.4	157.3
Employer Contributions	(187.3)	(175.9)	(11.4)
Net OPEB Obligation at June 30, 2012	$ 1,642.4	$ 1,496.5	$ 145.9

* This column includes DTC's OPEB activity.

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 2012 and preceding fiscal year are as follows (dollar amounts in millions):

Ended June 30	OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation
2010	$ 480.0	36%	$ 956.5
2011	488.1	37%	1,272.0
2012	495.0	38%	1,581.5

Funded Status and Funding Progress

As of June 30, 2012, the plan was 2.8% funded. The actuarial accrued liability for benefits was $5,805.0 million, and the actuarial value of assets was $163.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $5,642.0 million for the primary government. The covered payroll (annual payroll of active employees covered by the plan) was $1,885.0 million, and the ratio of the UAAL to the covered payroll was 299%.

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, 2012, actuarial valuation, the entry age normal actuarial cost method was used. Investments are valued at market rates. The actuarial assumptions included a 4.25% 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 4.25% with an ultimate rate of 4.25%. The UAAL is being amortized as a level percentage of projected payroll on a level percent open basis over 30 years using a 3.25% rate of salary increase.

Delaware Transit Corporation (DTC)

In June 2010, the Delaware Transit Corporation OPEB Trust Fund (the DTC OPEB Trust) was established pursuant to Section 115 of the Internal Revenue Code. The DTC OPEB Trust is administered by DTC. Policy for and management of the OPEB benefits provided to retirees are the responsibility of DTC. No stand-alone financial report is issued for the DTC OPEB Trust.

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 retiree's 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 $0.23 per month per $1,000 of coverage to receive the benefit.

The numbers of participants are 785 active employees and 97 retirees as of June 30, 2012, the effective date of the other post-employment benefit (OPEB) actuarial valuation report.

Funding Policy

DTC funds the DTC OPEB Trust on a pay-as-you-go basis with additional funding on an ad hoc basis. Funds are recorded in the DTC OPEB Trust for the payment of retiree healthcare claims and administrative and investment expenses. Administrative costs are financed through investment earnings. Employer contributions and retiree contributions for healthcare are recorded in the DTC OPEB Trust. The funds available are invested under DTC's management, which acts as the Trustee and is responsible for the financial management of the DTC OPEB Trust. The cash basis costs associated with these benefits were $1.2 million for the fiscal year ended June 30, 2012

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	$	17,074
Interest on Net OPEB Obligation		1,799
Adjustment to Annual Required Contribution		(1,799)
Annual OPEB Cost (Expense)		17,074
Contributions Made		(1,168)
Increase in Net OPEB Obligation		15,906
Net OPEB Obligation - Beginning of Year		45,115
Net OPEB Obligation - End of Year	$	61,021

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
2010	$ 11,810	20.02%	$ 30,386
2011	15,772	6.61%	45,115
2012	17,074	6.84%	61,021

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the Plan was 1.3% funded. The actuarial accrued liability was $125.9 million and the actuarial value of the assets was $1.6 million, resulting in an unfunded actuarial accrued liability of $124.2 million. The covered payroll (annual payroll of active employees covered by the plan) was $31.9 million and the ratio of the UAAL to the covered payroll was 389.7%.

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 July 1, 2011 actuarial valuation, the projected unit credit method was used with linear proration to assumed benefit commencement. The actuarial assumptions included a 4.0% investment rate of return, 4.0% payroll growth rate, a 3.2% inflation rate, and a healthcare cost trend rate of

8.0% initially, incrementally down to 6.9% 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 payrolls over a 30-year closed amortization period.

NOTE 15 PENSIONS

Primary Government

Pension Plans

The State Board of Pension Trustees (Board) administers the following plans/funds (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
- County & Municipal Other Employees' Pension Plan
- Delaware Volunteer Firemen's Fund
- Diamond State Port Corporation Pension Plan
- 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 its plan provisions.

The Plans of 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 and the Delaware Volunteer Firemen's Fund, are pooled and invested in a common DPERS Master Trust (Master Trust). Each of the plans or funds share 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 retirements funds/plans, 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

The Delaware Local Government Retirement Investment Pool (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 retirement funds/plans 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 separate to a cost of living adjustment fund (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 Section 708 (c), Title 18 of the Delaware Code, when a participating employer grants a post-retirement increase for a plan outside of the DPERS 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. Allocated funds that are unused will be reverted to the State General Fund.

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. The actuary uses the current actuarial assumptions, methods, and population data to calculate the estimated additional liability resulting from the potential benefit increases. 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, 2012, 8.4 million was transferred to the appropriate plans in DPERS.

As of June 30, 2012, recently granted post-retirement increases have outstanding liabilities totaling 132.7 million, which will be funded by the State and transferred to the appropriate plans over the next six fiscal years as follows:

Fiscal Year		(Expressed in Thousands)
2013	$	26,585
2014		27,536
2015		28,521
2016		29,542
2017		20,536
Total	$	132,720

The Board adopts actuarially determined funding for the Post-Retirement Increase Fund. Funding for fiscal year 2012 was 0.50% of covered payroll. Funding for fiscal year 2013 will be 1.49%.

Local Government Retirement Investment Pool (DELRIP)

In June 1996, the State established DELRIP in the custody of the Board to allow local governments the option to pool their pension assets with the System for investment purposes. The DELRIP is an external investment pool that allows local governments within the State to potentially maximize their rate of return and reduce administrative expenses related to the investment of funds. Participation in the pool is voluntary. There were three participating entities in DELRIP as of June 30, 2012, which comprise the pool in its entirety: Sussex County and the Towns of Elsmere and Newport.

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.

Plan Membership, Benefit and Contribution Provisions

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

State Employees' Pension Plan

Plan Description and Eligibility:

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

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

Vesting: 5 years of credited service.

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

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

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

Contributions:

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

Burial Benefit: $7,000 per member.

Special Fund

Plan Description and Eligibility:

The Special Fund provides certain benefits granted to individuals through legislation passed by the General Assembly.

Service Benefits: Defined by special legislation.

Vesting: Defined by special legislation.

Retirement: Defined by special legislation.

Disability Benefits: Defined by special legislation.

Survivor Benefits: Same as State Employees' Plan.

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

Burial Benefit: $7,000 per member.

New State Police Pension Plan

Plan Description and Eligibility:

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

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

Vesting: 10 years of credited service at age 62.

Retirement: Age 62 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, the 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, the eligible survivor receives 50% of pension (or 2/3 with 2% reduction of benefit); if employee is active with at least 5 years of credited service, eligible survivor receives 2/3 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' Pension Plans

Plan Description and Eligibility:

County & Municipal Police and Firefighters' Pension 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: 5 years of credited service.

Retirement: Age 62 with 5 years of service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits:

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

Non-Duty - Same as Service Benefits.

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

Contributions:

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

Burial Benefit: Not applicable.

County and Municipal Other Employees' Pension Plan

Plan Description and Eligibility:

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

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

Vesting: 5 years of credited service.

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

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

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

Contributions:

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

Burial Benefit: Not applicable.

Delaware Volunteer Firemen's Fund

Plan Description and Eligibility:

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

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

Vesting: 10 years of credited service.

Retirement: Age 60 with 10 years credited service.
Disability Benefits: Not applicable.

Survivor Benefits: Not applicable.

Contributions:

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

Burial Benefit: Not applicable.

Diamond State Port Corporation Pension Plan

Plan Description and Eligibility:

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

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

Vesting: 5 years of credited service.

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

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

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

Contributions:

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

Burial Benefit: Not applicable.

Closed State Police Pension Plan

Plan Description and Eligibility:

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

Service Benefits: 50% of monthly salary.

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

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

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

Contributions:

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

Burial Benefit: $7,000 per member.

Historical Trend Information

Historical trend information for the current year and the preceding five years is 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.

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

Plan	State Employees'	Special	Closed State Police	New State Police	Judiciary
Annual Pension Cost	147,464	N/A	24,678	8,309	2,674
Actuarial Valuation Date	6/30/2012	6/30/2012	6/30/2012	6/30/2012	6/30/2012
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 (1)	N/A	25 years	20 years (1)	9.64 years (1)
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	7.5%	7.5%	7.5%	7.5%	7.5%
Projected Salary Increases [1]	3.8% to 11.8%	N/A	4.2% to 4.8%	4.3% to 11.8%	3.8% to 12.5%
Cost-of-Living Adjustments	Ad hoc	Ad hoc	Based on CPI	Ad hoc	Ad hoc

Plan	Diamond State Port Corporation	County & Municipal Police and Firefighters'	County & Municipal Other Employees	Delaware Volunteer Firemen's
Annual Pension Cost	814	9,265	1,362	1,896
Actuarial Valuation Date	6/30/2012	6/30/2012	6/30/2012	6/30/2012
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Open	Level Percent Open	Level Dollar Closed
Remaining Amortization Period	15 years	10 years	10 years	16 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	7.5%	7.5%	7.5%	7.5%
Projected Salary Increases [1]	4.3%	4.3% to 11.8%	3.8% to 9.6%	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 Post-Retirement Increase is funded over 5 years.
N/A: Not applicable

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'	6/30/2012	$ 147,464	$ 147,464	100.00%	$ -
	6/30/2011	128,019	128,019	100.00%	-
	6/30/2010	101,457	101,457	100.00%	-
County & Municpal Police and Firefighters'	6/30/2012	$ 9,265	$ 9,265	100.00%	$ -
	6/30/2011	7,569	7,569	100.00%	-
	6/30/2010	7,307	7,307	100.00%	-
County & Municpal Other Employees'	6/30/2012	$ 1,362	$ 1,362	100.00%	$ -
	6/30/2011	1,186	1,186	100.00%	-
	6/30/2010	1,276	1,276	100.00%	-
Delaware Volunteer Firemen's	6/30/2012	$ 1,311	$ 1,896	69.14%	$ 3,833
	6/30/2011	1,220	1,762	69.24%	3,352
	6/30/2010	1,191	1,703	69.94%	2,884
Judiciary	6/30/2012	$ 2,674	$ 2,674	100.00%	$ -
	6/30/2011	2,557	2,557	100.00%	-
	6/30/2010	2,473	2,473	100.00%	-
New State Police	6/30/2012	$ 8,309	$ 8,309	100.00%	$ -
	6/30/2011	7,810	7,810	100.00%	-
	6/30/2010	6,562	6,562	100.00%	-
Closed State Police	6/30/2012	$ 23,064	$ 24,678	93.46%	$ 117,997
	6/30/2011	23,367	26,638	87.72%	117,768
	6/30/2010	23,367	27,214	85.86%	115,569
Diamond State Port Corporation	6/30/2012	$ 814	$ 814	100.00%	$ -
	6/30/2011	704	704	100.00%	-
	6/30/2010	594	594	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 121 - 123

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

Three-Year Trend Information
(Expressed in Dollars)

	Plan Year Ended	Contribution Made	Annual Pension Cost (APC)	Percent Of APC Contributed	Net Pension Asset
DTC Pension Plan	6/30/2012	$ 996,777	$ 996,827	99.99%	$ (109,418)
	6/30/2011	1,111,468	1,111,548	99.99%	(109,368)
	6/30/2010	1,033,487	1,033,998	99.95%	(109,288)
Contributory Pension	12/31/2011	$ 1,073,948	$ 658,363	163.12%	$3,129,291
	12/31/2010	1,081,793	535,681	201.95%	2,713,706
	12/31/2009	1,063,098	674,249	157.67%	2,167,594

Schedule of 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	$ 996,827	$ 658,363
Contributions Made	$ 996,777	$ 1,073,948
Actuarial Valuation Date	07/01/11	01/01/12
Actuarial Cost Method	Frozen Initial Liability	Entry Age Normal
Remaining Amortization Period	30	15
Asset Valuation Method	Market	Five-Year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.00%
Projected Salary Increases	2.50%	4.00%

Note: Effective July 1, 2012 , an amendment was made to the DTC Pension Plan which states that any eligible employee who participates in the Plan shall make after-tax contributions in the amount equal to 3% of

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, 2012, 2011, and 2010 are as follows:

Net Pension Obligation (NPO)
(Expressed in Thousands)

	Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010
Annual Required Contribution	$ 24,678	$ 26,638	$ 27,214
Interest on Net Pension Obligation	8,833	9,246	9,012
Adjustment to Annual Required Contribution	- (10,218)	(10,318)	(9,942)
Annual Pension Cost	23,293	25,566	26,284
Less Contributions Made	(23,064)	(23,367)	(23,367)
Increase in Net Pension	229	2,199	2,917
Net Pension Obligation, Beginning of Year	117,768	115,569	112,652
Net Pension Obligation, End of Year	$ 117,997	$ 117,768	$ 115,569

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.

NOTE 16 GOVERNMENTAL FUND BALANCES

The State's governmental fund balances are classified according to the relative constraints that control how amounts can be spent. Classifications include:

- **Nonspendable**. Balances include items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact.
- **Restricted.** Balances have constraints placed upon the use of the resources either by constitutional provisions, enabling legislation, external resource providers such as creditors, grantors, or imposed by law or regulations of other governments.
- **Committed**. Balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the Delaware Legislature, the State's highest level of decision-making authority. This formal action is the passage of law by the legislature, or other parties named by the State's legislature, creating, modifying, or rescinding an appropriation.
- **Assigned.** Balances include amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted nor committed. For the General Fund, amounts constrained for the intent to be used for specific purpose by a governing board or a body or official that has been delegated authority to assign amounts that varies by

organization within the state. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted or committed.

- **Unassigned.** Balance is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

A summary of governmental fund balances at June 30, 2012, is as follows (expressed in thousands):

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
Nonspendable					
Inventories	$ 8,121	$ -	$ -	$ -	$ 8,121
Advances and Prepaid Items	-	-	-	-	-
Total Nonspendable	8,121	-	-	-	8,121
Restricted:					
Health and Children's Services	5,668	15,630	-	-	21,298
Judicial and Public Safety	9,974	-	-	-	9,974
Natural Resources and Environmenal Control	61,078	-	-	-	61,078
Agriculture	160	-	-	-	160
Labor	2,113	-	-	-	2,113
Education	4,390	-	306,397	110,302	421,089
Economic Development	501	-	-	-	501
Other	3,623	-	-	-	3,623
Total Restricted	$ 87,507	$ 15,630	$ 306,397	$ 110,302	$ 519,836
Committed					-
Health and Children's Services	40,763	-	-	-	40,763
Judicial and public safety	6,338	-	-	-	6,338
Natural Resources and Environmenal Control	30,937	-	-	-	30,937
Agriculture	9,101	-	-	-	9,101
Labor	10,481	-	-	-	10,481
Education	15,848	-	-	-	15,848
Economic Development	97,052	-	-	-	97,052
Other	26,376	-	-	-	26,376
Total Committed	$ 236,896	$ -	$ -	$ -	$ 236,896
Assigned					
Health and Children's Services	6,259	-	-	-	6,259
Judicial and Public Safetey	4,030	-	-	-	4,030
Natural Resources and Environmenal Control	6,894	-	-	-	6,894
Agriculture	13,513	-	-	-	13,513
Educatiion	62,719	-	-	-	62,719
Economic Development	118	-	-	-	118
Other	6,950	-	-	-	6,950
Total Assigned	$ 100,483	$ -	$ -	$ -	$ 100,483
Unassigned	$ 963,986	$ -	$ -	$ -	$ 963,986
Total Fund Balance	$ 1,396,993	$ 15,630	$ 306,397	$ 110,302	$ 1,829,322

Fund Balance Restricted by Enabling Legislation

The restricted Fund Balance for the Local School Districts Fund are funds that are used to account for activities relating to Delaware's 19 local school districts, which are funded by locally raised real estate taxes and other revenues. The total amount in the fund was $306.4 million at June 30, 2012.

NOTE 17 Affiliated Organizations

State Lottery

Multi-State Lottery Association

The State Lottery is a member of the Multi-State Lottery Association (MUSL), which operates online 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. The MUSL also operates the Hot Lotto game, in which the Lottery began participating during fiscal year 2008. 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, 2012, was $2.4 million. This amount is also 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, Suite 210, and 1701 48th Street, West Des Moines, IA 50266-6723.

NOTE 18 COMMITMENTS

Primary Government

The State has entered into various contractual commitments that control for services and for construction of various highway, capital and lottery projects. Commitment of the proprietary fund includes $332.0 million for DelDOT.

Encumbrances which represent commitment related to unperformed contracts for goods or services are included in restricted, committed, or assigned fund balance as appropriate. Encumbrances lapse at the end of the applicable appropriation, unless re-appropriated by the Legislature. Encumbrances outstanding against continuing appropriations at the end of fiscal year 2012 are as follows: general fund $199.1 million, federal funds are $77.6 million, local school funds are $14.3 million and capital project funds are $117.1 million.

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 30, 2012, DSPC had $13.9 million in cash and investments committed to capital projects.

Riverfront Development Corporation (RDC)

RDC has an outstanding letter of credit in the amount of $6 million which expires June 2013, with automatic one-year renewals. The letter of credit is security for a loan issued by US Bank to WRO, LLC, for the purpose of developing a hotel adjacent to the Chase Center. The letter of credit is secured by restricted cash of $2 million, which is being held by PNC Bank. The letter of credit is also secured by a second mortgage on the Chase Center, as well as a $1 million contribution from the City of Wilmington, which is also being held in a restricted account by PNC Bank. If WRO, LLC were to default on its obligation to US Bank, then the letter of credit could be drawn upon. However, WRO, LLC has indemnified RDC against any potential losses which may arise should the letter of credit be drawn upon.

In June, 2012, RDC purchased a parcel of land which it then sold to Penn Cinema Riverfront, LLC. The deed is being held in escrow pending the completion of environmental remediation by RDC. The cost of the remediation is expected to be approximately $1 million, for which RDC will pay and then be reimbursed by the State.

RDC is a party to legal proceedings which normally occur in governmental operations. In the opinion of management, these legal proceeding are not likely to have a material adverse effect on the accompanying financial statements and accordingly, no loss provision has been recorded.

NOTE 19 CONTINGENCIES

Primary Government

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 $9.3 million. The State recognized $3.1 million in governmental activities as claims and judgments liabilities for pending litigation settlements estimated to be probable as of June 30, 2012. 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, 2012 would have a material effect on its financial position or the results of operations.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* provides guidance for state and local governments in estimating and reporting the potential costs of pollution remediation. While GASB Statement No. 49 does not require the State to search for pollution, it does require the State to reasonable estimate and report a remediation liability when any of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the State is compelled to take action;
- The State is in violation of a pollution related permit or license;
- The State is named or has evidence that it will be named as responsible party by a regulator;
- The State is named or has evidence that it will be named in a lawsuit to enforce a cleanup; or
- The State commences or legally obligates itself to conduct remediation activities.

Site investigation, planning and design, cleanup and site monitoring are typical remediation activities underway across the State. Several State organizations have dedicated programs, rules and regulations that routinely deal with remediation related issues; others become aware of pollution conditions in the fulfillment of their missions. The State has the knowledge and expertise to estimate the remediation obligations presented herein based upon prior experience in identifying and funding similar remediation activities. The standard requires the State to calculate pollution remediation liabilities using the expected cash flow technique. Where the State cannot reasonably estimate a pollution remediation obligation, it does not report a liability; however, the State has not identified any of these situations.

The remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

At June 30, 2012, the State had a total pollution remediation liability of $35.2 million, with an estimated potential recovery of $4.5 million from the U.S. Environmental Protection Agency.

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 $.5 million at June 30, 2012) in the event that the annuity issuers default on their obligations.

In fiscal year 2013, the State of Delaware has processed and paid $13.6 million of corporate income tax refunds as of January 17, 2013. Currently there are corporate income tax refunds pending that total $62.7 million, an amount that is well in excess of the typical balance of refunds pending. The preponderance of the $62.7 million balance is attributable to a single refund claim. These pending refund claims have been filed by taxpayers, but the validity of each of the claims has not been evaluated or determined as of the date hereof. Historically, the amount of refund claims for corporate income tax the State receives varies significantly from year to year. From fiscal year 2005 through fiscal year 2012, the corporate income tax refunds actually paid have ranged from a low of $20.1 million to a high of $52.9 million. The current budget projects total corporate income tax refunds of $38.6 million for fiscal year 2013. However, based on the current figures for this fiscal year, the potential exists that the total corporate income tax refund claims may exceed the amount initially projected for the year. Based upon the claims received to date, the potential corporate income tax refund payments for fiscal year 2013 may now range from approximately $20.0 million to approximately $100 million.

Component Units

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 DSHA expects such amounts, if any, to be immaterial.

NOTE 20 SUBSEQUENT EVENTS

Component Units

Delaware State Housing Authority (DSHA)

As of September 21, 2012, the Authority had borrowed as additional $30.2 million from Federal Home Loan Bank (FHLB) Pittsburgh under an existing agreement. The additional borrowing was used for the purchase of mortgaged backed securities and will be repaid with the proceeds of a bond issue expected to occur in the near future.

State of Delaware
Comprehensive Annual Financial Report

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 as 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 supplemental 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 budgetary 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, 2012, 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 2012, 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 page 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 for the General Fund. Of the $566.2 million budgetary general fund balance at June 30, 2012, $186.4 million is reserved for the budgetary reserve account and $256.4 million is designated as continuing and encumbered appropriations. The $123.4 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 and Special Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2012
(Expressed in Millions)

	General Fund				Special Fund			
	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget
Revenues								
Personal Income Taxes	$ 1,060.4	$ 1,043.0	$ 1,040.6	$ (2.4)	$ -	$ -	$ -	$ -
Business Taxes	1,693.1	1,440.7	1,462.0	21.3	-	-	-	-
Other Taxes	178.6	170.5	164.0	(6.5)	-	-	-	-
License, Permits, Fines and Fees	336.6	330.4	331.4	1.0	-	-	-	-
Rentals and Sales	-	-	-	-	-	-	-	-
Interest Earnings	9.0	10.6	10.6	-	-	-	-	-
Lottery Sales	276.9	268.3	269.0	0.7				
Grants	-	-	-	-	-	-	-	-
Other Non-tax Revenue	70.0	48.3	81.6	33.3	1,029.6	1,029.6	937.9	(91.7)
Total Revenue	3,624.6	3,311.8	3,359.2	47.4	1,029.6	1,029.6	937.9	(91.7)
Expenditures								
Legislative	14.9	14.9	13.1	1.8	-	-	-	-
Judicial	91.3	90.0	95.3	(5.3)	9.2	9.2	7.9	1.3
Executive	228.2	284.0	144.7	139.3	118.5	118.5	40.6	77.9
Department of Technology & Information	34.5	37.0	35.5	1.5	29.6	29.6	24.3	5.3
Other Elective Offices	150.8	171.5	168.7	2.8	99.3	99.3	90.4	8.9
Legal	45.5	47.6	49.6	(2.0)	9.6	9.6	7.7	1.9
Department of State	27.6	28.0	28.0	-	41.2	41.2	48.1	(6.9)
Department of Finance	15.2	33.0	19.0	14.0	99.6	99.6	82.6	17.0
Department of Health & Social Services	998.0	1,021.7	1,055.1	(33.4)	105.8	105.8	85.1	20.7
Department of Services to Children, Youth and Their Families	130.7	130.9	134.5	(3.6)	19.3	19.3	18.8	0.5
Department of Corrections	254.7	257.9	262.3	(4.4)	4.4	4.4	3.9	0.5
Department of Natural Resources and Environmental Control	34.9	44.9	41.8	3.1	96.7	96.7	46.3	50.4
Department of Safety & Homeland Security	130.9	135.2	137.5	(2.3)	13.8	13.8	13.0	0.8
Department of Transportation	-	-	-	-	354.0	354.0	341.5	12.5
Department of Labor	7.3	7.3	7.2	0.1	13.5	13.5	12.0	1.5
Department of Agriculture	7.8	7.8	7.9	(0.1)	7.9	7.9	5.3	2.6
Department of Elections	3.9	3.9	4.3	(0.4)	-	-	0.4	(0.4)
Fire Prevention Commission	4.9	5.0	5.0	-	2.5	2.5	2.0	0.5
Delaware National Guard	4.4	4.5	4.2	0.3	-	-	-	-
Higher Education	213.2	227.7	222.7	5.0	-	-	1.1	(1.1)
Department of Education	1,109.7	1,121.2	1,155.8	(34.6)	4.7	4.7	3.9	0.8
Total expenditures	$ 3,508.4	$ 3,674.0	$ 3,592.2	$ 81.8	$ 1,029.6	$ 1,029.6	$ 834.9	$ 194.7
Excess (Deficiency) of Revenue over Expenditures	116.2	(362.2)	(233.0)	(34.4)	-	-	103.0	103.0
Budgetary Fund Balance, Beginning of Year	799.2	799.2	799.2	-	527.7	527.7	527.7	-
Budgetary Fund Balance, End of Year	$ 915.4	$ 437.0	$ 566.2	$ (34.4)	$ 527.7	$ 527.7	$ 630.7	$ 103.0

Budgetary Fund Balance	
Designated:	
Budget Reserve Account	$ 186.4
Continuing and Encumbered Appropriations	256.4
Undesignated	123.4
Total	$ 566.2

(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 Reconiliciation
For the Fiscal Year Ended June 30, 2012
(Expressed in Millions)

Total Budget Basis General and Special Fund Revenue for Fiscal Year 2012		$ 4,297.1
Adjustments:		
The financial reporting revenues do not include revenues that are part of the general budgetary revenues	(560.1)	
Non-budgetary General Revenues Reclassified to General Fund Revenue	815.4	
To Adjust Revenues, Other Financing Sources and Related Receivables and Deferred Revenue	(717.6)	
Total General Fund Revenues for Fiscal Year 2012		$ 3,834.8
Federal Fund Revenue	1,504.9	
Local School Fund Revenue	508.3	
		2,013.2
Total GAAP Basis Governmental Funds Revenue for Fiscal Year 2012		$ 5,848.0

Budget vs GAAP Expenditures Reconiliciation
For the Fiscal Year Ended June 30, 2012
(Expressed in Millions)

Total Budget Basis General and Special Fund Expenditures for Fiscal Year 2012		$ 4,427.1
Adjustments:		
The financial reporting expenditures do not include expenditures that are part of the general budgetary revenues	(483.7)	
Non-budgetary General Expenditures Reclassified to General Fund Expenditures	686.9	
To Adjust Expenditures, Other Financing Uses and Related Accounts Payable, Accrued Liabilities	(372.2)	
Total General Fund Expenditures for Fiscal Year 2012		$ 4,258.1
Federal Fund Expenditures	1,471.3	
Local School Fund Expenditures	496.0	
Capital Projects Fund Expenditures	187.7	
		2,155.0
Total GAAP Basis Governmental Funds Expenditures for Fiscal Year 2012		$ 6,413.1

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 4,378 centerline miles and approximately 1,591 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 0.0 for poor pavement to 5.0 for pavement in good 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 good 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 rating of 5 is considered fair. This 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, 2012 is not available.

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

Structural Rating Numbers and Percentages for Bridges

	BCR Condition Rating	2012 Number	2012 Percent	2010 Number	2010 Percent	2009 Number	2009 Percent
Good	6-9	1,149	72.3	1,137	72.8	1,144	73.5
Fair	5	322	20.2	313	20.0	295	19
Poor	0-4	120	7.6	112	7.2	117	7.5
Totals		1,591	100	1,562	100	1,556	100

Calendar Year Ended December 31

Deck Rating Numbers and Percentages for Bridges

	OPC Condition Rating	2012 Square Feet	2012 Percent	2010 Square Feet	2010 Percent	2009 Square Feet	2009 Percent
Good	6-9	6,476,158	90.3	6,685,282	91.1	6,800,531	92.8
Fair	5	687,461	9.6	651,712	8.8	510,306	6.9
Poor	0-4	10,720	0.1	4,994	0.1	19,558	0.3
Totals		7,174,339	100	7,341,988	100	7,330,395	100

Calendar Year Ended December 31

Center-Line Mile Numbers and Percentages for Road Pavement

	OPC Condition Rating	2010 Center-Line Mile	2010 Percent	2009 Center-Line Mile	2009 Percent	2008 Center-Line Mile	2008 Percent
Good	3.0-5.0	3,796	86.7	3,423	78.5	3,007	67.6
Fair	2.5-3.0	400	9.1	575	13.2	1000	22.5
Poor	Below 2.5	182	4.2	362	8.3	440	9.9
Totals		4,378	100	4,360	100	4,447	100

Calendar Year Ended December 31

Comparison of Estimated-to-Actual Maintenance/Preservation*
(Expressed In Thousands)

Fiscal Year ended June 30

	2012	2011	2010	2009	2008
Estimated	$ 341,004	$ 426,621	$ 282,008	$ 208,764	$ 197,301
Actual	$ 294,522	$ 250,492	$ 333,307	$ 308,732	$ 271,333

* 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. 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.

Schedule of Funding Staus 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 Liabilitites (2) - ((1)	(4) Funded Ratio (1) / (2)	(5) Annual Coverd payroll	(6) UAAL/ (Excess) as % of Covered payroll (3) / (5)
State Employees*	6/30/2012	$ 7,270,430	$ 7,949,855	$ 679,425	91.5%	$ 1,881,097	36.1%
	6/30/2011	7,091,821	7,547,951	456,130	94.0%	1,783,603	25.6%
	6/30/2010	6,808,957	7,096,326	287,369	96.0%	1,740,622	16.5%
Special	6/30/2012	$ 366	$ 264	$ (102)	138.6%	N/A	N/A
	6/30/2011	406	287	(119)	141.5%	N/A	N/A
	6/30/2010	457	333	(124)	137.2%	N/A	N/A
Closed State Police +	6/30/2012	$ 2,748	$ 293,808	$ 291,060	0.9%	$ 124	234725.8%
	6/30/2011	2,414	286,010	283,596	0.8%	114	248768.4%
	6/30/2010	1,440	298,493	297,053	0.5%	339	87626.3%
New State Police	6/30/2012	$ 292,262	$ 324,898	$ 32,636	90.0%	$ 54,412	60.0%
	6/30/2011	270,625	286,890	16,265	94.3%	50,556	32.2%
	6/30/2010	245,303	260,258	14,955	94.3%	49,896	30.0%
Judiciary	6/30/2012	$ 59,279	$ 65,946	$ 6,667	89.9%	$ 10,387	64.2%
	6/30/2011	55,784	63,090	7,306	88.4%	9,624	75.9%
	6/30/2010	51,550	60,104	8,554	85.8%	9,798	87.3%
Diamond State Port Corporation	6/30/2012	$ 18,930	$ 23,039	$ 4,109	82.2%	$ 12,229	33.6%
	6/30/2011	17,198	20,632	3,434	83.4%	11,150	30.8%
	6/30/2010	15,418	18,354	2,936	84.0%	11,224	26.2%
County and Municipal Police and Firefighters	6/30/2012	179,816	186,901	7,085	96.2%	67,091	10.6%
	6/30/2011	157,394	160,150	2,756	98.3%	59,418	4.6%
	6/30/2010	135,684	141,430	5,746	95.9%	56,917	10.1%
County and Municipal Other Employees	6/30/2012	$ 23,851	$ 25,189	$ 1,338	94.7%	$ 22,435	6.0%
	6/30/2011	20,664	22,859	2,195	90.4%	20,580	10.7%
	6/30/2010	17,596	19,827	2,231	88.7%	20,591	10.8%
						Active Member++	Cost per Active Member++
Volunteer Firemen	6/30/2012	$ 14,972	$ 30,149	$ 15,177	49.7%	$ 4,871	$ 3,116
	6/30/2011	14,379	29,515	15,136	48.7%	4,933	3,068
	6/30/2010	13,663	27,382	13,719	49.9%	4,898	2,801

* 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 ffive years

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

++ Not expressd in thousands

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):

Schedule of 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 of Assets over AAL (a - b)	(d) Funded Ratio (a/b)	(e) Covered Payroll	(f) UAAL as a % of Covered Payroll (3) / (5)
DTC Pension Plan	7/1/2011	$ 15,121,491	$ 16,236,313	$ (1,114,822)	93.1%	$ 11,253,210	(9.9%)
	7/1/2010	12,329,167	12,841,594	(512,427)	96.0%	11,464,713	(4.5%)
	7/1/2009	10,282,778	10,797,306	(514,528)	95.2%	11,624,462	(4.4%)
Contribution Plan	1/1/2012	$ 30,863,722	$ 32,171,013	$ (1,307,291)	95.9%	$ 22,985,063	(5.7%)
	1/1/2011	29,920,228	29,601,647	318,581	101.1%	22,847,401	1.4%
	1/1/2010	26,246,390	27,215,318	$ (968,928)	96.4%	$ 22,675,263	(4.3%)

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.

Schedule of Funding Status and Progress
(Expressed in Millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Accrued Liabilities (UAAL) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Covered Payroll	(6) UAAL as a % of Covered Payroll (3) / (5)
7/1/2012	$ 163	$ 5,805	$ 5,641	2.8%	$ 1,885	299.3%
7/1/2011	144	6,769	6,625	2.1%	1,787	370.7%
7/1/2010	104	5,884	5,780	1.8%	1,798	321.5%

Valuation Date	July 1, 2012
Acturial Cost method	Entry Age Normal
Amortization Method	Level Percent Open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value
Acturial Assumption	
Investment Rate of Return	4.25%
Rate of Salary Increases	3.25% (Plus Merit Scale)
Ultimate Rate of Medical Inflation	4.25%

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for the fiscal years as follows:

Schedule of Employer Contributions
(Expressed in Millions)

Fiscal Year Ended Jun 30	Annual Required Contribution	Percentage of Annual OPEB Costs Contributed
2012	$ 495.0	38%
2011	488.1	37%
2010	480.0	36%

Required Supplementary Information – DTC 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:

Schedule of Funding Status and Progress
(Expressed in Millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Accrued Liability (AAL)	Excess (Deficit) of Assets Over AL (1 - 2)	Funded Ratio (1) / (2)	(5) Covered Payroll	(4) Excess (Deficit) As a percentage of Covered Payroll (1/2)/3
7/1/2011	$ 1,605,000	$ 125,866,000	$ (124,261,000)	1.3%	$ 31,883,191	(389.7%)
7/1/2010	1,500,000	111,122,000	(109,622,000)	1.3%	31,293,725	(350.3%)
7/1/2009	-	82,631,000	(82,631,000)	-	31,420,280	(263.0%)

APPENDIX C

CONTINUING DISCLOSURE AGREEMENT

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THE STATE OF DELAWARE
$275,425,000
General Obligation Bonds,
Series 2011

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement dated November 15, 2011 (including any amendments or supplements hereto, the "**Disclosure Agreement**") is executed and delivered by The State of Delaware (as more fully defined below, the "**Issuer**") in connection with the issuance of the above-captioned bonds (the "**2011 Bonds**"). The Issuer, 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 Issuer for the benefit of the Holder from time-to-time of the Bonds (as defined below) and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. Unless the context clearly requires otherwise, the following capitalized terms shall have the meanings set forth below:

"**Additional Bonds**" shall mean any indebtedness of the Issuer issued subsequent to the 2011 Bonds which the Issuer has declared in writing to be covered by this Disclosure Agreement. No such written declaration shall be considered an amendment to this Disclosure Agreement for purposes of Section 9 hereof.

"**Annual Filing Date**" shall mean not later than the first day of the eleventh calendar month immediately following the end of the Issuer's fiscal year.

"**Annual Financial Information**" shall mean any Annual Report provided by the State pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.:

"**Annual Report**" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"**Bonds**" shall mean the 2011 Bonds and Additional Bonds, if any.

"**Dissemination Agent**" shall mean any agent of the Issuer designated in writing by the Issuer which has filed with the Issuer a written acceptance of such designation.

"**EMMA**" shall mean the Electronic Municipal Market Access System maintained by the MSRB at http://emma.msrb.org/, which serves as the sole nationally recognized municipal securities information repository under the Rule.

"**Holder**" means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding

Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

"**Issuer**" 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 Issuer under this Disclosure Agreement.

"**MSRB**" shall mean the Municipal Securities Rulemaking Board, or any successor organization.

"**Notice Event**" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"**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.

"**Official Statement**" shall mean the final Official Statement relating to the 2011 Bonds or a Series of Additional Bonds, as applicable.

"**Participating Underwriter**" shall mean any of the original underwriters of any Series of Bonds required to comply with the Rule in connection with offering of such Bonds.

"**Repository**" shall mean each nationally recognized municipal securities information repository under the Rule. As of the date hereof, the Securities and Exchange Commission has appointed the MSRB through EMMA to act as the sole Repository. Any information filed in connection with this Disclosure Agreement shall be filed with EMMA at http://emma.msrb.org/, any State Repository and any future Repository as may be required under the Rule.

"**Rule**" shall mean Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as heretofore amended, and as such Rule may be hereafter amended from time-to-time.

"**State Repository**" shall mean any public or private repository or entity designated by the State of Delaware as a state information repository for the purpose of the Rule and with which the Issuer is legally required to file the Annual Report. Currently, there is no State Repository in Delaware. The list of state information repositories maintained by the United States Securities and Exchange Commission shall be conclusive as to the existence of a State Repository.

"**2011 Bonds**" shall mean the Issuer's $275,425,000 aggregate principal amount General Obligation Bonds, Series 2011 dated November 15, 2011

Section 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than the Annual Filing Date, provide to the MSRB via EMMA 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 Issuer shall provide the Annual Report to the Dissemination Agent, if any. 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 Issuer may be submitted separately from the balance of the Annual Report.

(b) If the Issuer is unable to provide the Annual Report to the Repository by the date required in subsection (a), a Notice Event pursuant to Section 5(a)(15) shall be deemed to have occurred and the Issuer shall report to the Repository electronically in accordance with the provisions of Section 5(b) hereof.

(c) The Dissemination Agent, if any, shall: (i) determine each year prior to the Annual Filing Date the name and address of each Repository; and (ii) file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing each Repository to which it was provided.

(d) Audited financial statements of the Issuer not submitted as part of the Annual Report shall be provided to the Repository, if and when available to the Issuer, and in any event not more than thirty (30) days after receipt thereof from the Issuer's auditors. In the event that audited financial statements are not submitted as part of the Annual Report, the Issuer shall provide in lieu thereof, when available, unaudited financial statements for the relevant fiscal year.

(e) The Issuer shall promptly provide written notice of any change in its fiscal year to the MSRB and to each Repository.

Section 4. Content of Annual Reports.

(a) The Issuer's Annual Report shall contain or incorporate by reference the information listed in Exhibit A with respect to the relevant fiscal year.

(b) Any or all of the items listed as Annual Financial Information may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to any Repository 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 Issuer shall clearly identify each such other document so incorporated by reference.

(c) If any Annual Financial Information 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 Issuer under this Section 4, provided however that the Issuer shall, to the greatest extent feasible, provide in lieu thereof similar information with respect to any substitute or replacement operations.

Section 5. <u>Reporting of Notice Events.</u>

(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, if material;
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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
7. Modifications to rights of Holder, if material;
8. Bond calls (other than mandatory sinking fund redemptions), if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of any Bonds, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Issuer (for the purposes of the event identified in subsection 5(a)(12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer);
13. The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material; and
15. Failure to provide annual financial information as required.

(b) Upon the occurrence of a Notice Event, the Issuer shall file, or cause the Dissemination Agent to file, a notice of such occurrence with the MSRB via EMMA in a timely manner not in excess of ten (10) Business Days after the occurrence of the Notice Event.

Section 6. Accounting Standards. The financial statements described in Section 4(a)(i) above shall be audited in accordance with generally accepted accounting principles applicable in the preparation of financial statements of the Issuer as 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, as applicable ("**GAAP**"), and shall also comply with applicable federal and state auditing statutes, regulations, standards and/or guidelines. The Issuer 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. Any such modification of accounting standards or principles 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, but such modifications shall be disclosed in the first Annual Report to be provided subsequent to such modifications.

Section 7. Termination of Reporting Obligation. The Issuer'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 Issuer shall provide timely written notice to each Repository of any termination of its obligations hereunder.

Section 8. Dissemination Agent. The Issuer 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 Issuer may modify or amend this Disclosure Agreement. The Issuer acknowledges and agrees that the current SEC interpretation of the Rule requires satisfaction of the following preconditions for any amendment:

(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 Issuer, or change in the type of business conducted by the Issuer;

(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 Issuer (such as the Paying Agent or nationally recognized bond counsel) or by an approving vote of a majority of Holders.

(b) The Issuer shall report any modification or amendment of this Disclosure Agreement as required by the Rule. To the extent required by the Rule, the Issuer 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.

(c) Neither a supplement to this Disclosure Agreement to declare that it is applicable to Additional Bonds or a modification of accounting principles or standards pursuant to Section 6 shall be considered an amendment for purposes of this Section 9.

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer 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 Notice Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Notice Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer 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 Notice Event.

Section 11. Submission of Information to the MSRB. The information required to be disclosed pursuant to this Disclosure Agreement shall be submitted to the MSRB through EMMA. Subject to future changes in submission rules and regulations, such submissions shall be provided to the MSRB, through EMMA, in portable document format ("**PDF**") files configured to permit documents to be saved, viewed, printed and retransmitted by electronic means. Such PDF files shall be word-searchable (allowing the user to search for specific terms used within the document through a search or find function available in a software package).

Subject to future changes in submission rules and regulations, at the time that such information is submitted through EMMA, the Issuer, or any Dissemination Agent engaged by the Issuer, shall also provide to the MSRB information necessary to accurately identify the category of information being provided and other identifying descriptions required by MSRB rules and regulations.

Section 12. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, the 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 Issuer 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 Bonds or any document relating to the Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer 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 13. 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 14. Entire Agreement. This Disclosure Agreement contains the entire agreement of the Issuer 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 15. 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 16. 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 17. 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 executed by the Secretary of Finance as of the day and year first above written.

THE STATE OF DELAWARE

By:__________________________________

Thomas J. Cook
Secretary of Finance

EXHIBIT A

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 2011 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 2011 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) Debt Service Requirements (p. 4) - updated for the issuance of general obligation debt through the prior fiscal year.

(b) The 5% Rule (p. 6) - updated for the current fiscal year.

(c) The 15% Test (p. 6) and the Cash Balances Test (p. 7) - updated for the current fiscal year.

(d) DEFAC Budgetary General Fund Revenue Projections (p. 32) - updated for the prior fiscal year.

(e) Budgetary General Fund Revenue (p. 33) - updated for the prior fiscal year.

(f) Budgetary General Fund Expenditures and Adjusted Budgetary General Fund Expenditures (p. 35) - updated for the prior fiscal year.

(g) Sources and Uses of State Funds (pp. 36 and 37) - updated to compare the prior fiscal year to the fiscal year ten years prior.

(h) Budgetary General Fund Disbursements (p. 53) - updated for the prior fiscal year.

(i) Public School Enrollment (p. 54) - updated for the prior year.

(j) Social Services Expenditures (p. 56) - updated for the prior fiscal year.

(k) Ratio of Federal Funds Expended by Department (p. 59) - 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. 5) 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, Universities and Political Subdivisions - Authorities - Delaware Transportation Authority" (p. 14) for the prior fiscal year; and "- Delaware State Housing Authority" (p. 15) 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, 2011" (p. 41) 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. 60) for the prior fiscal year.

8. An update of the text appearing in the first paragraph under the heading "Employee Relations" (p. 63) for the prior fiscal year.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

[FORM OF OPINION OF BOND COUNSEL]

February __, 2013

OPINION OF BOND COUNSEL

RE: The State of Delaware
$111,330,000 General Obligation Bonds, Series 2013A
$225,000,000 General Obligation Bonds, Series 2013B

TO THE PURCHASERS OF THE ABOVE-CAPTIONED BONDS:

We have acted as bond counsel in connection with the issuance of $111,330,000 General Obligation Bonds, Series 2013A and $225,000,000 General Obligation Bonds, Series 2013B (collectively, 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 February 21, 2013 (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 (including accrued original issue discount) on the Bonds is not includable in gross income for purposes of federal income taxation under existing statutes, regulations, rulings and court decisions. The opinion set forth in the preceding sentence is subject to the condition that the State 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 for purposes of federal income taxation. Failure to comply with certain of such requirements could cause the interest on the Bonds to be includable in gross income retroactive to the date of issuance of the Bonds. The State has covenanted to comply with all such requirements. Interest on the Bonds is not treated as an item of tax preference under Section 57 of the Internal Revenue Code of 1986, as amended (the "Code") for purposes of the individual and corporate alternative minimum taxes; however, we call to your attention that under the Code, to the extent that interest on the Bonds is a component of a corporate holder's "adjusted current earnings," a portion of that interest may be subject to the corporate alternative minimum tax. We express no opinion regarding other federal tax consequences relating to the Bonds or the receipt of interest thereon.

4. Under existing statutes, interest on the Bonds is exempt from personal and corporate income taxes imposed by the State of Delaware.

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.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

THE STATE OF DELAWARE • General Obligation Bonds – Series 2013A and Series 2013B

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