NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Reporting Entity

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

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

Blended Component Unit

The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity; however, as it provides services and benefits almost exclusively to the primary government, the DPERS is considered a blended component unit and is shown in the financial statements as part of the primary government as a pension trust fund. The financial report of DPERS for the year ended June 30, 2005 may be obtained by writing to the State Board of Pension Trustees and Office of the Pensions, McArdle Building, and Suite #1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

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, 2004, each discretely presented component unit has a June 30, 2005 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 Authority administers the role of providing affordable housing as a key aspect of State policy. The Authority's relationship with the State is such that exclusion of the Authority from the State's basic financial statements would cause the statements to be misleading or incomplete. The Authority is authorized, among other things, to (1) make mortgage, construction and other loans to not-for-profit and limited for-profit housing sponsors, (2) make loans to mortgage lenders, requiring the proceeds thereof to be used for making newly qualified residential mortgage loans, (3) purchase qualified mortgage loans from mortgage lenders, and (4) apply for and receive assistance and subsidies under programs from the Federal Government and others.

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 the 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 8 of the 19 board members; however, five of the remaining seven directors consist of the Governor and four State officials. Authorization by the State's Budget Director and Controller General is required before funds of the RDC may be expended.

Delaware State University

Delaware State University (DSU) is a public institution of higher education funded 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 and private donations and grants. The Board of Trustees is comprised of 11 members, 6 appointed by the Governor of Delaware and 5 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 Technical and Community College Educational Foundation

Delaware Technical and Community College Educational Foundation (DTCC Foundation), a component unit of the Delaware Technical and Community College, was established on November 13, 1968 by a trust agreement. On April 20, 1999, the Foundation restated the trust document incorporating all previous amendments to the previous trust document. The trust agreement stipulates that the activities of the DTCC Foundation be limited to such educational purposes that come under Section 501(c)(3) of the Internal Revenue Code. Activities include, but are not limited to, making contributions, gifts or grants, or otherwise rendering financial aid and assistance by direct payments to the Delaware Technical and Community College (DTCC) and providing financial assistance to qualified students. The DTCC Foundation has a fiscal year end of December 31, 2004.

Delaware Charter Schools

Delaware Charter Schools are public schools funded primarily through State appropriations. State appropriations without restrictions as to use are reported by the Charter Schools in general revenue. Additional funding is derived from unrestricted locally raised real estate taxes and federal grants passed through from the primary government and private donations. Charter schools are each managed by a board of directors, which operate independently, under a charter granted by the State Department of Education with the approval of the State Board of Education. Charters are granted for an initial period of three years and renewable every five years thereafter. Financial information for Delaware Charter Schools is presented in the aggregate as they are individually immaterial.

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

Related Organizations

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

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

Jointly Governed Organization

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

Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

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

Governmental Funds

The State reports the following major governmental funds:

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

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

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

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

Proprietary Funds

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

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

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

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

The State reports the following major proprietary funds:

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

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

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

Fiduciary Funds

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

The State reports the following fiduciary funds:

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

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

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

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

Deposits and investments

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

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

In March 2003, the GASB issued 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. The new standard requires that state and local government, including colleges and universities, disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas; credit risk, interest rate and maturity, interest rate sensitivity and foreign exchange exposure. The State has implemented the provisions of this Statement for the fiscal year ended June 30, 2005.

Receivables and Payables

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

Inventories and Prepaid Items

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

Restricted Assets

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, and then unrestricted resources as they are needed.

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

Capital Assets

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

Capital assets are defined by the State as assets with an initial, individual cost of more than $25,000 at the date of acquisition and an estimated useful life in excess of one year. This threshold was increased from $15,000 effective, July 1, 2004. Such assets are recorded at historical cost if purchased or constructed, or estimated historical cost if the original cost is not determinable. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

The State possesses certain capital assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include works of art and historical treasures, such as statues, monuments, historical documents, paintings, forts, miscellaneous 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 as provided on the following page.

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

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

Compensated Absences

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

Long-Term Obligations

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

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

Fund Equity

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

The State Constitution provides that certain excess unencumbered budgetary General Funds at the end of a fiscal year must be placed in a reserve account (the "Budget Reserve Account"). This account, designed to provide a cushion against unanticipated deficits, may not exceed 5% of the estimated General Fund revenue for the ensuing fiscal year. Total funding of the Budget Reserve Account was $161.1 million at June 30, 2005. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation.

(d) Grants

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

(e) Litigation Revenue

In 1997, several states began litigation against defendant tobacco product manufacturers to recover certain amounts the states expended to provide health care to the users of tobacco products. In 1998, a settlement was reached which provided that the states cease litigation against the manufacturers. As part of the Master Settlement Agreement, certain manufacturers agreed to remit periodic payments to the states until 2025. Delaware's share of the estimated $200 billion settlement amounted to $774.5 million. Amounts to be remitted are calculated based on a variety of specific settlement provisions. Future tobacco product sales are one key factor used in determining periodic payment amounts. A receivable of $12.4 million has been recorded pursuant to the settlement. The Master Settlement agreement receipts of $25.2 million are recorded in the General Fund as part of "other" revenue and as Miscellaneous general revenue on the Government-wide Statement of Activities. Expenditures of monies received under the Master Settlement Agreement are authorized by legislation and are dedicated to health care and related programs.

NOTE 2. CASH, INVESTMENTS AND RESTRICTED ASSETS

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

Investment Guidelines and Management:

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

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

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

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

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

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

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

2) Authority Accounts: The State's Authorities (State Agencies, Local School Districts and Component Units) maintain a variety of fund types, including various operating funds, bond funds and debt service reserve funds.

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

Custodial Credit Risk

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

(a) U.S. Government securities;

(b) U.S. Government agency securities;

(c) Federal Home Loan Board letters of credit;

(d) State of Delaware securities; or

(e) Securities of a political subdivision of the State with a Moody's Investors Service rating of "A" or better.

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

At June 30, 2005, the financial institutions maintaining the State's investment pool satisfied the criteria listed above and the investments managed by those institutions did not require collateralization.

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

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

Primary Government

Deposits

At June 30, 2005, the carrying value and the bank balances of the State's deposits were $604,157,000 and $673,443,000 respectively. Of the bank balances, $32,786,000 is insured by the Federal Deposit Insurance Corporation (FDIC) and/or collateralized with securities held by the State or by its agent in the State's name. $426,890,000 is uninsured and uncollateralized. The remaining $213,767,000 represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury. (Disclosures relating to $5,771,000 of Cash and all Investments of the Delaware Public Employees Retirement System (DPERS) are found on pages 52-56.)

Investments

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

Primary Government Investments

(Expressed in Millions)

Investment Type	Fair Value
Commercial Paper	$ 105,268
U.S. Government Agency Securities	272,293
Corporate Obligations	245,738
Government Agency Bonds and Notes	496,047
Foreign Government Securities	824
Master Notes	3,297
Municipal Bonds	99,395
Certificates of Deposit	36,025
Other Pooled Investments	10,498
Private Placements	97,009
TOTAL	$ 1,366,394

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the value of an investment. Although the State's Cash Management

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

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

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

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

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

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

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

State of Delaware
Investment Maturity
(Expressed in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less than 1	1 - 5	6 - 10	Over 10
1) Fixed Income:					
A) U.S. Government					
U.S. Government Treasuries, Notes, Bonds	$ 252,098	$ 80,027	$148,768	$23,303	
U.S. Government Agency	499,051	286,868	201,551	10,632	
B) Mortgage Backed					
Government Pass-Through	21,386		10,331	5,028	$ 6,027
C) Corporate					
Corporate Bonds	213,318	131,799	77,043	2,963	1,513
Corporate Asset Backed	4,500				4,500
Private Placements	92,288	53,329	38,959		
D) Municipals	99,395	6,064	59,050	23,049	11,232
E) Pooled Investments	30,098	20,308	4,300	5,490	
F) Non-U.S. Fixed Income					
1) Developed Markets					
Government / Sovereign	824	824			
Corporate	32,642	17,341	15,301		
2) Short Term					
Commercial Paper	154,555	154,555			
Certificate of Deposit	36,025	27,067	8,958		
Treasury Bills	27,213	27,213			
Agencies	112,669	112,669			
Master Notes	3,297		3,297		
Total Invested Assets	**$1,579,359**	**$918,064**	**$567,558**	**$70,465**	**$23,272**
Less: Pooled Component Unit Investments	**(46,684)**				
Total State Investments	**$1,532,675**				

Credit Risk

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

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

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

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

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

The schedule below presents the credit risk characteristics of the State's investments as of June 30, 2005.

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

Investment Type	Agency *	AAA	AA+	AA	A+ and A	A-1 and AA-	NRP **
1) Fixed Income:							
A) U.S. Government							
U.S. Government Treasuries, Notes, Bonds		$252,098					
U.S. Government Agency	$56,498	442,553					
B) Mortgage Backed							
Government Pass-Through	15,359	6,027					
C) Corporate							
Corporate Bonds		88,285		$100,247	$24,786		
Corporate Asset Backed		4,500					
Private Placements		3,017		79,257	10,014		
D) Municipals		89,365		6,685	2,368		$ 977
E) Other Pooled			$ 5,570	2,489	1,006	$ 785	20,248
F) Non-U.S. Fixed Income							
1) Developed Markets							
Government / Sovereign		824					
Corporate				32,642			
2) Short Term							
Commercial Paper						153,653	902
Certificate of Deposit			15,009	16,093		2,904	2,019
Treasury Bills		27,213					
Agencies		5,026				107,643	
Master Notes							3,297
TOTAL	**$71,857**	**$918,908**	**$20,579**	**$237,413**	**$38,174**	**$264,985**	**$27,443**

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

** NRP = Non-Rated Pooled accounts

Derivatives

The State's cash management prohibits investment in derivatives.

Investments in Excess of 5 %

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

A. U.S. Government-no restrictions.

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

C. CDs, Time Deposits and Bankers Acceptances-50% total; 10% in any one issuer.

1. Domestic-No additional restrictions.
2. Non-Domestic-25%.
3. Delaware Domiciled-Securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

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

1. Domestic-No additional restrictions.
2. Non-Domestic-25%; 10% in any one issuer.

E. Repurchase Agreements-50% total.

F. Reverse Repurchase Agreements-25% total.

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

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

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

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

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

L. Mortgage-backed securities-20% total.

At June 30, 2005, the State had no issuers with investments at fair value in excess of 5% of the investment portfolio.

Investment Commitments

The State has made no investment commitments as of June 30, 2005.

Foreign Investments/Forward Exchange Contracts

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

Delaware Public Employees' Retirement System (DPERS or System)

Investment Policy

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

a. maintain a minimum of 20% - 25% of total assets of the System in fixed income investments such as bonds and short-term investments (assets with maturity of less than one year);

b. conduct an ongoing review of prospective risk levels and rates of return available from all classes of assets eligible for investment;

c. employ a variety of investment managers with demonstrated skills in managing funds through different styles of management with expertise in particular kinds of assets such as stocks, bonds, real estate, mortgages, venture capital, money market instruments, currency, or combinations thereof; and

d. closely monitor the performance of all investment managers not only in relation to specific absolute objectives, but also in relation to other fund managers following similar investment objectives.

For the Fiscal Year ended June 30, 2005, the System has operated in all material respects in accordance with these policies.

Investments

The schedule on the following page is a listing of domestic fixed income and short-term investments and related maturity schedule. The totals presented are derived from the individual assets held by the System as of June 30, 2005.

Investment Maturities (in Years)
(Expressed in Thousands)

Investment Type	Fair Value	Less than 1	1 - 4.9	5 - 9.9	10 - 19.9	20 - 30	More than 30
Financials	$ 99,135	$ 25,307	$ 28,541	$ 17,684	$ 8,037	$ 8,305	$ 11,261
Foreign Government	119,077	13,288	39,441	19,980	28,703	17,665	
Industrials	81,120		11,182	19,392	14,277	36,269	
Other Bonds/Bond Mutual Funds	88,120	1,216	25,615	6,446	7,866	26,571	20,406
Telephone	19,157		1,051	4,861	1,870	11,375	
Transportation	4,741			1,489	3,252		
Treasury Notes & Bonds	125,967	24,383	62,983	13,322	20,913	4,366	
U.S. Gov't Agencies	199,859	38,789	49,635	6,058	27,246	74,139	3,992
Utilities	13,366	835	4,657	6,183	451	1,240	
World Bank	12,429		12,429				
Certificates of Deposit	19,454	19,454					
Discount Commercial Paper	156,395	156,395					
Discount Commercial Notes	20,905	20,905					
Other Investments*	265,098						
Total:	$ 1,224,823	$ 300,572	$ 235,534	$ 95,415	$ 112,615	$ 179,930	$ 35,659

* Assets held in pooled investments -- specific investment maturities not available.

The State has delegated investment policy for the System to the Board and its Committees. The Investment Committee sets its own policy in conjunction with the Board to manage and review the System's exposure to fluctuating interest rates.

Credit Risk

The System's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The System has no investment policy that would further limit its investment choices. As of June 30, 2005, the System's fixed income and short-term investments (as noted above) had the following risk characteristics:

Moody's Ratings or Comparable	Percent of Total Fund	Market Value (Expressed in Thousands)	Callable Amount (Expressed in Thousands)	Callable Dates
AAA to A	12.0%	$ 710,022		
BBB to B	2.6%	151,596	$ 5,762	Through October 20, 2010
CCC to C	0.3%	19,803	1,027	Through April 15, 2009
Not Rated	1.3%	78,304	300	Through April 15, 2011
Other Investments*	4.5%	265,098		
Total:	20.7%	$ 1,224,823	$ 7,089	

*Assets held in pooled investments – specific investment ratings, callable details not available

Custodial Credit Risk

Of the System's $6,204,000 cash balance, $433,000 represents pooled deposits held by the State Treasurer's Office. The balance of $5,771,000 represents pooled deposits in short-term investments held by the custodian bank. Both of these accounts are uninsured and uncollateralized.

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

The following managers have investments at fair value in excess of 5% of the System's net assets held in trust for pension benefits as of June 30, 2005:

	Fair Value (Expressed in Thousands)
Mellon Capital Asset Allocation Fund	$ 1,324,978
Oaktree International Convertibles	405,627
T. Rowe Price Natural Resource Fund	398,192
Mellon Capital Global Asset Allocation Fund	369,384
Lehman Capital - Fixed	357,171
Loomis-Sayles & Company LP	309,612

Investment Commitments

The System has commitments to invest up to an additional $393 million in venture capital limited partnerships in varying amounts as of June 30, 2005, to be drawn down, as called upon, over a period of years. Generally, these commitments are self-funding, in that the capital calls are met using cash flows generated by the existing partnerships as managers in this asset class realize the proceeds of their investments.

Foreign Investments/Forward Exchange Contracts

Foreign investments include equity securities, bonds, and short-term investments. In conjunction with certain of these foreign investments, the System has entered into forward exchange contracts to sell or purchase certain foreign currencies at specified rates at stated dates. At June 30, 2005, the System did not hold any directly-held open forward exchange contracts.

The following is a listing of the System's foreign assets as of June 30, 2005, excluding foreign-issuer assets valued at $155.7 million which were U.S. dollar denominated. As a result, totals presented may differ from disclosures made in the Statement of Plan Net Assets, which reflects the primary asset class in which the fund manager invests.

Investment Types
(Expressed in Thousands)

Currency	Fair Value in U.S. Dollars	Fixed Income	Cash	Equities
Australian Dollar	$14,503	$9,551	$ 4	$ 4,948
Canadian Dollar	3,383	3,383		
Swiss Franc	36,484	13,980		22,504
Euro	266,551	179,578	4,468	82,505
British Pound	75,447	30,487	166	44,794
Hong Kong Dollar	4,399	113		4,286
Japanese Yen	65,374	33,000	12	32,362
Norwegian Krone	391	391		
Swedish Krona	4,980			4,980
Singapore Dollar	8,816	1,258		7,558
Other Investments*	229,210	53,053		176,157
Total:	$709,538	$324,794	$4,650	$380,094

* Assets held in pooled investments -- specific currency exposure not available.

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. Only a few selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are stated in the manager's contract and are monitored on an ongoing basis. Derivatives serve a variety of useful purposes for the System, including the reduction of foreign exchange risk, the minimization of transaction costs and as a means of implementing value added strategies to enhance returns. So-called "exotic" derivatives are not used. If the use of derivatives in a portfolio strategy results in some leverage, that leverage is never permitted to expose the Fund to a loss greater than the amount committed to that strategy.

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

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

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

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

COMPONENT UNITS

Diamond State Port Corporation

At June 30, 2005, the carrying value and bank balances of the Diamond State Port Corporation's cash deposits amounted to $17,087,220 and $17,251,891 respectively. Of the bank balances, $100,000 is insured by the FDIC and the remaining $17,151,891 is uninsured and uncollateralized.

Riverfront Development Corporation

At June 30, 2005, the Riverfront Development Corporation's cash deposits carrying value and bank balances amounted to $3,499,910 and $3,655,628 respectively. Cash deposits include $120,595 of restricted cash and cash equivalents that have been assigned to the bank as collateral for repayment in the event of a default under the bond or collateral agreements. Of the bank balances, $400,068 is insured by the FDIC and $3,250,988 is uninsured and uncollateralized. An additional $4,572 is deposited in the State Treasurer's Investment Pool.

Delaware State University

At June 30, 2005, Delaware State University's deposits carrying value and bank balance was $7,943,354 and $6,940,153 respectively. An additional $11,029,018 of cash and cash equivalents related to unexpended State appropriations are included on the Statement of Net Assets. Of the bank balances, $774,686 was uninsured and uncollateralized. An additional $891,402 represents pooled deposits held by the State Treasurer's Office.

Delaware Technical and Community College Educational Foundation

At December 31, 2004, the DTCC Foundation's cash deposits amounted to $80,538. All bank balances were insured by the FDIC.

Delaware Charter Schools

At June 30, 2005, the Delaware Charter Schools deposits carrying value was $11,067,741. Deposits include $8,415,776 held in the State Investment Pool. Carrying value of the remainder of deposits was $2,651,965. Bank balances totaled $2,242,837, consisting of $737,699 insured by FDIC and $1,505,138 uninsured and uncollateralized.

Delaware State Housing Authority

Investment Policies

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

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

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

Certain federal funds administered by the Authority 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 following is a listing of investments and their maturities.

		Investment Maturities (in Years)				
Investment Type	**Fair Value**	**Less than 1**	**1 to 5**	**5 to 10**	**10 to 20**	**20 to 30**
U.S.Treasury Notes	$ 18,602,113	$ 9,258,174	$ 8,865,138	$ 126,000		$ 467,000
U.S.Treasury Bonds	196,311			143,000		19,000
U.S.Treasury Bills	1,111,440	1,129,000				
U.S.Treasury Strips	2,630,614	455,000	1,819,000	681,000		
U.S.Agencies	19,182,155	7,413,000	6,765,000			
Repurchase Agreements	240,697	240,697				
Corporate Notes	7,022,762	3,100,000	3,969,000			
Resolution Funding Corp. Coupon Strips	267,680			362,000		
Municipal Bonds	2,189,801		2,195,000	335,000		
Investment Agreements	95,629,431		65,402,391	4,449,554	$ 12,053,981	13,723,504
Money Market Savings Accounts	679,771	679,771				
Bank Money Market Accounts	2,773,159	2,773,159				
State of Delaware Investment Pool	27,234,067	27,234,067				
Total Investments	$ 177,760,001	$ 52,282,868	$ 89,015,529	$ 6,096,554	$ 12,053,981	$ 14,209,504

Interest Rate Risk

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

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

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

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

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

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

Credit Risk

The Authority's general investment policy is to make investments with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as, the probable income to be derived. The Authority's investment policy limits its investment choices as mentioned above under Investments. For the Authority's Single and Multi-Family Programs, the investment rating must be equal or exceed the bond rating. The Authority'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, 2005, the Authority's investments were rated as follows:

		Rating (S & P)			
Investment Type	Agency *	AAA	AA	A+	AA-
U.S. Agencies	$19,182,155				
Corporate Notes		$1,213,392	$1,742,500	$1,102,014	$2,964,856
Resolution Funding Corp. Coupon Strips		267,680			
Municipal Bonds		248,627			1,941,174
Total	$19,182,155	$1,729,699	$1,742,500	$1,102,014	$4,906,030

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Authority's $177,760,001 investment balance, $95,629,431 represents deposits held by various Guaranteed Investment Contract (GIC) providers. These accounts are uninsured and uncollateralized. The funds are specifically identified for the Authority, but the custodial credit risk cannot be categorized for these funds.

Diamond State Port Corporation

At June 30, the Diamond State Port Corporation held no investments.

Riverfront Development Corporation

The Riverfront's restricted investments totaling $9,582,745 consist of $3,787,133 of short-term investments (rated A1 or better), $5,665,612 of Governmental bonds (rated AAA), and $130,000 Certificates of deposit (insured up to $100,000). These investments are investments that are uninsured, unregistered and held by the counterparty's trust department or agent in the RDC's name. The following issuers have investments at fair value in excess of 5% of RDC's investment portfolio:

Investments	Fair Value	% of Assets
American Express Credit Corp. Note	$ 500,000	5.2 %
General Electric Capital Corp. Note	1,000,000	10.4 %
AIG Funding Corp. Note	500,000	5.2 %
Household Finance Corp. Note	500,000	5.2 %
Toyota Motor Credit Corp. Note	500,000	5.2 %

Delaware State University

Investments of the University totaled $16,017,216 stated at quoted market value. These investments consist of pooled investments where the University does not own specific securities.

Delaware Technical and Community College Educational Foundation

Investments of the DTCC Foundation totaled $5,169,339, stated at quoted market value. These investments consist of pooled investments where the University does not own specific securities. An additional $61,000 is invested in life insurance, recorded at the cash surrender value.

NOTE 3. RECEIVABLES

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

Taxes receivable represent the amount of personal, business, and other taxes determined to be measurable and available as of June 30, 2005. Uncollectability for taxes receivable primarily results from identified assessment problems, inability to locate taxpayers, and accounts of decedents.

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

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

Receivables - Primary Government
Governmental Activities
(Expressed in Thousands)

	General	Federal Funds	Local School District Funds	Total Receivables
Receivables:				
Taxes	$ 179,575		$ 17,144	$ 196,719
Interest	19		12	31
Accounts	659,167	$ 31,252	381	690,800
Loans and Notes	85,834	18,914		104,748
Intergovernmental	122	86,841	62	87,025
Total receivables	924,717	137,007	17,599	1,079,323
Allowance for doubtful accounts	(696,366)	(24,928)	(236)	(721,530)
Total receivable (net)	$ 228,351	$ 112,079	$ 17,363	$ 357,793
Amounts not scheduled for collection during the subsequent year	$ 126,904	$ 21,956	$ 10,162	$ 159,022

Business-type Activities
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total Receivables
Receivables:				
Taxes	$ 31,318			$ 31,318
Interest			$ 1,392	1,392
Accounts	6,238	$ 7,149	6,763	20,150
Loans and Notes			28,985	28,985
Intergovernmental	449		1,853	2,302
Total receivables	38,005	7,149	38,993	84,147
Allowance for doubtful accounts	(14,309)	(705)		(15,014)
Total receivable (net)	$ 23,696	$ 6,444	$ 38,993	$ 69,133
Amounts not scheduled for collection during the subsequent year	$	$	$ 29,577	$ 29,577

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

(Expressed in Thousands)

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	DTCC Educational Foundation	Delaware Charter Schools	Total Receivables
Receivables:							
Interest	$ 20,689						$ 20,689
Accounts	2,099	$ 2,959	$ 213	$ 3,189		$ 461	8,921
Loans and Notes	396,225		3,998		$ 2		400,225
Intergovernmental	155	281		3,565			4,001
Total receivables	419,168	3,240	4,211	6,754	2	461	433,836
Less: Allowance for doubtful accounts	(957)	(57)	(1,938)	(1,444)			(4,396)
Total receivables (net)	$ 418,211	$ 3,183	$ 2,273	$ 5,310	$ 2	$ 461	$ 429,440
Amounts not scheduled for collection during the subsequent year	$ 385,236	$	$ 2,060	$ 394	$	$	$ 387,690

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 presented below.

Deferred Revenues

(Expressed in Thousands)

Unavailable	
Taxes Receivable	$ 69,628
Non-tax Receivables	159,238
Subtotal Unavailable	228,866
Unearned	
Advance Park Reservation Fees	874
Federal Grant Advance Drawdowns	12,095
Total Deferred Revenue	$ 241,835

NOTE 4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Due From/Due to Other Funds

Receivables reported as "Due From Other Funds" and the related payables reported as "Due To Other Funds" represent amounts owed to State organizations by other organizations within the State reporting entity. Amounts receivable from or payable to other levels of government are reported as Intergovernmental receivables or payables. The composition of Due From/Due To balances as of June 30, 2005 expressed in thousands is as follows.

Receivable Fund	**Payable Fund**		**Amount**
General Fund	Federal Fund	$	30,801
	Delaware State Lottery		4,385
	Total	$	35,186

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

Transfers In From /Out To Other Funds

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

A schedule of transfers in and transfers out for the year ended June 30, 2005 is presented below.

(Expressed in Thousands)

		Transfers In		**Transfers Out**
Governmental Fund Types				
General Fund	$	388,676	$	104,204
Federal Fund				
Local School Fund		20,362		31,845
Capital Projects Fund				50,145
Proprietary Fund Types				
Lottery				300,922
DelDOT Fund		83,842		27,438
Primary Government (Entity-wide Only)				
Transfer of Capital Assets from DelDOT		21,674		
Total All Funds	$	514,554	$	514,554

NOTE 5. GENERAL OBLIGATION BONDS

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

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

On December 22, 2004, the State issued $224,177 in General Obligation Qualified Zone Academy Bonds (QZABs). The QZABs are debt instruments that provide a substantial federal tax credit to the lending financial institution. The lender receives no interest payment from the borrower but receives an interest tax credit. The lender benefits from the tax credit that provides a greater return than bond interest would provide, while the State benefits because the loan is essentially interest free. Proceeds were used for renovation of public schools. The bonds mature in 2020.

On February 1, 2005, the State issued $125,000,000 of general obligation bonds. These serial bonds mature between February 1, 2006 and February 1, 2025. The Series A Bonds totaling $32,425,000 were sold to retail investors and bear average annual interest rates of 3.75%. The Series B Bonds totaling $92,575,000 were sold competitively and bear average annual interest rates of 4.28%. Proceeds were used to provide funds for capital improvements to various State facilities.

On March 8, 2005, the State issued $45,335,000 of general obligation bonds. These bonds mature between March 1, 2016 and March 1, 2023. The proceeds of these bonds were used to advance refund $48,266,000 of general obligation bonds. Investments were purchased and placed in an irrevocable trust with an escrow agent. The investments and fixed earnings on the investments are sufficient to fully provide for all future debt service on the refunded bonds. The refunding resulted in an economic gain of $1.9 million and a debt service cash savings over the next 8 years of $2,372,104.

Bonds issued and outstanding totaled $1,026,947,000 at June 30, 2005. Of this amount, $332.6 million is supported by property taxes collected by the Local School

District Funds. During fiscal year 2005, the Local School District Funds transferred $31.8 million of property tax revenue to the General Fund to meet the required debt service on their share of the debt.

The State is authorized to issue an additional $267.6 million of general obligation bonds at June 30, 2005. Interest rates and maturities of the outstanding General Obligation Bonds are detailed below.

General Obligation Bonds

Sale #	Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding June 30, 2005 (Expressed in Thousands)
195	GO Refunding 2005C	5%	2023	$ 45,335
194	GO 2005B	2.625% - 5.0%	2024	92,575
193	GO 2005A	2.25% - 4.25%	2025	32,425
192	QZAB 2004B	0%	2020	224
191	GO + Refunding 2004A	3.0% - 6.0%	2024	193,010
190	QZAB 2003D	0%	2019	908
189	GO Refunding 2003C	4.0% - 6.0%	2024	103,000
188	GO Refunding 2003B	4.0% - 5.0%	2012	31,485
187	GO 2003A	4.0% - 5.0%	2023	82,700
186	QZAB 2002B	0%	2017	760
185	GO + Refunding 2002A	4.0% - 5.25%	2023	218,855
184	QZAB 2001B	0%	2012	649
183	GO + Refunding 2001A	4.0% - 4.75%	2022	70,260
182	GO 2000 A	5.0% - 5.5%	2010	37,500
181	GO 1999 A	4.0% - 4.625%	2019	35,750
179	GO + Refunding 1998A	4.5% - 4.75%	2018	50,490
178	GO 1997 B	5.0%	2007	9,750
177	GO 1997 A	5.0%	2007	12,000
176	GO 1996 A	4.5% - 5.125%	2006	7,500
170	GO 1992 B	4.7% - 6.1%	2013	1,771
				$ 1,026,947

The table presented on the following page sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2005.

Total General Obligation Bonds
(Expressed in Thousands)

Fiscal Year Ending June 30	Principal	Interest	Total
2006	$ 113,781	$ 46,373	$ 160,154
2007	108,829	40,821	149,650
2008	99,715	35,765	135,480
2009	94,020	30,923	124,943
2010	88,440	26,377	114,817
2011-2015	320,316	82,073	402,389
2016-2020	136,039	30,075	166,114
2021-2025	65,807	6,719	72,526
Totals	$ 1,026,947	$ 299,126	$ 1,326,073

Changes in general obligation bonded debt during the year ended June 30, 2005, are summarized in Note 10.

In the current and prior years, the State has defeased certain general obligation bonds by creating separate irrevocable trust funds. New debt has been issued or cash appropriated and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt. Accordingly, the debt has been considered defeased and therefore has been removed as a liability from the Government-wide financial statements. As of June 30, 2005, a total of $216.3 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

DelDOT Fund

Delaware Transportation Authority

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

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

On October 20, 2004, the Authority issued $167,550,000 of Transportation System Senior Revenue Bonds, 2004 Series, of which $67,425,000 was to advance refund Transportation System Senior Revenue Bonds. The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of $3,305,552 and a reduction of $4,462,624 in future debt service payments.

The Authority has previously defeased various other bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is therefore removed as a liability of the Authority. As of June 30, 2005, a total of $151,760,000 of defeased bonds is outstanding.

The Delaware Transportation Authority had a total of $95,219,525 in authorized but unissued bonds at June 30, 2005. Bonds outstanding at June 30, 2005 amounted to $861,710,000 and are detailed on the following page.

Delaware Transportation Authority Revenue Bonds

Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding June 30, 2005 (Expressed in Thousands)
Transportation System Senior Revenue Bonds - Series			
1997	5.0% - 6.0%	2017	$ 60,090
1998	4.15% - 5.5%	2016	52,385
2000	5.5% - 6.0%	2020	20,770
2001	4.5% - 5.5%	2021	53,815
2002	4.0% - 5.0%	2008	39,905
2002 B	4.0% - 5.25%	2022	153,100
2003	3.0% - 5.0%	2023	256,575
2004	3.0% - 5.0%	2024	167,550
Transportation System Junior Revenue Bonds - Series			
1993	5.0%	2005	10,260
2002	4.375% - 5.0%	2009	47,260
	Totals		861,710
	Less: Current portion		58,445
			$ 803,265

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
2006	$ 58,445	$ 40,573	$ 99,018
2007	60,370	37,591	97,961
2008	63,980	34,478	98,458
2009	67,320	31,179	98,499
2010	64,595	27,882	92,477
2011-2015	239,995	100,579	340,574
2016-2020	192,540	47,319	239,859
2021-2025	114,465	9,926	124,391
Totals	$ 861,710	$ 329,527	$ 1,191,237

COMPONENT UNITS

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

Delaware State Housing Authority

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

The Delaware State Housing Authority has issued revenue bonds to provide financing for mortgage, construction, and other loans to not-for-profit and limited for-profit housing sponsors; to make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans; and to purchase qualified mortgage loans from mortgage lenders. The bonds are direct obligations of the Authority and are secured by the mortgage loans made or purchased under the applicable resolutions; the revenues, prepayments and foreclosure proceeds received are related to the mortgage loans, and certain funds and accounts established pursuant to the applicable bond resolutions. All bonds are callable subject to certain restrictions. Interest rates on bonds outstanding range from 2.90% to 7.375% with maturities through October 1, 2038.

The Authority's Single Family Mortgage Revenue Bonds 2004 Series A consisted of a total of $60,000,000 being issued in traunches. From March 4, 2004 to June 10, 2004, the Authority issued a total of $15,172,199. From September 2004 to May 2005, the Authority issued a total of $44,825,721. Proceeds of the sales were used for making new qualified residential mortgage loans.

On May 18, 2005, the Authority issued $60,000,000 of Single Family Mortgage Revenue Bonds, 2005 Series A. Proceeds of the sales are being used to make new qualified residential mortgage loans.

Outstanding bonds at June 30, 2005 amounted to $341,744,154. Future debt service requirements for the Authority's bonds are shown on the following page.

Delaware State Housing Authority Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2006	$ 7,752	$ 14,501	$ 22,253
2007	8,470	14,133	22,603
2008	8,980	13,727	22,707
2009	9,420	13,287	22,707
2010	9,940	12,818	22,758
2011-2015	45,435	56,251	101,686
2016-2020	41,320	46,420	87,740
2021-2025	46,264	36,814	83,078
2026-2030	51,355	27,070	78,425
2031-2035	32,331	20,194	52,525
2036-2038	80,477	3,997	84,474
Total	$ 341,744	$ 259,212	$ 600,956

Riverfront Development Corporation

Bonds payable represents amounts due under variable rate bonds, which were issued by RDC in November 1997. The bonds bear interest at a rate which is determined quarterly and is equal to the yield on 90-day U.S. Treasury Bills plus 0.30% with a minimum rate of 5.125%. The rate as of June 30, 2005 was 5.125%. The bonds mature December 1, 2017. Debt service requirements are as follows:

Riverfront Development Corporation Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2006	$ 240	$ 249	$ 489
2007	245	237	482
2008	275	224	499
2009	300	209	509
2010	320	193	513
2011-2015	2,140	669	2,809
2016 - 2018	1,460	100	1,560
Total	$ 4,980	$ 1,881	$ 6,861

Delaware State University

Revenue bonds payable of the University at June 30, 2005 are shown below.

Delaware State University
Revenue Bonds Payable
(Expressed in Thousands)

Revenue Refunding Bonds	$ 11,306
Student Housing Foundation Bonds	54,339
Total	$ 65,645

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

Interest rates range from 3.90% to 5.25% on the outstanding Revenue Refunding Bonds. Debt service requirements for the Delaware State University Bonds are shown on below.

Delaware State University Revenue Refunding Bonds

Year Ending June 30	Principal	Interest	Total
	(Expressed in Thousands)		
2006	$ 940	$ 476	$ 1,416
2007	690	446	1,136
2008	720	417	1,137
2009	745	387	1,132
2010	775	356	1,131
2011 - 2015	4,365	1,259	5,624
2016 - 2018	3,130	211	3,341
Total	$ 11,365	$ 3,552	$ 14,917
Less: Unamortized Bond Discount	(59)		
	$ 11,306		

The Delaware State University Student Housing Foundation (the Foundation), a component unit of Delaware State University, is a non-profit corporation organized for the purpose of owning and operating student housing facilities primarily for students and faculty of Delaware State University. The Foundation has a fiscal year-end of July 31, 2004. The Foundation has issued student housing revenue bonds secured by deed and payable solely from the revenues of the Foundation. Bond proceeds were restricted to the development, construction, furnishing and equipping of the student housing facilities.

The Foundation refinanced the Series 2000A and 2002A Bonds (the "Prior Bonds") with a loan payable in an aggregate amount of $18,420,000 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, and to pay a portion of the costs of issuance of the Series 2004A Bonds.

The refunding of the Prior Bonds was at par. A loss of $776,745 was recorded as a result of the refinancing and relates to the write-off of issue costs related to the refunded Prior Bonds and write-off of unamortized issue discount.

The Delaware State University Student Housing Foundation financed development and construction with a loan payable in an aggregate amount of $36,300,000 funded with the proceeds from the issuance of variable rate demand student housing revenue bonds, Series 2004B and 2004C (Delaware State University Student Housing Foundation Project). The proceeds from the sale of the Series 2004 Bonds are restricted to financing the construction, furnishing, and equipping Phase III or the Project, to defease in advance of their maturities, the Series 2000B and 2002B Bonds (the “Taxable Refunded Bonds”), to fund interest on the Series 2004 Bonds during construction, to fund a debt service reserve fund for the Series 2004B Bonds, and to pay a portion of the costs of issuance of the Series 2004 Bonds.

The Prior Bonds were called for optional redemption on February 2, 2004. The Taxable Refunded Bonds are not callable prior to their respective maturity dates on October 1, 2004 and October 1, 2006. Funds were deposited with the Trustee to accomplish the defeasance of the Taxable Refunded Bonds.

The liability of the Delaware State University Student Housing Foundation under the loan agreements is limited to the value of the building and improvements, pledged revenues and amounts deposited with the trustee. The first monthly interest payment on the Series 2004 Bonds began on July 1, 2004. Total accrued interest on all bonds as of July 31, 2004 and 2003, is $173,806 and $62,471, respectively.

At July 31, 2004, bonds payable of the Foundation consisted of $54,245,000 of tax-exempt term bonds with maturities through July 2036 and $755,000 of taxable term bonds with maturities through July 2007. Interest rates on the tax-exempt bonds are variable determined weekly, as defined in the supplemental . Interest rates on the taxable bonds are fixed coupon rates of 5.50% - 7.50%. Taxable Series 2004C with variable interest rates determined weekly up to 4 percent, as defined in the Trust Indenture, are secured by deed and assignment of rents. Maturities of long term debt at July 31, 2004 are presented on the following page.

Delaware State University
Student Housing Foundation
Revenue Bonds

Year Ending July 31	(Expressed in Thousands) Tax-exempt	Taxable	Total
2005	$ 250	$ 160	$ 410
2006	325	495	820
2007	650	100	750
2008	840		840
2009	935		935
2010 - 2014	5,690		5,690
2015 - 2019	7,085		7,085
2020 - 2024	8,890		8,890
2025 - 2029	11,215		11,215
2030 - 2034	14,140		14,140
2035 - 2039	4,225		4,225
Subtotal	$ 54,245	$ 755	55,000
Less: bond discount (net of accumulated amortization)			(661)
Total			$ 54,339

NOTE 7. LOANS AND NOTES PAYABLE

PRIMARY GOVERNMENT

DelDOT Fund

Delaware Transportation Authority

On May 6, 2005, the Authority issued a $40,000,000 note to PNC Bank, Delaware. Proceeds of the note are for the purpose of providing interim financing for the DelDOT Fund's capital program in anticipation of issuance of long-term bonds, which will provide permanent financing for the capital program. The note bears interest at 2.92% for the period from May 6, 2005 to (but excluding) August 3, 2005, and is adjusted each business day thereafter to a variable rate based on LIBOR [(LIBOR + 25 basis points) (0.65 + 68 basis points)]. Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months. The note, together with all interest accrued, is payable on October 3, 2005. The balance outstanding on the note at June 30, 2005 was $40,000,000.

COMPONENT UNITS

Delaware State Housing authority (DSHA)

Notes payable of the DSHA represent obligations to the Federal National Mortgage Association (FNMA) and the State.

The Authority entered into a $6,300,000 loan agreement with FNMA in May 2003 to provide construction financing for three Housing Development Fund (HDF)/Tax Credit developments through FNMA's American Community Fund (ACF). The note was paid in full during fiscal 2005 as the construction project loans converted to permanent HDF loans.

The Authority entered into a second ACF loan agreement with FNMA in September 2004 to provide construction financing for five additional HDF/tax Credit developments. The total principal balance at June 30, 2005 was $2,236,233. The note is payable as the construction projects convert to permanent HDF mortgages through September 2007 with interest accruing at an adjustable rate obtained by adding one hundred forty (140) basis points (1.40%) to the three month LIBOR, adjusted quarterly, based on such rate as published in The Wall Street Journal on the last business day of the month immediately preceding each quarter.

The State issued general obligation bonds on behalf of the DSHA to provide funding for low-income housing loans. Proceeds from these bonds enabled the DSHA to receive the savings from the FAF issues in advance. Debt service requirements for these notes are shown below.

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

Year Ending June 30	Principal	Interest	Total
2006	$ 46	$ 23	$ 69
2007	46	21	67
2008	115	19	134
2009	72	14	86
2010	72	10	82
2011-2015	250	239	489
Total	$ 601	$ 326	$ 927

Diamond State Port Corporation (DSPC)

Loan and notes payable of the DSPC at June 30, 2005 are shown below.

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

City of Wilmington:	
Port Debt Service Notes	$ 21,453
Transportation Trust Fund Loan	29,652
Total	$ 51,105

Transportation Trust Fund Loan

On November 30, 2001, the DSPC entered into a loan agreement with the State of Delaware's Department of Transportation (DOT). The DSPC borrowed $25,500,000 on February 2, 2002 and $2,000,000 on May 2, 2002. The funds were used to repay the balances in full of the Delaware River and Bay Authority Note and the Wilmington Trust Company Note and, at a discount, the City of Wilmington Deferred Payment Note. In addition, the loan provided $8,648,136 to establish a fund to be invested. This fund was restricted to pay portions of debt service as they become due. In 2004 the remaining funds were used for debt service. No funds restricted for debt service remain.

In July 2005 the loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2005, and January 1, 2006, and to restructure the repayment of the outstanding principal balance effective July 1, 2006 over the next twenty years. The rate of interest of 4.6% remained unchanged. Beginning July 1, 2006, payments of principal and interest are due semi-annually over a twenty-year period. Interest capitalized as principal during fiscal year 2005 as part of the restructuring amounted to $1,318,319.

In July 2004, a similar restructuring occurred whereby the loan was restructured to allow for the deferral of debt service principal and interest payments due January 1, 2004, July 1, 2004 and January 1, 2005, and to restructure the repayment of the outstanding principal balance effective July 1, 2005 over the next 20 years. Interest capitalized as principal during fiscal year 2004 as part of the restructuring amounted to $1,259,707.

Interest expense charged to operations in 2005 and 2004 was $1,318,319 and $1,259,707, respectively.

The schedule of future maturities below includes $681,987 interest to be capitalized as principal in fiscal year 2006 as part of the loan restructuring of 2005.

Transportation Trust Fund Loan
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2006	$ -	$ -	$ -
2007	952	1,385	2,337
2008	996	1,340	2,336
2009	1,042	1,294	2,336
2010	1,091	1,245	2,336
2011-2015	6,263	5,417	11,680
2016-2020	7,862	3,818	11,680
2021-2025	9,870	1,810	11,680
2026	2,258	78	2,336
Total	$ 30,334	$ 16,387	$ 46,721

City of Wilmington Note

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

On October 5, 2004, the City issued $12,945,000 of general obligation bonds with an average interest rate of 3.73% to advance refund $11,655,000 of outstanding 1993 B Series general obligation bonds with an average interest rate of 5.0%, and a portion of interest of $161,921 due January 1, 2005. The Port-related portions of the new bonds issued and the old bonds redeemed were $3,992,497 and $3,594,635, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $397,862, it reduces the Corporation's debt service payments by $251,815 over the next seventeen and a half years resulting in an economic gain. The deferred loss on the refunding is accreted over the seventeen and a half year life of the debt. The deferred loss balance on the 2004 refunding as of June 30, 2005 was $397,401.

On October 20, 2001, the City issued $22,165,000 of general obligation bonds with an average interest rate of 3.7% to advance refund $21,335,000 of outstanding 1992 A, B, and C Series general obligation bonds with an average interest rate of 6.16%. The Port related portions of the new bonds issued and old bonds redeemed were $7,206,705 and $6,945,086 respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $261,619 for the year ended June 30, 2002, it reduces the Corporation's debt service payments by $281,293 over the next eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven years of the life of the debt. The deferred loss balance as of June 30, 2005 was $70,436.

Total deferred loss balance as of June 30, 2005 was $467,837.

Principal and interest payments made on the notes during 2005 were $3,300,589 and $902,916, respectfully. Interest expense in 2005 was $872,590.

The future principal and interest payments on Port Debt Service Notes are shown on the following page.

Port Debt Service Note
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2006	$ 2,985	$ 1,002	$ 3,987
2007	3,156	827	3,983
2008	3,302	676	3,978
2009	2,291	541	2,832
2010	2,405	424	2,829
2011-2015	4,572	1,180	5,752
2016-2020	2,253	388	2,641
2021-2025	957	61	1,018
Subtotal	21,921	5,099	27,020
Deferred Loss on Refunding	(468)		(468)
Total	$ 21,453	$ 5,099	$ 26,552

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 $7,112,000 at June 30, 2005. Interest rates for the mortgages vary between 5.25% and 10.0% and mature between January 2005 and October 2009. Estimated future annual debt service requirements are shown below.

Riverfront Development Mortgage Debt
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2006	$ 205	$ 411	$ 616
2007	217	399	616
2008	230	386	616
2009	944	373	1,317
2010	5,516	104	5,620
Total	$ 7,112	$ 1,673	$ 8,785

Demand Note Payable and Advance Payable

RDC has available a line of credit in the amount $250,000. When used, this line bears interest at 1.00% over prime (7.5% at June 30, 2005) and is due on demand. There was no outstanding balance on this line as of June 30, 2005.

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 $112.1 million, of which $89.0 million relates to property leases and $23.1 million relates to equipment leases. Operating leases contain various renewal options. Any escalation clauses, sublease rentals and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures of the related fund when paid. Appropriations of approximately $24.6 million were made by the General Assembly to meet the rental payments in fiscal 2005, of which $17.3 million was for office space and $7.3 million was for equipment consisting mainly of computers, data processing equipment and fleet vehicles.

Significant annual equipment rentals include $1.8 million for computers and data processing equipment for the Department of Technology and Information and $3.9 million for fleet vehicles and data processing equipment with the Department of Administrative Services. Significant annual real estate rentals include $4.8 million for leases for Health and Social Services facilities, $2.5 million for the Department of Labor and $1.9 million for office space of the Department of Services for Children, Youth and Their Families.

Future minimum lease commitments for operating leases as of June 30, 2005 are shown in the following table.

State of Delaware Lease Commitments
(Expressed in Thousands)

Year Ending June 30	Operating Leases
2006	$ 24,435
2007	18,884
2008	16,143
2009	11,656
2010	8,747
2011-2015	23,309
2016-2020	4,812
2021-2025	1,956
2026-2030	1,779
2031-2035	416
	$ 112,137

NOTE 9. OTHER LONG-TERM OBLIGATIONS

Compensated absences payable are reported in the Government-wide Financial Statements and in Proprietary Funds. They represent benefits accrued to State employees for vacation earned as of year-end and sick leave estimated to be paid out at retirement for services rendered as of June 30, 2005. 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. $119.9 million has been accrued in long-term obligations for the Governmental Activities and $12.3 million in the Business-type Activities for the compensated absences liability. The current portion of the long-term obligation for compensated absences is $9.5 million in the Governmental Activities and $4.2 million in the business-type Activities. Approximately $104.2 million (86.9%) of the long-term obligation for compensated absences will be liquidated by the General Fund. Of the remainder, approximately $6.7 million (5.6%) and $9.0 million (6.8%) will be paid with Federal Funds and Local School District Funds, respectively.

The State has recorded $35.0 million relating to the accrual of the long-term obligation for escheat (abandoned property). $7.0 million was recorded as a current obligation.

The State has incurred obligations relating to scholarship and physician loan repayment programs resulting in an additional long-term obligation of $3.1 million. $0.6 million was recorded as a current obligation.

NOTE 10. CHANGES IN LONG-TERM OBLIGATIONS

The table below provides a summary of changes in long-term obligations of the Primary Government for the year ended June 30, 2005.

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	$ 1,012.5	$ 170.6	$ (156.2)	$ 1,026.9	$ 113.8
Bond issue premium, net of accumulated amortization	42.1	9.8	(3.0)	48.9	3.0
Notes payable		4.8		4.8	1.2
Physician & scholarship programs	2.8	0.9	(0.6)	3.1	0.6
Claims and judgments (notes 13 and 17)	74.9	83.0	(71.5)	86.4	22.9
Compensated absences	117.2	12.0	(9.3)	119.9	9.5
Net pension obligation (note 14)	88.6	24.0	(17.1)	95.5	
Escheat payable	35.0	7.0	(7.0)	35.0	7.0
Governmental activities long-term liabilities	$ 1,373.1	$ 312.1	$ (264.7)	$ 1,420.5	$ 158.0
Business-type Activities					
Revenue bonds	$ 815.5	$ 167.5	$ (121.3)	$ 861.7	$ 58.4
Bond issue premium, net of accumulated amortization	29.4	9.2	(8.5)	30.1	
Compensated absences	11.1	1.2		12.3	4.2
Claims and judgments (notes 13 and 17)	14.8	3.7	(3.7)	14.8	2.3
Business type Activities long-term liabilities	$ 870.8	$ 181.6	$ (133.5)	$ 918.9	$ 64.9

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

CHANGES IN LONG-TERM OBLIGATIONS
Component Units
(Expressed in Millions)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Delaware State Housing Authority					
Notes payable	$ 5.3	$ 3.9	$ (6.4)	$ 2.8	$ 2.3
Revenue bonds	307.2	108.5	(74.0)	341.7	7.8
Compensated absences	0.8	0.5	(0.4)	0.9	
Total long term obligations	$ 313.3	$ 112.9	$ (80.8)	$ 345.4	$ 10.1
Diamond State Port Corporation					
Notes and loans payable	$ 53.0	1.3	$ (3.2)	$ 51.1	$ 3.0
Other non-current	0.1		(0.1)	0.0	
Total long term obligations	$ 53.1	$ 1.3	$ (3.3)	$ 51.1	$ 3.0
Riverfront Development Corporation					
Bonds payable	$ 5.2		$ (0.2)	$ 5.0	$ 0.2
Long term debt	8.2	$	(1.1)	7.1	0.2
Total long term obligations	$ 13.4	$ 0.0	$ (1.3)	$ 12.1	$ 0.4
Delaware State University					
Other long term obligations	$ 2.2	$ 0.6	$ (0.4)	$ 2.4	$ 0.5
Notes payable	0.6		(0.2)	0.4	0.1
Revenue bonds	30.1	37.3	(1.8)	65.6	1.4
Total long term obligations	$ 32.9	$ 37.9	$ (2.4)	$ 68.4	$ 2.0
Delaware Charter Schools					
Long term debt	$ 26.5	$ 4.4	$ (3.0)	$ 27.9	$ 1.8
Total long term obligations	$ 26.5	$ 4.4	$ (3.0)	$ 27.9	$ 1.8

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

The State of Delaware, by action of the General Assembly, created various authorities for the express purpose of providing private entities with an available low cost source of capital financing for construction of facilities deemed to be in the public interest. The bonds of the authorities represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers to the entity served by the bond issuance. The State has no obligation for this debt. Accordingly, these bonds are not reflected in the accompanying financial statements. These bonds are issued through the Delaware Economic Development Authority and the Delaware Health Facilities Authority. The principal amount of bonds outstanding at June 30, 2005 for these entities amounted to $1.5 billion and $432.2 million, respectively.

NOTE 12. CAPITAL ASSETS

PRIMARY GOVERNMENT

Capital asset activities for the fiscal year ended June 30, 2005 were as follows:

Capital Assets

(Expressed in Thousands)

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated				
Land	$ 327,811	$ 38,834	$ (5,255)	$ 361,390
Easements	66,822	25,782		92,604
Construction-in-progress	203,263	218,920	(278,798)	143,385
Total capital assets, not being depreciated	597,896	283,536	(284,053)	597,379
Capital assets, being depreciated				
Vehicles	65,006	16,883	(5,124)	76,765
Buildings	1,771,070	286,365	(18,601)	2,038,834
Equipment	75,664	4,418	(3,437)	76,645
Land Improvements	58,138	19,674		77,812
Total capital assets being depreciated	1,969,878	327,340	(27,162)	2,270,056
Less accumulated depreciation for:				
Vehicles	(45,731)	(10,619)	3,409	(52,941)
Buildings	(629,389)	(46,564)	2,800	(673,153)
Equipment	(52,042)	(5,704)	2,854	(54,892)
Land Improvements	(18,042)	(6,812)		(24,854)
Total accumulated depreciation	(745,204)	(69,699)	9,063	(805,840)
Total capital assets, being depreciated, net	1,224,674	257,641	(18,099)	1,464,216
Governmental activities capital assets, net	$ 1,822,570	$ 541,177	$ (302,152)	$ 2,061,595

Capital Assets

(Expressed in thousands)

Business-type Activites Lottery	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Vehicles and equipment	$ 1,395			$ 1,395
Total capital assets being depreciated	1,395			1,395
Less accuumulated depreciation for:				
Vehicles and equipment	(1,065)	$ (131)		(1,196)
Total accumlated depreciation	(1,065)	(131)		(1,196)
Total capital assets, being depreciated, net	330	(131)		199
Business-type activity capital assets, net	$ 330	$ (131)	$	$ 199

Capital Assets

(Expressed in Thousands)

Business-type Activity DelDOT Fund	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated				
Land	$ 113,673	$ 79,339	$ (23,648)	$ 169,364
Infrastructure	3,148,481	15,210		3,163,691
Total capital assets, not being depreciated	3,262,154	94,549	(23,648)	3,333,055
Capital assets, being depreciated				
Buildings	53,415	9,664	(1,866)	61,213
Vehicles and equipment	149,831	12,550	(9,666)	152,715
Total capital assets being depreciated	203,246	22,214	(11,532)	213,928
Less accumulated depreciation for:				
Buildings	(18,863)	(1,599)		(20,462)
Vehicles and equipment	(69,860)	(18,055)	9,049	(78,866)
Total accumulated depreciation	(88,723)	(19,654)	9,049	(99,328)
Total capital assets, being depreciated, net	114,523	2,560	(2,483)	114,600
Business-type activity capital assets, net	$ 3,376,677	$ 97,109	$ (26,131)	$ 3,447,655

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

Depreciation Expense

(Expressed in Thousands)

Governmental Activities:	
General Government	$ 15,302
Health and Children's Services	10,832
Judicial and Public safety	12,067
Natural Resources and Environmental Control	3,294
Labor	73
Education	28,131
Total Depreciation Expense - Governmental Activities	$ 69,699
Business-type Activities:	
Transportation	$ 19,654
Lottery	131
Total Depreciation Expense- Business-type Activities	$ 19,785

NOTE 13. RISK MANAGEMENT

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

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

The management of the State estimates that the amount of actual or potential claims against the State as of June 30, 2005, for workers' compensation, automobile accident and health-care claim liabilities is $126.5 million. The claim liabilities relating to health-care totaling $43.6 million have been recorded as accrued liabilities in the Governmental activities. The liability for workers' compensation and automobile accident liabilities totaling $82.9 million has been recorded in Governmental activities as claims and judgments. The current portion of these claims totals $19.4 million. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2005 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2004 and 2005 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
2004	$ 113,458	$ 473,449	$ (466,664)	$ 120,243
2005	$ 120,243	$ 524,968	$ (518,712)	$ 126,499

DelDOT Fund

The Delaware Transit Corporation (DTC) maintains coverage auto insurance through both the retention of risk and the purchase of commercial insurance. The DTC has recorded $3.5 million of claim liabilities as claims and judgments. Of this amount, $2.3 million has been recorded as current.

NOTE 14. PENSIONS

PRIMARY GOVERNMENT

State of Delaware Pension Plans

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

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

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

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

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

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

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

Non-DPERS Fund Descriptions and Contributions

County and Municipal Police and Firemen's COLA Fund

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

Post-Retirement Increase Fund (PRI)

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

As of June 30, 2005, recently granted post-retirement increases have outstanding liabilities totaling $147.1 million, which will be transferred to the appropriate plans over the next five years as follows:

Fiscal Year	(Expressed in Thousands)
2006	$ 38,748
2007	$ 33,717
2008	$ 35,037
2009	$ 26,490
2010	$ 13,132

The Board adopted actuarially determined funding for the Post-Retirement Increase Fund. Funding for fiscal Year 2005 was 2.4% of covered payroll. Funding for Fiscal Year 2006 has been increased to 2.6% of covered payroll.

Investment Trust Fund

In June 1996, the State passed legislation that established the Delaware Local Government Retirement Investment Pool (DELRIP) in the custody of the Board of Pension Trustees to allow local governments the option to pool their pension assets with the Delaware Public Employees' Retirement System. The DELRIP is an external investment pool that allows local governments to maximize their rate of return and reduce administrative expenses related to the investment of funds. Participation in the pool is totally voluntary. There were four participating entities in the DELRIP as of June 30, 2005, which comprises the pool in its entirety.

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

Post-Retirement Health Insurance Premium Fund

The Post-Retirement Health Insurance Premium Fund, which was established in June of 2000, is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers retired employees of the State Employees' Pension Plan. The State provides health insurance to eligible retirees and their dependents. The State Legislature under 29 Del Code, Chapter 52 has the authority to establish and amend benefit provisions, including contributions requirements. Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts monthly toward the cost of health insurance premiums. For the Fiscal Year ended June 30, 2005, plan members contributed \$2.4 million, or 2.9% of total premiums through their required contributions. The State of Delaware General Fund was required to contribute the balance of the premium cost (\$82.2 million, or 97.1% for Fiscal Year 2005). Pre-funding levels are set annually by the Legislature as part of the budget process. Funding began in Fiscal Year 2002 in the amount of 0.7% of covered payroll and continued in Fiscal Year 2003 at the rate of 0.4%. Funding was suspended for Fiscal Years 2004 and 2005. A \$10 million lump sum contribution to the Fund was appropriated during the State's Fiscal Year 2006 General Fund budget process.

In addition to the premium payments described above, the State provides post-retirement health care benefits, in accordance with State statutes, to all employees who retire from the State after meeting the eligibility requirements. The State reimburses substantially all validated claims for medical and hospitalization costs incurred by pre-Medicare retirees and their dependents. The State also pays a fixed amount of \$301.56 per month for a Medicare supplement for each retiree eligible for Medicare. Expenditures for post-retirement health care benefits are recognized as retirees report claims. During the year, General Government expenditures of $84,818,000 were recognized in the General Fund for post-retirement health care.

Plan Membership, Benefit and Contribution Provisions

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

State Employees' Pension Plan

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

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

Vesting: 5 years of credited service.

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

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

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

Contributions:

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

Death Benefit: $7,000 per member.

Special Pension Plan

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

Service Benefits: Defined by special legislation.

Vesting: Defined by special legislation.

Retirement: Defined by special legislation.

Disability Benefits: Defined by special legislation.

Survivor Benefits: Same as State Employees' Plan.

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

Death Benefit: $7,000 per member.

New State Police Pension Plan

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

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

Vesting: 10 years of credited service at any age.

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

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

Non-Duty –same as Service Benefits.

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

Contributions:

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

Death Benefit: $7,000 per member.

Judiciary Pension Plans (Closed and Revised)

Plan Description and Eligibility:

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

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

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

Service Benefits:

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

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

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

Vesting: 12 years of credited service.

Retirement:

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

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

Disability Benefits: Same as Service Benefits

Survivor Benefits:

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

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

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

Death Benefit: Not applicable.

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

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

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

Vesting: 10 years of credited service.

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

Disability Benefits:

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

Non-Duty - Same as Service Benefits.

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

Contributions:
- ♦ Employer - Determined by Board of Pension Trustees.
- ♦ Member - FICA covered - 5% of compensation.
  Non-FICA covered - 7% of compensation.

Death Benefit: Not applicable.

County & Municipal Other Employees' Pension Plan

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

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

Vesting: 5 years of credited service.

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

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

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

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

Death Benefit: Not applicable.

Volunteer Firemen's Pension Plan

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

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

Vesting: 10 years of credited service.

Retirement: Age 60 with 10 years credited service.

Disability Benefits: Not applicable.

Survivor Benefits: Not applicable.

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

Death Benefit: Not applicable.

Diamond State Port Corporation Pension Plan

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

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

Vesting: 5 years of credited service.

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

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

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

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

Death Benefit: Not applicable.

Closed State Police Pension Plan

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

Service Benefits: 50% of monthly salary.

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

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

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

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

Death Benefit: $7,000 per member.

Historical Trend Information

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

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

NET PENSION OBLIGATION (NPO)

The Annual Pension Cost (APC) and Net Pension Obligation (NPO) for the Closed State Police Plan for the fiscal years ended June 30, 2005, 2004, and 2003 are presented on the following page.

Net Pension Obligation (NPO)

	Fiscal Year Ended June 30, 2005	Fiscal Year Ended June 30, 2004	Fiscal Year Ended June 30, 2003
	(Expressed in Thousands)		
Annual Required Contribution	$ 24,358	$ 27,747	$ 27,654
Interest on Net Pension Obligation	7,089	6,849	6,099
Adjustment to Annual Required Contribution	(7,479)	(7,075)	(6,265)
Annual Pension Cost	23,968	27,521	27,488
Less Contributions Made	(17,071)	(19,480)	(18,667)
Increase in Net Pension Obligation	6,897	8,041	8,821
Net Pension Obligation, Beginning of Year	88,618	80,577	71,756
Net Pension Obligation, End of Year	$ 95,515	$ 88,618	$ 80,577

Deferred Compensation Plan

The State offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all State of Delaware employees, permits them to defer a portion of their salary to future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Plan changed in January 2001 to include an employer-matching contribution. The State will match the first $10 per pay contributed by employees who have participated in the plan for six months. Maximum annual State match per employee is $260. The State contribution totaled $2,081,400 for the year ended June 30, 2005.

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 may be found in Required Supplementary Information on page 110.

Required supplementary information concerning funding policies and annual pension costs is included on page 110. 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 Obligation
DTC Pension Plan	06/30/2005	$ 763,558	$ 612,886	124.58%	-
	06/30/2004	820,350	749,796	109.41%	-
	06/30/2003	545,328	693,100	78.68%	-
Contributory Pension Plan	12/31/2004	$ 916,604	$ 601,299	152.44%	-
	12/31/2003	548,215	913,947	59.98%	-
	12/31/2002	346,939	563,584	61.56%	-

Component Units

Delaware State Housing Authority (DSHA)

All full time or regular part-time State employees of the DSHA are covered under the DPERS plan, including post-retirement health care. For the year ended June 30, 2005, the Authority was required to contribute 13.25% of covered payroll to the DPERS plan. The Authority's contribution to the DPERS for the year ended June 30, 2005 was $246,165, equal to the required contribution for the year. Full-time non-state employees of the Public Housing Program and Section 8 Program are covered by the "Housing-Renewal and Local Agency Retirement Plan," a defined contribution plan funded by contributions from both the Authority and the covered employees. Non-State employees of the DSHA are required to contribute 3.5% of their base salary. The DSHA's contribution rate of annual salaries is 13.25% for the period ended June 30, 2005. Total contributions made for the year amounted to $365,861.

The Authority provides post-retirement health care benefits, in accordance with Authority General Order Number 325, to all non-state employees who retire from the Authority after meeting the eligibility requirements. Currently, five retirees meet those requirements. Health care benefits paid during fiscal 2005 totaled $35,386. The set aside balance, which is held in the State of Delaware investment pool, totaled $204,724 as of June 30, 2005. The Authority decided the current set aside balance was sufficient for fiscal year 2005 and did not set aside additional funds.

Diamond State Port Corporation and Delaware State University

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

NOTE 15. AFFILIATED ORGANIZATIONS

Delaware State Lottery

Multi-State Lottery Association

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

The total amount held as a deposit by the MUSL as of June 30, 2005, was $1,700,747. This amount, reported by the Lottery as restricted assets and as liabilities payable from restricted assets, represents funds to be paid to the State of Delaware, the Powerball game ends, if MUSL is not required to use a portion of the Lottery's reserves it holds.

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

DelDOT Fund

Delaware Transportation Authority

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

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

At June 30, 2005 and June 30, 2004, a True-Up study revealed a probable liability relating to the True-Up Agreement. While the exact amount of this liability, due in March 2008, is not known, a reasonable estimate based on information currently available is $12,000,000. This liability has been discounted to its present value based on the average investment rate of the Trust Fund at fiscal year end. The discounted amount of $11,325,229 was recorded in claims and judgments at June 30, 2005. To accumulate funds for future payment of this contingency, the Delaware Transportation Authority is earmarking funds within its operating budget.

On March 25, 2003, the Trust Fund withdrew from the regional consortium that was governing the E-Zpass operation jointly with three agencies from other states. As of November 30, 2003, the Trust Fund has been operating its E-ZPass system independent of the regional consortium. According to the withdrawal agreement, the Trust Fund has received approximately $7.6 million for the completion of the fiber optic system. This amount was initially recorded as deferred revenue and vendor retainage payable and will be recorded as income as expenses are incurred. For the year ended June 30, 2005, expenses related to E-ZPass of $2,665,572 were included in miscellaneous revenue and transportation operating expense in the statement of revenues, expenses and change in fund net assets. The Trust Fund has agreed to pay its share of the True-Up due in March 2008.

Audited statements for the CSC may be obtained from Adesta Transportation Inc., 200 East Park Drive, Suite 600, Mt. Laurel, New Jersey 08054.

NOTE 16. COMMITMENTS

The State has entered into various contractual commitments that contracts for services and for construction of various highway and capital projects. These commitments are expected to be funded from existing program resources, current and future appropriations and from the proceeds of revenue and general obligation bonds to be issued. Commitments of the Governmental funds totaling $275.6 million are shown on the balance sheet as Encumbrances. Commitments of the Proprietary fund activities include $240.9 million for the DelDOT fund and $84.3 million for the Lottery.

NOTE 17. CONTINGENCIES

Various parties have made claims against the State. For those cases in which it is reasonably possible that a loss will be incurred and in which the amount of the potential judgment can be reasonably estimated, the State estimates the liability to be in the range of $32.6 million – $35.9 million. The State recognized $3.5 million in Governmental Activities and $0.5 million in the DelDOT fund as claims and judgments liabilities for pending litigation settlements estimated to be probable as of June 30, 2005. 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, 2005 would have a material effect on its financial position or the results of operations.

The State Lottery has discharged its primary responsibility for payment of annual installments (generally 14 to 20 years) to winners of jackpots greater than $150,000 by purchasing annuities from private insurance companies. The Lottery remains liable for future periodic payments of deferred prize obligations (approximately $9.9 million at June 30, 2005) in the event that the annuity issuers default on their obligations.

NOTE 18. SUBSEQUENT EVENT

Primary Government

On September 15, 2005, the State issued $132 million of general obligation bonds maturing between September 1, 2006 and September 1, 2025. The bonds bear interest between 3.5% and 5.0 %. The proceeds of the bonds were used to provide funds for capital improvements to various State facilities.

Diamond State Port Corporation

Effective July 1, 2005 the Diamond State Port loan was restructured. Unpaid interest through January 1, 2006, in the amount of $1,348,641 will be capitalized into the loan balance. The funds were loaned at an interest rate of 4.6%. The loan is to be repaid in 40 semi-annual payments of $1,168,031, commencing July 1, 2006 with the final payment to be made January 1, 2026.

NOTE 19. PRIOR PERIOD ADJUSTMENT

Component Units

Delaware State Housing Authority

Beginning net assets of the Authority as of July 1, 2004 were restated for prior period adjustments. The adjustments principally relate to the HOME Program loan modification forgiving portion of accrued interest. Net assets of the Authority as of June 30, 2004 have been restated from $229,528,000 to $228,934,000.

Diamond State Port Corporation

During fiscal year 2005, the Corporation began accruing holiday pay for ILA Union members which is paid annually each November, thus changing from the cash basis of accounting for the holiday pay to the accrual basis of accounting. As a result, the net assets as of July 1, 2004 have been restated from $104,359,000 to $104,236,000.

Delaware State University

Beginning net assets of the Delaware State University as of July 1, 2004 have been restated from $135,369,000 to $130,187,000 to reflect the effects of an accounting error related to the depreciation of library books.

Delaware Charter Schools

Beginning net assets of the Delaware Charter Schools as of July 1, 2004 were restated by $14,000, relating to the inclusion of a component unit. Net assets of the Delaware Charter Schools as of June 30, 2004 were restated from $12,917,000 to $12,931,000.

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