STATE OF DELAWARE

Basic Financial Statements

June 30, 2006

(With Independent Auditors' Report Thereon)

STATE OF DELAWARE

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware (State) as of and for the year ended June 30, 2006, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

The management's discussion and analysis on pages 4 through 21, the budgetary comparison schedules for the general fund and special fund on pages 108 through 113, the information about infrastructure assets reported using the modified approach on pages 114 and 115, and the schedules of required supplementary pension data on pages 116 through 118 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2007, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

KPMG LLP

February 12, 2007

Management's Discussion and Analysis

The following is a discussion and analysis of the State of Delaware's financial activities for the fiscal year ended June 30, 2006. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found on pages i-vii of this report.

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

Financial Highlights

- The assets of the State exceeded its liabilities at the close of the most recent fiscal year by $5.6 billion (net assets). Component units reported net assets of $649.1 million, an increase of $55.2 million from the previous year.
- As a result of its operations, the primary government's total net assets increased by $309.7 million (5.9%) in fiscal year 2006. Net assets of governmental activities increased by $204.7 million (8.9%) from the previous year, while net assets of the business-type activities increased $105.0 million (3.6%) from the previous year.
- The State's governmental funds reported combined ending fund balances of $1,374.7 million, a decrease of $69.5 million (4.8%) in comparison with the prior year. This decrease resulted primarily from capital projects fund expenditures prior to the issuance of bonds.
- At the end of the current fiscal year, unreserved fund balance for the general fund was $1,039.4 million, which was 27.8% of total general fund expenditures. Some of the unreserved fund balance is not available for new spending as such funds have been committed based on State statutes that can only be amended by legislation.
- The State's total general obligation debt increased $18.2 million (1.8%), during fiscal year 2006 to $1,045.2 million. Of the State's outstanding debt, $401.8 million (38.4%) has been issued on behalf of local school districts, which are supported by the property tax revenues of those districts.

Overview of the Financial Statements

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

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

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

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

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

The government-wide financial statements include not only the State (known as the primary government), but also legally separate entities for which the State of Delaware is financially accountable. These entities include the Delaware State Housing Authority, the Diamond State Port Corporation, the Riverfront Development Corporation, the Delaware State University, the Delaware Technical and Community College Educational Foundation and 17 charter schools. Financial information for these component units is reported separately from the financial information presented for the primary government. The government-wide financial statements can be found on pages 22-23 of this report.

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

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

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

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

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

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

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

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

The basic proprietary fund financial statements can be found on pages 28-30 of this report.

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

The basic fiduciary fund financial statements can be found on pages 31-32 of this report. Combining fiduciary fund statements can be found on pages 120-123.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36-106 of this report.

Other information In addition to the basic financial statements and accompanying notes, this report presents certain Required Supplementary Information (RSI) concerning the status of the State's legally adopted budget, the maintenance of the State's infrastructure and additional schedules related to funding status and progress, annual pension costs and actuarial methods and assumptions for the State's pension trusts. The RSI can be found on pages 108-118 of this report.

Statewide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the State of Delaware, assets exceeded liabilities for the primary government by $5.6 billion at the close of the most recent fiscal year.

The largest portion of the State's net assets (69.4%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment) less any related outstanding debt used to acquire those assets. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net assets, comprising 9.6% of total net assets, represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion, unrestricted net assets (21.0%), may be used at the State's discretion; however, some of these funds have been appropriated based on State statutes.

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

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005 *	2006	2005
Current and other non-current assets	$ 2,207,560	$ 2,057,359	$ 588,064	$ 545,236	$ 2,795,624	$ 2,602,595
Capital assets	2,338,705	2,061,595	3,595,099	3,492,348	5,933,804	5,553,943
Total assets	4,546,265	4,118,954	4,183,163	4,037,584	8,729,428	8,156,538
Long-term liabilities outstanding	1,285,739	1,262,497	952,540	861,167	2,238,279	2,123,664
Other liabilities	751,988	552,595	178,198	229,004	930,186	781,599
Total liabilities	2,037,727	1,815,092	1,130,738	1,090,171	3,168,465	2,905,263
Net assets:						
Invested in capital assets, net of related debt	1,244,073	983,693	2,616,971	2,530,196	3,861,044	3,513,889
Restricted	175,365	161,050	358,547	341,908	533,912	502,958
Unrestricted	1,089,100	1,159,119	76,907	75,309	1,166,007	1,234,428
Total net assets	$ 2,508,538	$ 2,303,862	$ 3,052,425	$ 2,947,413	$ 5,560,963	$ 5,251,275

* Restated Department of Transportation

The capital assets of the Governmental Activities increased $277.1 million (13.4%) since June 30, 2005. Primary increases are a result of significant renovations to, and expansions of, existing school buildings across all counties to accommodate the rise in student population. Construction costs continue to increase consistent with national trends for higher costs for construction supplies, such as steel and lumber.

During Fiscal Year 2006, the State began entering into securities lending transactions as an opportunity to earn additional investment income, which is the primary reason for the increase in current and other non-current assets as well as other liabilities. Collateral is required for borrowed securities equal to 102% of the borrowed securities. The State invests the collateral to earn interest. Investments held for securities lending transactions and the corresponding obligations for securities lending transactions were $130.6 million at June 30, 2006.

The increase of Business-type current and other non-current assets is primarily related to the increase in investments and receivables of DelDOT and the increase in noncurrent liabilities is primarily related to the issuance of new revenue bonds by DelDOT. The decrease in current liabilities is primarily attributable to DelDOT due to the payment of the $40 million general obligation bond anticipation note and a decrease in its accounts payable.

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

Changes in Net Assets - Primary Government

For Year End June 30

(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005 *	2006	2005
Revenues:						
Program revenues:						
Charges for services	$ 410,169	$ 405,520	$ 1,193,871	$ 1,105,483	$ 1,604,040	$ 1,511,003
Operating grants and contributions	959,567	905,737			959,567	905,737
Capital grants and contributions	3,334	5,000	107,463	106,389	110,797	111,389
General revenues:						
Taxes:						
Personal income taxes	1,014,499	882,020			1,014,499	882,020
Business taxes	1,535,139	1,375,828			1,535,139	1,375,828
Real estate taxes	349,728	317,664			349,728	317,664
Other taxes	287,651	264,165			287,651	264,165
Investment earnings	49,577	35,624	16,634	18,208	66,211	53,832
Gain (Loss) on sale of assets	721		(4,211)	561	(3,490)	561
Miscellaneous	33,595	37,570			33,595	37,570
Total revenues	4,643,980	4,229,128	1,313,757	1,230,641	5,957,737	5,459,769
Expenses:						
General Government	480,490	404,190			480,490	404,190
Health and Children's Services	1,619,176	1,450,505			1,619,176	1,450,505
Judicial and Public Safety	539,365	477,691			539,365	477,691
Natural Resources and Environmental Control	114,287	95,622			114,287	95,622
Labor	61,013	61,360			61,013	61,360
Education	1,719,901	1,592,035			1,719,901	1,592,035
Payment to Component Unit - Education	81,575	73,279			81,575	73,279
Interest Expense	46,051	44,003			46,051	44,003
Lottery			408,997	388,062	408,997	388,062
Transportation			485,169	526,234	485,169	526,234
Unemployment			92,025	92,284	92,025	92,284
Total expenses	4,661,858	4,198,685	986,191	1,006,580	5,648,049	5,205,265
Increase (Decrease) in net assets before transfers	(17,878)	30,443	327,566	224,061	309,688	254,504
Transfers	222,554	244,518	(222,554)	(244,518)		
Increase (decrease) in net assets	204,676	274,961	105,012	(20,457)	309,688	254,504
Net assets - beginning of year	2,303,862	2,028,901	2,947,413	2,967,870	5,251,275	4,996,771
Net assets - end of year	$ 2,508,538	$ 2,303,862	$ 3,052,425	$ 2,947,413	$ 5,560,963	$ 5,251,275

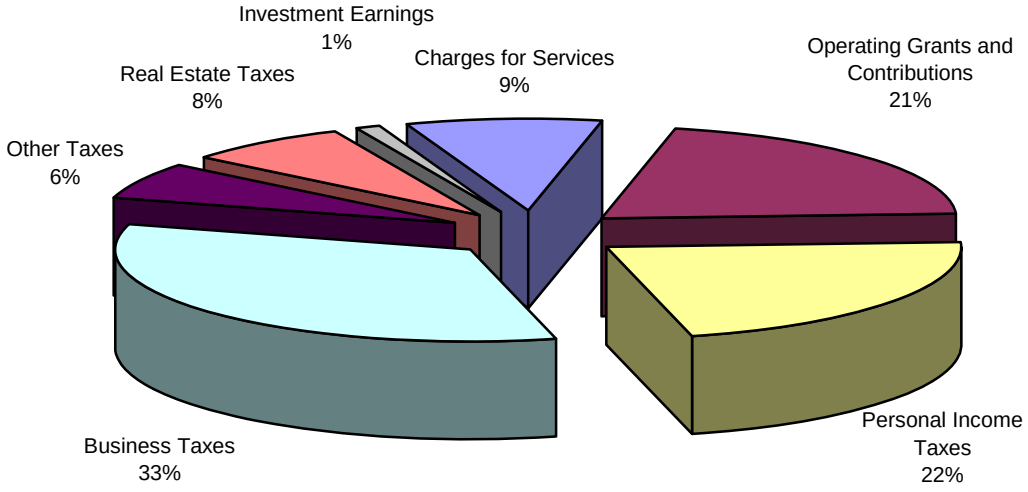
* Restated Department of Transportation

Governmental activities Governmental activities increased the State's net assets by 204.7 million while business-type activities increased the State's net assets by $105.0 million. A comparison of the cost of services by function for the State's governmental activities is shown in the following chart, along with the revenues used to cover the net expenses of the governmental activities. Key elements of the increase in net assets are as follows:

Total general revenues increased $358 million (12.3%) with significant increases in personal and business income taxes. As a result of strong labor, capital and small business markets and, one-time collections attributable to Bank of America's acquisition of MBNA, personal income tax receipts grew by $132.5 million (15.0%) over fiscal 2005. In addition, business taxes followed the national trend growing $159.3 million (11.6%) from fiscal 2005.

Program Revenues increased by $56.8 million (4.3%) from the prior year. Charges for services were higher by $4.6 million. Operating grants were up by $53.8 million with $35.0 million relating to increases in federal payments for Medicaid at Health and Children's Services.

Revenues by Source – Governmental Activities

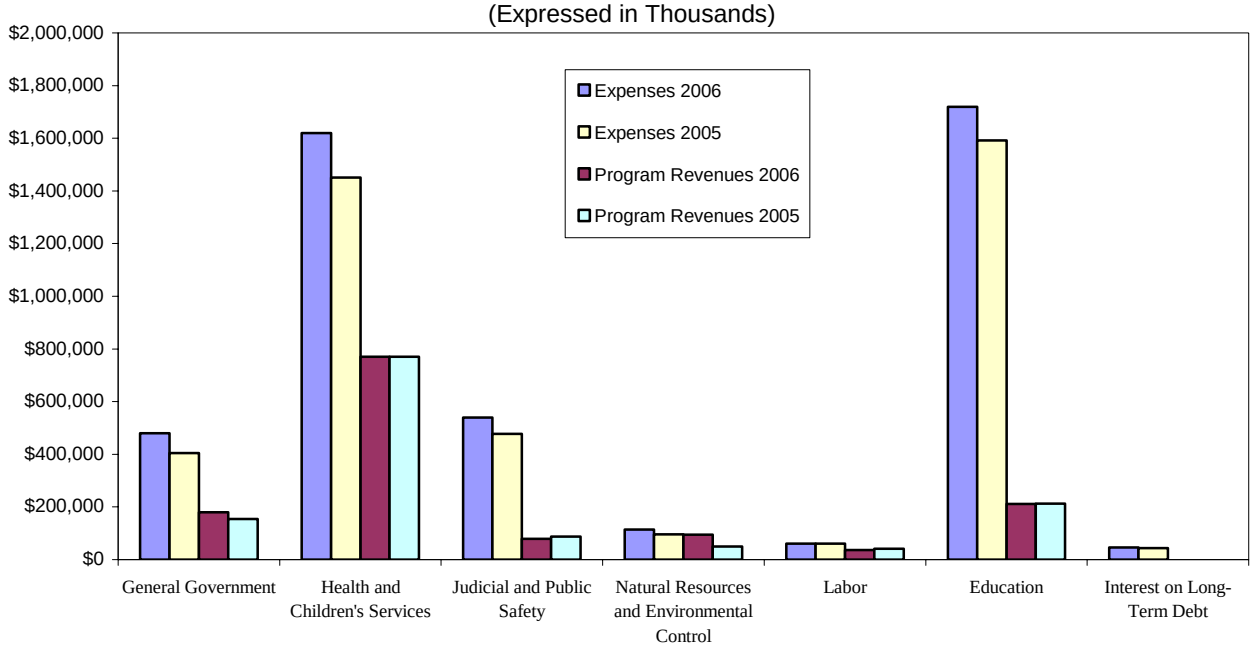


Expenses for governmental activities increased during fiscal year 2006 by $463.2 million (11.0%). The largest increase occurred in Health and Children's Services; spending increased by $168.7 million over the prior fiscal year, an increase attributable to escalating Medicaid costs, an increase of 5,630 eligible people receiving Medicaid, and an increase in the population needing public assistance.

Educational expenses increased by $127.9 million due to the continued increase in student population. General Government expenses increased by $76.3 million due to increased costs related to economic development incentives, part of which were incentives to attract and retain businesses in the State. In addition, incentives were provided to businesses and the general public to defray the significant increases in energy costs, as well as development and implementation of alternative fuel sources and reductions in environmental emissions. Judicial and Public Safety expenses increased by $61.7 million due to additional caseloads within the court system and increased spending on homeland security. Natural Resources and Environment Control expenditures increased by $18.7 million due to additional spending on new park facilities, such as rental cottages at Indian River Marina, and the improvements to the Killens Pond Water Park. Overall, expenses increased due to salary level increases as well as expenditures for new salaries for 571 employees across the State (a 1.9% increase in workforce), of which 428 were new teachers and other faculty members within Education.

Expenses and Program Revenues- Governmental Activities

(Expressed in Thousands)



Business-type activities Business-type activities increased the State's net assets by $105.0 million. This increase is comprised of a $100.8 million increase in net assets by the Delaware Department of Transportation and a $4.2 million increase at the Unemployment Insurance Trust Fund.

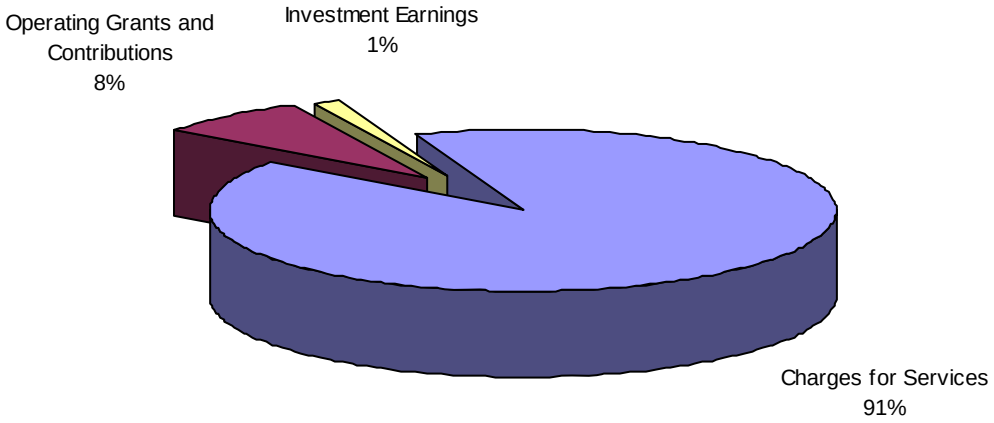
The increase in net assets of the Delaware Unemployment Insurance Trust Fund is attributable to an 18.0% increase in unemployment insurance taxes revenue while operating expenses decreased slightly. Even though benefits paid exceeded

revenue collected by $5.4 million, fund equity remains adequate to pay average benefits for the next two years without additional revenue.

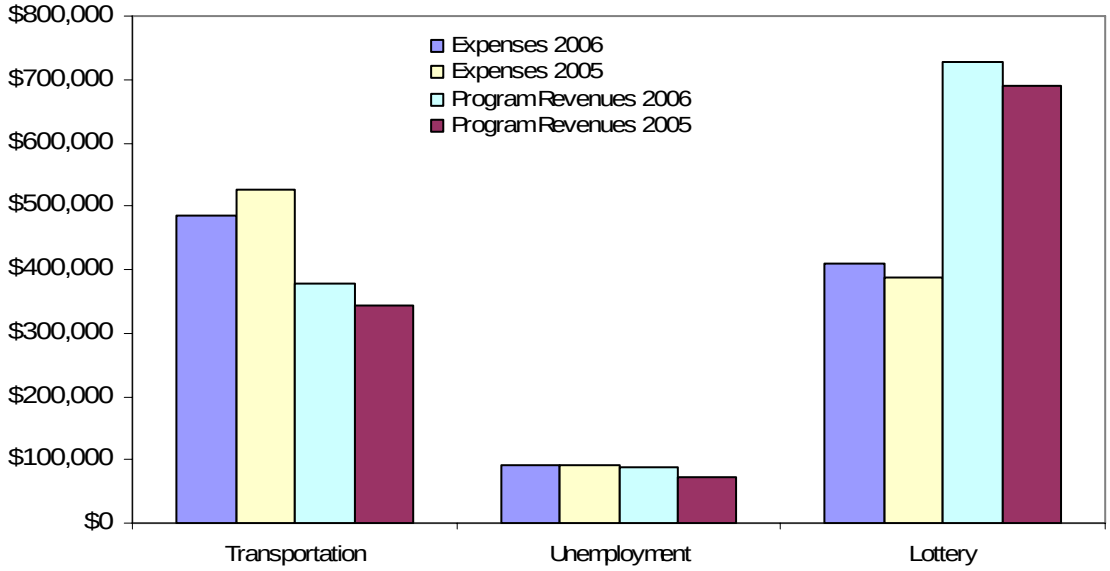
The DelDOT fund's net assets at June 30, 2006 were $100.8 million higher than June 30, 2005. The Department's total operating revenues increased $36.5 million while operating expenses decreased $37.9 million. The October 1, 2005 toll increase at I-95 was the main contributor to the operating revenue increase while decreases in expenses for maintenance, preservation and repairs all contributed to the reduction of expense.

The Lottery's net assets changed by less than $0.1 million. By law, the Lottery's fund balance cannot exceed $1.0 million. Accordingly, the Lottery transferred $319.0 million to other State funds. Revenue for the Lottery increased by $38.7 million (5.6%) over last year due to increased sales of all Lottery games. Total costs of games increased by $20.4 million (5.4%) over the previous year.

Revenues by Source – Business-type Activities



Expenses and Program Revenues – Business-type Activities



Financial Analysis of the State's Funds

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

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

As of the end of the current fiscal year, the State of Delaware's governmental funds reported combined ending fund balances of $1,374.7 million, a decrease of $69.5 million. Approximately 61.6% of the aggregate fund balances, $846.8 million, constitute unreserved fund balances. Of this total $352.2 million is committed to various uses based on State statutes. These uses include the operation and maintenance of the State's parks and recreational systems, land and water conservation, the Violent Crimes Fund and the development and implementation of statewide information and technology projects.

Approximately $527.9 million of the fund balance is reserved to indicate that they are not available for new spending due to the following: 1) to liquidate contracts and purchase orders of the prior period ($319.1 million), 2) set aside for the budget reserve account ($175.4 million), 3) for inventories and other assets ($4.5 million), and 4) for prepaid items ($28.9 million).

General funds The general fund accounts for the operation and administration of the State. Total general fund balance increased by $57.0 million for the fiscal year. Total general fund revenue increased by $417.1 million (13.3%) while expenditures increased by $468.0 million (14.3%). The increases in revenue were caused by increases in business taxes of $159.3 million (11.6%) and personal income taxes of $135.0 million (15.4%). These increases are a result of strength in the labor and capital markets as well as small business expansion and one time payments related to the merger of MBNA with Bank of America.

Expenditures increased by $124.6 million (25.8%) for General Government, $128.3 million (14.8%) for Health and Children's Services, and $92.0 million (8.2%) for Education. Increases in General Government expenditures resulted from increased costs related to economic development incentives, including those to attract and retain businesses in the State. In addition, incentives were provided to businesses and the general public to defray significant increases in energy costs, including development and implementation of alternative fuel sources and reductions in environmental emissions. Health and Children's Service expenditures increased primarily due to Medicaid cost increases consistent with an increase in the population needing public assistance. Educational expenses increased consistent with an increase in student population. Capital outlays

increased significantly since Fiscal Year 2005 (see Capital Assets and Debt Administration below) which primarily impacted the General Government, Natural Resources and Education Functions. Salary expense increases continued in Fiscal Year 2006 with the hiring of new employees and pay raises, which impacted expenditure increases across all functions but primarily in the Judicial and Public Safety and Education functions.

At the end of the current fiscal year, unreserved fund balance of the general fund was $1,039.4 million, while total fund balance reached $1,370.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 27.8% of total general fund expenditures, while total fund balance represents 36.7% of total fund expenditures or 133 days of operations.

Federal funds Federal funds represent pass through grants used for designated purposes. Revenue increased by $53.4 million for the year while spending increased by $76.7 million, due to increased spending in social service programs such as Medicaid and public assistance to children, youth and their families.

Local School funds These funds are used to account for activities relating to the State's local school districts which are funded by locally raised real estate taxes and other revenues. The fund balance decreased by $22.4 million to $86.8 million. This reduction in fund balance was effected primarily by one of nineteen school districts of the State, Christina School District. Since then, district leadership has changed, a loan in the amount of $20 million was made to the district from the General Fund, and significant measures have been taken to reduce the level of expenditures.

Capital Project funds Capital Project Funds are used to account for the construction and acquisition of capital assets of the primary government. Capital outlay expenditures totaled $223.8 million in fiscal 2006, an increase of $50.2 million. State Legislation authorizes certain Capital Project expenditures prior to the issuance of bonds in an aggregate amount not to exceed 3% of General Fund revenue. The deficit in the Capital Projects Fund was replenished on August 1, 2006, when the State issued $189.2 million of general obligation bonds.

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

The State's net assets increased in fiscal 2006 by $105.0 million as a result of operations in the proprietary funds. Pages 11 and 12 discuss the changes in net assets of the business-type activities.

General Fund Budgetary Highlights

The Budgetary General Fund is the chief operating fund of the State. At the end of the fiscal year, total fund balance decreased by $10.6 million (1.5%). Revenues were $292.1 million (10.2%) higher than the previous fiscal year due to continued growth in employment, personal income and corporate profits. For example, net personal income tax revenue grew by $132.9 million (15.1%). Even after adjusting for nonrecurring payments, such as the one-time payments resulting from Bank of America's acquisition of MBNA, personal income tax revenues grew by 11.7% from fiscal 2005.

The economy's momentum is also reflected in outstanding business profits, which fueled a $70.5 million (7.0%) increase in business taxes. Other non-tax revenue also performed well in fiscal 2006 increasing by $23.1 million (6.3%) while Lottery revenues were up by $14.8 million (6.3%).

Expenditures were $358.2 million (12.7%) higher than the previous fiscal year. Salaries and other employment costs increased by $153.8 million (10.7%). Grants-in-Aid increased by $109.0 million (37.1%) while Medicaid and Public Assistance grew by $50.5 million (11.9%). In addition, contractual services increased by $23.4 million (10.2%) while capital outlays increased by $15.7 million (25.4%). Debt service payments decreased by $21.0 million (13.7%) as the debt payments were made from the special fund.

The original budget authorizes current fiscal year operating and administrative expenditures. Included in the final budget are the original budget, prior year encumbrances, multi-year project budgetary carry-forwards from the prior fiscal years, and all modifications to the original budget. The most significant components are the original budget and carry-forwards of prior fiscal year. The unused appropriations from a prior year will carry forward to the final budget for authorized capital projects and grants for example until the funds are spent. During Fiscal Year 2006, the original budget was modified to provide increased spending in services in education, health and children's services, self-insurance for health care, expenditures for beach and farmland preservation, land and water conservation, and in minor capital renovations in facilities management.

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

- $109.2 million in the Executive Department for funds budgeted but not spent on an ongoing significant capital improvement project to upgrade the State's emergency response system and software system upgrades for Enterprise Resource Planning Software and a Courts system; other minor capital projects; loans to other agencies and to contractors for subsidized housing improvements;

- $92.2 million in the Department of Education for funds budgeted but not spent on educational programs (such as the “No Child Left Behind” act);
- $41.4 million in Natural Resources and Environmental Control for expenditures authorized in the final budget but not spent on energy incentives and incentives for improving the environment such as beach preservation, retention ponds, improvements to State Parks, and water conservation;
- $34.0 million in the Department of Health and Social Services as well as $5.8 million in the Department of Children, Youth and Their Families for funds encumbered but not spent for increased public assistance programs.

Funded projects which are not completed by year-end may carry over unspent funds into Fiscal Year 2007. Unspent funds are reflected in the final budget which may cause variances from original budget.

Special Fund Budgetary Highlights

At the end of the fiscal year, the total fund balance was $352.2 million or an increase of $18.5 million (5.5%) from the previous year.

Revenues increased by $99.8 million (18.1%) from the previous year. The largest increase in revenues occurred in other non-tax revenue which increased by $83.0 million (22.5%) due in part to an increase in employee and employer-share of health care costs. Increases in insurance, corporation and sewer and water fees led to an $37.4 million positive variance to the final budget. Interest earnings were below budget as both interest rates and balances were lower than budget.

Expenditures were $60.8 million (10.6%) higher than the previous year. Expenditures increased in the Treasury Department by $29.4 million as a result of payments on debt which were made from the budgetary general fund in the previous year while Transportation expenses increased by $20.3 million (9.9%) due to an increase in capital and operating spending for roadway and bridge improvements as well as increases in salaries, contractual services and supplies. Expenditures were below budget for the Department of Natural Resources and Environmental Control as appropriated projects were not started as soon as expected.

Capital Assets and Debt Administration

Capital assets The State of Delaware’s investment in capital assets for its governmental and business-type activities, as of June 30, 2006, amounted to $5.9 billion (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, easements, roads, highways, and bridges. The total increase in capital assets for governmental activities was $277.1 million (13.4%) and the increase for business-type activities was $102.8 million (2.9%).

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

- Completion of new schools and renovations of existing schools of $88.5 million as well as completion of the Georgetown Division of Motor Vehicles for $11.6 million and the Haslett Armory for $7.9 million. In addition, construction-in-progress as of June 30, 2006 was $302.8 million for governmental activities. Approximately 85% of this total is related to the building of new schools and improvements to existing schools across all counties, with the majority of spending occurring in New Castle County.
- The DelDOT fund increased due to the I-95 expansion and Riverfront projects.

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording expense related to selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include 4,453 center-line miles of roads and 1,374 bridges that the State is responsible to maintain.

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

The Department of Transportation has changed its policy for road condition maintenance from 75% good or better to 85% fair or better to more effectively reflect roadway conditions over time. Good road ratings are represented by roads that need no action or preventive maintenance only. Fair road ratings require primarily only preventive maintenance. This change will continue to allow the Department to maintain the state owned roads indefinitely, and as a result no depreciation is provided on the road system.

In the past few years, the cost of maintaining the road system has increased dramatically reflecting the impact of the cost of petroleum based products as well as the rapid growth of the State and general construction demands worldwide. These costs are the major driver that has caused the State to exceed its preservation and maintenance estimate for each of the last six years.

The focus of available funding has been placed on maintaining the State's major roads at the highest levels. The Interstate System has seen improvement in the past few years and the Arterial and Collector roadways have had modest improvement in Fiscal Year 2006. Local roads have accounted for the overall movement from good to fair with good roads down 10% and fair roads up 7% over the last six years.

Of the State's 1,374 bridges that were rated in 2005, 1,048 or 76.3% received a Good or Better BCR rating, 17.7% were rated fair, and 6.0% received a substandard rating. Of the 7,241,809 square feet of bridge deck that was rated, 94% or 6,808,227 square feet received an OPC condition rating of Good or Better, 5.4% received a fair rating, and 0.6% received a substandard deck rating. In 2005, when 4,453 centerline miles were rated, 89.5% received a fair or better OPC rating, and 10.5 percent received a poor rating.

The 2006 estimate to maintain and preserve the Department of Transportation's infrastructure was $136.0 million. Actual expenditures of $211.3 million include items authorized in prior years.

Additional information on the State's capital assets can be found in Note 1 on pages 44-45, Note 12 on page 88-90 and on pages 114-115 in the Required Supplementary Information.

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

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

	Government Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005 *	2006	2005
Land	$ 383,173	$ 361,390	$ 211,272	$ 164,703	$ 594,445	$ 526,093
Land Improvements	57,438	52,958			57,438	52,958
Buildings	1,450,519	1,365,681	36,901	42,802	1,487,420	1,408,483
Easements	101,059	92,604			101,059	92,604
Equipment and Vehicles	43,763	45,577	75,616	82,633	119,379	128,210
Infrastructure			3,255,998	3,201,817	3,255,998	3,201,817
Construction- in-Progress	302,753	143,385	15,312	393	318,065	143,778
Total	$ 2,338,705	$ 2,061,595	$ 3,595,099	$ 3,492,348	$ 5,933,804	$ 5,553,943

* Amounts restated for Delaware Department of Transportation.

Long-term debt At the end of the current fiscal year, the State had total general obligation bond debt outstanding of $1,045.2 million backed by the full faith and credit of the State. Delaware's debt burden reflects a commitment to public and higher education facilities, prisons, State offices and other facilities as well as the centralized role of the State in financing capital projects that are typically funded by local governments in other states, such as school districts. As of June 30, 2006, $401.8 million (38.4%) of the State's outstanding debt was issued on behalf of local school districts. Local school districts transferred $38.3 million of property tax revenue to the State to cover related debt service during Fiscal Year 2006**.**

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

- A 5% test restricts new debt authorization to 5% of budgetary General Fund revenue as projected on June 30th for the next fiscal year. Should actual revenue collections increase during the year, no additional authorizations are made.
- A 15% test restricts debt issuance if the annual payments on all outstanding debt exceed 15% of estimated budgetary General Fund and Transportation Trust Fund Revenue for the next fiscal year. These annual payments currently represent less than 7% of estimated general fund and transportation trust fund revenues.
- Finally, a cash balance test restricts debt issuance if the debt service payment in any year exceeds the estimated cumulative cash balance for the following fiscal year. For fiscal 2008, the projected cash balance exceeds debt service more than four times.

Due to the State's statutory debt limits, its conservative fiscal management and its above-average income levels, three principal rating agencies, Moody's Investor's Service, Fitch Ratings and Standard & Poor's, reaffirmed its triple-A ratings on Delaware's general obligation bonds during fiscal 2006. Delaware has maintained triple-A ratings from all three agencies since the year 2000.

On September 15, 2005, the State issued $132.0 million in general obligation bonds. Although the bonds are authorized to be sold as twenty-year bonds, the State chose to sell $40 million as ten-year bonds – an example of Delaware's fiscal prudence – and the remaining $92 million as twenty-year bonds representing the local school district share. Subsequent to the end of fiscal year 2006, on August 1, 2006, the State issued $189.2 million in general obligation bonds. Again, $83.2 million were sold as ten-year bonds and the remaining $106 million were sold as twenty-year bonds.

Debt issued by the Delaware Transportation Authority, or "DTA", does not constitute a debt of the State or a pledge of its general taxing power or of its full faith and credit. Rather, the outstanding revenue bonds are obligations of the DTA payable solely from and secured by a pledge and assignment of certain tolls and revenues such as motor fuel tax revenues, motor vehicle document fees and motor vehicle registrations. The DTA has revenue bonds outstanding of $953.3 million as of June 30, 2006. In November 2005, the DTA issued $150.0 million to support its ongoing capital transportation program and repay a $40 million Bond Anticipation Note.

Additional information on the State of Delaware's long-term debt can be found in Notes 5, 6 and 7 on pages 70-83 of this report.

Other Post Employment Benefits

The State provides post-employment health care to its employees and currently recognizes these on a "pay-as-you-go" basis. The cost of these benefits in fiscal year 2006 is estimated to be $93.3 million as compared to $84.8 million in fiscal 2005. Pursuant to current accounting standards, no liability is present in the State's financial statements. However, as a result of the GASB Statement No. 45, "*Accounting and Reporting for Other Post-Employment Benefits (OPEB)*", the State will account for retiree health care benefits on an actuarial basis beginning in fiscal 2008. The initial estimate of the State's actuarially accrued liability, based on an analysis conducted in September 2005, has been determined to be approximately $3.1 billion. The study, which was completed prior to the release of the GASB Technical Bulletin, is calculated at net of Medicare Part D Savings and assumes advance funding by the State. The State is proceeding with a new actuarial study that will be completed in the late January, early February 2007 timeframe. While the State has not yet determined how the liability will ultimately be managed, $25.2 million in assets have been accumulated as of June 2006.

Economic Factors and Next Year's Budgets and Rates

The Delaware Economic and Financial Advisory Council (DEFAC) met on June 19, 2006 to prepare the final revenue and expenditure estimates upon which the fiscal year 2007 operating and capital budgets would be based. The Department of Finance estimated that employment in Delaware had increased by 1.6% during fiscal year 2006, continuing the positive trend that began during fiscal year 2004. Fiscal year 2007 employment is expected to continue to grow, with job growth pegged at 1.0%.

The fiscal year 2007 operating and capital budgets meet budgetary spending limitations imposed by law. The budget reflects higher growth rates in revenues and carryover of surplus cash from fiscal year 2006. The fiscal year 2007 operating budget is $3,101.9 million, 9.4% greater than fiscal year 2006. Supplemental appropriations, typically in the form of cash allocated to the capital budget fell 26.2%, decreasing from $329.3 million in fiscal year 2006 to $243.3 million in fiscal year 2007.

Requests for Information

This financial report is designed to provide a general overview of the State of Delaware's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Accounting, 820 Silver Lake Boulevard, Suite 200, Silver Lake Plaza, Dover, Delaware 19904. This CAFR is also located at **http://www.state.de.us/finance/default.shtml**.

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

administrative offices or from the Office of Auditor of Accounts, Townsend Building, Suite #1, 401 Federal Street, Dover, Delaware 19901.

STATE OF DELAWARE
STATEMENT OF NET ASSETS
JUNE 30, 2006
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and cash equivalents	$ 404,935	$ 252,346	$ 657,281	$ 50,431
Cash and cash equivalents - restricted		2,001	2,001	7,845
Investments	341,670	69,528	411,198	43,137
Investments - securities lending transactions	130,621		130,621	
Investments - restricted		98,019	98,019	3,472
Accounts and other receivables, net	175,614	65,098	240,712	29,062
Loans and notes receivable, net	4,734	1,153	5,887	13,813
Internal balances	4,123	(4,123)		
Inventories	4,545	13,089	17,634	489
Prepaid items	28,880	279	29,159	3,816
Other current assets		1,933	1,933	7,972
Total current assets	1,095,122	499,323	1,594,445	160,037
Noncurrent assets:				
Investments	927,581	666	928,247	185,388
Investments - restricted		50,718	50,718	27,775
Accrued interest receivable		697	697	
Accounts and other receivables, net	55,787		55,787	3,674
Loans and notes receivable, net	124,295	34,072	158,367	429,323
Capital assets				
Non-depreciable	786,985	3,482,582	4,269,567	111,602
Depreciable capital assets, net	1,551,720	112,517	1,664,237	371,283
Deferred bond issuance costs	4,775		4,775	5,433
Other restricted assets				2,765
Other noncurrent assets		2,588	2,588	7,202
Total noncurrent assets	3,451,143	3,683,840	7,134,983	1,144,445
Total assets	4,546,265	4,183,163	8,729,428	1,304,482
LIABILITIES				
Current liabilities:				
Accounts payable	368,410	33,591	402,001	17,505
Accrued liabilities	44,900	29,441	74,341	11,482
Interest payable	21,087	23,829	44,916	
Notes payable	153		153	15,117
Unearned revenues	19,895	5,040	24,935	315
Capital leases				12
Escheat liabilities	7,000		7,000	
Compensated absences	10,684	3,802	14,486	62
Claims and judgments	25,288	2,356	27,644	
Escrow deposits		1,937	1,937	108
Collateral held for securities lending transactions	130,621		130,621	
Current portion of long-term notes payable	2,702		2,702	
Current portion of general obligation long-term debt	117,429		117,429	
Current portion of revenue bonds		61,370	61,370	13,959
Current portion of bond issue premium, net	3,219	6,815	10,034	
Other current liabilities	600	10,017	10,617	2,186
Total current liabilities	751,988	178,198	930,186	60,746
Noncurrent liabilities:				
Compensated absences	117,184	10,673	127,857	6,142
Pension obligation	99,002		99,002	
Claims and judgments	63,176	14,334	77,510	
Escheat liabilities	28,000		28,000	
Escrow deposits				27,031
Liabilities payable from restricted assets		8,122	8,122	
Notes payable	891		891	38,074
General obligation long-term debt	927,737		927,737	
Revenue bonds		891,895	891,895	484,288
Bond issue premium, net	47,276	24,080	71,356	
Other long-term obligations	2,473	3,436	5,909	39,094
Total noncurrent liabilities	1,285,739	952,540	2,238,279	594,629
Total liabilities	2,037,727	1,130,738	3,168,465	655,375
NET ASSETS				
Invested in capital assets, net of related debt	1,244,073	2,616,971	3,861,044	332,683
Restricted				
Budgetary reserve	175,365		175,365	
Unemployment benefits		217,000	217,000	
Federal and state regulations				177,571
Bond covenants				29,995
Capital projects				29,716
Other restrictions		141,547	141,547	19,829
Unrestricted	1,089,100	76,907	1,166,007	59,313
Total net assets	$ 2,508,538	$ 3,052,425	$ 5,560,963	$ 649,107

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

		Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			
					Primary Government			
Function	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**	**Component Units**
Primary government:								
Governmental activities:								
General Government	$ 480,490	$ 148,056	$ 31,272	$ 500	$ (300,662)		$ (300,662)	
Health and Children's Services	1,619,176	83,445	687,255		(848,476)		(848,476)	
Judicial and Public Safety	539,365	46,762	31,853		(460,750)		(460,750)	
Natural Resources and Environmental Control	114,287	66,354	28,786		(19,147)		(19,147)	
Labor	61,013		36,791		(24,222)		(24,222)	
Education	1,719,901	65,552	143,610	2,834	(1,507,905)		(1,507,905)	
Unrestricted payments to component units - Education	81,575				(81,575)		(81,575)	
Interest	46,051				(46,051)		(46,051)	
Total governmental activities	4,661,858	410,169	959,567	3,334	(3,288,788)		(3,288,788)	
Business-type activities:								
Lottery	408,997	727,993				$ 318,996	318,996	
Transportation	485,169	379,246		107,463		1,540	1,540	
Unemployment	92,025	86,632				(5,393)	(5,393)	
Total business-type activities	986,191	1,193,871		107,463		315,143	315,143	
Total primary government	$ 5,648,049	$ 1,604,040	$ 959,567	$ 110,797				
Component units:								
Delaware State Housing Authority	$ 72,094	$ 28,916	$ 46,471	$ 1,189				$ 4,482
Diamond State Port Corporation	32,752	30,979		15,710				13,937
Riverfront Development Corporation	7,195	1,606	8,627	15,078				18,116
Delaware State University	84,765	36,718	20,537	7,540				(19,970)
Delaware Technical & Community College (DTCC) Educational Foundation	708	375	609					276
Delaware Charter Schools	57,918	620	5,421	1,123				(50,754)
Total component units	$ 255,432	$ 99,214	$ 81,665	$ 40,640				(33,913)
General Revenues								
Taxes:								
Personal income					1,014,499		1,014,499	
Business					1,535,139		1,535,139	
Real estate					349,728		349,728	
Other					287,651		287,651	
Unrestricted payments from primary government								81,575
Investment earnings					49,577	16,634	66,211	10,539
Gain on sale of assets					721	(4,211)	(3,490)	(2,311)
Miscellaneous					33,595		33,595	(676)
Transfers					222,554	(222,554)		
Total General Revenues and Transfers					3,493,464	(210,131)	3,283,333	89,127
Change in Net Assets					204,676	105,012	309,688	55,214
Net Assets - Beginning of Year (as restated)					2,303,862	2,947,413	5,251,275	593,893
Net Assets - End of Year					$ 2,508,538	$ 3,052,425	$ 5,560,963	$ 649,107

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINED BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 397,594	$ 116	$ 7,225		$ 404,935
Investments	1,132,862		136,389		1,269,251
Investments - securities lending transactions	130,621				130,621
Accounts receivable, net	53,049	7,360	460		60,869
Taxes receivable, net	76,121		17,603		93,724
Intergovernmental receivables, net	183	76,625			76,808
Due from other funds	89,811				89,811
Inventories	4,454		91		4,545
Prepaid items	14,414	14,466			28,880
Loans and notes receivable	107,205	21,824			129,029
Total assets	$ 2,006,314	$ 120,391	$ 161,768		$ 2,288,473
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 250,651	$ 46,894	$ 46,416	$ 24,449	$ 368,410
Accrued liabilities	44,900				44,900
Claims and judgments	934				934
Escheat liability	7,000				7,000
Due to other funds		10,561	12,271	62,856	85,688
Deferred revenues	201,450	58,495	16,248		276,193
Obligations under securities lending transactions	130,621				130,621
Total liabilities	635,556	115,950	74,935	87,305	913,746
Fund balances (deficit)					
Reserved for:					
Encumbrances	137,155	50,816	12,536	118,593	319,100
Inventories	4,454		91		4,545
Prepaid items	14,414	14,466			28,880
Budgetary reserve	175,365				175,365
Unreserved (deficit)	1,039,370	(60,841)	74,206	(205,898)	846,837
Total fund balances (deficit)	1,370,758	4,441	86,833	(87,305)	1,374,727
Total liabilities and fund balances	$ 2,006,314	$ 120,391	$ 161,768	$	$ 2,288,473

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006
(Expressed in Thousands)

Total Fund Balances - Governmental Funds		$ 1,374,727
Amounts reported for governmental activities in the statement of net assets are different because:		
Net capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	$ 383,173	
Land improvements	57,438	
Buildings	1,450,243	
Easements	101,059	
Equipment and vehicles	44,039	
Construction in progress	302,753	
		2,338,705
Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		256,298
Some liabilities net of related assets are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Interest payable	$ (21,087)	
Claims and judgments	(88,130)	
Compensated absences	(127,868)	
Pension obligation	(99,002)	
General obligation long-term debt and related accounts	(1,090,886)	
Notes payable (current and long-term)	(3,746)	
Other long-term obligations	(2,473)	
Escheat liability	(28,000)	
		(1,461,192)
Net assets of governmental activities		$ 2,508,538

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
REVENUES					
Personal taxes	$ 1,013,151				$ 1,013,151
Business taxes	1,537,344				1,537,344
Other tax revenue	287,506		$ 349,377		636,883
Licenses, fees, permits and fines	319,046		722		319,768
Rentals and sales	21,037		30,010		51,047
Federal government	32,744	$ 941,953	1,446		976,143
Interest & other investment income	39,912	293	9,372		49,577
Other	301,717	3,901	34,955	$ 254	340,827
TOTAL REVENUES	3,552,457	946,147	425,882	254	4,924,740
EXPENDITURES					
Current:					
General government	607,417	26,367			633,784
Health and children's services	994,457	680,450			1,674,907
Judicial and public safety	507,576	36,108			543,684
Natural resources and environmental control	162,448	30,258			192,706
Labor	30,377	36,269			66,646
Education	1,207,545	153,779	412,047		1,773,371
Unrestricted payments to component unit - Education	67,226		14,349		81,575
Capital outlay				223,779	223,779
Debt service:					
Principal	113,781				113,781
Interest and other charges	49,037				49,037
Costs of issuance of debt				343	343
TOTAL EXPENDITURES	3,739,864	963,231	426,396	224,122	5,353,613
REVENUES UNDER EXPENDITURES	(187,407)	(17,084)	(514)	(223,868)	(428,873)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Transfers in	358,075		16,436		374,511
Transfers out	(113,674)		(38,283)		(151,957)
Issuance of general obligation bonds				132,000	132,000
Premiums on bond sales				4,850	4,850
TOTAL OTHER SOURCES (USES) OF FINANCIAL RESOURCES	244,401		(21,847)	136,850	359,404
Net change in fund balances	56,994	(17,084)	(22,361)	(87,018)	(69,469)
Fund balances (deficits) - beginning	1,313,764	21,525	109,194	(287)	1,444,196
Fund balances (deficits) - ending	$ 1,370,758	$ 4,441	$ 86,833	$ (87,305)	$ 1,374,727

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
RECONCILIATION OF THE NET CHANGES IN FUND BALANCES
- TOTAL GOVERNMENT FUNDS TO CHANGE IN NET ASSETS
OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

Net Changes in Fund Balances		$ (69,469)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		277,110
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		27,432
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Components of the debt related adjustments consist of		
Debt service principal repayments	$ 113,781	
New debt issued (face value)	(132,000)	
Premium received	(4,850)	
Payment to refunding agent	0	
Issuance costs	343	
Amortization of premium/issuance costs	2,638	
		(20,088)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, the changes in these liabilities are not reported as expenditures in the governmental funds:		
Accrued interest expense		348
Claims and judgments		(2,533)
Notes payable		3,358
Compensated absences		(7,978)
Pension obligation		(3,487)
Physician loan and scholarships		(17)
Change in Net Assets of Governmental Activities		$ 204,676

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	Business-Type Activities - Enterprise Funds			
	Unemployment	**Lottery**	**DELDOT**	**Total**
Asset				
Current Assets:				
Cash and cash equivalents	$ 209,590	$ 6,122	$ 36,634	$ 252,346
Cash and cash equivalents - restricted			2,001	2,001
Investments			69,528	69,528
Investments - restricted		2,233	95,786	98,019
Accounts receivable, net	7,160	8,723	13,361	29,244
Taxes receivable, net	24,439			24,439
Intergovernmental receivables, net	352		9,768	10,120
Current portion of interest receivable			1,295	1,295
Inventories			13,089	13,089
Current portion of loans and notes receivable			1,153	1,153
Escrow insurance deposits			1,933	1,933
Prepaid items		40	239	279
Total current assets	241,541	17,118	244,787	503,446
Noncurrent assets:				
Investments			666	666
Investments - restricted		6,223	44,495	50,718
Interest receivable			697	697
Loans and notes receivable			34,072	34,072
Other assets		1,899		1,899
Prepaid pension			689	689
Capital assets, non-depreciable			3,482,582	3,482,582
Capital assets, depreciable, net		69	112,448	112,517
Total noncurrent assets		8,191	3,675,649	3,683,840
Total assets	241,541	25,309	3,920,436	4,187,286
Liabilities				
Current liabilities				
Accounts payable		5,810	27,781	33,591
Accrued liabilities	21,646		7,795	29,441
Interest payable			23,829	23,829
Deferred revenue			5,040	5,040
Compensated absences			3,802	3,802
Claims and judgments			2,356	2,356
Prizes liability		6,310		6,310
Escrow deposits			1,937	1,937
Current portion of revenue bonds			61,370	61,370
Current portion of bond issue premium			6,815	6,815
Tax refunds payable	2,895			2,895
Other current liabilities			812	812
Due to other funds		4,123		4,123
Total current liabilities	24,541	16,243	141,537	182,321
Noncurrent liabilities				
Compensated absences			10,673	10,673
Claims and judgments			14,334	14,334
Liabilities payable from restricted assets		8,122		8,122
Revenue bonds			891,895	891,895
Bond issue premium, net			24,080	24,080
Other long-term obligations			3,436	3,436
Total noncurrent liabilities		8,122	944,418	952,540
Total liabilities	24,541	24,365	1,085,955	1,134,861
Net assets				
Invested in capital assets, net of related debt		69	2,616,902	2,616,971
Restricted for:				
Unemployment benefits	217,000			217,000
Other			141,547	141,547
Unrestricted		875	76,032	76,907
Total net assets	$ 217,000	$ 944	$ 2,834,481	$ 3,052,425

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Business-Type Activities - Enterprise Funds			
	Unemployment	**Lottery**	**DELDOT**	**Total**
Operating revenues				
Unemployment taxes	$ 86,632			$ 86,632
Gaming revenue		$ 727,993		727,993
Pledged revenues				
Turnpike revenue			$ 87,696	87,696
Motor vehicle and related revenue			239,130	239,130
Turnpike revenue			31,524	31,524
Passenger fares			9,992	9,992
Miscellaneous			10,904	10,904
Total operating revenues	86,632	727,993	379,246	1,193,871
Operating expenses				
Unemployment benefits	92,025			92,025
Cost of sales		336,430		336,430
Prizes		64,879		64,879
Transportation			424,804	424,804
Depreciation		130	15,359	15,489
General and administrative		7,558	7,659	15,217
Total operating expenses	92,025	408,997	447,822	948,844
Operating income (loss)	(5,393)	318,996	(68,576)	245,027
Nonoperating revenues (expenses)				
Interest and investment revenue	9,598		7,036	16,634
Interest expense			(37,347)	(37,347)
Loss on disposal of assets			(4,211)	(4,211)
Total nonoperating revenues (expenses)	9,598		(34,522)	(24,924)
Income (loss) before transfers and capital contributions	4,205	318,996	(103,098)	220,103
Capital contributions			107,463	107,463
Transfers in			97,238	97,238
Transfers out		(318,986)	(806)	(319,792)
Change in net assets	4,205	10	100,797	105,012
Total net assets - beginning (As restated for DELDOT)	212,795	934	2,733,684	2,947,413
Total net assets - ending	$ 217,000	$ 944	$ 2,834,481	$ 3,052,425

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Business-Type Activities-Enterprise Funds			
	Unemployment	**Lottery**	**DELDOT**	**Total**
Cash flows from operating activities				
Receipts from employers	$ 78,378			$ 78,378
Payments for insurance claims	(92,153)		$ (2,356)	(94,509)
Receipts from customers and users		$ 725,713	369,955	1,095,668
Other operating receipts			2,117	2,117
Payments to suppliers for goods and services		(46,081)	(441,120)	(487,201)
Payments to employees for services		(1,648)		(1,648)
Payments for prizes		(65,281)		(65,281)
Payment for commissions		(294,532)		(294,532)
Net cash provided (used) by operating activities	(13,775)	318,171	(71,404)	232,992
Cash flows from noncapital financing activities				
Transfers in			97,238	97,238
Transfers out		(319,248)	(806)	(320,054)
Net cash provided (used) by noncapital financing activities		(319,248)	96,432	(222,816)
Cash flows from capital and related financing activities				
Capital grants			103,197	103,197
Purchases of capital assets			(124,080)	(124,080)
Principal paid on capital debt			(40,000)	(40,000)
Interest paid on capital debt			(42,000)	(42,000)
Proceeds from sale of equipment			1,629	1,629
Proceeds from issuance of debt			150,000	150,000
Premium from bond sale			8,418	8,418
Payment to escrow agent for refunding of debt			(59,027)	(59,027)
Net cash used by capital and related financing activities			(1,863)	(1,863)
Cash flows from investing activities				
Interest and investment revenues	9,598		9,459	19,057
Repayment on loan receivable			1,109	1,109
Escrow deposits received			(777)	(777)
Purchase of Investments			(20,973)	(20,973)
Proceeds from sales and maturities of investments		1,395	1,640	3,035
Net cash provided (used) by investing activities	9,598	1,395	(9,542)	1,451
Net increase (decrease) in cash/cash equivalents	(4,177)	318	13,623	9,764
Cash/cash equivalents - beginning of year	213,767	5,804	25,012	244,583
Cash/cash equivalents - end of year	$ 209,590	$ 6,122	$ 38,635	$ 254,347
Reconciliation of operating income (loss) to net cash used by operating activities				
Operating Income (loss)	$ (5,393)	$ 318,996	$ (68,576)	$ 245,027
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense		130	15,359	15,489
Decrease (increase) in assets:				
Increase in receivables, net	(8,352)	(2,280)	(5,848)	(16,480)
Increase in inventories			(433)	(433)
Decrease (increase) in prepaid items		448	(369)	79
Increase (decrease) in liabilities				
Increase (decrease) in accounts and other payables	(608)	1,477	(14,037)	(13,168)
Increase (decrease) in accrued liabilities	481	(198)	(1,326)	(1,043)
Increase (decrease) in accrued expenses		(402)	637	235
Increase in accrued payroll and related expenses			3,189	3,189
Increase in due to/from other governments	97			97
Net cash provided (used) by operating activities	$ (13,775)	$ 318,171	$ (71,404)	$ 232,992
Supplemental disclosures of noncash investing and capital related financing activities				
Interest capitalized on loan	$	$	$ 1,349	$ 1,349

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006
(Expressed in Thousands)

	Pension Trust Funds	Investment Trust Funds	Agency Funds
Assets			
Cash and cash equivalents	$ 6,806	$ 12	$ 27,634
Receivables:			
Employer contributions	6,517		
Member contributions	2,156		
Other receivables		29	26,360
Investments, at fair value:			
Domestic fixed income	1,095,748	5,520	
Domestic equities	1,701,643	8,572	
Pooled equity & fixed income	2,011,593	10,134	
Alternative investments	771,330	3,886	
Short term investments	75,723	380	25,564
Foreign equities	823,972	4,151	
Total assets	6,495,488	32,684	79,558
Liabilities			
Accounts payable			79,558
Benefits payable	910		
Accrued administrative expenses	247		
Total liabilities	1,157		79,558
Net Assets			
Assets held in trust for pension benefits and pool participants	$ 6,494,331	$ 32,684	$

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

	Pension Trust Funds	Investment Trust Funds
Additions		
Contributions:		
Employer contributions	$ 178,035	
Transfer of assets from outside the system	2,982	$ 5,589
Member contributions	47,451	
Other	23	
Total contributions	228,491	5,589
Investments:		
Investment earnings	87,484	441
Net increase in fair value of investments	635,411	2,825
Total investment earnings	722,895	3,266
Less investment manager/advisor/custody fees	(19,013)	(97)
Less investment administrative expenses	(373)	(1)
Net investment earnings	703,509	3,168
Total additions	932,000	8,757
Deductions		
Transfer of assets outside the system	2,478	
Pension payments	326,325	
Refunds of contributions to members	3,198	
Group life payments	4,928	
Administrative expenses	4,817	
Total deductions	341,746	
Change in net assets	590,254	8,757
Net assets - beginning of year	5,904,077	23,927
Net assets - end of year	$ 6,494,331	$ 32,684

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2006
(Expressed in Thousands)

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	DTCC * Educational Foundation	Delaware Charter Schools	All Component Units Total
ASSETS							
Current assets:							
Cash and cash equivalents	$ 90	$ 4,161	$ 5,830	$ 25,822	$ 13	$ 14,515	$ 50,431
Cash and cash equivalents - restricted		7,132	203			510	7,845
Investments	40,511			326	2,300		43,137
Investments - restricted					3,472		3,472
Accounts and other receivables, net	21,634	3,046	150	4,157		75	29,062
Loans and notes receivable, net	13,813						13,813
Inventories		489					489
Prepaid items	2,542	818	53				3,413
Deferred bond issuance costs	403						403
Other current assets				7,919	10	43	7,972
Total current assets	78,993	15,646	6,236	38,224	5,795	15,143	160,037
Noncurrent assets:							
Long-term investments	180,648		4,740				185,388
Long-term investments - restricted			9,899	17,815	61		27,775
Accounts and other receivables, net	3,674						3,674
Loans and notes receivable, net	427,648		1,288	387			429,323
Capital assets - non-depreciable	5,621	26,087	61,443	17,279		1,172	111,602
Capital assets - depreciable, net	17,046	138,452	25,626	153,111		37,048	371,283
Deferred bond issuance costs	5,241			192			5,433
Other restricted assets					2,765		2,765
Other noncurrent assets			2,709	4,055		438	7,202
Total noncurrent assets	639,878	164,539	105,705	192,839	2,826	38,658	1,144,445
Total assets	718,871	180,185	111,941	231,063	8,621	53,801	1,304,482
LIABILITIES							
Current liabilities:							
Accounts payable	4,722	204	2,217	9,268		1,094	17,505
Accrued liabilities	798	1,839	177	3,914		4,754	11,482
Deferred revenue	115	123	75			2	315
Current portion - capital leases						12	12
Compensated absences	14					48	62
Escrow deposits			2			106	108
Notes payable	3,532	11,433		152			15,117
Current portion of revenue bonds	12,309		240	1,410			13,959
Current portion of other long-term debt			632	481		1,073	2,186
Total current liabilities	21,490	13,599	3,343	15,225		7,089	60,746
Noncurrent liabilities:							
Compensated absences	860			4,684		598	6,142
Escrow deposits	27,031						27,031
Notes payable	509	36,398		1,167			38,074
Revenue bonds	416,876		4,500	62,912			484,288
Long-term debt			8,856			28,366	37,222
Other noncurrent liabilities	437			1,399		36	1,872
Total noncurrent liabilities	445,713	36,398	13,356	70,162		29,000	594,629
Total liabilities	467,203	49,997	16,699	85,387		36,089	655,375
NET ASSETS							
Invested in capital assets, net of related debt	22,668	116,708	72,841	110,718		9,748	332,683
Restricted							
Federal and state regulations	168,258			3,005	6,308		177,571
Bond covenants	29,995						29,995
Capital projects		7,132	9,749	12,835			29,716
Other	7,011			12,094		724	19,829
Unrestricted	23,736	6,348	12,652	7,024	2,313	7,240	59,313
Total net assets	$ 251,668	$ 130,188	$ 95,242	$ 145,676	$ 8,621	$ 17,712	$ 649,107

* Fiscal year end December 31, 2005

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2006
(Expressed in Thousands)

		Program Revenues		
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Component Units:				
Delaware State Housing Authority	$ 72,094	$ 28,916	$ 46,471	$ 1,189
Diamond State Port Corporation	32,752	30,979		15,710
Riverfront Development Corporation	7,195	1,606	8,627	15,078
Delaware State University	84,765	36,718	20,537	7,540
Delaware Technical & Community College (DTCC) Educational Foundation	708	375	609	
Delaware Charter Schools	57,918	620	5,421	1,123
Total component units	$ 255,432	$ 99,214	$ 81,665	$ 40,640

General Revenues

Unrestricted payments from primary governments
Investment earnings (loss)
Gain (Loss) on sale of assets
Miscellaneous

Total general revenues

Change in net assets

Net assets - beginning of year (as restated)

Net assets - end of year

* Fiscal year ended December 31, 2005

See Accompanying Notes to the Financial Statements

Net (Expense) Revenue and Changes in Net Assets						
Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware * State University	DTCC * Educational Foundation	Delaware Charter Schools	Totals
$ 4,482						$ 4,482
	$ 13,937					13,937
		$ 18,116				18,116
			$ (19,970)			(19,970)
				$ 276		276
					$ (50,754)	(50,754)
						(33,913)
			27,857		53,718	81,575
6,326	551	597	2,307	267	491	10,539
	(2,311)					(2,311)
	396		(1,452)		380	(676)
6,326	(1,364)	597	28,712	267	54,589	89,127
10,808	12,573	18,713	8,742	543	3,835	55,214
240,860	117,615	76,529	136,934	8,078	13,877	593,893
$ 251,668	$ 130,188	$ 95,242	$ 145,676	$ 8,621	$ 17,712	$ 649,107

See Accompanying Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Reporting Entity

The accompanying financial statements present the State's primary government and include all funds, elected officials, departments and organizations, bureaus, boards, commissions, and authorities that 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. Fiduciary funds, 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 such are legally separate from the State.

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

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, 2005, each discretely presented component unit has a June 30, 2006 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 7 of the 18 board members; however, seven of the remaining eleven directors consist of the Governor and six State officials. Authorization by the State's Budget Director and Controller General is required before funds of the RDC may be expended.

Delaware State University

Delaware State University (DSU) is a public institution of higher education. Funding is primarily through State appropriations. State appropriations without restrictions as to use by the University are reported in general revenue. Additional funding is derived from tuition, federal grants, private donations and grants. The Board of Trustees is comprised of 15 members, 8 appointed by the Governor of Delaware and 7 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

The Delaware Technical and Community College Educational Foundation (DTCC Foundation) is a fiduciary-type component unit of Delaware Technical and Community College, which is part of the primary government. The DTCC Foundation 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, 2005.

Delaware Charter Schools

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

Complete financial statements for each of the discretely presented component units may be obtained from their respective administrative offices or from the Office of the Auditor of Accounts, The Townsend Building, Suite #1, 401 Federal Street, Dover, and 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 primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is separately presented from certain legally separate component units for which the State is financially accountable.

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds reported as part of the fiduciary fund financial statements are custodial in nature and do not

present results of operations and, therefore, do not have a measurement of focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the 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.

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

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

Taxes, grants, fees, sales, rents, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and have been

recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the State. Revenue related to expenditure driven grants is recognized when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental Funds

The State reports the following major governmental funds:

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

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

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

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

Proprietary Funds

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

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

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

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

The State reports the following major proprietary funds:

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

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

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

Fiduciary Funds

The 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.

The State reports the following fiduciary funds:

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

Pension Trust Funds - The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity; however, as it provides services and benefits almost exclusively to the primary government, the DPERS is considered a fiduciary fund and is shown in the financial statements as part of the primary government as a pension trust fund. Pension trust funds account for transactions, assets, liabilities and net assets available for plan benefits. (Note 14) The financial report of DPERS for the year ended June 30, 2006 may be obtained by writing to the State Board of Pension Trustees and Office of the Pensions, McArdle Building, and Suite #1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

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

Implementation of Recently Issued Accounting Pronouncements

In November 2003, the GASB issued Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*", effective for periods beginning after December 15, 2004. This standard had no material impact on the State's financial position.

In December 2004, the GASB issued Statement No. 46, "*Net Assets Restricted by Enabling Legislation - an amendment of GASB Statement No. 34*", which clarifies the meaning of a legally enforceable enabling legislation restriction for the purpose of disclosing the portion of total nets assets restricted by such legislation. A legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. Statement No. 46 is effective for fiscal years beginning after June 15, 2005. The State's Budget Reserve Account is considered a legislative restriction at June 30, 2006 (see Fund Equity under section (c) Assets, Liabilities, and Net Assets or Equity below.)

(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.

The State presents its deposits and investments in accordance with GASB Statement No. 40 – "*Deposit and Investment Risk Disclosures",* an amendment to GASB Statement No. 3, "*Deposits with Financial Institutions*, *Investments (including repurchase agreements) and Reverse Repurchase Agreements"*. This standard requires that state and local 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.

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

All land and buildings are capitalized, regardless of cost. Equipment and vehicles are capitalized when the cost of individual items exceeds $25,000. Building and land improvements are capitalized when the cost of the project exceeds $100,000. Infrastructure and software are capitalized when the costs of individual items or

projects exceed $1 million. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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

Asset	Primary Government Years	Component Units Years
Buildings and Building Improvements	40	15 - 75
Land Improvements	20	N/A
Furniture and Equipment	3 - 10	3 - 40
Vehicles	7	N/A
Software	5	N/A

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

Compensated Absences

It is the State’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. In the governmental fund financial statements,

liabilities for compensated absences are accrued when they are considered “due and payable” and recorded in the fund only for separations or transfers that occur before year-end. In the government-wide and proprietary fund financial statements, the State has accrued a liability for compensated absences, recognizing the obligation to make 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 $175.4 million at June 30, 2006. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation. Per the Delaware Constitution, the General Assembly, by three-fifths vote of the members elected to each House, may appropriate from the Budget Reserve Account. Should the State attempt to use this reserve for other purposes, such could be challenged by citizens.

(d) Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables when entitlement occurs. All other federal

reimbursement type grants are recorded as accounts receivable when the related expenditures or expenses are recognized. Related revenue is recorded subject to availability. Amounts not collected within 60 days of fiscal year end are recorded as Deferred Revenue. In addition to monetary transactions, Federal grants also include non-monetary transactions related to food stamps.

(e) Litigation Revenue

In 1997, several states began litigation against defendant tobacco product manufacturers to recover certain amounts the states expended to provide health care to the users of tobacco products. In 1998, a settlement was reached which provided that the states cease litigation against the manufacturers. As part of the Master Settlement Agreement, certain manufacturers agreed to remit periodic payments to the states until 2025. 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 $12.1 million has been recorded pursuant to the settlement. The Master Settlement agreement receipts of $23.1 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, 2006, 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, 2006, the carrying value and the bank balances of the State's deposits were $686,916,000 and $790,458,000 respectively. Of the bank balances, $63,416,000 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. $517,452,000 is uninsured and uncollateralized. The remaining $209,590,000 represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury. (Disclosures relating to $6,818,000 of Cash, which is excluded above, and all Investments of the Delaware Public Employees Retirement System (DPERS) are found on pages 56-62.)

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 Thousands)

Investment Type		Fair Value
Commercial Paper	$	73,234
U.S. Government Agency Securities		74,017
Corporate Obligations		395,442
Government Agency Bonds and Notes		457,643
Municipal Bonds		122,119
Certificates of Deposit		76,431
Other Pooled Investments		9,055
Private Placements		72,330
TOTAL	$	1,280,271

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

State of Delaware
Investment Maturity
(Expressed in Thousands)

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**Over 10**
1) Fixed Income:					
A) U.S. Government					
U.S. Government Treasuries, Notes, Bonds	$ 60,281	$ 58,665	$ 1,616		
U.S. Government Agency	566,584	291,929	240,479	$ 34,176	
B) Mortgage Backed					
Government Pass-Through	29,108	15,217	6,137	2,756	$ 4,998
C) Collateralized Mortgage Obligations					
Government CMO's	7,841		4,623		3,218
D) Corporate					
Corporate Bonds	265,582	171,197	86,170	1,691	6,524
Corporate Asset Backed	118,789	38,157	53,187		27,445
Private Placements	71,146	58,362	12,784		
E) Municipals	120,941	13,116	58,164	26,971	22,690
F) Pooled Investments	30,693	30,693			
G) Non-U.S. Fixed Income					
1) Developed Markets					
Corporate	23,947	10,964	12,983		
2) Short Term					
Commercial Paper	168,604	168,604			
Certificate of Deposit	18,592	18,592			
Treasury Bills	14,703	14,703			
Agencies	16,935	16,935			
Total Invested Assets	$1,513,746	$907,134	$476,143	$65,594	64,875

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, 2006.

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

Investment Type	TSY*	AGY**	AAA	AA	A	A-1	NR***
1) Fixed Income:							
A) U.S. Government							
U.S. Government Treasuries, Notes, Bonds			$ 60,281				
U.S. Government Agency		$ 225,038	341,546				
B) Mortgage Backed							
Government Pass-Through		13,831	15,277				
C) Collateralized Mortgage Obligations							
Government CMO's		7,841					
D) Corporate							
Corporate Bonds			78,239	$ 143,005	$ 28,152	$ 5,308	$ 10,879
Corporate Asset Backed			76,336	16,337	10,122	15,994	
Private Placements			14,113	52,631		4,401	
E) Municipals			100,411	7,872	2,005	1,511	9,143
F) Other Pooled						8,456	22,236
G) Non-U.S. Fixed Income							
1) Developed Markets							
Corporate				23,947			
2) Short Term							
Commercial Paper			61,007			102,552	5,045
Certificate of Deposit			4,402	6,079	2,597	3,885	1,629
Treasury Bills	$ 14,703						
Agencies		16,935					
TOTAL	**$ 14,703**	**$ 263,645**	**$ 751,612**	**$ 249,871**	**$ 42,876**	**$ 142,107**	**$ 48,932**

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

*** NR = Non-Rated Pooled accounts

Derivatives

The State's cash management prohibits investment in derivatives.

Securities Lending

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

BONY, acting as lending agent, lends the State's equity, debt, and money market securities for cash, securities, or letter-of-credit collateral. Collateral is required at 102% of the fair value of the securities loaned. Collateral is marked-to market daily. If the collateral falls below guidelines for the fair value of the securities loaned, additional collateral is obtained. Cash collateral is invested by the lending agent in accordance with investment guidelines per the contract. The lending agent cannot pledge or sell securities collateral unless the borrower defaults.

As of June 30, 2006 the State's credit exposure to individual borrowers was limited because the amounts the State owed the borrowers exceeded the amounts the borrowers owed the State. The Treasurer's contract with the lending agent requires the agent to indemnify the State if the borrowers fail to return the underlying securities and the collateral is inadequate to replace the loaned securities or if the borrowers fail to pay income distributions on the loaned securities.

All securities loans at June 30, 2006 could be terminated immediately by either the lending agent or the borrower. The duration of the investments in the pool at June 30, 2006 was 536 days, on average.

As of June 30, 2006 the fair value of loaned securities was $127.9 million; the fair value of the associated collateral was $130.6 million.

Securities lending transactions at June 30, 2006 are as follows (Expressed in Thousands):

TYPES OF SECURITIES LENT:	FAIR VALUE OF UNDERLYING SECURITIES
US Government Agency Securities	$49,434
US Government Agency Bonds and Notes	50,878
Corporate Bonds	5,356
Corporate Asset Backed Securities	4,252
Private Placements	158
Fixed Income - Corporate	3,065
Treasury Bills	14,703
TOTAL	**$127,846**

COLLATERAL RECEIVED:	FAIR VALUE
Corporate Bonds	$30,140
Corporate Asset Backed Securities	28,206
Certificates of Deposit	28,641
Mutual Funds	24,541
Bank Notes *	19,093
	$130,621

* A note issued by the bank representing its promise to pay a specific sum to the bearer on demand.

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

State of Delaware
Investment Maturity
(Expressed in Thousands)

		Investment Maturities (in years)	
Investment Type	**Fair Value**	**Less than 1**	**1 - 5**
Corporate Bonds	$30,140		$30,140
Corporate Asset Backed Securities	28,206		28,206
Certificate of Deposit	28,641		28,641
Mutual Funds	24,541	$ 24,541	
Bank Notes	19,093		19,093
Total Invested Assets	$130,621	$24,541	$106,080

The schedule below represents the credit risk characteristics of the investments held for securities lending as of June 30, 2006:

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

Investment Type	AAA	AA	A
Corporate Bonds	$15,007		$15,133
Corporate Asset Backed Securities	28,206		
Certificate of Deposit		$ 18,589	10,052
Mutual Funds	24,541		
Bank Notes		19,093	
Total	$67,754	$37,682	$25,185

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, 2006, the State's investments have met the requirement of all the State's laws and polices, when applicable. The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2006:

Federal Home Loan Mortgage Corporation	$331,385,857	22%
Federal National Mortgage Association	251,225,874	17%

Investment Commitments

The State has made no investment commitments as of June 30, 2006.

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 they are 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, 2006, management of the System believes it has operated in all material respects in accordance with these policies.

Investments

The following schedule 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, 2006. As investment managers may be contractually granted the flexibility to augment their portfolios with investments outside their primary investment classification, these totals may differ from the classification of investment amounts made on the Statement of Plan Assets, which reflects the primary asset class in which the fund manager invests.

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

Investment	Fair Value	Less than 1	1 - 5	5 - 10	10 - 20	20 - 30	More than 30
Financials	$ 101,604	$ 1,598	$ 34,008	$ 15,352	$ 12,177	$ 12,971	$ 25,498
Foreign Government	134,465	573	60,738	14,283	33,383	25,488	
Industrials	93,905		6,917	29,425	17,283	38,312	1,968
Other Bonds/Bond Mutual Funds	89,965	10,037	12,320	4,753	4,449	47,756	10,650
Other Revenue Bonds	2,133					2,133	
Telephone	30,171		5,631	1,925	2,941	19,674	
Transportation	3,424			1,035	2,389		
Bonds	71,302		20,955	17,752	17,939	14,656	
U.S. Gov't Agencies	147,077	39,854	24,650	6,487	14,400	60,219	1,467
Utilities	16,608		6,602	7,101	443	2,462	
World Bank	377		377				
Discount Commercial Paper	2,978	2,978					
Other Investments*	641,413						
Total	$ 1,335,422	$ 55,040	$ 172,198	$ 98,113	$ 105,404	$ 223,671	$ 39,583

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

Interest Rate Risk

The State has delegated an investment policy for the System to the Board and its Committees. The Investment Committee sets its own 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, 2006, the System's fixed income and short-term investments (as noted on previous page) had the following risk characteristics as indicated in the following schedule (expressed in thousands):

Moody's Ratings or Comparable	Percent of Total Fund	Market Value	Callable Amount	Callable Dates
AAA to A	6.30%	$ 389,586	$ 21,158	Through June 6, 2010
BBB to B	2.70%	166,133	11,774	Through February 1, 2016
CCC to C	0.30%	17,815	34	Through July 19, 2004
Less than C	0.00%			
Not Rated	1.30%	78,954	5,578	Through September 15, 2014
Other Investments*	9.80%	641,413		
Total:	20.40%	$ 1,293,901	$ 38,544	

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

Custodial Credit Risk

Of the System's $6,818,000 cash balance, there are two accounts which are uninsured and uncollateralized. $688,000 represents pooled deposits held by the State Treasurer's Office. The balance of $6,130,000 represents pooled deposits in short-term investments held by the Mercantile Safe Deposit & Trust Co., custodian bank as of June 30, 2006. As a result of a request for proposal conducted during the fiscal year, Northern Trust assumed global custody responsibilities as of July 3, 2006.

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

As of June 30, 2006, the System did not hold any individual investments in excess of 5% of the fair value of the System's net assets held in trust for pension benefits. However, the following managers have been allocated investments in excess of 5% of the fair value of the System's net assets held in trust for pension benefits as of June 30, 2006:

	Fair Value (Expressed in Thousands)
Mellon Capital Asset Allocation Fund	$ 1,021,305
Mellon Capital Global Asset Allocation Fund	1,000,422
Oaktree International Convertibles	493,886
T. Rowe Price Natural Resource Fund	388,778
OFI Institutional	360,855
Lehman Capital - Fixed	355,690
Mercator Asset Management	334,213
Loomis-Sayles & Company LP	326,801

Management Fees

The System paid $16.6 million in management fees to the venture capital limited partnerships and transition managers for the Fiscal Year ended June 30, 2006. These fees are netted against investment income.

Investment Commitments

The System has commitments to invest up to an additional $484 million in venture capital limited partnerships in varying amounts as of June 30, 2006, to be drawn down, as called upon at any time during the term of each partnership, which is usually a ten-year period. Generally, these commitments are self-funding, in that the capital calls are met using cash flows generated by the existing venture capital/limited partnerships as managers in this asset class realize the proceeds of their investments.

Foreign Investments/Forward Exchange Contracts

Foreign investments include equity securities, bonds, and short-term investments. From time to time, the System has entered into forward exchange contracts to sell or purchase certain foreign currencies at specified rates at stated dates. At June 30, 2006, 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, 2006, excluding foreign-issuer assets valued at $183.4 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	Equities	Fixed Income	Cash
Australian Dollar	$ 15,389	$ 15,368	$ -	$ 21
British Pound Sterling	78,103	78,098		5
Canadian Dollar	3,465	97	3,368	
Euro Currency	325,538	286,854	36,633	2,051
Hong Kong Dollar	7,452	5,935	1,517	
Japanese Yen	116,172	88,913	27,275	(16)
Norwegian Krone	9,427	5,802	3,625	
Singapore Dollar	22,192	20,865	1,278	49
South Korean Won	1,455	1,455		
Swedish Krona	2,722	2,722		
Swiss Franc	60,242	55,567	3,306	1,369
Other Investments*	641,629	414,260	227,369	
Total:	$ 1,283,786	$ 975,936	$ 304,371	$ 3,479

* 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. This policy, as amended was incorporated in the formalized investment policy adopted by the Board during Fiscal Year 2006. 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 following lists principal categories of derivatives and their uses during the year:

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

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

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

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

Risk and Uncertainty

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

The actuarial accrued plan liabilities are measured based on assumptions pertaining to the interest rates, inflation rates and employee demographic behavior in future years. While these assumptions have been chosen after review of past history of the

covered participants, it is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more experience deviates, the larger the impact on future financial statements.

COMPONENT UNITS

Diamond State Port Corporation

At June 30, 2006, the carrying value and the bank balances of the Corporation's deposits were $11,293,213 and $11,645,399, respectively. Of the bank balances, $100,000 is insured by the Federal Deposit Insurance Corporation (FDIC) and $11,545,399 is subject to custodial credit risk because it is uninsured and uncollateralized. However, it is held at financial institutions that satisfied the criteria listed above and does not require collateralization.

Riverfront Development Corporation

At June 30, 2006, the Riverfront Development Corporation's cash deposits carrying value and bank balances amounted to $6,032,540 and $6,341,384 respectively. Cash deposits include $202,885 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, $392,563 is insured by the FDIC and $5,948,821 is uninsured and uncollateralized.

Delaware State University

At June 30, 2006, Delaware State University's deposits carrying value and bank balance was $13,089,188 and $14,096,067 respectively. An additional $12,733,197 of cash and cash equivalents related to unexpended State appropriations are included on the Statement of Net Assets. Of the bank balances, $2,473,432 was uninsured and uncollateralized. The additional $12,733,197 represents pooled deposits held by the State Treasurer's Office.

Delaware Technical and Community College Educational Foundation

At December 31, 2005, the DTCC Foundation's cash deposits amounted to $13,287. All bank balances were insured by the FDIC.

Delaware Charter Schools

At June 30, 2006, the Delaware Charter Schools deposits carrying value was $15,025,585. Deposits include $14,192,482 held in the State Investment Pool. Carrying value of the remainder of deposits was $833,103. Bank balances totaled $682,428, consisting of $456,050 insured by FDIC and $226,378 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 table on the next page lists investments and their maturities.

Investment Maturities (in Years)
(Expressed in Thousands)

Investment Type	Fair Value	Less than 1	1 - 5	5 - 10	10 - 20	20 - 30	More than 30
U.S. Treasury Notes	$ 9,050,224	$ 4,168,000	$ 4,870,000		$ 467,000		
U.S. Treasury Bonds	177,602			$ 143,000		$ 19,000	
U.S. Treasury Bills	853,179	874,000					
U.S. Treasury Strips	2,185,187	454,000	1,820,000	226,000			
U.S. Agencies	7,869,582	4,160,000	3,795,000				
Commercial Paper	822,336	825,000				2,133	
Corporate Note	6,458,230	4,580,000	1,989,000				
Resolution Funding Corp. Coupon Strips	259,436			362,000			
Municipal Bonds	2,216,522	185,000	2,010,000	335,000			
Investment Agreements	140,674,143	1,552,896	110,917,308	14,707,157	5,906,000	7,528,094	$ 62,688
Money Market Savings Acct.	3,361,786	3,361,786					
Bank Money Market Acct.	14,093,971	14,093,971					
State of Delaware Investment Pool	33,136,776	33,136,776					
Total Investments:	$ 221,158,974	$ 67,391,429	$ 125,401,308	$ 15,773,157	$ 6,373,000	$ 7,549,227	$ 62,688

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, 2006, the Authority's investments were rated as follows:

	Ratings (S & P)						
	Agency *	AAA	AA	A+	AA-	A1-	A1
Investment Type							
U.S. Agencies	$ 3,508,208						
Corporate Notes		$ 207,610	$ 2,181,160	$ 1,737,060	$ 2,332,400		
Resolution Funding Coupon Strips		259,436					
Municipal Bonds		429,890			1,786,632		
Commercial Paper						$ 199,271	$ 623,065
Total	$ 3,508,208	$ 896,936	$ 2,181,160	$ 1,737,060	$ 4,119,032	$ 199,271	$ 623,065

* 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 $221,158,974 investment balance, $140,674,143 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. Credit risk for such investments depends on the financial stability of the financial institution providing the GIC.

Riverfront Development Corporation (RDC)

The Riverfront's restricted investments totaling $9,899,024 consist of $7,634,361 of short-term investments (rated A1 or better), $2,115,000 of Governmental bonds (rated AAA), and $149,663 of 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	5.1 %
General Electric Capital Corp. Note	500,000	5.1 %
Household Finance Corp. Note	500,000	5.1 %
Prudential Funding Corp Note	500,000	5.1 %

Delaware State University

Investments of the University totaled $18,141,104 stated at quoted market value, which consist of pooled investments where the University does own specific securities.

Delaware Technical and Community College Educational Foundation

Investments of the DTCC Foundation totaled $5,772,338, stated at quoted market value. These investments consist of pooled investments where the University does not own specific securities. An additional $61,458 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, 2006. Uncollectibility 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	$ 179,175		$ 17,603	$ 196,778
Interest	42		5	47
Accounts	739,785	$ 78,083	626	818,494
Loans and Notes	107,205	21,824		129,029
Intergovernmental	183	76,625		76,808
Total receivables	1,026,390	176,532	18,234	1,221,156
Allowance for doubtful accounts	(789,832)	(70,723)	(171)	(860,726)
Total receivable (net)	236,558	105,809	18,063	360,430
Amounts not scheduled for collection during the subsequent year	$ 147,531	$ 21,880	$ 10,671	$ 180,082

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

	Unemployment	Lottery	DelDOT	Total Receivables
Receivables:				
Taxes	$ 39,971			$ 39,971
Interest			$ 1,992	1,992
Accounts	7,160	$ 9,449	13,361	29,970
Loans and Notes			35,225	35,225
Intergovernmental	352		9,768	10,120
Total receivables	47,483	9,449	60,346	117,278
Allowance for doubtful accounts	(15,532)	(726)		(16,258)
Total receivable (net)	31,951	8,723	60,346	101,020
Amounts not scheduled for collection during the subsequent year			$ 34,770	$ 34,770

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

Receivables
Component Unit Activities
(Expressed in Thousands)

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	Delaware Charter Schools	Total Receivables
Receivables:						
Interest	$ 23,811					$ 23,811
Accounts	1,021	$ 3,094	$ 150	$ 4,257	$ 75	8,597
Loans and Notes	442,214		3,194	387		445,795
Intergovernmental	476			2,340		2,816
Total receivables	467,522	3,094	3,344	6,984	75	481,019
Less: Allowance for doubtful accounts	(753)	(48)	(1,906)	(2,440)		(5,147)
Total receivables (net)	$ 466,769	$ 3,046	$ 1,438	$ 4,544	$ 75	$ 475,872
Amounts not scheduled for collection during the subsequent year	$ 431,322	$	$ 1,288	$ 387	$	$ 432,997

Note: DTCC Educational Foundation did not have any activity.

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

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

Deferred Revenues
(Expressed in Thousands)

Unavailable	
Taxes Receivable	$ 69,266
Non-tax Receivables	187,032
Subtotal Unavailable	256,298
Unearned	
Advance Park Reservation Fees	874
Federal Grant Advance Drawdowns	19,021
Total Deferred Revenue	$ 276,193

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, 2006, expressed in thousands, is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Federal Fund	$ 10,561
	Local School District	12,271
	Capital Projects Fund	62,856
	Subtotal	85,688
	Enterprise Fund	
	Delaware State Lottery	4,123
	Total	$ 89,811

The amounts due from the Federal Fund and the Capital Projects Fund are recorded for borrowings to eliminate negative balances in the State Investment Pool. The amount for the Federal Fund is created by expenditures relating to reimbursement type federal grant revenues. These costs result in a negative balance in the State Investment Pool. The State Legislation authorizes certain Capital Project expenditures prior to the issuance of bonds. These expenditures have resulted in a negative balance in the State Investment Pool. The negative balance is considered to be a borrowing from the General Fund. Amounts due from local school districts represent balances due from Christina School District which were borrowed for general operating expenses and capital projects.

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, 2006 is presented below (expressed in thousands):

	Transfers In	Transfers Out
Governmental Fund Types		
General Fund	$ 358,075	$ 113,674
Federal Fund		
Local School Fund	16,436	38,283
Proprietary Fund Types		
Lottery		318,986
DelDOT Fund	97,238	806
Total All Funds	$ 471,749	$ 471,749

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 September 15, 2005, the State issued $132.0 million of general obligation bonds maturing between September 1, 2006 and September 1, 2025. The bonds bear coupon rates of between 3.5% and 5%. Proceeds were used to fund various capital projects as authorized by the General Assembly.

Bonds issued and outstanding totaled $1,045,166,000 at June 30, 2006. Of this amount, $401.8 million is supported by property taxes collected by the Local School

District Funds. During fiscal year 2006, the Local School District Funds transferred $38.3 million of property tax revenue to the State to meet the required debt service on their share of the debt.

The State is authorized to issue an additional $348.4 million of general obligation bonds at June 30, 2006. Interest rates and maturities of the outstanding General Obligation Bonds are detailed as follows:

General Obligation Bonds

Sale #	Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding June 30, 2006 (Expressed in Thousands)
196	GO 2005D	3.5% - 5.0%	2024	$ 132,000
195	GO Refunding 2005C	5%	2023	45,335
194	GO 2005B	2.625% - 5.0%	2024	86,890
193	GO 2005A	2.25% - 4.25%	2025	28,735
192	QZAB 2004B	0%	2020	224
191	GO + Refunding 2004A	3.0% - 6.0%	2024	183,310
190	QZAB 2003D	0%	2018	908
189	GO Refunding 2003C	4.0% - 6.0%	2023	94,000
188	GO Refunding 2003B	4.0% - 5.0%	2011	28,345
187	GO 2003A	4.0% - 5.0%	2022	75,400
186	QZAB 2002B	0%	2016	760
185	GO + Refunding 2002A	4.0% - 5.25%	2021	203,530
184	QZAB 2001B	0%	2011	649
183	GO + Refunding 2001A	4.0% - 4.75%	2009	54,544
182	GO 2000 A	5.0% - 5.5%	2012	30,000
181	GO 1999 A	4.0% - 4.625%	2019	27,500
179	GO + Refunding 1998A	4.5% - 4.75%	2008	40,390
178	GO 1997 B	5.00%	2007	4,875
177	GO 1997 A	5.00%	2007	6,000
170	GO 1992 B	4.7% - 6.1%	2013	1,771
			Total	$ 1,045,166

The following table sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2006.

Total General Obligation Bonds
(Expressed in Thousands)

Fiscal Year Ending 30-Jun	Principal	Interest	Total
2007	$ 117,429	$ 46,428	$ 163,857
2008	108,315	41,028	149,343
2009	102,620	35,799	138,419
2010	97,040	30,823	127,863
2011	89,722	26,449	116,171
2012-2016	314,869	81,955	396,824
2017-2021	145,322	31,688	177,010
2022-2026	69,849	6,328	76,177
Totals	$ 1,045,166	$ 300,498	$ 1,345,664

Changes in general obligation bonded debt during the year ended June 30, 2006, are summarized in Note 10.

In prior years, the State has defeased certain general obligation bonds by creating separate irrevocable trust funds. New debt has been issued or cash appropriated and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt. Accordingly, the debt has been considered defeased and has been removed as a liability from the Government-wide financial statements. As of June 30, 2006, a total of $184.5 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.

In November 2005, the Authority issued $150,000,000 of Transportation System Senior Revenue Bonds, 2005 Series, of which $40,000,000 refunded Bond Anticipation Notes.

The Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is therefore not reported as a liability. As of June 30, 2006, the amount of defeased debt outstanding amounted to $146,485,000.

The Delaware Transportation Authority had a total of $75,219,525 in authorized but unissued bonds at June 30, 2006. Bonds outstanding at June 30, 2006 amounted to $953,265,000 and are presented on the next page as follows:

Delaware Transportation Authority Revenue Bonds
(Expressed in Thousands)

Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding 30-Jun-06
Transportation System Senior Revenue Bonds - Series			
1997	5.0% - 6.0%	2017	$ 49,930
1998	4.25% - 5.5%	2016	52,190
2000	5.50%	2020	17,720
2001	4.5% - 5.5%	2021	50,795
2002	5.00%	2008	27,765
2002 B	4.0% - 5.25%	2022	146,615
2003	4.5% - 5.0%	2023	247,685
2004	3.0% - 5.0%	2024	164,200
2005	4.0% - 5.0%	2025	150,000
Transportation System Junior Revenue Bonds - Series			
2002	4.375% - 5.0%	2009	46,365
	Totals		953,265
	Less: Current portion		61,370
	Long Term Portion		$ 891,895

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
2007	$ 61,370	$ 45,534	$ 106,904
2008	64,980	41,769	106,749
2009	68,820	38,420	107,240
2010	71,585	34,918	106,503
2011	60,065	31,613	91,678
2012-2016	285,355	114,066	399,421
2017-2021	221,130	52,766	273,896
2022-2026	119,960	11,526	131,486
Totals	$ 953,265	$ 370,612	$ 1,323,877

The Transportation System Revenue Bonds have fixed interest rates and are limited obligations of the Authority secured only by the pledged revenues of the Trust Funds. Summary financial information at June 30, 2006 for the Trust Funds, which is the segment of the Transportation department that supports the revenue bonds, is presented on the next page:

Condensed Balance Sheets
(Expressed in Thousands)

Assets:		
Current assets	$	172,745
Capital assets		1,010,161
Other assets		79,931
Total assets		1,262,837
Liabilities:		
Current liabilities		114,929
Noncurrent liabilities		930,976
Total liabilities		1,045,905
Net Assets:		
Invested in capital assets, Net of related debt		32,033
Unrestricted		44,063
Restricted		140,836
Total net assets	$	216,932

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

Operating revenues (pledged against bonds)	$	326,826
Other operating revenues		38,351
Depreciation expense		(192)
Other operating expenses		(426,246)
Operating loss		(61,261)
Nonoperating revenues (expenses):		
Investment income (pledging against bonds)		10,523
Other investment Income (loss)		(731)
Interest expense		(37,347)
Transfer from State General Fund		88,238
Change in net assets		(578)
Beginning net assets		217,510
Ending net assets		216,932

Condensed Statements of Cash Flows
(Expressed in Thousands)

Net cash provided by (used in):		
Operating activities		(78,699)
Noncapital financing activities		88,238
Capital and related financing activities		(174)
Investing activity		(9,426)
Net increase (decrease)		(61)
Beginning cash and cash equivalents		2,503
Ending cash and cash equivalents	$	2,442

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 3.10% to 7.375% with maturities of such bonds up through July 1, 2039.

On February 21, 2006, the Authority issued $60,000,000 of Single Family Mortgage Revenue Bonds, 2006 Series A. The proceeds of the sale were used to make new qualified residential mortgage loans.

On May 24, 2006, the Authority issued $80,000,000 of Single Family Mortgage Revenue Bonds, 2006 Series B. The proceeds of the sale were used to make new qualified residential mortgage loans.

Outstanding bonds at June 30, 2006 amounted to $429,184,502. 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 30-Jun	Principal	Interest	Total
2007	$ 12,309	$ 21,680	$ 33,989
2008	9,525	21,210	30,735
2009	9,995	20,712	30,707
2010	10,520	20,180	30,700
2011	10,410	19,612	30,022
2012-2016	47,680	89,658	137,338
2017-2021	50,595	77,109	127,704
2022-2026	62,610	65,721	128,331
2027-2031	73,576	48,022	121,598
2032-2036	81,337	26,456	107,793
2037-2039	60,628	794	61,422
Total	$ 429,185	$ 411,154	$ 840,339

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, 2006 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 30-Jun	Principal	Interest	Total
2007	$ 240	$ 237	$ 477
2008	275	224	499
2009	300	209	509
2010	320	193	513
2011	360	176	536
2012-2016	2,330	554	2,884
2017 - 2018	915	39	954
Total	$ 4,740	$ 1,632	$ 6,372

Delaware State University

Revenue bonds payable at June 30, 2006 are shown below.

Delaware State University
Revenue Bonds Payable
(Expressed in Thousands)

Revenue Refunding Bonds	$ 10,371
Student Housing Foundation Bonds	53,951
Total	$ 64,322

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 4.00% to 5.25% on the outstanding Revenue Refunding Bonds. Debt service requirements for the Delaware State University Bonds are shown in the following schedule:

Delaware State University Revenue Refunding Bonds
(Expressed in Thousands)

Year Ending 30-Jun	Principal	Interest	Total
2007	$ 690	$ 446	$ 1,136
2008	720	417	1,137
2009	745	387	1,132
2010	775	356	1,131
2011	805	324	1,129
2012 - 2016	4,550	1060	5,610
2017 - 2018	2,140	85	2,225
Total	$ 10,425	$ 3,075	$ 13,500
Less: Unamortized Bond Discount	(54)		
	$ 10,371		

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, 2005. 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 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 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, 2005, is $162,035.

At July 31, 2005, bonds payable of the Foundation consisted of $53,995,000 of tax-exempt term bonds with maturities through July 2036 and $595,000 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, 2005 are presented on the following page.

Delaware State University
Student Housing Foundation
Revenue Bonds

(Expressed in Thousands)

Year Ending 31-Jul	Tax-exempt	Taxable	Total
2006	$ 325	$ 395	$ 720
2007	650	200	850
2008	840		840
2009	935		935
2010	1,040		1,040
2011 - 2015	5,945		5,945
2016 - 2020	7,405		7,405
2021 - 2025	9,315		9,315
2026 - 2030	11,745		11,745
2031 - 2035	13,635		13,635
2036	2,160		2,160
Subtotal	$ 53,995	$ 595	$ 54,590
Less: bond discount (net of accumulated amortization)			(639)
Total			$ 53,951

NOTE 7 LOANS AND NOTES PAYABLE

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 $6,198,000 loan agreement with FNMA in September 2004 to provide construction financing for four Housing Development Fund (HDF)/Tax Credit developments through FNMA's American Community Fund (ACF). The total principal balance at June 30, 2006 was $3,486,177. The construction projects financed through this fund are expected to convert to permanent loans with financing through the HDF within the next year. Therefore, the June 30, 2006 principal balance of the note payable, $3,486,177, is considered current. Based on this principal and interest rate in effect at the end of the year of 6.57%, the estimated cost will be $119,000.

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

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

Year Ending 30-Jun	Principal	Interest	Total
2007	$ 46	$ 21	$ 67
2008	115	19	134
2009	72	14	86
2010	71	10	81
2011	123	117	240
2012-2015	128	122	250
Total	$ 555	$ 303	$ 858

Diamond State Port Corporation (DSPC)

Loan and notes payable of the DSPC at June 30, 2006 are shown below.

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

City of Wilmington:	
Port Debt Service Notes	$ 13,400
Transportation Trust Fund Loan	31,031
Delaware River and Bay Authority	3,400
Total	$ 47,831

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 $27,500,000. The funds were used to repay the balances in full of the Delaware River and Bay Authority Note and the Wilmington Trust Company Note and, at a discount, the City of Wilmington Deferred Payment Note.

In July 2006, the loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2006, and January 1, 2007, and to restructure the repayment of the outstanding principal balance effective July 1, 2007 over the next twenty-two years. Additionally, the State appropriated $10,000,000 to be applied as a repayment of principal and interest in fiscal year 2007. The interest rate of 4.6% remained unchanged. Beginning March 31, 2007, principal and interest payments are March 1, and May 1, each year. The loan matures May 2028. Interest

capitalized during fiscal year 2006, as part of the restructuring, amounted to $1,379,660.

In July 2005, a similar restructuring occurred whereby 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 20 years. Interest capitalized as principal during fiscal year 2005 as part of the restructuring amounted to $1,318,319.

Interest expense charged to operations in 2006 and 2005 was $1,379,660 and $1,318,319, respectively.

The schedule of future maturities below includes $483,718 of interest to be capitalized as principal in January 2007. The scheduled repayments are also reduced by $10,000,000 appropriated by the State for the Corporation in 2007.

Transportation Trust Fund Loan
(Expressed in Thousands)

Year Ending 30-Jun	Principal	Interest	Total
2007	$ 592	$ 408	$ 1,000
2008	35	965	1,000
2009	657	961	1,618
2010	687	930	1,617
2011	719	899	1,618
2012-2016	4,127	3,961	8,088
2017-2021	5,174	2,914	8,088
2022-2026	6,488	1,600	8,088
After 2026	3,035	200	3,235
Total	$ 21,514	$ 12,838	$ 34,352

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%.

Total deferred loss balance as of June 30, 2006 was $449,146.

Principal and interest payments made on the notes during 2006 were $2,984,943 and $1,002,396, respectfully. Interest expense in 2006 was $909,210.

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

Port Debt Service Note
(Expressed in Thousands)

Year Ending 30-Jun	Principal	Interest	Total
2007	$ 671	$ 519	$ 1,190
2008	699	426	1,125
2009	2,291	541	2,832
2010	2,405	424	2,829
2011	1,351	329	1,680
2012-2016	3,903	979	4,882
2017-2021	1,878	293	2,171
2022-2026	651	27	678
Subtotal	13,849	3,538	17,387
Deferred Loss on Refunding	(449)		(449)
Total	$ $ 13,400	$ 3,538	$ 16,938

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 $9,448,298 at June 30, 2006. Interest rates for the mortgages vary between 5.455% and 7.0% and mature between July 2006 and October 2009. Estimated future annual debt service requirements are shown below.

Riverfront Development Mortgage Debt
(Expressed in Thousands)

Year Ending 30-Jun	Principal	Interest	Total
2007	$ 632	$ 548	$ 1,180
2008	230	520	750
2009	2,256	372	2628
2010	5,520	152	5672
2011	850	7	857
Total	$ 9,488	$ 1,599	$ 11,087

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 (8.5% at June 30, 2006) and is due on demand. There was no outstanding balance on this line as of June 30, 2006.

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 $132.1 million, of which $108.9 million relates to property leases and $23.2 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 $26.9 million were made by the General Assembly to meet the rental payments in fiscal 2006, of which $19.7 million was for office space and $7.2 million was for equipment consisting mainly of computers, data processing equipment and fleet vehicles.

Significant annual equipment rentals include $3.6 million for fleet vehicles and data processing equipment with the Office of Management and Budget and $1.8 million for data processing equipment for the Department of Education. Significant annual real estate rentals include $6.0 million for leases for Health and Social Services facilities, $2.8 million for the Department of Labor and $1.8 million for office space of the Department of Correction.

Future minimum lease commitments for operating leases as of June 30, 2006 are shown in the following table.

State of Delaware Lease
(Expressed in Thousands)

Year Ending 30-Jun		Operating Leases
2007	$	25,618
2008		22,158
2009		17,536
2010		14,680
2011		11,048
2012-2016		28,783
2017-2021		6,814
2022-2026		2,889
2027-2031		2,321
2032-2036		197
All Future Years		104
Total	$	132,148

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, 2006. 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. $127.9 million has been accrued in long-term obligations for the Governmental Activities and $14.5 million in the Business-type Activities for the compensated absences liability. The current portion of the long-term obligation for compensated absences is $10.7 million in the Governmental Activities and $3.8 million in the Business-type Activities. Approximately $105.8 million (82.7%) of the long-term obligation for compensated absences will be liquidated by the General Fund. Of the remainder, approximately $8.4 million (6.6%) and $13.7 million (10.7%) 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 following table provides a summary of changes in long-term obligations of the Primary Government for the year ended June 30, 2006.

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	$ 1,026.9	$ 132.0	$ (113.7)	$ 1,045.20	$ 117.40
Bond issue premium, net of accumulated amortization	48.9	4.8	(3.2)	50.5	3.2
Notes payable	4.8		(1.2)	3.6	2.7
Physician & scholarship programs	3.1	0.6	(0.6)	3.1	0.6
Claims & judgments (notes 13 and 17)	86.4	81.7	(79.6)	88.5	25.2
Compensated absences	119.9	17.5	(9.5)	127.9	10.7
Net pension obligation (note 14)	95.5	24.1	(20.6)	99.0	
Escheat payable	35.0	5.9	(5.9)	35.0	7.0
Governmental Activities long-term liabilities	$ 1,420.5	$ 266.6	(234.3)	$ 1,452.80	$ 166.80
Business-type Activities					
Revenue bonds	$ 861.7	$ 150.0	$ (58.4)	$ 953.30	$ 61.40
Bond issue premium,net of accumulated amortization	29.8	8.4	(7.3)	30.9	6.8
Other long-term obligations	4.8		(0.6)	4.2	0.8
Compensated absences	12.3	2.2		14.5	3.8
Claims & judgments (notes 13 and 17)	16.0	3.0	(2.3)	16.7	2.4
Business-type Activities long-term liabilities	$ 924.6	$ 163.6	$ (68.6)	$ 1,019.60	$ 75.20

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	Balance	Due Within One Year
Delaware State Housing Authority					
Notes payable	$ 2.8	$ 1.2	$ (0.0)	$ 4.0	$ 3.5
Revenue bonds	341.7	146.3	(58.8)	429.2	12.3
Compensated absences	0.9	0.5	(0.5)	0.9	
Total long term obligations	345.4	148.0	(59.4)	434.1	15.8
Diamond State Port Corporation					
Notes and loans payable	51.1	4.8	(8.1)	47.8	11.4
Total long term obligations	51.1	4.8	(8.1)	47.8	11.4
Riverfront Development Corporation					
Bonds payable	5.0		(0.2)	4.7	0.2
Long term debt	7.1	2.6	(0.2)	9.5	0.6
Total long term obligations	12.1	2.6	(0.4)	14.2	0.9
Delaware State University					
Other long term obligations	1.8	0.5	(0.4)	1.9	0.5
Compensated absences	4.2	0.5		4.7	
Notes payable	0.5	0.9	(0.1)	1.3	0.2
Revenue bonds	65.6		(1.3)	64.3	1.4
Total long term obligations	72.1	1.9	(1.8)	72.2	2.1
Delaware Charter Schools					
Long term debt	27.9	9.0	(7.5)	29.4	1.1
Total long term obligations	$ 27.9	$ 9.0	$ (7.5)	$ 29.4	$ 1.1

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, 2006 for these entities amounted to $1.1 billion and $461.7 million, respectively.

NOTE 12 CAPITAL ASSETS

PRIMARY GOVERNMENT

Capital asset activities for the fiscal year ended June 30, 2006 were as follows:

Capital Assets
(Expressed in Thousands)

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated				
Land	$ 361,390	$ 22,241	$ (458)	$ 383,173
Easements	92,604	8,455		101,059
Construction-in-progress	143,385	291,240	(131,872)	302,753
Total capital assets, not being depreciated	597,379	321,936	(132,330)	786,985
Capital assets, being depreciated				
Vehicles	76,765	7,670	(4,725)	79,710
Buildings	2,038,834	132,483	(36)	2,171,281
Equipment	76,645	4,981	(3,505)	78,121
Land Improvements	77,812	9,220	(1,019)	86,013
Total capital assets being depreciated	2,270,056	154,354	(9,285)	2,415,125
Less accumulated depreciation for:				
Vehicles	(52,941)	(9,189)	4,584	(57,546)
Buildings	(673,153)	(47,643)	34	(720,762)
Equipment	(54,892)	(4,816)	3,186	(56,522)
Land Improvements	(24,854)	(3,732)	11	(28,575)
Total accumulated depreciation	(805,840)	(65,380)	7,815	(863,405)
Total capital assets, being depreciated, net	1,464,216	88,974	(1,470)	1,551,720
Governmental activities capital assets, net	$ 2,061,595	$ 410,910	$ (133,800)	$ 2,338,705

Capital Assets

(Expressed in Thousands)

Business-type Activity DelDOT Fund	Beginning Balance *	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated				
Land	$ 164,703	$ 46,569	$	$ 211,272
Infrastructure	3,201,817	54,181		3,255,998
Construction in progress	393	14,919		15,312
Total capital assets, not being depreciated	3,366,913	115,669		3,482,582
Capital assets, being depreciated				
Buildings and improvements	60,820	467	(6,430)	54,857
Fixtures and equipment	158,779	7,953	(4,787)	161,945
Total capital assets being depreciated	219,599	8,420	(11,217)	216,802
Less accumulated depreciation for:				
Buildings and improvements	(18,018)	(1,826)	1,888	(17,956)
Fixtures and equipment	(76,345)	(14,232)	4,179	(86,398)
Total accumulated depreciation	(94,363)	(16,058)	6,067	(104,354)
Total capital assets, being depreciated, net	125,236	(7,638)	(5,150)	112,448
Business-type activity capital assets, net	$ 3,492,149	$ 108,031	$ (5,150)	$ 3,595,030

* Restated by $44,494 (Refer to Note 19)

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

Depreciation Expense

(Expressed in Thousands)

Governmental Activities:	
General Government	$ 14,838
Health and Children's Services	4,579
Judicial and Public Safety	12,179
Natural Resources and Environmental Control	3,464
Labor	70
Education	30,250
Total Depreciation Expense - Governmental Activities	$ 65,380
Business-type Activities:	
Transportation	$ 16,058
Lottery	130
Total Depreciation Expense- Business-type Activities	$ 16,188

COMPONENT UNITS

Capital asset activities for the fiscal year ended June 30, 2006 were as follows:

Component Units
(Expressed in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
Delaware State Housing Authority				
Capital Assets, not being depreciated	$ 6,420	$ 1,764	$ 2,563	$ 5,621
Capital Assets, being depreciated	34,504	2,617		37,121
Accumulated Depreciation	(18,684)	(1,391)		(20,075)
Total Capital Assets, Net	$ 22,240	$ 2,990	$ 2,563	$ 22,667
Diamond State Port Corporation				
Capital Assets, not being depreciated	$ 28,887	$ 18,762	$ 21,562	$ 26,087
Capital Assets, being depreciated	152,551	21,562	285	173,828
Accumulated Depreciation	(30,973)	(4,403)		(35,376)
Total Capital Assets, Net	$ 150,465	$ 35,921	$ 21,847	$ 164,539
Riverfront Development Corporation				
Capital Assets, not being depreciated	$ 49,810	$ 22,672	$ 11,039	$ 61,443
Capital Assets, being depreciated	35,185	8,034		43,219
Accumulated Depreciation	(14,830)	(2,763)		(17,593)
Total Capital Assets, Net	$ 70,165	$ 27,943	$ 11,039	$ 87,069
Delaware State University				
Capital Assets, not being depreciated	$ 16,066	$ 1,363	$ 150	$ 17,279
Capital Assets, being depreciated	185,886	40,827	287	226,426
Accumulated Depreciation	(66,793)	(6,809)	(287)	(73,315)
Total Capital Assets, Net	$ 135,159	$ 35,381	$ 150	$ 170,390
Delaware Charter Schools				
Capital Assets, not being depreciated	$ 1,172	$	$	$ 1,172
Capital Assets, being depreciated	37,604	4,863	127	42,340
Accumulated Depreciation	(3,964)	(1,431)	(103)	(5,292)
Total Capital Assets, Net	$ 34,812	$ 3,432	$ 24	$ 38,220

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, 2006, for workers' compensation, automobile accident and health-care claim liabilities is $132.9 million. The claim liabilities relating to health-care totaling $44.9 million have been recorded as accrued liabilities in the Governmental activities. The liability for workers' compensation and automobile accident liabilities totaling $88.0 million has been recorded in Governmental activities as claims and judgments. The current portion of these claims totals $24.8 million. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2006 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2005 and 2006 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
2005	$ 120,243	$ 524,968	$ (518,712)	$ 126,499
2006	$ 126,499	$ 562,441	$ (556,089)	$ 132,851

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 $5.5 million of claim liabilities as claims and judgments. Of this amount, $2.4 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 proceeds of the tax are transferred to the State and local governments on a per member basis. In 1994, the New State Police Plan began receiving funding for post-retirement increases from the Post-Retirement Increase Fund. Since that time, funds calculated for the State Police membership were re-directed into the COLA Fund. In accordance with 18 Del. C. §708(c), when a participating employer grants a post-retirement increase for a plan outside of the State's County & Municipal Plans, funds are transferred from the COLA Fund to the employer. The participating employer must provide funds to match the State's contribution.

Post-Retirement Increase Fund (PRI)

The State 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, 2006, recently granted post-retirement increases have outstanding liabilities totaling $172.7 million, which will be transferred to the appropriate plans over the next five years as follows:

Fiscal Year	(Expressed in Thousands)
2007	$ 45,649
2008	$ 47,416
2009	$ 39,334
2010	$ 26,457
2011	$ 13,825

The Board adopted actuarially determined funding for the Post-Retirement Increase Fund. Funding for fiscal Year 2006 was 2.6% of covered payroll. Funding for Fiscal Year 2007 will remain unchanged.

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, 2006, 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 2000, is an investment fund for the benefit of retired members of the State Employees' Pension Plan. The State of Delaware provides health insurance to eligible retirees and their dependents. Under 29 Del. C. c.52, the State Legislature 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, 2006, plan members contributed $2.7 million, or 3.1% of total premiums through their required contributions. The State of Delaware General Fund was required to contribute the balance of the premium cost ($84.7 million, or 96.9% for Fiscal Year 2006). 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. Funding for Fiscal Year 2007 will be 0.3% of covered payroll.

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 $313.48 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 $93,251,000 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. In lieu of disability pension benefits, over 90% of the members of this plan opted into a disability insurance program offered by the State effective January 1, 2006.
Survivor Benefits:	If employee is receiving a pension, the eligible survivor receives 50% of pension (or 75% with 3% reduction of benefit); if employee is active with at least 5 years of credited service, eligible survivor receives 75% of the benefit the employee would have received at age 62.
Contributions:	
♦ Employer -	Determined by Board of Pension Trustees.
♦ Member -	3% of earnings in excess of $6,000.
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 age 62.

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

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

Non-Duty – same as Service Benefits

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 75% of compensation.

Contributions:

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

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 are 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 - 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 are 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.
- 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 is 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

Vested/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 - 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, 2006, 2005, and 2004 are as follows:

Net Pension Obligation (NPO)

(Expressed in Thousands)

	Fiscal Year Ended June 30, 2006	Fiscal Year Ended June 30, 2005	Fiscal Year Ended June 30, 2004
Annual Required Contribution	$ 24,623	$ 24,358	$ 27,747
Interest on Net Pension Obligation	7,641	7,089	6,849
Adjustment to Annual Required Contribution	(8,122)	(7,479)	(7,075)
Annual Pension Cost	24,142	23,968	27,521
Less Contributions Made	(20,655)	(17,071)	(19,480)
Increase in Net Pension Obligation	3,487	6,897	8,041
Net Pension Obligation, Beginning of Year	95,515	88,618	80,577
Net Pension Obligation, End of Year	$ 99,002	$ 95,515	$ 88,618

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 $2,328,032 for the year ended June 30, 2006.

Delaware Transportation Authority

Generally, employees of the Expressways Operations/Toll Administration are covered under DPERS. The Delaware Transit Corporation (DTC), a subsidiary public corporation of the Delaware Transportation Authority, contributes to two single-employer defined benefit plans consisting of the Contributory Pension Plan and the Delaware Transit Corporation (DTC) Pension Plan. Each plan provides retirement,

disability and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Financial data for these plans has not been included in the fiduciary statements due to immateriality.

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan as well as information concerning funding policies and annual pension costs may be found in Required Supplementary Information on pages 108 -118.

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	6/30/2006	$ 631,860	$ 631,680	100.00%	-
	6/30/2005	612,886	612,886	100.00%	-
	6/30/2004	749,796	749,796	100.00%	-
Contributory Pension Plan	12/31/2005	$ 748,661	$ 542,133	137.59%	688,884
	12/31/2004	916,604	601,299	152.44%	482,356
	12/31/2003	548,215	913,947	59.98%	167,051

NOTE 15 AFFILIATED ORGANIZATIONS

Delaware State Lottery

Multi-State Lottery Association

The Delaware State Lottery is a member of the Multi-State Lottery Association (MUSL), which operates on-line games on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the member's share of the estimated grand prize liability. Each MUSL member pays lesser prizes directly to the winners. The MUSL operates the Powerball games, as well as the Powerplay feature associated with Powerball. Participating lotteries are required to maintain deposits with MUSL for contingency reserves to protect MUSL from unforeseen prize liabilities. The money in this reserve fund is refundable to MUSL members if the MUSL disbands or if a member leaves the MUSL Board.

The amount the Lottery had on deposit with MUSL as of June 30, 2006, was $1,898,623. This amount is reported by the Lottery as a liability its balance sheet because it represents the amount to be paid to the State upon separation from the MUSL if the MUSL is not required to use a portion of the Lottery's reserves held by the MUSL.

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

DelDOT Fund

Delaware Transportation Authority

During fiscal year 1998, Expressways Operations/Toll Administration entered into a regional electronic toll collection system consortium (the 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 Consortium also leased 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 order to fund operations, the Consortium issued $150,000,000 in fixed rate and $150,000,000 in variable rate bonds to be repaid in 2008. In the event that the CSC generated 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. The Department is obligated for 4% or $12,000,000. Each year the Consortium performed a True-Up Study that showed with each year a lessened ability of the CSC to pay the debt.

On March 25, 2003, the Department withdrew from the Consortium that governed the E-Zpass operation jointly with three agencies from other states. As of that date, the Department began operating its E-ZPass system independent of the Consortium. Per the terms of the settlement agreement, the Trust Fund has received approximately $7.6 million during fiscal year 2003 to cover various transition costs. The New Jersey Turnpike Authority, acting as lead agency for the Consortium, also completed the remaining work on Delaware's portion of the fiber optic network at no cost to the Department. The value of this work was an additional $1 million. For the years ended June 30, 2006 $366,419 was recognized in income related to E-ZPass transition costs. There were no deferred revenues remaining at June 30, 2006.

As part of the separation agreement, the Department agreed to pay principal on the bonds for their share of the debt of $12,000,000 which is due in March 2008. The discounted amounts of $11,230,769 appear as claims and judgments in the accompanying balance sheets at June 30, 2006. Recognition of the adjustment to this liability increases net assets at June 30, 2006 by $94,460. To accumulate funds for future payment of this contingency, the Authority is earmarking funds within its operating budget.

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 $319.1 million are shown on the balance sheet as Encumbrances. Commitments of the Proprietary fund activities include $209.0 million for the DelDOT fund and $87.8 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 $12.8 million. The State recognized $0.9 million in Governmental Activities as claims and judgments liabilities for pending litigation settlements estimated to be probable as of June 30, 2006. 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, 2006 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 $8.5 million at June 30, 2006) in the event that the annuity issuers default on their obligations.

NOTE 18 SUBSEQUENT EVENTS

Primary Government

On August 1, 2006, the State issued $189.2 million of general obligation bonds maturing between August 1, 2007 and August 1, 2025. Series 2006A Bonds totaling $33,650,000 were sold to retail investors and bear coupons between 3.75% and 4.5%. Series 2006B bonds totaling $155,545,000 were sold competitively and bear coupons of 4.0% and 5.5%. The proceeds of the bonds were used to provide funds for capital improvements to various State and local school facilities.

Component Units

Diamond State Port Corporation

Effective July 1, 2006, the Diamond State Port Corporation loan to the Transportation Trust Fund was restructured again. Unpaid interest due on July 1, 2006 and January 1, 2007 was capitalized into the loan balance. In addition, $10,000,000 of the $60,000,000 General Fund contribution to the Transportation Trust Fund for fiscal year 2007 constituted a repayment of principal and interest of behalf of the Port Corporation for the loan. Following the interest capitalization and the $10,000,000 repayment, the remaining principle balance of the loan is $21,514,984. The interest rate on the restructured loan will remain at 4.6%. The loan is to be repaid in four semi-annual payments of $500,000, commencing on March 31, 2007, and 40 semi-annual payments of $808,798, commencing on March 31, 2009, with the final payment to be made on May 31, 2028.

The Diamond State Port Corporation will only be able to repay this loan with the continued annual support from the general assembly. While funds have not been committed, it is the expectation of management that the required support will be appropriated each year.

Delaware State Housing Authority

On August 24, 2006, the Delaware State Housing Authority issued $60,000,000 in Single Family Mortgage Revenue Bonds. The proceeds will be used to provide down payment assistance and low rate mortgages to first-time home buyers over the next fiscal year.

NOTE 19 PRIOR PERIOD ADJUSTMENTS

Primary Government

Department of Transportation

Financial statements for fiscal year 2005 have been restated to correct errors made related to the omission of certain accounts receivable, general obligation bonds payable, capital assets, depreciation expense and losses recognized on retirements of property and equipment.

The net effect of the restatements was to increase the change in net assets for the year ended June 30, 2005 by $33,286,000 and to increase beginning net assets for effects on periods prior to 2005 by $14,097,000.

Component Units

Delaware State University

The University elected to begin recording sick leave accruals to account for a potential liability for employees that have reached retirement eligibility, however have elected to maintain employment and for classified employees who are eligible to receive compensation for one half day of every day over 60 days accumulated. The University has recorded a liability in the amount of $2,420,469 to reflect earned, unused sick leave at June 30, 2006, respectively. During fiscal year 2006, Delaware State University began accruing sick leave for individuals that have reached retirement eligibility (maximum of 60 days) and for classified employees with leave balances that exceed the maximum 60 days one half day for every day in excess, which is paid annually in September, whereby changing from a cash basis of accounting for sick leave payout to an accrual basis. As a result, the net assets of July 1, 2005 have been restated from $141,057,858 to 138,847,104.

State of Delaware

Required Supplementary Information

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY REPORTING

BUDGETARY BASIS VS. GAAP

While GAAP requires the use of the fund structure described in Note 1(b), the State's budget system uses only a General Fund and a Special Fund, each of which uses the basis of accounting described below. Additionally, the activities of certain component units of the State, which are not substantially supported by tax revenues, are not included in the budget data. Reconciliation of the accrual adjustments necessary to convert budgetary basis information to GAAP basis is presented in Required Supplementary Information.

The State Constitution requires the Governor to prepare and submit to the General Assembly a State budget for the ensuing year. The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories -- the General Fund or the Special Fund. References to these two funds in this document include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The General Assembly enacts the budget through the passage of specific line-item appropriations by department, the legal level of budgetary control, the sum of which must not exceed 98 percent of the estimated revenues and available unencumbered cash balance from the prior year pursuant to the State Constitution. The Governor has the power to approve or veto each appropriation passed by the General Assembly.

The budgetary General Fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary Special Funds. Certain Special Funds are subject to appropriation, referred to herein as budgetary or appropriated Special Funds. Unexpended appropriations at year-end are available for subsequent expenditure to the extent that they have been encumbered at that date or legislatively extended for another year. Budget data represents original appropriations modified by interdepartmental transfers, supplemental, continuing, and carried-over encumbered appropriations. Subsequent modifications to the budget require the approval of the Controller General and the Budget Director. Summary information regarding individual department budgets and the compliance with the legal level of budgetary control is presented on the following pages.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders) outstanding at year-end do not constitute expenditures or liabilities and are reported as reservations of fund balances because the commitments will be honored during the subsequent year.

The Budget schedules in Required Supplemental Information a) reflect the adjustments made to increase the Special Fund's excess of revenues over expenditures for certain revenue sources not previously recognized; b) eliminates the net activity of certain operations that are accounted for within both the Special Fund and also in the separate accounts of certain component units or agency funds that are not principally accounted for within the Special Fund; and c) presents the accrual adjustments necessary to convert budgetary basis information to GAAP basis. Additional detailed information regarding compliance with the legal level on control can be obtained by contacting the Office of Management and Budget at (302) 739-4206.

Statutory/Budgetary Presentation

The Budgetary Comparison Schedule – Budget to Actual (Non-GAAP Budgetary Basis) presented on the following pages provides a comparison of the original and final legally adopted budget with actual data on a budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriations bill as of June 30, 2005, and does not include encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year. Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the “final budget” column, therefore updated revenue estimates available for appropriations as of the last Delaware Economic and Financial Advisory Council (DEFAC) meeting in June 2006, as well as the amounts shown in the original budget, are reported. The final legal budget also reflects encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year.

The tables on the following two pages represent the Budgetary Statements of Revenues, Expenditures and Changes in Fund Balance – General and Special Funds. Also included is a schedule showing the Budgetary Fund balance designations. Of the $690.6 million Budgetary General Fund Balance at June 30, 2006, $175.4 million is reserved for the Budget Reserve Account and $342.5 million is designated as continuing and encumbered appropriations. The $172.7 million of undesignated fund balance, for the most part, is not available for new spending as these funds have been committed based on State statutes which are subject to review and change by the Legislature.

Budgetary Comparison Schedule-General Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2006
(Expressed in Millions)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Personal income taxes	$ 953.3	$ 1,014.7	$ 1,014.2	$ (0.5)
Business Taxes	1,064.9	1,093.9	1,079.5	(14.4)
Other Taxes	201.1	200.6	209.2	8.6
License, Permits, Fines and Fees	198.6	213.2	212.9	(0.3)
Interest Earnings	15.0	13.4	13.5	0.1
Lottery Sales	241.5	247.8	248.8	1.0
Other Non-Tax Revenue	388.2	389.9	391.8	1.9
Total Revenue	3,062.6	3,173.5	3,169.9	(3.6)
Expenditures				
Legislature	13.5	17.4	12.9	4.5
Judicial	74.2	87.6	85.0	2.6
Executive	174.9	382.1	272.9	109.2
Department of Technology & Information	33.8	39.2	36.8	2.4
Other Elective Offices	34.1	63.2	55.3	7.9
Legal	35.0	37.3	37.0	0.3
Department of State	18.1	33.7	19.3	14.4
Department of Finance	18.7	76.5	66.1	10.4
Department of Health & Social Services	748.1	817.8	783.8	34.0
Department of Services to Child, Youth and Their Families	106.5	122.5	116.7	5.8
Department of Corrections	210.6	236.9	227.5	9.4
Department of Natural Resources and Environmental Control	38.1	99.0	57.6	41.4
Department of Safety & Homeland Security	102.6	118.4	115.0	3.4
Department of Transportation	-	14.0	12.0	2.0
Department of Labor	6.8	7.4	7.1	0.3
Department of Agriculture	7.2	10.4	7.8	2.6
Department of Elections	3.7	4.8	3.8	0.9
Fire Prevention Commission	4.2	4.8	4.6	0.2
Delaware National Guard	3.9	4.5	4.1	0.5
Advisory Council for Exceptional Citizens	0.2	0.1	0.1	0.0
Higher Education	221.4	250.2	239.3	10.9
Department of Education	966.4	1,108.1	1,016.0	92.2
Total Expenditures	2,821.9	3,535.9	3,180.5	355.4
Excess (deficiency) of revenue over expenditures	240.7	(362.4)	(10.6)	351.8
Budgetary fund balance, beginning of year	701.2	701.2	701.2	-
Budgetary fund balance, end of year	$ 941.9	$ 338.8	$ 690.6	$ 351.8

Budgetary Fund Balance	
Designated:	
Budget Reserve Account	$ 175.4
Continuing and encumbered appropriations	342.5
Undesignated	172.7
Total	$ 690.6

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

Budgetary Comparison Schedule-Special Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2006
(Expressed in Millions)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Personal income taxes			$ 1.6	$ 1.6
Business Taxes	$ 27.3	$ 27.3	18.7	(8.6)
Other Taxes	4.0	4.0	14.2	10.2
License, Permits, Fines and Fees	68.6	68.6	106.0	37.4
Rentals and Sales	14.2	14.2	13.7	(0.5)
Interest Earnings	37.8	37.8	9.3	(28.5)
Grants	3.7	3.7	36.4	32.7
Other Non-Tax Revenue	588.9	588.9	452.2	(136.7)
Total Revenue	744.4	744.4	652.1	(92.3)
Expenditures				
Judicial	8.8	9.3	7.6	1.7
Executive	118.4	118.9	72.8	46.1
Department of Technology & Information	27.3	37.0	17.9	19.1
Other Elective Offices	53.3	60.5	58.7	1.8
Legal	5.7	6.8	5.2	1.5
Department of State	29.4	35.8	24.9	10.9
Department of Finance	47.9	65.0	55.8	9.2
Department of Health & Social Services	67.7	89.5	66.8	22.7
Department of Services to Child, Youth and Their Families	22.6	30.1	22.1	8.0
Department of Corrections	3.9	5.3	3.0	2.3
Department of Natural Resources and Environmental Control	49.5	62.6	37.3	25.3
Department of Safety & Homeland Security	9.1	10.7	8.3	2.5
Department of Transportation	294.0	211.8	225.6	(13.8)
Department of Labor	16.9	18.3	15.0	3.3
Department of Agriculture	5.5	5.9	4.1	1.8
Department of Elections	-	0.0	0.0	0.0
Fire Prevention Commission	2.3	2.6	2.1	0.5
Delaware National Guard	0.0	0.0	0.0	0.0
Department of Education	4.0	8.4	6.5	1.9
Total Expenditures	766.3	778.5	633.7	144.9
Excess (deficiency) of revenue over expenditures	(21.9)	(34.1)	18.5	52.6
Budgetary fund balance, beginning of year	333.7	333.7	333.7	-
Budgetary fund balance, end of year	$ 311.8	$ 299.6	$ 352.2	$ 52.6

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

Statutory/Budgetary Reconciliations

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation is required of resulting basis, perspective and entity differences in the revenues in excess of (less than) expenditures and other financing sources (uses) between budgetary and GAAP presentations.

The following two schedules represent the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

Budget vs. GAAP Revenue Reconciliation
For the Fiscal Year Ended June 30, 2006
(Expressed in Millions)

Budget Basis General and Special Fund Revenue for Fiscal Year 2006		$3,822.0
Non Appropriated Revenue by Category:		
Other Revenue	$257.6	
License, Fees, Permits, and Fines	39.8	
Personal, Business and Other Taxes	70.9	
Federal Government	12.8	
Rentals and Sales	9.8	
Interest and Other Investment Income	13.7	
Accruals and Adjustments		
DelDot Fund Revenue	(234.2)	
Lottery Sales	(315.6)	
Local School Districts	(25.9)	
Other accruals and adjustments	(98.4)	
Total General Fund Revenue For the Fiscal Year Ended 2006		3,552.5
Federal Funds Revenue	946.1	
Local School Fund Revenue	425.8	
Capital Projects Fund Revenue	0.3	
Total GAAP Basis Governmental Funds Revenue for the Fiscal Year 2006		$4,924.7

Budget vs. GAAP Expenditures Reconciliation
For the Year Ended June 30, 2006
(Expressed in Millions)

Total Budget Basis General & Special Fund Expenditures for Fiscal Year 2006		$3,814.2
Non Appropriated Expenditures by Function		
General Government	$352.6	
Health & Children's Services	16.0	
Judicial & Public Safety	12.1	
Natural Resources & Environmental Control	69.2	
Labor	8.2	
Education	56.7	
Transportation	14.2	
Adjustments & Accruals		
Tax Refunds	(203.9)	
Component Units	(12.6)	
Transportation	(245.8)	
Other Accruals and Adjustments	(141.0)	
Total General Fund Expenditures for Fiscal Year 2006		$3,739.9
Federal Revenue Funds Expenditures	963.2	
Local School District Funds Expenditures	426.4	
Capital Projects Funds Expenditures	224.1	
		1,613.7
Total GAAP Basis Governmental Funds Expenditures for Fiscal Year 2006		$5,353.6

Required Supplementary Information
Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*", the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 4,453 centerline miles and approximately 1,374 bridges that the State is responsible to maintain.

The condition of the State's road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

The condition of bridges is measured using the "Bridge Condition Rating" (BCR) which is based on the Federal Highway Administration (FHWA) Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0-9, 0-4 for substandard bridges and 9 for bridges in perfect condition. For reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges were taken as those with ratings of between 6-9. A 5 rating is considered fair. The information is taken from past "Bridge Inventory Status" reports.

The Department of Transportation has changed its policy for road condition maintenance from 75% good or better to 85% fair or better to more effectively reflect our road conditions over time. Good road ratings are represented by roads that need no action or preventive maintenance only. Fair road ratings require primarily only preventive maintenance. This change will continue to allow the Department to maintain the state roads indefinitely, and as a result no depreciation is provided on the road system. No more than 10 percent of bridges and 15 percent of roads should be in substandard condition. The Department of Transportation will perform condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every year and bridge condition assessments are conducted, for the most part every two years.

As discussed in the MD&A, the State changed its policy for roadway condition from 75% good or better to 85% fair or better and maintained the policy for the bridges at 75% of its bridge systems at a good or better condition level. The policy change results in a $79 million reduction of the expected costs of preservation and maintenance in 2006.

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

Structural Rating Numbers and Percentages for Bridges

		Calendar Year Ended December 31					
		2005		2004		2003	
	BCR Condition Rating	Number	Percent	Number	Percent	Number	Percent
Good	6-9	1,048	76.3	1,029	75.1	1,012	74.5
Fair	5	243	17.7	256	18.6	259	19
Poor	1-4	83	6.0	86	6.3	89	6.5
Totals		1,374	100	1,371	100	1,360	100

Deck Rating Numbers and Percentages for Bridges

		Calendar Year Ended December 31					
		2005		2004		2003	
	OPC Condition Rating	Square Meters	Percent	Square Meters	Percent	Square Meters	Percent
Good	6-9	6,808,227	94	6,731,463	94	6,522,812	97
Fair	5	390,978	5.4	399,554	5.6	172,061	2.4
Poor	1-4	42,604	0.6	31,983	0.4	40,677	0.6
Totals		7,241,809	100	7,163,000	100	7,145,202	100

Center-Line Mile Numbers and Percentages for Road Pavement

		Calendar Year Ended December 31					
		2005		2004		2003	
	OPC Condition Rating	Center-Line Mile	Percent	Center-Line Mile	Percent	Center-Line Mile	Percent
Good	3.0-5.0	3,070	69	3,296	73.8	3,459	77.5
Fair	2.5-3.0	914	20.5	775	17.4	641	14.4
Poor	Below 2.5	469	10.5	393	8.8	364	8.1
Totals		4,453	100	4,464	100	4,464	100

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

	Fiscal Year ended June 30				
	2006	2005	2004	2003	2002
Estimated	$135,991	$138,517	$122,662	$129,180	$97,341
Actual	$211,347	$311,397	$133,765	$146,352	$126,540

Required Supplementary Information – Pensions

The following tables present additional information related to funding status and progress, annual pension costs and actuarial methods and assumptions. It is intended to help readers assess the individual plans' funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

Delaware Public Employees' Retirement System (DPERS)

The amount shown below as "actuarial accrued liability" is a measure of the difference between the actuarial present value of future plan benefits, and the actuarial present value of future normal cost.

Delaware Public Employees' Retirement System
Schedule of Funding Status and Progress

(Expressed in Thousands)

Plan	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL AAL AAL (UAAL) (Excess of Assets over Liabilities) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) UAAL/ (Excess) as % of Covered Payroll (3) / (5)
State Employees' *	6/30/06	$ 5,998,746	$ 5,901,072	$ (97,674)	101.7%	$ 1,589,185	(6.1%)
	6/30/05	5,660,057	5,572,719	(87,338)	101.6%	1,471,931	(5.9%)
	6/30/04	5,387,560	5,229,927	(157,633)	103.0%	1,399,279	(11.3%)
Special	6/30/06	$ 758	$ 704	$ (54)	107.7%	N/A	N/A
	6/30/05	855	791	(64)	108.1%	N/A	N/A
	6/30/04	933	785	(148)	118.9%	N/A	N/A
Closed State Police +	6/30/06	$ 1,663	$ 294,149	$ 292,486	0.6%	$ 1,912	15,297.4%
	6/30/05	749	283,902	283,153	0.3%	2,579	10,979.2%
	6/30/04	2,979	285,044	282,065	1.0%	2,608	10,815.4%
New State Police *	6/30/06	$ 169,824	$ 170,877	$ 1,053	99.4%	$ 43,579	(2.4%)
	6/30/05	150,209	149,657	(552)	100.4%	39,645	(1.4%)
	6/30/04	134,507	128,932	(5,575)	104.3%	36,718	(15.2%)
Judiciary*	6/30/06	$ 38,407	$ 50,177	$ 11,770	76.5%	$ 9,397	125.3%
	6/30/05	35,112	44,079	8,967	79.7%	8,475	105.8%
	6/30/04	32,841	38,864	6,023	84.5%	7,672	78.5%
Diamond State Corporation	6/30/06	$ 10,361	$ 12,738	$ 2,377	81.3%	$ 11,130	21.4%
	6/30/05	8,948	9,732	784	91.9%	9,248	8.5%
	6/30/04	8,140	9,049	909	89.9%	8,950	10.2%
County and Municipal Police Firefighters'	6/30/06	$ 72,120	$ 72,832	$ 712	99.0%	$ 38,342	1.9%
	6/30/05	59,711	61,335	1,624	97.4%	33,389	4.9%
	6/30/04	48,893	45,204	(3,689)	108.2%	27,930	(13.2%)
County and Municipal Other Employees'	6/30/06	$ 8,529	$ 9,222	$ 693	92.5%	$ 13,027	(5.3%)
	6/30/05	7,048	6,722	(326)	104.8%	9,737	(3.3%)
	6/30/04	4,275	3,340	(935)	128.0%	7,474	(12.5%)
						Active ++ Members	Cost per Active Member ++
Volunteer	6/30/06	$ 11,340	$ 23,925	$ 12,585	47.4%	5,160	$ 2,439
	6/30/05	10,665	22,913	12,248	46.5%	5,106	2,399
	6/30/04	10,121	21,950	11,829	46.1%	5,055	2,340

* Excludes liability and amortization payments due to ad hoc benefit adjustments. This liability is funded from the Post-Retirement Increase Fund and is funded over five years.

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

++ Not expressed in thousands.

Annual Pension Cost, Actuarial Methods and Assumptions - DPERS

The schedules below provide information concerning annual pension costs. Annual pension cost for each plan, except the Closed State Police Plan, is equal to the respective plan's required and actual contributions for the fiscal year ended June 30, 2006.

Annual Pension Cost, Actuarial Methods and Assumptions

(Expressed in Thousands)

Plan	State Employees'	Special	Closed State Police	New State Police	Judiciary
Annual Pension Cost	$ 91,013	N/A	$ 24,623	$ 5,276	$ 2,002
Actuarial Valuation Date	6/30/06	6/30/06	6/30/06	6/30/06	6/30/06
Actuarial Cost Method	Entry Age Normal	N/A	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed for Plan Bases & Open for Aggregate Gain/Loss	N/A	Level Dollar Closed	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	21.2 years	N/A	30 years	14.8 years	15.8 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:					
Investment rate of return	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases*	4.3% to 10.1%	N/A	4.8% to 5.3%	4.8% to 16.7%	4.3% to 13.1%
Cost-of-living adjustments	Ad Hoc	Ad Hoc	Based on CPI	Ad Hoc	Ad Hoc

Plan	Diamond State Port Corporation	County & Municipal Police & Firefighters'	County & Municipal Other Employees	Volunteer Firemen's
Annual Pension Cost	$ 703	$ 5,488	$ 734	$ 1,464
Actuarial Valuation Date	6/30/06	6/30/06	6/30/06	6/30/06
Actuarial Cost Method	Entry Age Normal	Entry Age Normal**	Entry Age Normal**	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Open	Level Percent Open	Level Dollar Closed
Remaining Amortization Period	17 years	10 years	10 years	22 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:				
Investment rate of return	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases*	4.8%	4.3% to 15.7%	4.3% to 10.1%	N/A
Cost-of-living adjustments	Ad Hoc	Ad Hoc	Ad Hoc	Ad Hoc

* Projected Salary Increases include an inflation component of 3.75% for all Plans.

** Actuarial cost method changed to Entry Age Normal from Frozen Initial Liability effective June 30, 2002.

DelDOT - Delaware Transit Corporation – Pension Data

The most recent information available for Delaware Transit Corporation's annual pension cost and related information for each plan is as follows (note - the current year information is not available for each plan):

Funding Status and Progress

(Expressed in Dollars)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial `Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (Excess of Assets over AAL) (a-b)	(d) Funded Ratio (a / b)	(e) Annual Covered Payroll	(f) UAAL (Excess) as % of Covered Payroll (c / e)
DTC Pension Plan	07/01/2005	$ 7,539,479	$ 7,932,143	$ (392,664)	95.05%	$ 8,019,950	(4.89%)
	07/01/2004	6,450,349	6,874,823	(424,474)	93.83%	7,350,742	(5.77%)
	07/01/2003	5,187,005	5,536,310	(349,305)	93.69%	8,120,967	(4.30%)

Annual Pension Cost, Actuarial Methods and Assumptions

(Expressed in Dollars)

Plan	DTC Pension Plan	Contributory Pension Plan
Contribution Rates:		
Employer	Actuarially Determined	5.00%
Participants	N/A	5.00%
Annual Pension Cost	$ 631,860	$ 542,133
Contributions Made	$ 628,299	$ 748,661
Actuarial Valuation Date	7/1/2005	01/04/2006
Actuarial Cost Method	Frozen Initial Liability	Aggregate *
Remaining Amortization Period	20	16
Asset Valuation Method	Market	**
Actuarial Assumptions:		
Investment rate of return	7.50%	7.00%
Projected Salary Increases	4.50%	4.00%

N/A = Not Applicable

* = This method does not identify and separately amortize unfunded actuarial liabilities.

** = Book value plus 20% of the difference between book and market value, but not less than 80% or greater than 90% of market value.