

The Office of Auditor of Accounts is withdrawing Clifton Gunderson LLP's opinion regarding the audited financial statements for the State of Delaware (the State) 403(b) Plan (the Plan) for the year ended December 31, 2010, because they failed to limit their responsibility during the audit period to the 13 vendors described below. Hence, this was not a comprehensive audit of the entire State Plan.

Effective January 1, 2009, the State approved 13 vendors for participants of the Plan to invest with. Prior to this, participants' vendor options were dependent on the school district they worked for and not monitored by the Plan administrator. These options were in excess of 100 vendors for each of the 19 school districts. Due to the volume of school district-approved vendors, the State is unable to identify all of the existing participant accounts. Therefore, the following audit is not comprehensive of the entire plan and the opinion does not include any language regarding the omitted information.

We have no reason to believe that the financial statements presented are incorrect as they relate to the 13 vendors approved by the Plan. Had Clifton Gunderson LLP limited their opinion as described above, we would not have to withdraw our opinion.

STATE OF DELAWARE 403(b) PLAN
Dover, Delaware

FINANCIAL STATEMENTS
December 31, 2011 and 2010

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
REQUIRED SUPPLEMENTAL INFORMATION	
Management's Discussion and Analysis.....	3
FINANCIAL STATEMENTS	6
Statements of Net Assets Available for Plan Benefits.....	7
Statements of Changes in Net Assets Available for Plan Benefits	8
Notes to Financial Statements	9
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29



Independent Auditor's Report

Deferred Compensation Council
The State of Delaware
Deferred Compensation Plan Section 403(b)
Dover, Delaware

We have audited the accompanying statements of net assets available for plan benefits of the State of Delaware Deferred Compensation Plan Section 403(b) (the Plan) as of December 31, 2011 and 2010, and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained 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 Plan'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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits as of December 31, 2011 and 2010, and the changes in its net assets available for plan benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 4, 2012, on our consideration of the Plan's internal control over financial reporting and on our test 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 on 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the

basic financial statements, such information although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

CliftonLarsonAllen LLP

Baltimore, Maryland
December 4, 2012

**STATE OF DELAWARE 403(b) PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011 AND 2010**

This discussion and analysis of the State of Delaware Deferred Compensation Plan Section 403(b) (the Plan) financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2011, 2010 and 2009; amounts presented for 2009 are unaudited. Please read this section in conjunction with the Plan's financial statements which follow this section.

Financial Highlights

- Net assets available for plan benefits increased by approximately \$4.5 million during the 2011 from \$229.1 million at December 31, 2010 to \$233.7 million at December 31, 2011. This increase was primarily due to contributions made to the Plan offset by a loss on investments and distributions made to participants during 2011. Net assets available for plan benefits increased by approximately \$32.2 million during the 2010 from \$197.4 million at December 31, 2009 to \$229.1 million at December 31, 2010. This increase was primarily due to contributions made to the Plan as well as income earned on investments during 2010.
- Employee contributions were \$21.0, \$20.3 and \$22.6 million for the years ended December 31, 2011, 2010 and 2009, respectively. Changes in contributions are primarily due to fluctuations in the average contribution per participant and number of active plan participants. There were 4,632, 4,681 and 4,709 active participants as of December 31, 2011, 2010 and 2009, respectively.
- Transfers into the Plan were \$3.4, \$2.8 and \$0.5 million for the years ending December 31, 2011, 2010 and 2009, respectively. Changes in the amount of transfers in from year to year vary greatly and are the direct result of changes in the number of individuals performing these transactions.
- Net investment income (loss) decreased from a gain of \$22.3 million in 2010 to a loss of \$(3.6) million in 2011. Net investment income decreased from \$36.2 million for the year ending December 31, 2009 to \$22.3 million for the year ending December 31, 2010. Fluctuations in income are primarily due to changes in the funds offered by the Plan, changes in interest rates for fixed earnings investments as well as fluctuations in the financial market from year to year.
- Distributions paid to participants were \$15.9, \$13.5 and \$12.4 million for the years ending December 31, 2011, 2010 and 2009, respectively. Fluctuations in the amount of distributions paid from year to year are primarily due to changes in the number of retirees per year as well as the average distribution per retiree. There were 1,108, 954 and 870 individuals who received a distribution from the Plan during the years ended December 31, 2011, 2010 and 2009, respectively.
- Administrative expenses and investment fees were \$137,717, \$69,380 and \$66,373 for the years ended December 31, 2011, 2010 and 2009, respectively. Fluctuations in these fees directly relate to changes in amount of total investments and the allocation of investments amongst the Plan's various investment options.

**STATE OF DELAWARE 403(b) PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011 AND 2010**

Overview of the Financial Statements

This financial report consists of the Statements of Net Assets Available for Plan Benefits and the Statements of Changes in Net Assets Available for Plan Benefits. These statements provide information about the financial position and activities of the Plan as a whole. The Notes to Financial Statements provide additional information that is essential to a full understanding of the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements

The following analysis focuses on Net Assets Available for Plan Benefits (Table 1) and Changes in Net Assets Available for Plan Benefits (Table 2)

**Table 1
Net Assets Available for Plan Benefits**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Investments	\$ 231,752,837	\$ 227,940,089	\$ 197,357,683
Policyholder account value of universal life insurance contracts	314,109	259,242	-
Participant loans receivable	<u>1,607,493</u>	<u>937,064</u>	<u>-</u>
Net assets available for plan benefits	<u>\$ 233,674,439</u>	<u>\$ 229,136,395</u>	<u>\$ 197,357,683</u>

**Table 2
Changes in Net Assets Available for Plan Benefits**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Additions:			
Employee contributions	\$ 20,978,586	\$ 20,301,442	\$ 22,574,992
Transfers into plan	3,364,047	2,848,413	460,162
Net investment income (loss)	(3,685,708)	22,311,226	36,198,513
Increase (decrease) in policyholder account value of universal life insurance contracts	(117,870)	268,940	-
Deductions:			
Distributions to participants	15,858,440	13,454,333	12,416,864
Transfers out of plan	4,854	1,862	-
Administrative and investment fees	<u>137,717</u>	<u>69,380</u>	<u>66,373</u>
Change in plan net assets	<u>\$ 4,538,044</u>	<u>\$ 32,204,446</u>	<u>\$ 46,750,430</u>

**STATE OF DELAWARE 403(b) PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2011 AND 2010**

Financial Contact

The Plan's financial statements are designed to present users with a general overview of the Plan's finances and to demonstrate the trustee's accountability. If you have questions about the report or need additional financial information, contact the Director of Defined Contribution Plans of the State of Delaware Deferred Compensation Plan at 820 Silver Lake Boulevard, Dover, Delaware 19904-2464.

FINANCIAL STATEMENTS

STATE OF DELAWARE 403(b) PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS
December 31, 2011 and 2010

ASSETS

	<u>2011</u>	<u>2010</u>
INVESTMENTS		
Fixed earnings investments	\$ 14,916,967	\$ 16,699,702
Variable earnings investments	85,720,589	84,569,802
Annuity payout investments	<u>131,115,281</u>	<u>126,670,585</u>
Total investments	231,752,837	227,940,089
POLICYHOLDER ACCOUNT VALUE OF UNIVERSAL LIFE INSURANCE CONTRACTS	314,109	259,242
RECEIVABLES		
Participant loans receivable	<u>1,607,493</u>	<u>937,064</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$ 233,674,439</u>	<u>\$ 229,136,395</u>

The accompanying notes are an integral part of the financial statements.

STATE OF DELAWARE 403(b) PLAN
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE TO PLAN BENEFITS
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ADDITIONS		
Employee contributions	\$ 20,978,586	\$ 20,301,442
Investment income:		
Mutual fund investment income (loss)	(6,627,040)	18,450,417
Interest income	2,941,332	3,860,809
Increase (decrease) in policyholder account value of universal life insurance contracts	(117,870)	268,940
Transfers into the plan	<u>3,364,047</u>	<u>2,848,413</u>
Total additions	<u>20,539,055</u>	<u>45,730,021</u>
DEDUCTIONS		
Distributions to participants	15,858,440	13,454,333
Transfers out of the plan	4,854	1,862
Administrative expenses and fees	<u>137,717</u>	<u>69,380</u>
Total deductions	<u>16,001,011</u>	<u>13,525,575</u>
NET CHANGE IN NET ASSETS AVAILABLE FOR PLAN BENEFITS	4,538,044	32,204,446
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	<u>229,136,395</u>	<u>196,931,949</u>
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	<u>\$ 233,674,439</u>	<u>\$ 229,136,395</u>

The accompanying notes are an integral part of the financial statements.

**STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The State of Delaware (the State) 403(b) Plan (the Plan), a defined contribution plan, was established in the 1970's and was administered at a local level until June 30, 2007 when plan administration became the responsibility of the State Treasurer and the Deferred Compensation Council. The purpose of the Plan is to provide a vehicle through which all education employees of the State may, on a voluntary basis, provide for additional retirement income security by deferring a portion of their current earnings.

Contributions

Under Plan provisions, employees of the State, the Delaware Department of Education and State of Delaware sponsored education organizations are eligible to contribute into the Plan through payroll deductions. There were 19,926 and 19,573 employees eligible to participate in the Plan as of December 31, 2011 and 2010, respectively. There were 4,632 and 4,681 employees actively participating in the Plan as of December 31, 2011 and 2010, respectively. In accordance with Section 457 of the Internal Revenue Code (IRC), the Plan limits the amount of an individual's annual contribution to 100% of annual gross includable compensation, not to exceed \$16,500 for calendar years 2011 and 2010. Special "catch-up" rules may permit an additional annual deferral up to \$5,500 for calendar years 2011 and 2010 in certain circumstances.

Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. The State does not make any contributions to the Plan. The State also offers a Section 457 Deferred Compensation Plan.

Participant Accounts

Employees electing to participate in the Plan may contribute to any of the following options:

- Various fixed earnings investments
- Variable earnings investments consisting of various publicly-traded mutual funds
- Annuity payout options administered by AXA, VALIC, Horace Mann, Great American and Security Benefit Corporation

Payment of Benefits

Employees may withdraw the value of the funds contributed to the Plan upon termination of employment with the employer, retirement, death, or financial hardship. Employees, or their beneficiaries, may select various payout options which include lump sum or periodic payments.

Distributions are recorded when due and payable under the Provisions of the Plan.

STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America may require management to make estimates and assumptions that affect amounts reported in financial statements and accompanying notes. Actual results may differ from those estimates.

Investment Valuation

Investments in the fixed earnings options are valued based on the fixed earnings rates as reported by the investment carriers or manager. The investment valuation includes contributions received plus investment income earned to date less applicable charges and amounts withdrawn. The fixed earnings investments are reported at contract value, which approximates fair value.

Variable earnings investments in publicly-traded mutual funds are presented at fair value based on published quotations.

Assets held for annuity payout reserves are actuarially valued as reported by AXA and Security Benefit Corporation.

All purchases and sales of investments are recorded on a trade-date basis.

Contributions

Contributions are recognized when amounts are withheld from employees. Contributions are credited by the applicable investment carrier upon receipt.

Variable Earnings Investment Income

Variable earnings investment income consists of dividends earned and realized and unrealized gains and losses attributed to the mutual funds supporting the variable earnings investments. Dividends are recorded on the ex-dividend date.

Interest Income

Interest income for the fixed investments is recorded as earned on the accrual basis.

The interest rate for the fixed earnings investment options ranged from 1.94% to 3.00% and from 2.20% to 3.74% for the years ended December 31, 2011 and 2010, respectively.

STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Participants Accounts

Earnings are credited to individual participants' accounts based upon the investment performance of each specific option selected.

Related Party Transactions

Certain members of the Deferred Compensation Council are participating or retired members of the Plan.

NOTE 2 – INVESTMENTS

Delaware code Title 29 Section 6057 outlines the types of allowable investments of the Plan. These investments include the following:

- 1) Savings accounts in Federally insured banking institutions
- 2) United States government bonds or debt instruments
- 3) Life insurance and annuity contracts, provided the company offering such contracts are subject to regulation by the Insurance Commission of the State
- 4) Investment Funds registered under the Investment Company Act of 1940
- 5) Securities which are traded on the New York Exchange National Association of Securities Dealers Automated Quotations (NASDAQ) and American Stock Exchange

The Deferred Compensation Council has overall responsibility for ensuring the assets of the Plan are in compliance with all applicable laws governing the operation of the Plan and establishing the related investment guidelines and policies.

The Council has authorized the Plan to invest in the following investment types:

- Low risk mutual funds which include money market securities and/or stable value investments with a short-term (1-4 years) average duration.
- Balanced mutual funds which include domestic and international stocks, bonds and cash.
- Equity mutual funds that differ in investment style (growth vs. value) and capitalization bias (large cap, mid cap and small cap).
- Intermediate bond mutual funds which include mutual funds that own investment grade debt securities with an intermediate term (3-10 years) average duration.
- International mutual funds which include mutual funds that invest in securities of countries outside the U.S. and diversify their investments across a broad range of markets and securities.

**STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 2 – INVESTMENTS (CONTINUED)

The fair or contract value of investments held in the name of the Plan at December 31, 2011 and 2010 were as follows. Investments marked with an asterisk (*) represent individual investment options, which exceed 5% of the net assets available for plan benefits as of December 31, 2011 and 2010. Investments marked with two asterisk (**) represent international mutual funds

	Fair and Carrying Value	
	2011	2010
Fixed earnings investments:		
Lincoln Financial stable value	\$ 436,045	\$ 311,362
ING fixed account	2,316,626	2,318,586
ING fixed account plus	599,399	264,315
Hartford General Account	145,051	108,575
Met Life Fixed Account	10,630,999	12,624,398
Security Benefit Fixed Account	788,847	1,072,466
Total fixed earnings investments	<u>14,916,967</u>	<u>16,699,702</u>
Variable earnings investments:		
American Funds Capital World Growth & Income	8,178 **	94,025 **
American Funds EuroPacific Growth	15,451 **	15,451 **
American Funds Fundamental Investors	3,034	35,034
American Funds Growth Fund of America	24,450	139,481
American Funds Income Fund of America	-	272,799
American Century Equity Income	9,058	8,213
American Century Growth	1,939	12,187
American Century Heritage	1,352	28,281
American Century Prime Money Market	23,066	22,942
Aston/Optimum Mid Cap	-	327
BlackRock Global Allocation	-	4,280 **
Dreyfus S&P 500 Stock Index	-	943
Dreyfus Strategic Value	19,838	24,950
Fidelity Advisor New Insights	-	2,209
Fidelity Advisor Real Estate	5,992	3,899
Franklin High Income	6,846	8,615
INVESCO Developing Markets	3,852	4,079
INVESCO Small Cap Growth	23,853	19,688
INVESCO Van Kampen Equity and Inc		61,903
Janus Overseas	7,561 **	3,485 **
Neuberger Berman Socially Responsible	9,868	3,872
Wells Fargo Advantage Small Cap Value	-	20,200
Dreyfus Bond Fund	33,298	23,472
PIMCO Total Return R	40,627	25,857
Janus Balanced S	55,008	31,806
INVESCO Mid Cap Equity	6,968	5,933
Managers Mid Cap R	5,319	4,871
Allianz NFJ SC Value	8,080	6,903

**STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 2 – INVESTMENTS (CONTINUED)

	Fair and Carrying Value	
	2011	2010
Variable earnings investments (Continued):		
American Funds EuroPacific R3	\$ 28,732 **	\$ 26,778 **
American Funds Growth Fund of America R3	34,366	27,867
Baron Growth	11,143	6,417
Dreyfus S&P 500 Index	11,758	9,568
Eaton Vance Large Cap	31,480	26,205
JP Morgan Small Cap Equity	5,775	5,083
Janus Perkins Mid Cap Value	11,636	10,732
Pioneer	13,280	11,635
American Funds EuroPacific R4	5,964 **	6,121 **
American Funds Growth Fund R4	69,946	63,575
American Funds Nw Prspctv R4	1,632	2,189
American Funds Wash Mutual R4	170	161
Calvert VP SRI Balanced Portfolio	-	8,865
Fidelity VIP Contrafund Port I	105,826	103,225
Fidelity VIP Equity-Income Port I	28,862	31,320
Fidelity VIP Growth Portfolio I	11,101	15,363
ING Artio Foreign Portfolio Srv	5,687 **	6,739 **
ING Balanced Portfolio I	64,607	62,640
ING Baron Small Cap Growth Port Srv	2,379	1,934
ING Clarion Global RI Est Prt Inst	2,014 **	1,822 **
ING Davis New York Venture Port Srv	17,767	19,847
ING Global Bond Port I	13,830 **	13,741 **
ING Global Resources Portfolio Srv	10,576 **	11,490 **
ING Growth and Income Port I	639,396 **	766,128 **
ING Index Plus Large Cap Portfolio I	64,875	65,644
ING Index Plus Mid Cap Portfolio I	4,740	4,855
ING Index Plus Small Cap Portfolio I	3,749	3,824
ING Index Solution 2015 Port Srv	67,303	17,430
ING Index Solution 2025 Port Srv	225	215
ING Index Solution 2035 Port Srv	4,642	992
ING Index Solution 2045 Port Srv	2,871	-
ING Index Solution 2055 Port Srv	14,631	1,800
ING Index Solution Income Portfolio Srv	137	-
ING Intermediate Bond Port I	46,871	46,549
ING JPMorgan Emerging Markets Equity Port Srv	22,971	29,340
ING JPMorgan Mid Cp Val Portfolio Srv	3,594	3,076
ING JPMorgan Value Opportunity Port - Svc	1,858	33,008
ING Large Cap Value Port Inst	16,330	10,657
ING Legg Mason ClrBrdg Agg Grw Prt I	-	1,833
ING Lord Abbett Grw & Inc Port Inst	-	6,119
ING Money Market Portfolio I	295,741	279,230
ING Oppenheimer Global Port I	69,542 **	75,886 **
ING PIMCO Return Portfolio Srv	1,098	214
ING Pioneer Mid Cap Value Port Inst	34,222	4,752
ING Russell Large Cp Val Ind Prt S	20,671	21,885

STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 – INVESTMENTS (CONTINUED)

	Fair and Carrying Value	
	2011	2010
Variable earnings investments (Continued):		
ING Short Term GAA	\$ -	\$ 53,360
ING Small Company Portfolio I	2,800	2,907
ING Solution 2015 Portfolio Srv	333,424	268,364
ING Solution 2025 Portfolio Srv	73,584	51,604
ING Solution 2035 Portfolio Srv	76,982	82,121
ING Solution 2045 Portfolio Srv	30,202	18,371
ING Solution Income Portfolio Srv	109,354	68,700
ING Templeton Foreign Equity Port I	773 **	889 **
ING T. Rowe Price Capital Appreciation Port Srv	21,416	21,604
ING T. Rowe Price Diversified Midcap Growth Pt I	1,429	1,853
ING T. Rowe Price Growth Equity Port I	5,357	5,060
ING UBS U.S. Large Cap Equity Port I	109	136
ING Van Kampen Comstock Port Srv	-	100
ING Van Kampen Growth & Inc Port Srv	-	2,833
INVESCO V.I. Capital Appreciation Fund SI	-	31
Lord Abbett Series Fund Midcap Val Prt VC	456	481
Oppenheimer Developing Markets Fund A	22,407	24,815
PIMCO VIT Real Return Portfolio Adm	782	145
Pioneer Emerging Markets VCT Port I	5,614	6,213
Pioneer High Yield VCT Portfolio I	2,864	2,774
Templeton Global Bond Fund A	6,487 **	5,547 **
Wanger Select	3,365	3,379
Wanger USA	6,372	6,269
Wells Fargo Adv Spec Small Cp Val Fund A	11,307	10,899
Fidelity Fund	194,610	188,798
Fidelity Puritan	323,854	289,164
Fidelity Trend Fund	8,125	4,200
Fidelity Select Electronics	11,261	12,330
Fidelity Select Computers	2,480	-
Fidelity Select Cons Staples	1,405	937
Fidelity Value Strategies	45,962	7,321
Fidelity GNMA	60,977	109,084
Fidelity Magellan	279,404	310,720
Fidelity Contrafund	1,129,411	1,016,731
Fidelity Equity Income	47,747	115,267
Fidelity Growth Company	291,363	279,780
Fidelity Investment Grade Bond	134,189	118,088
Fidelity Growth & Income	189,899	316,151
Fidelity Select Software	8,615	26,242
Fidelity Intermediate Bond	59,340	13,651
Fidelity Select Air Transport	39,168	52,848
Fidelity Capital & Income	166,038	160,367
Fidelity Value	232,762	228,682
Fidelity Select Gold	237,950	417,585
Fidelity Select BioTech	44,473	44,781

**STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 2 – INVESTMENTS (CONTINUED)

	Fair and Carrying Value	
	2011	2010
Variable earnings investments (Continued):		
Fidelity Select Energy Services	\$ 48,485	\$ 51,562
Fidelity Select Insurance	3,809	3,347
Fidelity Select Retailing	16	9,573
Fidelity US Govt Reserves	614	614
Fidelity Govt Income	143,188	152,788
Fidelity Cash Reserve	1,131,897	1,115,959
Fidelity Select Energy	43,556	43,208
Fidelity Select Leisure	19,652	15,885
Fidelity Select Healthcare	21,463	19,910
Fidelity Select Technology	62,089	68,751
Fidelity Select Utilities	59,241	47,198
Fidelity Select Financial	19,488	20,058
Fidelity Select Defense	16,185	15,080
Fidelity Select Chemicals	104,112	77,908
Fidelity Independence	753,617	869,029
Fidelity Select Money Market	160,853	189,875
Fidelity OTC Portfolio	92,916	135,192
Fidelity Overseas Income	43,175 **	57,919 **
Fidelity Select Telecommunication	-	17,081
Fidelity Leveraged Co STK	113,097	116,722
Fidelity New Millen	33,206	31,741
Fidelity Europe	2,694 **	3,017 **
Fidelity Pacifica Basin	32,057 **	51,380 **
Fidelity Real Estate Investments	251,749	207,305
Fidelity Balanced	251,872	230,040
Fidelity Intl Discovery	91,608 **	108,202 **
Fidelity Capital Appreciation	76,690	85,846
Fidelity Convertible Securities	20,292	2,761
Fidelity Canada	106,957 **	107,664 **
Fidelity Telecom and Utilities	2,540	-
Fidelity Blue Chip Growth	163,115	94,009
Fidelity Asset Manager 50%	89,347	102,377
Fidelity Disciplined Equity	67,433	65,066
Fidelity Low Priced STK	615,603	498,461
Fidelity Worldwide	25,822 **	21,134 **
Fidelity Equity Income II	137,672	168,136
Fidelity Asset Manager 70%	114,589	116,922
Fidelity Emerging Markets	72,136 **	56,999 **
Fidelity Growth Strategies	18,777	37,126
Fidelity Diversified Intl	189,170 **	190,194 **
Fidelity Asset Manager 20%	79,709	62,494
Fidelity Dividend Growth	90,389	131,459
Fidelity New Markets Inc	48,683	68,713
Fidelity Exp & Multinational	1,035 **	700 **
Fidelity Global Balanced	16,926 **	9,728 **
Fidelity Intl Capital Appreciation	1,018 **	1,167 **

STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 – INVESTMENTS (CONTINUED)

	Fair and Carrying Value	
	2011	2010
Variable earnings investments (Continued):		
Fidelity Stock Select Small Cap	\$ 34,927	\$ 31,967
Fidelity Mid Cap Stock	120,492	128,590
Fidelity Large Cap Stock	9,008	8,108
Fidelity Growth Discovery	55,644	47,032
Fidelity Small Cap Stock	19,811	41,141
Fidelity Latin America	22,794 **	74,970 **
Fidelity Emerging Asia	23,398 **	18,433 **
Fidelity Japan	615	-
Fidelity China Region	54,605 **	90,369 **
Fidelity Select IT Services	17,154	-
Fidelity Select Med Equity & Sys	54,113	44,772
Fidelity 4 in 1 Index	69,687	44,938
Fidelity Mega Cap Stock	42,448	-
Fidelity Strategic Income	270,491	141,929
Fidelity Freedom Income	176,445	155,183
Fidelity Freedom 2000	151,932	95,792
Fidelity Freedom 2010	570,977	524,793
Fidelity Freedom 2020	2,047,532	1,876,651
Fidelity Freedom 2030	822,170	600,792
Fidelity Small Cap Discovery	24,066	54,633
Spartan Total Market Index	170,397	130,723
Spartan Extended Market Index	7,912	5,470
Spartan Intl Market Index	68,707 **	57,695 **
Fidelity US Treasury Money Market	176,998	49,150
Fidelity ST Bond	300,918	35,774
Fidelity Interim Govt Income	20,517	16,777
Fidelity Money Market	38,509	67,643
Fidelity High Income	196,671	225,781
Fidelity Govt Money Market	69,775	66,712
Fidelity 50	-	8,111
Fidelity Select Automotive	13,647	21,584
Fidelity Select Multimedia	-	17,108
Fidelity Select Medical Del	9,364	19,210
Fidelity Select Banking	14,268	22,581
Fidelity Select Materials	16,892	51,348
Fidelity Select Transport	14,810	11,600
Fidelity Select Natural Gas	26,520	20,053
Fidelity Select Natural Res	21,462	21,813
Fidelity Select Industrials	16,422	-
Fidelity Select Environment Alternative Energy	13,801	794
Fidelity Select Cons Discr	-	4,185
Fidelity Select Comm Equipment	14	3
Fidelity Select Pharmaceuticals	115,997	80,481
Fidelity Retire Money Market	182,485	308,592
Fidelity Retire Govt Money Market	40,742	148,058
Spartan 500 Index	213,440	231,863

**STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 2 – INVESTMENTS (CONTINUED)

	Fair and Carrying Value	
	2011	2010
Variable earnings investments (Continued):		
Fidelity US Bond Index	\$ 146,085	\$ 113,126
Fidelity Institutional Shares Int Govt	39,739	16,945
Fidelity Large Cap Value	13,463	11,097
Fidelity Freedom 2040	330,291	242,406
Fidelity Mid Cap Value	33,888	40,087
Fidelity Large Cap Growth	484	487
Fidelity Mid Cap Growth	6,714	4,993
Fidelity Inflation Protected Bond	55,772	37,397
Fidelity Ultrashort Bond	5,771	36,312
Fidelity Float RT HI Inc	11,004	28,861
Fidelity Intl Small Cap	6,797 **	5,057 **
Fidelity Total Bond	87,867	139,892
Fidelity Real Estate Inc	16,613	-
Fidelity Select Wireless	-	21,935
Fidelity Blue Chip Value	9,743	4,671
Fidelity NASDAQ Comp Index	44,603	4,647
Fidelity Freedom 2005	101,446	79,064
Fidelity Freedom 2015	1,212,049	1,032,882
Fidelity Freedom 2025	1,147,958	914,930
Fidelity Freedom 2035	540,389	398,020
Fidelity Strategic Dividend & Income	99,359	11,723
Fidelity Intl Real Estate	- **	5,436 **
Fidelity Small Cap Growth	144,804	142,715
Fidelity Small Cap Value	132,521	130,573
Fidelity Intl Small Cap Opportunity	3,750 **	16,507 **
Fidelity Strategic Real Return	34,349	16,438
Spartan Short Term Treasury Index Inv	-	38,206
Spartan Intermediate Treasury Index Inv	61,241	5,256
Spartan Long Term Treasury Index Inv	26,535	14,137
Fidelity Intl Value	1,265 **	18,328 **
Fidelity Freedom 2045	70,462	26,436
Fidelity Freedom 2050	57,572	28,287
Fidelity Large Cap Val Enhanced Index	27,214	18,660
Fidelity Large Cap Growth Enhanced Index	27,322	18,360
Fidelity Assets Manager 60%	9,019	6,018
Fidelity Dynamic Strategy	3,232	2,363
Fidelity International Growth	4,410	-
Fidelity EMEA	14,869 **	16,465 **
Fidelity Global Commodity Stock	3,649 **	9,579 **
Fidelity Corporate Bond	2,579	-
Fidelity Conservative Income Bond	31,907	-
Third Avenue Small Cap Value Portfolio	101,059	90,042
BlackRock High Yield Portfolio	570,708	782,332
Batterymarch Growth and Income Portfolio	326,825	331,302

STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 – INVESTMENTS (CONTINUED)

	Fair and Carrying Value	
	2011	2010
Variable earnings investments (Continued):		
Legg Mason ClearBridge Variable Large Cap Growth Portfolio	\$ 38,375	\$ 37,158
BlackRock Legacy Large Cap Growth Portfolio	133,736	1,735
BlackRock Aggressive Growth Portfolio	1,234,744	1,429,029
Lazard Mid Cap Portfolio	48,659	47,349
INVESCO Small Cap Growth Portfolio	61,742	35,755
Neuberger Berman Genesis Portfolio	105,087	97,351
American Funds Balanced Allocation Portfolio	19,216	14,551
American Funds Bond Fund	400,196	312,511
Barclays Capital Aggregate Bond Index Portfolio	1,333,706	1,476,514
Legg Mason ClearBridge Variable Large Cap Value Portfolio	24,616	32,903
SSgA Growth & Income ETF Portfolio	976,962	1,234,515
Met Life T-Flex	3,502,566	3,590,291
SSgA Growth ETF Portfolio	1,062,805	1,197,881
Fidelity VIP Mid Cap Portfolio	208,983	248,942
BlackRock Diversified Portfolio	666,904	482,906
Dreman Small Cap Value Portfolio	39,642	46,375
Fidelity Asset Manager	-	277,017
Fidelity VIP II Investment Grade Bond Portfolio	-	86,712
Fidelity VIP Equity-Income Portfolio	313,078	714,707
Fidelity Value Leaders Portfolio	-	23,490
Fidelity VIP Contrafund® Portfolio	522,844	1,039,775
American Funds Growth Allocation Portfolio	6,168	3,190
Oppenheimer Global Equity Portfolio	419,215 **	502,550 **
Met/Templeton Growth Portfolio	555	208
American Funds Growth Fund	2,414,474	1,955,300
BlackRock Large Cap Core Portfolio	1,426,808	1,671,311
American Funds Global Small Capitalization Fund	1,462,644 **	1,185,944 **
Western Asset Management US Government Portfolio	291,753	315,120
Legg Mason Global Currents Variable International All Cap Opportunity Portfolio	-	50,144 **
Lord Abbett Growth and Income Portfolio	-	27,604
Pioneer Strategic Income Portfolio	17,165	13,549
Van Kampen Comstock Portfolio	7,609	7,843
Met/Artisan Mid Cap Value Portfolio	75,724	106,304
Barclays Capital Aggregate Bond Index	-	4,611
BlackRock Bond Income Portfolio	149,476	205,495
Harris Oakmark International Portfolio	1,364,605 **	1,123,568 **
Morgan Stanley EAFE Index Portfolio	850,903 **	1,242,687 **
Loomis Sayles Global Markets Portfolio	331,924 **	334,255 **
Artio International Stock Portfolio	310,009 **	435,367 **
RCM Technology Portfolio	13,616	52,325
Jennison Growth Portfolio	84,065	91,779
Janus Forty Portfolio	636,450 **	950,225 **
Janus Aspen Series Overseas Portfolio	381,973	1,161,391

STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 – INVESTMENTS (CONTINUED)

	Fair and Carrying Value	
	2011	2010
Variable earnings investments (Continued):		
Legg Mason ClearBridge Aggressive Growth Portfolio	\$ 153,429	\$ 129,756
Legg Mason ClearBridge Variable Fundamental All Cap Value Portfolio	130,986	121,349
Lord Abbett Bond Debenture Portfolio	236,547	251,300
T. Rowe Price Large Cap Growth Portfolio	245,493	169,294
BlackRock Legacy Large Cap Growth Portfolio	98,825	142,779
Legg Mason Value Equity Portfolio	-	21,402
Loomis Sayles Small Cap Core Portfolio	181,195	155,528
BlackRock Large Cap Value Portfolio	-	27,559
MFS Value Portfolio	156,858	199,612
MetLife Conservative Allocation Portfolio	371,310	589,093
MetLife Conservative to Moderate Allocation Portfolio	1,228,939	1,291,167
MetLife Moderate Allocation Portfolio	6,880,636	6,360,055
MetLife Moderate to Aggressive Allocation Portfolio	10,732,054	9,614,909
MetLife Aggressive Allocation Portfolio	2,261,998	2,333,272
American Funds Moderate Allocation Portfolio	78,998	54,995
Met/Franklin Income Portfolio	7,709	6,865
T. Rowe Price Mid Cap Growth Portfolio	109,389	101,970
MFS Total Return Portfolio	77,907	72,601
Met/Franklin Mutual Shares Portfolio	6,102	1,881
Neuberger Berman Mid Cap Value Portfolio	258,239	449,959
MetLife Mid Cap Stock Index Portfolio	106,404	83,116
BlackRock Money Market Portfolio	22,160	35,791
Oppenheimer Capital Appreciation Portfolio	494,915	950,467
PIMCO Inflation Protected Bond Portfolio	266,906	114,481
Russell 2000 Index Portfolio	870,739	1,252,623
MFS Research International Portfolio	63,236 **	151,067 **
Clarion Real Estate Portfolio/Clarion Global Real Estate Portfolio	184,220 **	255,033 **
Legg Mason Investment Counsel Variable Social Awareness Portfolio	83,033	83,608
Western Asset Management Strategic Bond Opportunities Portfolio	656,544	528,044
T. Rowe Price Small Cap Growth Portfolio	578,242	560,678
Loomis Sayles Small Cap Growth Portfolio	-	7,177
MetLife Stock Index Portfolio	8,096,884	5,503,141
Morgan Stanley Mid Cap Growth Portfolio	492,963	618,592
Calvert VP SRI Balanced Portfolio	118,432	124,895
Legg Mason ClearBridge Variable Small Cap Growth Portfolio	-	22,900
American Funds Growth-Income Fund	296,624	265,995
PIMCO Total Return Portfolio Instl	826,179	846,795
Pioneer Fund Portfolio	14,258	15,146
Franklin Small-Mid Cap Growth Securities Fund	2,207	2,036
Templeton Foreign Securities Fund	51,462 **	55,670 **
Templeton Developing Markets Securities Fund	34,155 **	42,707 **
Davis Venture Value Portfolio	259,149	325,376
Legg Mason ClearBridge Variable Appreciation Portfolio	23,057	34,530
American Century Govt Bond A	21	8,537

STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 – INVESTMENTS (CONTINUED)

	Fair and Carrying Value	
	2011	2010
Variable earnings investments (Continued):		
INVESCO Van Kampen Equity & Inc A	\$ 1,211	\$ 864
American Century Heritage A	577	384
Calvert Social Investment Equity A	897	659
Pioneer Cullen Value A	10,778	10,267
American Funds Capital World G/I A	-	5,113
Delaware Diversified Income A	1,531	12,850
Dreyfus Small Cap A	8	9
Delaware Limited Term Diversified Income A	-	8,830
Franklin Total Return A	8,943	7,665
Fidelity Advisor Small Cap A	12,758	12,035
Fidelity Advisor Strategic Income A		
INVESCO Global Health Care A	287 **	165 **
INVESCO Mid Cap Core Equity A	2,807	2,997
INVESCO Basic Value A	1,960	2,032
INVESCO Energy A	7,915	8,007
Janus Balanced A	4,020	2,294
JP Morgan Govt Bond A	8,726	7,332
Quaker Strategic Growth A	12,032	11,743
Oppenheimer Small Mid Cap Value A	10,048	9,920
American Funds AMCAP R4	38,239	36,700
American Funds EuroPacific Growth R4	5,847 **	5,847 **
American Funds Fundamental Investors R4	12,246	11,408
American Funds Growth Fund of America R4	7,912	5,902
American Funds Inc Fund of America R4	6,954	5,802
American Funds Capital Inc Bldr R4	22,396	18,010
American Funds American Balanced R4	47,876	43,311
American Funds New Economy R4	2,486	1,576
American Funds Capital World Growth & Inc R4	41,693	46,484
Mutual Global Discovery Fund	35,575 **	34,547 **
Templeton Global Bond	22,962 **	21,976 **
American Century Equity Income Fund A	33,219	9,891
Oppenheimer Money Market Fund	52,853	12,245
INVESCO Van Kampen Small Cap Growth A	10,120	10,731
American Funds Cap World Growth & Inc R3	309,781 **	263,943 **
PIMCO Total Return A	362,367	260,587
American Funds Income R3	274,635	233,771
Hartford Capital Appreciation R5	253,946	245,104
BlackRock Life Path Retirement R	223,317	207,594
American Funds Growth Fund R3	136,840	129,131
Hartford Mutual Shares A	124,049	97,224
BlackRock Life Path 2020 R	92,198	75,951
Van Kampen Equity Income A	131,233	92,960
Eaton Vance Large Cap A	58,535	48,044
Goldman Sachs Small Cap A	54,743	40,055

STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 – INVESTMENTS (CONTINUED)

	Fair and Carrying Value	
	2011	2010
Variable earnings investments (Continued):		
Pioneer Strategic Inc A	\$ 82,387	\$ 45,457
PIMCO Real Return A	35,102	16,289
Columbia Mid Cap Value R3	28,156	25,089
American Century Equity Inc A	31,584	22,706
Janus Overseas S	11,954 **	15,968 **
Dreyfus Mid Cap Index I	16,804	12,654
BlackRock Life Path 2030 R	22,494	13,722
Lord Abbott Small Cap Blend A	14,833	10,991
Hartford Small Company R5	6,604	2,074
Alger Mid Cap Growth Inc I	30,013	29,150
Franklin Growth A	4,617	1,959
BlackRock Life Path 2040 Investor A	73,907	1,061
Dreyfus Basic S&P 500	1,476	1,447
First Investors Blue Chip Fund	68,594	59,239
First Investors Cash Management Fund	-	12,006
First Investors Fund for Income	84,539	80,322
First Investors Government Fund	4,200	3,967
First Investors Global Fund	115,084	110,732
First Investors Total Return Fund	247,792	213,845
First Investors Special Situations Fund	4,674	4,604
First Investors Investment Grade Fund	16,659	15,510
First Investors Opportunity Fund	35,214	31,340
First Investors Value Fund	101,869	91,576
First Investors Growth & Income Fund	73,677	70,677
First Investors Select Growth Fund	4,056	3,295
First Investors International Fund	691 **	694 **
Alger Capital Appreciation Fund A	7,154	6,459
AllianceBernstein Intl Growth Fund A	1,547 **	1,292 **
American Century Heritage Fund A	7,012	6,710
American Funds AMCAP Fund A	3,633	2,142
American Funds AMCAP Fund F	839	477
American Funds Capital World Bond Fund F	1,946 **	877 **
American Funds Capital World Growth Inc Fund A	2,474 **	219 **
American Funds Capital World Growth Inc Fund F	18,050 **	11,790 **
American Funds EuroPacific Growth Fund A	867 **	190 **
American Funds EuroPacific Growth Fund F	6,760 **	7,907 **
American Funds Fundamental Investors Fund A	33,284	33,030
American Funds Growth Fund of America F	15,072	11,297
American Funds Income Fund of America A	168	-
American Funds Investment Co of America A	11,044	5,490
American Funds Investment Co of America B	11,186	12,329
American Funds Investment Co of America F	2,825	1,103
American Funds New World Fund F1	408	-
American Funds Washington Mutual Investors	32,140	29,124
BlackRock Equity Dividend Fund A	1,016	469

STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 – INVESTMENTS (CONTINUED)

	Fair and Carrying Value	
	2011	2010
Variable earnings investments (Continued):		
BlackRock Global Allocation Fund A	\$ 1,081 **	\$ 1,398 **
Calvert Social Investment Bond Fund A	10,657	9,181
DWS Dreman Small Cap Value Fund A	389	-
Eaton Vance Large Cap Value Fund A	5,992	5,441
Federated Kaufman Small Cap Fund A	1,294	598
Federated Total Return Bond Fund A	2,407	1,274
Fidelity Advisor Emerging Markets Fund A	791 **	709 **
Franklin Conservative Allocation A	14,699	16,900
Franklin Gold & Precious Metals Fund A	400	136
Franklin Growth Fund A	977	470
Franklin Income Fund A	59,457	47,561
Franklin Income Fund C	610	234
Franklin India Growth Fund A	591	-
Franklin Natural Resources Fund A	530	39
Franklin Rising Dividends Funs A	8,784	1,417
Franklin Small Cap Value Fund A	502	149
Goldman Sachs Short Duration Government Fund A	8,310	5,026
INVESCO Asia Pacific Growth Fund A	502	-
INVESCO Charter Fund A	1,139	1,213
INVESCO Developing Markets Fund A	10,065	5,150
INVESCO Energy Fund A	202	42
INVESCO Global Real Estate Fund A	3,332 **	3,586 **
INVESCO Van Kampen Small Cap Growth Fund A	6,923	6,392
Ivy Asset Strategy Fund A	20,731	16,216
Ivy Energy Fund A	1,689	-
Ivy Mid Cap Growth Fund A	362	-
Ivy Real Estate Securities Fund	1,779	-
Janus Triton Fund A	443	-
Mutual Global Discovery Fund A	3,926	2,339
MFA Global Total Return Fund A	310	-
Oppenheimer Developing Markets Fund A	3,477	1,410
Oppenheimer Quest Opportunity Value Fund A	18,085	12,952
Oppenheimer Real Estate Fund A	322	-
Oppenheimer Rising Dividends Fund Inc A	688	246
Putnam Absolute Return 700 Fund A	3,494	4,090
Putnam International Equity Fund A	4,355 **	5,157 **
Putnam Investors Fund A	9,396	9,445
Putnam US Government Income Trust Fund A	6,528	6,233
PIMCO Low Duration Fund D	2,046	1,001
PIMCO Real Return Fund D	4,364	2,651
PIMCO Total Return Fund D	46,493	33,015
Rydex SGI Mid Cap Value Fund A	133	1
Solutions Money Market	7,427	4,914

**STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 2 – INVESTMENTS (CONTINUED)

	Fair and Carrying Value	
	2011	2010
Variable earnings investments (Continued):		
T. Rowe Price New America Growth Fund Adv	\$ -	\$ 12,539
Templeton Global Bond Fund A	15,286	10,772
Thornburg International Value Fund A	334	-
Thornburg Investment Income Builder Fund A	439	-
Vanguard Intermediate Term Inv Grade Fund	-	15,839
Vanguard International Growth Fund	420 **	14,221 **
Vanguard ST Federal Fund	26,602	9,022
Vanguard ST Investment Grade Fund	-	5,141
Vanguard Small Cap Growth Index Fund	-	9,905
Vanguard Target Retirement 2020 Fund	9,712	6,543
Vanguard Target Retirement 2030 Fund	114,280	96,016
Vanguard Total Bond Market Index Fund	1,699	5,060
Vanguard Total International Stock Index Fund	422 **	24,232 **
Vanguard Wellesley Income Fund	20,236	37,320
Progressive Asset Management Mod Aggressive 3	-	1,223
Progressive Asset Management Mod Aggressive 5	1,983	-
Progressive Asset Management Mod Aggressive 8	28,725	29,839
Progressive Asset Management Mod 12	106,911	108,347
Progressive Asset Management Mod 3	4,187	6,862
Progressive Asset Management Mod 5	11,146	-
Total variable earnings investments	<u>85,720,589</u>	<u>84,569,802</u>
Assets held for annuity payout reserves:		
Security Benefit Fixed Annuity	26,976,717 *	26,039,947 *
Great American Life Annuity	1,851,198	1,431,782
VALIC Annuity	14,444,146	15,676,074
Horace Mann Annuity	18,427,156	13,540,455
AXA Fixed Annuity	<u>69,416,064 *</u>	<u>69,982,327 *</u>
Total annuity investments	<u>131,115,281</u>	<u>126,670,585</u>
Total Investments	<u>\$ 231,752,837</u>	<u>\$ 227,940,089</u>

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Plan would not be able to recover the value of its deposits, investments, or collateral securities that were in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured or not registered in the name of the Plan and are held by either the counterparty or the counterparty's trust department or agent, but not in the Plan's name.

Investments in Plan's fixed earnings investments are held in the name of the Plan by their respective fund managers. As a result the investments of the Plan are not exposed to custodial credit risk.

STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 – INVESTMENTS (CONTINUED)

Interest rate risk is the risk that changes in interest rates that will adversely affect the value of an investment.

As of December 31, 2011 and 2010, the Plan had the following investments and weighted average maturities (WAM) in its fixed earnings and mutual funds investments which include investments in bonds.

	2011		2010	
	Fair Value	WAM	Fair Value	WAM
Fixed earnings investments:				
Lincoln Financial stable value	\$ 436,045	10.00	\$ 311,363	9.70
ING fixed account	2,316,626	N/A ¹	2,318,586	N/A ¹
ING fixed account plus	599,399	N/A ¹	264,315	N/A ¹
Hartford General Account	145,051	N/A ¹	7,894,749	N/A ¹
Met Life Fixed Account	10,630,999	N/A ¹	9,979,195	N/A ¹
Security Benefit Fixed Account	788,847	N/A ¹	1,072,465	N/A ¹
Variable earnings investments:				
American Funds Income Fund of America	-	4.16	272,799	4.20
American Century Equity Income	9,058	2.52	8,213	6.75
BlackRock Global Allocation	-	4.80	4,280	3.21
INVESCO Van Kampen Equity and Inc	-	5.98	61,903	7.03
PIMCO Total Return R	40,627	8.93	25,857	7.12
Janus Balanced S	55,008	5.88	31,806	5.94
ING Balanced Portfolio I	64,607	3.89	62,640	4.26
ING Global Bond Port I	13,830	3.40	13,741	5.05
ING Index Solution 2015 Port Srv	67,303	4.50	17,430	4.72
ING Index Solution 2025 Port Srv	225	4.50	215	4.72
ING Index Solution 2035 Port Srv	4,642	4.50	992	4.72
ING Index Solution 2055 Port Srv	14,631	4.48	1,800	4.60
ING Intermediate Bond Port I	46,871	3.94	46,549	4.71
ING Solution 2015 Portfolio Srv	333,424	4.38	268,364	3.93
ING Solution 2025 Portfolio Srv	73,584	3.75	51,604	3.43
ING Solution 2035 Portfolio Srv	76,982	2.95	82,121	3.15
ING Solution 2045 Portfolio Srv	30,202	4.24	18,371	4.75
ING Solution Income Portfolio Srv	109,354	4.27	68,700	4.37
ING T. Rowe Price Capital Appreciation Port Srv	773	4.26	21,604	4.05
PIMCO VIT Real Return Portfolio Adm	21,416	9.94	145	9.63
Templeton Global Bond Fund A	1,429	3.13	5,547	3.80
Fidelity Puritan	-	N/A ⁴	289,164	5.87
Fidelity Investment Grade Bond	-	N/A ⁴	118,088	6.80
Fidelity Intermediate Bond	456	3.88	13,651	5.00
Fidelity Capital & Income	22,407	N/A ²	160,367	N/A ²
Fidelity Govt Income	782	4.53	152,788	6.00
Fidelity Balanced	5,614	N/A ²	230,040	N/A ²

STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 – INVESTMENTS (CONTINUED)

	2011		2010	
	Fair Value	WAM	Fair Value	WAM
Variable earnings investments (Continued):				
Fidelity Asset Manager 50%	\$ 2,864	4.47	\$ 102,377	5.87
Fidelity Asset Manager 70%	114,589	4.47	116,922	5.87
Fidelity Asset Manager 20%	-	N/A ⁴	62,494	6.60
Fidelity New Markets Inc	6,487	N/A ²	68,713	N/A ²
Fidelity Global Balanced	3,365	N/A ²	9,728	N/A ²
Fidelity 4 in 1 Index	6,372	4.79	44,938	6.20
Fidelity Strategic Income	11,307	5.66	141,929	8.20
Fidelity Freedom Income	176,445	3.60	155,183	4.54
Fidelity Freedom 2000	151,932	3.60	95,792	4.52
Fidelity Freedom 2010	570,977	4.23	524,793	5.43
Fidelity Freedom 2020	2,047,532	4.44	1,876,651	5.77
Fidelity Freedom 2030	822,170	4.82	600,792	6.36
Fidelity ST Bond	35,774	1.77	35,774	2.20
Fidelity High Income	196,671	N/A ²	225,781	N/A ²
Fidelity Institutional Shares Int Govt	39,739	2.55	16,945	3.10
Fidelity Freedom 2040	330,291	4.91	242,406	6.40
Fidelity Inflation Protected Bond	55,772	6.70	37,397	6.33
Fidelity Ultrashort Bond	5,771	0.49	36,312	0.46
Fidelity Float RT HI Inc	11,004	N/A ²	28,861	N/A ²
Fidelity Total Bond	87,867	4.53	139,892	4.49
Fidelity Freedom 2005	101,446	3.76	79,064	4.91
Fidelity Freedom 2015	1,212,049	4.30	1,032,882	5.51
Fidelity Freedom 2025	1,147,958	4.69	914,930	6.11
Fidelity Freedom 2035	540,389	4.91	398,020	6.40
Fidelity Freedom 2045	70,462	4.91	26,436	6.40
Fidelity Freedom 2050	57,572	4.91	28,287	6.40
Fidelity Strategic Real Return	34,349	N/A ²	16,438	N/A ²
Spartan Short Term Treasury Index Inv	-	N/A ⁴	38,206	2.70
Spartan Intermediate Treasury Index Inv	61,241	6.60	5,256	7.20
Fidelity Assets Manager 60%	26,535	N/A ²	6,018	N/A ²
American Funds Bond Fund	1,265	4.37	312,511	4.64
Barclays Capital Aggregate Bond Index Portfolio	70,462	N/A ²	1,476,514	N/A ²
SSgA Growth & Income ETF Portfolio	57,572	4.44	1,234,515	6.60
Fidelity VIP II Investment Grade Bond Portfolio	27,214	4.85	86,712	6.80
Pioneer Strategic Income Portfolio	27,322	7.59	13,549	7.30
Barclays Capital Aggregate Bond Index	9,019	N/A ²	4,611	N/A ²
BlackRock Bond Income Portfolio	3,232	N/A ²	205,495	N/A ²
Lord Abbett Bond Debenture Portfolio	14,869	5.10	251,300	5.30
MFS Total Return Portfolio	3,649	4.90	72,601	6.66
PIMCO Inflation Protected Bond Portfolio	-	N/A ⁴	114,481	N/A ²
PIMCO Total Return Portfolio Instl	570,708	5.44	846,795	9.63

STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 2 – INVESTMENTS (CONTINUED)

	2011		2010	
	Fair Value	WAM	Fair Value	WAM
Variable earnings investments (Continued):				
American Century Govt Bond A	\$ 21	5.91	\$ 8,537	5.60
JP Morgan Govt Bond A	8,726	6.72	7,332	7.30
Templeton Global Bond	22,962	3.13	21,976	3.80
PIMCO Total Return A	362,367	8.93	260,587	7.12
BlackRock Life Path 2020 R	92,198	N/A ²	75,951	N/A ²
PIMCO Real Return A	35,102	10.70	16,289	9.63
BlackRock Life Path 2030 R	22,494	N/A ²	13,722	N/A ²
BlackRock Life Path 2040 Investor A	73,907	N/A ²	1,061	N/A ²
First Investors Government Fund	4,200	27.03	3,967	26.78
First Investors Total Return Fund	247,792	10.60	213,845	10.03
American Funds Capital World Bond Fund F	1,946	4.80	877	4.04
BlackRock Global Allocation Fund A	1,081	4.80	1,398	3.21
Federated Total Return Bond Fund A	2,407	7.00	1,274	6.40
Franklin Conservative Allocation A	14,699	17.75	16,900	4.25
Franklin Income Fund C	610	6.53	234	3.52
Goldman Sachs Short Duration Government Fund A	8,310	N/A ²	5,026	N/A ²
Putnam Absolute Return 700 Fund A	3,494	5.83	4,090	5.99
Putnam US Government Income Trust Fund A	6,528	7.12	6,233	11.25
PIMCO Low Duration Fund D	2,046	4.33	1,001	4.41
PIMCO Real Return Fund D	4,364	10.70	2,651	9.63
PIMCO Total Return Fund D	46,493	8.93	33,015	7.12
Templeton Global Bond Fund A	15,286	3.13	10,772	3.80
Vanguard Intermediate Term Inv Grade Fund	-	N/A ⁴	15,839	6.90
Vanguard ST Federal Fund	26,602	2.10	9,022	2.30
Vanguard ST Investment Grade Fund	-	N/A ⁴	5,141	2.90
Vanguard Target Retirement 2020 Fund	9,712	7.30	6,543	7.20
Vanguard Target Retirement 2030 Fund	114,280	7.30	96,016	7.20
Vanguard Total Bond Market Index Fund	1,699	7.20	5,060	7.20
Vanguard Wellesley Income Fund	20,236	9.50	37,320	8.90
Annuity investments:				
Security Benefit Fixed Annuity	26,976,717	12.17	26,039,947	13.60
Great American Life Annuity	1,851,198	5.96	1,431,782	5.91
AXA Fixed Annuity	69,416,064	N/A ³	69,982,327	N/A ³

N/A ¹ - This fund does not have a WAM as the underlying investment of the fund is a General Account which does not have a WAM.

N/A ² - This fund does not have a WAM as the underlying investment of the fund are convertible bonds and do not have a WAM.

N/A ³ - This fund does not have a WAM as the fund does not have any underlying bonds as it is not yet in payout stage.

N/A ⁴ - This fund had a \$0 value as of 12/31 and therefore the WAM is not shown.

**STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 2 – INVESTMENTS (CONTINUED)

Credit risk is the risk that the Plan will lose money because of the default of the security of the issuer or investment counterparty. The stable value option and the variable earnings mutual funds are unrated.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Plan's investments are managed by several fund managers. The concentrations of investments are determined by the participants' elections to invest in the available investment options as selected by the Council. The investments that exceed 5% are identified on page 23.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of the investment. The Plan allows the option of investments in mutual funds of countries outside the U.S. that invest in securities not required to disclose the individual assets within the fund. The fair value of these investments was \$7,734,588 and \$8,697,256 as of December 31, 2011 and 2010, respectively. The individual funds are identified on pages 12 through 23.

NOTE 3 – PLAN ADMINISTRATION

The Plan is administered by the State of Delaware and the Deferred Compensation Council.

NOTE 4 – TAX STATUS

In the opinion of the legal counsel, the Plan is an eligible deferred compensation plan as defined by Section 403(b) to the IRC. Accordingly, any amount of compensation deferred under the Plan and any income attributable to the amounts so deferred shall be included in the gross income of the participant only for the taxable year in which such compensation or other income is paid or, otherwise, made available to the participant or their beneficiary.

NOTE 5 – PLAN TERMINATION

The State may terminate the Plan at any time, although no intent to terminate the Plan has been expressed. In the event of termination, all participants will remain fully vested.

NOTE 6 – RISKS AND UNCERTAINTIES

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 associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the Statements of Net Assets Available for Benefits.

STATE OF DELAWARE 403(b) PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE 7 – RECLASSIFICATIONS

Certain amounts from the prior year have been reclassified to conform to the presentation of current year information.

NOTE 8 – SUBSEQUENT EVENTS

The Plan evaluated subsequent events through December 4, 2012 the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2011, but prior to December 4, 2012 that provided additional evidence about conditions that existed at December 31, 2011, have been recognized in the financial statements for the year ended December 31, 2011. Events or transactions that provided evidence about conditions that did not exist at December 31, 2011, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ending December 31, 2011.



CliftonLarsonAllen

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Deferred Compensation Council
The State of Delaware Section 403(b) Plan
Dover, Delaware

We have audited the basic financial statements of the State of Delaware 403(b) (the Plan) as of and for the year ended December 31, 2011 and have issued our report thereon dated December 4, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Plan is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. The following matters are considered to be significant deficiencies.

11-01: Vendor SSAE 16 Reports

During our audit we noted that management did not obtain and review all available SSAE 16 (formerly SAS No. 70) reports from the Plan's vendors during the year. Management relies upon the Plan's vendors to execute certain transactions as well as record financial data it is imperative for management to review these reports to ensure that there were no relevant

exceptions noted and that they are performing all needed and applicable user controls identified within the reports.

Recommendation:

We recommend that management require all Plan vendors to supply them with their annual SSAE 16 report each year. In conjunction with reviewing each report for effective controls management should also ensure that all appropriate user controls identified in each report are being performed.

Management Response:

The Deferred Compensation Council will require all approved providers to submit their SSAE 16 (formerly SAS No. 70) or SOC 1 report to the Delaware State Treasury for the year being audited. The reports will be reviewed to ensure there are no relevant exceptions and that all appropriate controls are being performed by each provider. In addition, provider contracts will be reviewed and updated to include more stringent language requiring providers to submit their SSAE 16 or SOC 1 annually for review. In the event a provider does not provide a complete report, they will be subject to termination from the State of Delaware 403(b) Plan

The following matter was identified and reported on in the prior period and was still in existence during our audit.

11-02: Recordkeeping

During our audit we noted that there are no comprehensive books kept for the Plan. Management uses VALIC to report certain plan information for each vendor but this process does not include all relevant plan data such as investments, receivables, investment income, distributions, fees etc. Having comprehensive records for the Plan as a whole as well as by vendor is important as the financial success of the Plan cannot be determined without such records.

Recommendation:

We recommend that on a quarterly basis plan management obtain records from each vendor and prepare comprehensive financial reports for the Plan as a whole. These reports should also be reviewed by the Council.

Management Response:

The Deferred Compensation Council voted on August 1, 2012 to authorize the issuance of an RFP to hire a "compilation service" to assist the Delaware State Treasury in managing the responsibilities of the books and records for the 403(b) plan. The selected compilation firm will compile necessary financial reports from the approved 403(b) providers. These reports will be used to create comprehensive and complete books and records for the 403(b) Plan. In addition, contracts with the approved 403(b) providers will be reviewed and updated as appropriate by legal counsel to reflect more rigorous recordkeeping and reporting requirements to assist the Council in their financial reporting obligations. In the interim, the Delaware State Treasury on a quarterly basis is reconciling the investment accounts of the vendors with the deposits made on behalf of state employees.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Deferred Compensation Council, Management and other oversight agencies and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del.C., Section 10002(d), this report is a public record and its distribution is not limited.

CliftonLarsonAllen LLP

Baltimore, Maryland
December 4, 2012