

State of Delaware
Comprehensive Annual Financial Report



Financial Section



KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

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, 2005, 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; and certain major funds (including Lottery and DelDot) which represent 94% of the assets and 93% of the revenues of the business-type activities. The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us, and our opinions 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. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.



The management's discussion and analysis on pages 4 through 19, the budgetary comparison schedules for the general fund and special fund on pages 100 through 105, the information about infrastructure assets reported using the modified approach on pages 106 and 107, and the schedules of required supplementary pension data on pages 108 through 110 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 and the other auditors 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 and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The supplementary financial information, introductory and statistical sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary combining statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, in conjunction with other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

January 4, 2006

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, 2005. 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-ix of this report.

These financial statements have been prepared using the financial accounting model adopted by the Governmental Accounting Standards Board (GASB). This is the third year of implementation in Delaware for these new standards.

Financial Highlights

- The assets of the State exceeded its liabilities at the close of the most recent fiscal year by \$5.2 billion (net assets). Component units reported net assets of \$596.1 million, an increase of \$49.1 million from the previous year.
- The primary government's total net assets increased by \$221.2 million (4.4%) in fiscal year 2005. Net assets of governmental activities increased by \$275.0 million (13.6%) from the previous year, while net assets of the business-type activities decreased \$53.7 million (1.8%) from the previous year. This increase relates primarily to the acquisition of capital assets.
- As of the close of the current fiscal year, the State's governmental funds reported combined ending fund balances of \$1,444.2 million, an increase of \$55.1 million (4.0%) in comparison with the prior year. This increase resulted primarily from increases in business taxes and grant revenues.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$999.2 million, or 30.5% of total general fund expenditures. For the most part, the unreserved fund balance is not available for new spending. These funds have been committed based on State statutes.
- The State's total general obligation debt increased during the fiscal year to \$1,026.9 million, an increase of \$14.4 million. Delaware's debt burden reflects the centralized role of the State government in financing capital projects that are typically funded by local governments, such as school districts, in other states. As of June 30, 2005, 32.4% or \$332.6 million, of the State's outstanding debt was issued on behalf of local school districts which are fully 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 Community College Educational Foundation and 13 charter schools. Financial information for these component units is reported separately from the financial information presented for the primary government. The government-wide financial statements can be found on pages 20-21 of this report.

Fund financial statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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, unlike the government-wide financial statements, 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances 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 fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances 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 this budget. The statement can be found on page 102 of this report.

The basic governmental fund financial statements can be found on pages 22-25 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 the State Lottery, Unemployment Trust Fund and the Department of Transportation operations.

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 State Lottery, Unemployment Trust Fund and

the Department of Transportation (DeIDOT), all of which are considered to be major funds of the State.

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

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

The basic fiduciary fund financial statements can be found on pages 29-30 of this report. Combining fiduciary fund statements can be found on pages 112-115.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34-98 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 assumption for the State's pension trusts. RSI can be found on pages 99-110 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 \$5.2 billion at the close of the most recent fiscal year.

The largest portion of the State's net assets (67.8%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. 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 7.2% of total net assets, represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion, unrestricted net assets (25.0%), may be used at the State's

discretion, but, for the most part, these funds have been appropriated based on State statutes.

Net Assets as of June 30, 2005
State of Delaware's Net Assets

(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other non-current assets	\$ 2,057,359	\$ 1,977,745	\$ 526,201	\$ 581,737	\$ 2,583,560	\$ 2,559,482
Capital assets	2,061,595	1,822,570	3,447,854	3,377,007	5,509,449	5,199,577
Total assets	<u>4,118,954</u>	<u>3,800,315</u>	<u>3,974,055</u>	<u>3,958,744</u>	<u>8,093,009</u>	<u>7,759,059</u>
Long-term liabilities outstanding	1,262,497	1,229,869	863,108	820,485	2,125,605	2,050,354
Other liabilities	552,595	541,545	210,916	184,485	763,511	726,030
Total liabilities	<u>1,815,092</u>	<u>1,771,414</u>	<u>1,074,024</u>	<u>1,004,970</u>	<u>2,889,116</u>	<u>2,776,384</u>
Net assets:						
Invested in capital assets, net of related debt	983,693	767,977	2,546,144	2,561,502	3,529,837	3,329,479
Restricted	161,050	148,150	212,810	219,844	373,860	367,994
Unrestricted	1,159,119	1,112,774	141,077	172,428	1,300,196	1,285,202
Total net assets	<u>\$ 2,303,862</u>	<u>\$ 2,028,901</u>	<u>\$ 2,900,031</u>	<u>\$ 2,953,774</u>	<u>\$ 5,203,893</u>	<u>\$ 4,982,675</u>

The condensed financial information on the following page was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year.

Changes in Net Assets - Primary Government

(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 405,520	\$ 428,206	\$ 1,112,137	\$ 1,045,533	\$ 1,517,657	\$ 1,473,739
Operating grants and contributions	905,737	894,779			905,737	894,779
Capital grants and contributions	5,000		105,924	92,680	110,924	92,680
General revenues:						
Taxes:						
Personal income taxes	882,020	777,969			882,020	777,969
Business taxes	1,375,828	1,356,081			1,375,828	1,356,081
Other taxes	264,165	240,296			264,165	240,296
Real estate taxes	317,664	289,346			317,664	289,346
Investment earnings	35,624	36,109	18,609	18,261	54,233	54,370
Gain (Loss) on sale of assets		(2,482)	561	(654)	561	(3,136)
Miscellaneous	37,570	37,105			37,570	37,105
Total revenues	<u>4,229,128</u>	<u>4,057,409</u>	<u>1,237,231</u>	<u>1,155,820</u>	<u>5,466,359</u>	<u>5,213,229</u>
Expenses:						
General Government	404,190	339,945			404,190	339,945
Health and Children's Services	1,450,505	1,399,354			1,450,505	1,399,354
Judicial and Public Safety	477,691	442,345			477,691	442,345
Natural Resources and Environmental Control	95,622	113,189			95,622	113,189
Labor	61,360	61,963			61,360	61,963
Education	1,592,035	1,422,046			1,592,035	1,422,046
Payment to Component Unit -						
General Government		1,952				1,952
Education	73,279	73,361			73,279	73,361
Interest Expense	44,003	50,201			44,003	50,201
Lottery			388,062	357,011	388,062	357,011
Transportation			566,110	497,499	566,110	497,499
Payment to Component Unit				8,852		8,852
Unemployment			92,284	114,136	92,284	114,136
Total expenses	<u>4,198,685</u>	<u>3,904,356</u>	<u>1,046,456</u>	<u>977,498</u>	<u>5,245,141</u>	<u>4,881,854</u>
Increase (Decrease) in net assets before transfers	30,443	153,053	190,775	178,322	221,218	331,375
Transfers	244,518	242,560	(244,518)	(242,560)		
Increase (decrease) in net assets	274,961	395,613	(53,743)	(64,238)	221,218	331,375
Net assets - beginning of year	2,028,901	1,633,288	2,953,774	3,018,012	4,982,675	4,651,300
Net assets - end of year	<u>\$ 2,303,862</u>	<u>\$ 2,028,901</u>	<u>\$ 2,900,031</u>	<u>\$ 2,953,774</u>	<u>\$ 5,203,893</u>	<u>\$ 4,982,675</u>

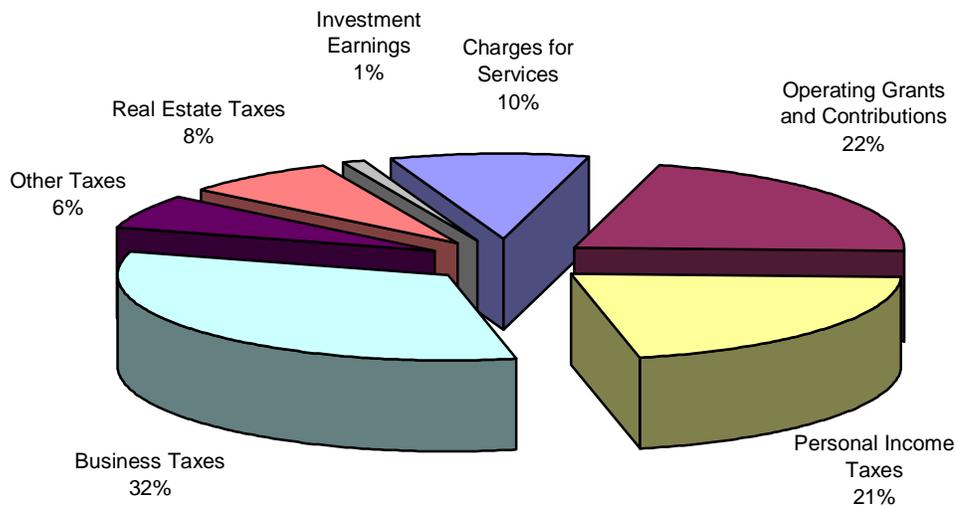
Governmental activities. Governmental activities increased the State's net assets by \$275.0 million. The decrease by the business-type activities of \$53.7 million is explained on the following page. A comparison of the cost of services by function for the State's governmental activities is shown in 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 \$178.4 million (6.5%) based on growth primarily in personal income taxes of \$104.0 million (13.4%) due, in part, to better jobs, income, and stock performance. The realty transfer tax grew by \$28.3 million (9.8%) due to low mortgage rates and a continued building boom throughout the State.

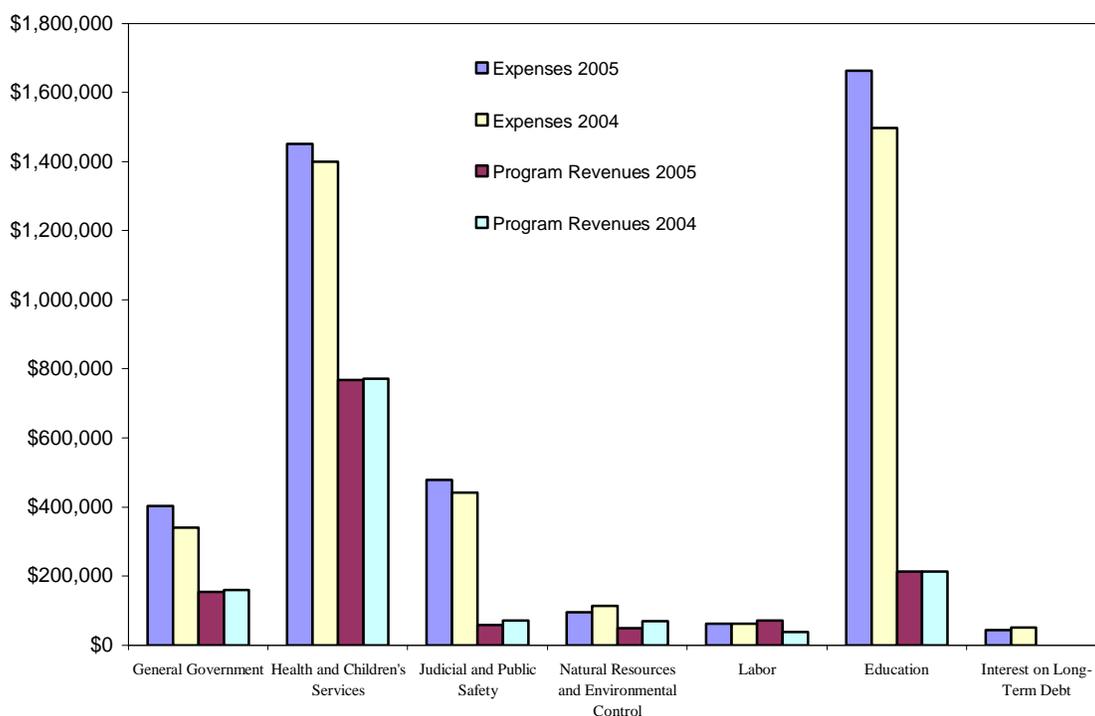
Program Revenues were approximately the same as the prior year decreasing by only \$6.7 million (.5%). Charges for services were lower by \$20.3 million for Health and Children’s Services due to a change in the federal match for Medicaid payments.

Revenues by Source – Governmental Activities



Expenses for governmental activities increased during fiscal year 2005 by \$294.3 million, or 7.5%. The largest increase occurred in Education expenses which increased by \$170.0 million due to a continued implementation of education initiatives such as the expansion of resource teachers to all elementary schools, expansion of public school transportation routes and an increase in student population. General government expenses increased by \$64.2 million due to increased costs related to economic development and flood mitigation. Health and Children’s Services spending increased by \$51.2 million over the prior fiscal year, an increase attributable to escalating Medicaid costs and an increase in the population needing public assistance. Judicial and Public Safety expenses increased by \$35.3 million due to increased caseloads within the court system and additional spending on homeland security. These increases were offset, in part, by a decrease of expenses incurred in Natural Resources and Environmental Control as expense for land purchases were capitalized. In addition, interest expense decreased by \$6.2 million (12.4%) due to the timing of advanced refunding in prior years reducing the interest rates on state debt.

Expenses and Program Revenues – Governmental Activities



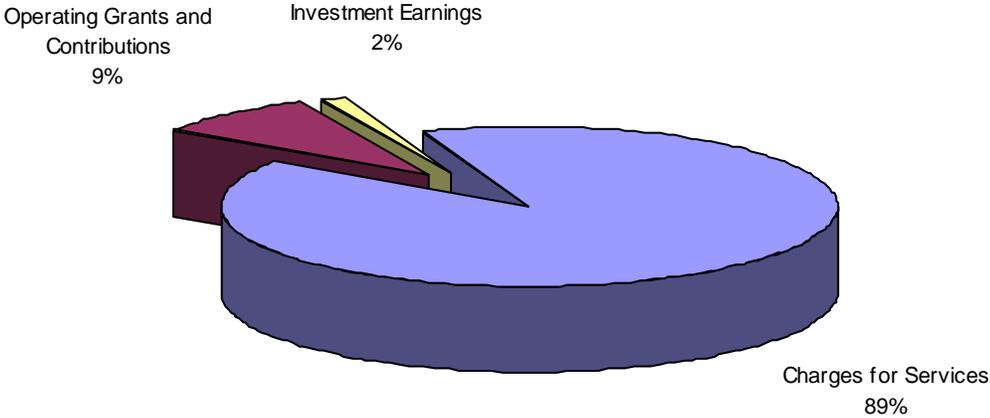
Business-type activities. Business-type activities decreased the State's net assets by \$53.7 million. This decrease is comprised of a \$7.0 million decrease in net assets by the Delaware Unemployment Insurance Trust Fund, a \$47.0 million decrease in net assets by the Delaware Department of Transportation (DeIDOT) and a \$0.3 million increase in net assets of the Delaware State Lottery.

The decrease in net assets of the Delaware Unemployment Insurance Trust Fund is attributable to a 19.1% reduction in benefits paid which is partially offset by a 16.9% increase in unemployment tax collected during fiscal 2005. Even though benefits paid exceeded revenue collected by \$18.8 million, fund equity remains adequate to pay average benefits for the next two years without additional revenue.

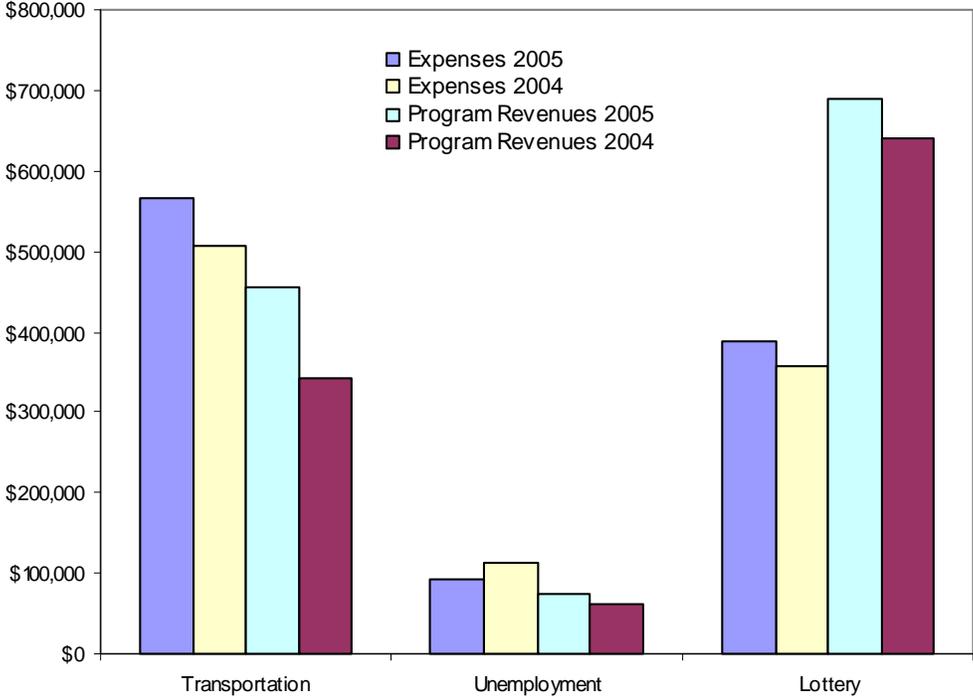
The DeIDOT fund's net assets at June 30, 2005 were \$47.0 million lower than June 30, 2004 primarily due to an increase in operating expenses. DeIDOT's operating revenues increased by \$7.6 million, or 2%, to \$349.4 million due to an increase in motor vehicle document and registration fees. Operating expenses increased by \$56.6 million to \$528.6 million, with the largest contributing factors being a 31% increase in payroll expenses and a 21% increase in professional fees.

The Delaware State Lottery recorded an increase in net assets of \$0.3 million in fiscal year 2005. Revenue increased by 7.6%, or \$48.4 million, over last year due to increased sales of Powerball, Powerplay, instant and video lottery games. Lottery prize expenses also increased by 12.4%, or \$6.6 million, over the previous year. By law, the Delaware Lottery's fund balance cannot exceed \$1 million. Accordingly, the Lottery transferred over \$300 million to other State funds.

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 \$1,444.2 million, an increase of \$55.1 million. Approximately 67.5% of the aggregate fund balances, \$973.4 million, constitute unreserved fund balances. Of this total \$333.7 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 Crime Fund and the development and implementation of statewide information and technology projects.

Approximately \$470.8 million of the fund balances are 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 (\$275.6 million), 2) set aside for the budget reserve account (\$161.1 million), 3) for inventories and other assets (\$4.3 million), and 4) for prepaid items (\$29.8 million).

The general fund accounts for the operation and administration of the State. Total general fund balance increased during the fiscal year by \$97.9 million. Personal tax revenue increased by \$95.8 million as a result of an increase in salaries and stock performance while spending in the general fund increased by \$220.5 million or 7.2%. Educational programs account for \$91.6 million of the increase.

At the end of the current fiscal year, unreserved fund balance of the general fund was \$999.2 million, while total fund balance reached \$1,313.8 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 30.5% of total general fund expenditures, while total fund balance represents 40.2% of that same amount.

Federal funds: Federal funds represent pass through grants used for designated purposes. Revenue increased by \$50.8 million for the year while spending increased by \$76.6 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 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 \$5 million to \$109.2 million as spending on school construction and salaries and benefits outpaced the increase in revenue from property taxes and other sources.

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 \$173.6 million in fiscal 2005, an increase of \$11.4 million. The State Legislation authorizes certain Capital Project expenditures prior to the issuance of bonds. The deficit in the Capital Projects Fund resulted from the State's debt management strategy of timing the issuance of bonds to take advantage of optimal bond market conditions. The State issued \$132 million of general obligation bonds on September 15, 2005.

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 State Lottery, Unemployment Trust Fund and the DelDOT fund, all of which are considered to be major funds of the State.

The State's net assets decreased in fiscal 2005 by \$53.7 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 increased by \$55.5 million (8.6%). Revenues were \$142.4 million higher (5.2%) than the previous fiscal year. Continued growth in the Delaware economy resulted in greater than expected growth in employment and personal income. This translated into healthy growth in the economically sensitive revenue categories. For example, net personal income tax revenue grew by \$101.3 million, or 13%. Like the nation, the State's positive economic performance was highlighted by exceptional strength in Delaware's housing market, which resulted in Realty Transfer Taxes growing by \$25 million or over 28% for an unprecedented fourth year in a row.

Expenditures were \$268.6 million or 10.5 % higher than the previous fiscal year. Salaries and other employment costs increased by \$51.5 million (5.3%). Medicaid and Public Assistance grew by \$32.6 million (8.4%) while grants increased \$69.9 million (31.2%). In addition, debt service payments increased by \$19.1 million (14.3%) and capital outlays by \$19.0 million or 44.4%.

The original budget was modified to provide increased spending in salaries and services in education, health and children's services, self-insurance for health care and in minor capital renovations in facilities management. The final budget

consists of the original budget, encumbrances and multi-year project budgetary carry-forwards from the prior fiscal year, and all modifications to the original budget.

Authorized expenditures (final budget) exceeded actual expenditures in all departments, with significant budget variances in the following departments:

- \$75.2 million in the Executive Department (salaries and self-insurance);
- \$85.1 million in the Department of Education (salaries and educational programs);
- \$37.7 million in the Department of Health and Social Services as well as the Department of Children, Youth and Their Families. (health programs);
- \$47.5 million in Facilities Management in Administrative Services (capital renovations);
- \$25.6 million in Department of Finance Services (capital renovations).

Special Fund Budgetary Highlights

At the end of the fiscal year, the total fund balance was \$333.7 million or \$20.6 million less than the previous year.

Revenues were \$11.0 million (2.0%) less than the previous year. Other Non-Tax revenue was down by \$31.3 million (7.8%). The decrease was due in part to the receipt of \$41.5 million in one-time Federal Fiscal Relief in the previous year. The following revenue categories were up: Business Taxes, \$5.3 million; License, Permits, Fines and Fees, \$8.5 million; and Grants, \$12.1 million.

Expenditures were \$54.1 million higher than the previous year. Use of the monies from the Federal Fiscal Tax Relief and Master Tobacco Settlement to fund several initiatives, including smoking prevention, cancer prevention and treatment, a prescription drug program and housing development, resulted in increased expenditures.

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, 2005, amounts to \$5.5 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 \$239.0 million (13.1%) and the increase for business type activities was \$70.9 million (2.1%).

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

- Completion of new schools and renovations of existing schools of \$229.7 million as well as completion of the Sussex County Courthouse for \$11.3 million. In addition, construction-in-progress as of June 30, 2005 was \$143.4 million for governmental activities. Approximately 75% of this total is related to the building of new schools and improvements to existing schools.
- As of June 30, 2005, the DeIDOT fund had invested \$3,447.7 million in capital assets, including roads, bridges, land and equipment, an increase of \$70.9 million over June 30, 2004. The major contributing factor to the increase is an investment by Delaware Transit Corporation, a component unit of the DeIDOT fund, of \$16.4 million in vehicles and facilities and the Department's purchase of land for future use in capital projects of \$51 million.

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 4,464 center-line miles of roads and 1,371 bridges that the State is responsible to maintain.

DeIDOT 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.

It is DeIDOT's policy to maintain at least 75 percent of its highways and bridge system at a Good or Better condition rating. No more than 10 percent of bridges and 15 percent of roads should be in substandard condition.

Of the State's 1,371 bridges that were rated in 2004, 1,029 or 75.1 percent received a Good or Better BCR rating, 18.6 percent were rated fair, and 6.3 percent received a substandard rating. Of the 7,163,000 square feet of bridge deck that was rated, 94 percent or 6,731,463 square feet received an OPC condition rating of Good or Better, 5.6 percent received a fair rating, and .4 percent received a substandard deck rating. In 2004, when 4,464 centerline miles were rated, 73.8 percent received a Good or Better OPC rating, 17.4 percent received a fair rating, and 8.8 percent received a poor rating.

The 2005 estimate to maintain and preserve the Department of Transportation's infrastructure was \$138.5 million. Actual expenditure of \$311.4 million includes items authorized in prior years.

Additional information on the State's capital assets can be found in Note 1 on pages 42-43, Note 12 on page 81-82 and on pages 107-108 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	
	2005	2004	2005	2004	2005	2004
Land	\$ 361,390	\$ 327,811	\$ 169,364	\$ 113,673	\$ 530,754	\$ 441,484
Land Improvements	52,958	40,096			52,958	40,096
Buildings	1,365,681	1,141,681	40,751	34,552	1,406,432	1,176,233
Easements	92,604	66,822			92,604	66,822
Equipment and Vehicles	45,577	42,897	74,048	80,301	119,625	123,198
Infrastructure			3,163,691	3,148,481	3,163,691	3,148,481
Construction-in-Progress	143,385	203,263			143,385	203,263
Total	\$ 2,061,595	\$ 1,822,570	\$ 3,447,854	\$ 3,377,007	\$ 5,509,449	\$ 5,199,577

Long-term debt. Beginning in fiscal year 2000, the three principal rating agencies, Moody's Investors Service, Fitch Ratings and Standard & Poor's, have rated Delaware's General Obligation bonds Aaa, AAA and AAA, respectively. Due to the quality of the State's financial management, manageable debt burden and above-average wealth and income levels, these ratings were reaffirmed during fiscal year 2005.

At the end of the current fiscal year, the State had total general obligation bond debt outstanding of \$1,026.9 million, backed by the full faith and credit of the State. Property tax revenues collected by the Local School Districts support \$332.6 million of the balance. During the fiscal year ended June 30, 2005, the Local School Districts transferred \$31.8 million of property tax revenue to the State to cover the related debt service.

The State of Delaware's total general obligation debt increased by only \$14.4 million, or 1.4%, during fiscal year 2005. The State's indebtedness reflects a commitment to public and higher education facilities, prisons, State offices and other facilities. The State continues to seek opportunities to reduce the cost of such indebtedness through maintenance of its triple-A bond ratings and through bond refundings, which lower the overall cost of debt. On March 8, 2005, the State

issued \$45.335 million in general obligation bonds refunding \$48.266 million of similar bonds. The result was a reduction in future debt service payments of \$2.4 million.

On February 1, 2005, the State issued \$125 million in general obligation bonds choosing to sell \$62.5 million as twenty-year bonds representing the local school districts share and the remaining \$62.5 million as ten-year bonds. This rapid amortization is another effective strategy to minimize the State's indebtedness. The average life of Series A, which was sold to Delaware's retail investors, and Series B, which was competitively bid, was 8 years and the true interest cost was 3.58%.

The Delaware Department of Transportation Trust Fund had revenue bonds outstanding of \$861.7 million as of June 30, 2005. The bonds do not constitute a debt of the State or a pledge of the general taxing power or the faith and credit of the State. Rather, the outstanding revenue bonds are obligations of the Delaware Transportation Authority payable solely from and secured by a pledge and assignment of certain tolls and revenues such as motor fuel tax revenues, motor vehicle document fees and motor vehicle registrations. On October 20, 2004, the Trust Fund issued \$167.6 million of Transportation System Senior Revenue Bonds, of which \$67.4 million was used to refund higher cost senior revenue bonds. The refunding reduced future debt service payments by \$4.5 million. The remaining new money proceeds support the Authority's ongoing Capital Transportation Program. The Transportation Authority issues both insured bonds, rated 'AAA' by Standard & Poor's as well as uninsured bonds, rated 'Aa3' by Moody's Investors Service and 'AA' by Standard & Poor's.

The State has no constitutional debt limits. However, in 1991, the State enacted legislation to replace its previous limits with a three-part debt test. The 5% test restricts new debt authorization to 5% of budgetary General Fund revenue as projected on June 30 for the next fiscal year. Should actual revenue collections increase during the year, no additional authorizations are made. The 15% test restricts debt issuance, if the annual payments on all outstanding debt exceed 15% of estimated budgetary General Fund and Trust Fund revenue for the next fiscal year. Finally, the Cash Balance Test restricts debt issuance if the debt service payable in any year exceeds the estimated cumulative cash balances for the following fiscal year.

Additional information on the State of Delaware's long-term debt can be found in Note 5 on pages 64-66 of this report. Further information concerning the State's debt limits can be found on 127 of the Statistical Section.

Economic Factors and Next Year's Budgets and Rates

The Delaware Economic and Financial Advisory Council (DEFAC) met on June 19, 2005, to prepare the final revenue and expenditure estimates upon which the fiscal

year 2006 operating and capital budgets would be based. The Department of Finance estimated that employment in Delaware had increased by 2.2% during fiscal year 2005, continuing the positive trend that began during fiscal year 2004. Fiscal year 2006 employment is expected to continue to grow, with job growth pegged at 1.8%.

The fiscal year 2006 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 2005. The fiscal year 2006 operating budget is \$2,836.0 million, 9.1% greater than fiscal year 2005. The amount of cash allocated to the capital budget grew 10.4%, increasing from \$255.0 million in fiscal year 2005 to \$281.6 million in fiscal year 2006.

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, 540 South DuPont Highway, Thomas Collins Building, Suite 3, Dover, Delaware 19901. This CAFR can also be found at the following Internet address: **<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, the Townsend Building, Suite #1, 401 Federal Street, Dover, DE 19901.

STATE OF DELAWARE
STATEMENT OF NET ASSETS
JUNE 30, 2005
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 335,187	\$ 242,562	\$ 577,749	\$ 36,322
Cash and cash equivalents - restricted		2,021	2,021	14,552
Investments	374,618	142,849	517,467	39,108
Investments - restricted		2,457	2,457	3,048
Accounts and other receivables, net	193,873	39,556	233,429	28,648
Loans and notes receivable, net	4,898		4,898	13,102
Internal balances	4,385	(4,385)		
Inventories	4,275	12,657	16,932	539
Prepaid items	29,794	566	30,360	3,871
Other current assets				9,200
Total current assets	947,030	438,283	1,385,313	148,390
Noncurrent assets:				
Investments	946,294	49,247	995,541	147,768
Investments - restricted		7,393	7,393	23,404
Accrued interest receivable		592	592	
Accounts and other receivables, net	59,635		59,635	3,068
Loans and notes receivable, net	99,387	28,985	128,372	384,622
Capital assets				
Non-depreciable	597,379	3,333,055	3,930,434	135,706
Depreciable capital assets, net	1,464,216	114,799	1,579,015	308,483
Deferred bond issuance costs	5,013		5,013	4,828
Other restricted assets				2,765
Other noncurrent assets		1,701	1,701	7,704
Total noncurrent assets	3,171,924	3,535,772	6,707,696	1,018,348
Total assets	4,118,954	3,974,055	8,093,009	1,166,738
LIABILITIES				
Current liabilities:				
Accounts payable	314,309	45,545	359,854	18,067
Accrued liabilities	43,556	29,041	72,597	13,877
Interest payable	21,435	21,070	42,505	
Notes payable	2,350	40,000	42,350	5,368
Unearned revenues	12,969	367	13,336	386
Capital leases				32
Escheat liabilities	7,000		7,000	
Compensated absences	9,513	4,185	13,698	11
Claims and judgments	22,941	2,302	25,243	
Escrow deposits		2,006	2,006	110
Current Portion of Long term notes payable	1,161		1,161	
Current portion of general obligation long-term debt	113,781		113,781	
Current portion of revenue bonds		58,445	58,445	9,342
Current portion of bond issue premium, net	2,980		2,980	
Other current liabilities	600	7,955	8,555	2,562
Total current liabilities	552,595	210,916	763,511	49,755
Noncurrent liabilities:				
Compensated absences	110,377	8,109	118,486	866
Pension obligation	95,515		95,515	
Claims and judgments	63,506	12,525	76,031	
Escheat liabilities	28,000		28,000	
Escrow deposits				32,610
Liabilities payable from restricted assets		9,095	9,095	
Notes payable	3,593		3,593	49,008
General obligation long-term debt	913,166		913,166	
Revenue bonds		803,265	803,265	403,027
Bond issue premium, net	45,884	30,114	75,998	
Other long-term obligations	2,456		2,456	35,353
Total noncurrent liabilities	1,262,497	863,108	2,125,605	520,864
Total liabilities	1,815,092	1,074,024	2,889,116	570,619
NET ASSETS				
Invested in capital assets, net of related debt	983,693	2,546,144	3,529,837	292,427
Restricted				
Budgetary reserve	161,050		161,050	
Unemployment benefits		212,795	212,795	
Federal and state regulations				168,802
Bond covenants				27,982
Capital projects				36,420
Other restrictions		15	15	24,603
Unrestricted	1,159,119	141,077	1,300,196	45,885
Total net assets	\$ 2,303,862	\$ 2,900,031	\$ 5,203,893	\$ 596,119

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

Function	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
General Government	\$ 404,190	\$ 130,493	\$ 23,419		\$ (250,278)		\$ (250,278)	
Health and Children's Services	1,450,505	117,708	652,291		(680,506)		(680,506)	
Judicial and Public Safety	477,691	55,026	33,034		(389,631)		(389,631)	
Natural Resources and Environmental Control	95,622	20,806	28,701		(46,115)		(46,115)	
Labor	61,360	2,910	38,701		(19,749)		(19,749)	
Education	1,592,035	78,577	129,591	5,000	(1,378,867)		(1,378,867)	
Payment to Component Unit - Education	73,279				(73,279)		(73,279)	
Interest	44,003				(44,003)		(44,003)	
Total governmental activities	4,198,685	405,520	905,737	5,000	(2,882,428)		(2,882,428)	
Business-type activities:								
Lottery	388,062	689,291				\$ 301,229	301,229	
Transportation	566,110	349,397		105,924		(110,789)	(110,789)	
Unemployment	92,284	73,449				(18,835)	(18,835)	
Total business-type activities	1,046,456	1,112,137		105,924		171,605	171,605	
Total primary government	<u>\$ 5,245,141</u>	<u>\$ 1,517,657</u>	<u>\$ 905,737</u>	<u>\$ 110,924</u>				
Component units:								
Delaware State Housing Authority	\$ 71,041	\$ 30,299	\$ 47,538	\$ 498				\$ 7,294
Diamond State Port Corporation	28,251	27,744		15,989				15,482
Riverfront Development Corporation	8,818	947	7,100	13,382				12,611
Delaware State University	75,215	26,425	22,082	10,506				(16,202)
Delaware Technical & Community College (DTCC) Educational Foundation	694	58	737					101
Delaware Charter Schools	53,233	1,701	4,324	75				(47,133)
Total component units	<u>\$ 237,252</u>	<u>\$ 87,174</u>	<u>\$ 81,781</u>	<u>\$ 40,450</u>				<u>(27,847)</u>
General Revenues								
Taxes:								
Personal income					882,020		882,020	
Business					1,375,828		1,375,828	
Real estate					317,664		317,664	
Other					264,165		264,165	
Payments from primary government								73,279
Investment earnings					35,624	18,609	54,233	3,856
Gain on sale of assets						561	561	65
Miscellaneous					37,570		37,570	(217)
Transfers					244,518	(244,518)		
Total General Revenues and Transfers					<u>3,157,389</u>	<u>(225,348)</u>	<u>2,932,041</u>	<u>76,983</u>
Change in Net Assets					274,961	(53,743)	221,218	49,136
Net Assets - Beginning of Year (as restated)					<u>2,028,901</u>	<u>2,953,774</u>	<u>4,982,675</u>	<u>546,983</u>
Net Assets - End of Year					<u>\$ 2,303,862</u>	<u>\$ 2,900,031</u>	<u>\$ 5,203,893</u>	<u>\$ 596,119</u>

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
 COMBINED BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2005
 (Expressed in Thousands)

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 326,966	\$ 519	\$ 7,702		\$ 335,187
Investments	1,166,113		137,114	\$ 17,685	1,320,912
Accounts receivable, net	65,446	6,324	222		71,992
Taxes receivable, net	77,412		17,079		94,491
Intergovernmental receivables, net	122	86,841	62		87,025
Due from other funds	35,186				35,186
Inventories	4,237		38		4,275
Prepaid items	14,870	14,924			29,794
Loans and notes receivable	85,371	18,914			104,285
Total assets	<u>\$ 1,775,723</u>	<u>\$ 127,522</u>	<u>\$ 162,217</u>	<u>17,685</u>	<u>\$ 2,083,147</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 222,480	\$ 36,662	\$ 37,195	\$ 17,972	\$ 314,309
Accrued liabilities	43,556				43,556
Claims and judgments	850				850
Escheat liability	7,000				7,000
Due to other funds		30,801			30,801
Other obligations	600				600
Deferred revenues	187,473	38,534	15,828		241,835
Total liabilities	<u>461,959</u>	<u>105,997</u>	<u>53,023</u>	<u>17,972</u>	<u>638,951</u>
Fund balances (defecit)					
Reserved for:					
Encumbrances	134,376	46,773	8,104	86,373	275,626
Inventories	4,237		38		4,275
Prepaid items	14,870	14,924			29,794
Budgetary reserve	161,050				161,050
Unreserved (deficit)	999,231	(40,172)	101,052	(86,660)	973,451
Total fund balances (defecit)	<u>1,313,764</u>	<u>21,525</u>	<u>109,194</u>	<u>(287)</u>	<u>1,444,196</u>
Total liabilities and fund balances	<u>\$ 1,775,723</u>	<u>\$ 127,522</u>	<u>\$ 162,217</u>	<u>\$ 17,685</u>	<u>\$ 2,083,147</u>

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

(Expressed in Thousands)

Total Fund Balances - Governmental Funds \$ 1,444,196

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	\$	361,390	
Land improvements		52,958	
Buildings		1,365,681	
Easements		92,604	
Equipment and vehicles		45,577	
Construction in progress		<u>143,385</u>	
			2,061,595

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. 228,866

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	\$	(21,435)	
Claims and judgments		(85,597)	
Compensated absences		(119,890)	
Pension obligation		(95,515)	
General obligation long-term debt and related accounts		(1,070,798)	
Notes Payable (current and long-term)		(7,104)	
Other long term obligations		(2,456)	
Escheat liability		<u>(28,000)</u>	
			<u>(1,430,795)</u>

Net assets of governmental activities \$ 2,303,862

STATE OF DELWARE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES (DEFICITS)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

	<u>General</u>	<u>Federal</u>	<u>Local School District</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES					
Personal taxes	\$ 878,189				\$ 878,189
Business taxes	1,378,017				1,378,017
Other tax revenue	264,845		\$ 315,504		580,349
Licenses, fees, permits and fines	295,121		890		296,011
Rentals and sales	20,292	\$ 11	36,943		57,246
Federal government	35,583	892,444	1,676		929,703
Interest & other investment income	30,107	244	5,273		35,624
Other	233,251		33,406		266,657
TOTAL REVENUES	<u>3,135,405</u>	<u>892,699</u>	<u>393,692</u>		<u>4,421,796</u>
EXPENDITURES					
Current:					
General government	482,826	20,271			503,097
Health and children's services	866,193	613,807			1,480,000
Judicial and public safety	435,735	36,671			472,406
Natural resources and environmental control	130,759	30,081			160,840
Labor	29,295	38,861			68,156
Education	1,115,589	146,883	371,362		1,633,834
Payment to component unit - Education	57,433		15,846		73,279
Capital outlay				\$ 173,561	173,561
Debt service:					
Principal	107,890				107,890
Interest and other charges	46,160				46,160
Costs of issuance of debt				533	533
TOTAL EXPENDITURES	<u>3,271,880</u>	<u>886,574</u>	<u>387,208</u>	<u>174,094</u>	<u>4,719,756</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(136,475)</u>	<u>6,125</u>	<u>6,484</u>	<u>(174,094)</u>	<u>(297,960)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Transfers in	388,676		20,362		409,038
Transfers out	(104,204)		(31,845)	(50,145)	(186,194)
Issuance of general obligation bonds				170,559	170,559
Premiums on bond sales				9,788	9,788
Payment to bond refunding agent	(50,145)				(50,145)
TOTAL OTHER SOURCES (USES) OF FINANCIAL RESOURCES	<u>234,327</u>		<u>(11,483)</u>	<u>130,202</u>	<u>353,046</u>
Net change in fund balances	97,852	6,125	(4,999)	(43,892)	55,086
Fund balances - beginning	<u>1,215,912</u>	<u>15,400</u>	<u>114,193</u>	<u>43,605</u>	<u>1,389,110</u>
Fund balances (deficits) - ending	<u>\$ 1,313,764</u>	<u>\$ 21,525</u>	<u>\$ 109,194</u>	<u>\$ (287)</u>	<u>\$ 1,444,196</u>

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
Reconciliation of the Net Changes in Fund Balances
- Total Governmental Funds to Change in Net Assets
of Governmental Activities

(Expressed in Thousands)

Net Changes in Fund Balances	\$ 55,086
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.	239,025
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	28,117
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	107,890
New debt issued (face value)	(170,559)
Premium received	(9,788)
Payment to refunding agent	50,145
Issuance costs	533
Amortization of premium/issuance costs	<u>2,105</u>
	(19,674)
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	52
Claims and judgments	(10,878)
Notes payable	(7,104)
Compensated absences	(2,722)
Pension obligation	(6,897)
Physician loan and scholarships	<u>(44)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 274,961</u></u>

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005
(Expressed in Thousands)

	Business-Type Activities - Enterprise Funds			
	Unemployment	Lottery	DELDOT	Total
Asset				
Current Assets:				
Cash and cash equivalents	\$ 213,767	\$ 5,804	\$ 22,991	\$ 242,562
Cash and cash equivalents - restricted			2,021	2,021
Investments			142,849	142,849
Investments - restricted		2,457		2,457
Accounts receivable, net	6,238	6,444	6,763	19,445
Taxes receivable, net	17,009			17,009
Intergovernmental receivables, net	449		1,853	2,302
Interest receivable			800	800
Inventories			12,657	12,657
Prepaid items		489	77	566
Total current assets	<u>237,463</u>	<u>15,194</u>	<u>190,011</u>	<u>442,668</u>
Noncurrent assets:				
Investments			49,247	49,247
Investments - restricted		7,393		7,393
Interest receivable			592	592
Loans and notes receivable			28,985	28,985
Other assets		1,701		1,701
Capital assets, non-depreciable			3,333,055	3,333,055
Capital assets, depreciable, net		199	114,600	114,799
Total noncurrent assets		<u>9,293</u>	<u>3,526,479</u>	<u>3,535,772</u>
Total assets	<u>237,463</u>	<u>24,487</u>	<u>3,716,490</u>	<u>3,978,440</u>
Liabilities				
Current liabilities				
Accounts payable		4,532	41,013	45,545
Accrued liabilities	22,254		6,787	29,041
Interest payable			21,070	21,070
Deferred revenue			367	367
Compensated absences			4,185	4,185
Claims and judgments			2,302	2,302
Prizes liability		5,541		5,541
Escrow deposits			2,006	2,006
Note payable			40,000	40,000
Current portion of revenue bonds			58,445	58,445
Tax refunds payable	2,414			2,414
Due to other funds		4,385		4,385
Total current liabilities	<u>24,668</u>	<u>14,458</u>	<u>176,175</u>	<u>215,301</u>
Noncurrent Liabilities				
Compensated absences			8,109	8,109
Claims and judgments			12,525	12,525
Liabilities payable from restricted assets		9,095		9,095
Revenue bonds			803,265	803,265
Bonds issue premium, net			30,114	30,114
Total noncurrent liabilities		<u>9,095</u>	<u>854,013</u>	<u>863,108</u>
Total liabilities	<u>24,668</u>	<u>23,553</u>	<u>1,030,188</u>	<u>1,078,409</u>
Net assets				
Invested in capital assets, net of related debt		199	2,545,945	2,546,144
Restricted for:				
Unemployment benefits	212,795			212,795
Other			15	15
Unrestricted		735	140,342	141,077
Total net assets	<u>\$ 212,795</u>	<u>\$ 934</u>	<u>\$ 2,686,302</u>	<u>\$ 2,900,031</u>

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, 2005
(Expressed in thousands)

	Business-Type Activities - Enterprise Funds			Total
	Unemployment	Lottery	DELDOT	
Operating revenues				
Unemployment taxes	\$ 73,449			\$ 73,449
Gaming revenue		\$ 689,291		689,291
Pledged revenues				
Turnpike revenue			\$ 60,703	60,703
Motor vehicle and related revenue			234,098	234,098
Turnpike revenue			30,161	30,161
Passenger fares			9,323	9,323
Miscellaneous			15,112	15,112
Total operating revenues	<u>73,449</u>	<u>689,291</u>	<u>349,397</u>	<u>1,112,137</u>
Operating expenses				
Unemployment benefits	92,284			92,284
Cost of sales		321,042		321,042
Prizes		59,830		59,830
Transportation			500,596	500,596
Depreciation		131	19,654	19,785
General and administrative		7,059	8,302	15,361
Total operating expenses	<u>92,284</u>	<u>388,062</u>	<u>528,552</u>	<u>1,008,898</u>
Operating income (loss)	<u>(18,835)</u>	<u>301,229</u>	<u>(179,155)</u>	<u>103,239</u>
Nonoperating revenues (expenses)				
Interest and investment revenue	11,800		6,809	18,609
Interest expense			(37,558)	(37,558)
Gain on disposal of assets			561	561
Total nonoperating revenues (expenses)	<u>11,800</u>		<u>(30,188)</u>	<u>(18,388)</u>
Income (loss) before transfers and capital contributions	(7,035)	301,229	(209,343)	84,851
Capital contributions			105,924	105,924
Transfers in			83,842	83,842
Transfers out		(300,922)	(27,438)	(328,360)
Change in net assets	(7,035)	307	(47,015)	(53,743)
Total net assets - beginning	<u>219,830</u>	<u>627</u>	<u>2,733,317</u>	<u>2,953,774</u>
Total net assets - ending	<u>\$ 212,795</u>	<u>\$ 934</u>	<u>\$ 2,686,302</u>	<u>\$ 2,900,031</u>

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
(Expressed in thousands)

	Business-Type Activities- Enterprise Funds			
	<u>Unemployment</u>	<u>Lottery</u>	<u>DELDOT</u>	<u>Total</u>
Cash flows from operating activities				
Receipts from employers	\$ 72,850			\$ 72,850
Payments for insurance claims	(100,418)		\$ (2,711)	(103,129)
Receipts from customers and users		\$ 687,386	342,686	1,030,072
Other operating receipts			1,470	1,470
Payments to suppliers for goods and services		(44,580)	(512,375)	(556,955)
Payments to employees for services		(1,512)		(1,512)
Payments for prizes		(63,993)		(63,993)
Payment for commissions		(286,021)		(286,021)
Net cash provided (used) by operating activities	<u>(27,568)</u>	<u>291,280</u>	<u>(170,930)</u>	<u>92,782</u>
Cash flows from noncapital financing activities				
Transfers in			83,842	83,842
Transfers out		(298,259)	(5,764)	(304,023)
Net cash provided (used) by noncapital financing activities		<u>(298,259)</u>	<u>78,078</u>	<u>(220,181)</u>
Cash flows from capital and related financing activities				
Capital grants			114,504	114,504
Purchases of capital assets			(114,896)	(114,896)
Principal paid on capital debt			(53,920)	(53,920)
Interest paid on capital debt			(44,816)	(44,816)
Proceeds from sale of equipment			3,152	3,152
Proceeds from issuance of debt			207,550	207,550
Premium from bond sale			9,223	9,223
Payment to escrow agent for refunding of debt			(67,425)	(67,425)
Net cash provided by capital and related financing activities			<u>53,372</u>	<u>53,372</u>
Cash flows from investing activities				
Interest and investment revenues	11,800		5,128	16,928
Purchase of investments			(4,845)	(4,845)
Proceeds from sales and maturities of investments		1,935	41,192	43,127
Net cash provided by investing activities	<u>11,800</u>	<u>1,935</u>	<u>41,475</u>	<u>55,210</u>
Net increases (decrease) in cash/cash equivalents	(15,768)	(5,044)	1,995	(18,817)
Cash/cash equivalents - beginning of year	<u>229,535</u>	<u>10,848</u>	<u>23,017</u>	<u>263,400</u>
Cash/cash equivalents - end of year	<u>\$ 213,767</u>	<u>\$ 5,804</u>	<u>\$ 25,012</u>	<u>\$ 244,583</u>
Reconciliation of operating income (loss) to net cash used by operating activities				
Operating Income (loss)	\$ (18,835)	\$ 301,229	\$ (179,155)	\$ 103,239
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense		131	19,654	19,785
Decrease (increase) in assets:				
Decrease (increase) in receivables, net	(657)	(1,905)	(2,575)	(5,137)
Decrease (increase) in inventories			(2,199)	(2,199)
Decrease (increase) in prepaid items		(65)	(5)	(70)
Increase (decrease) in liabilities				
Increase (decrease) in accounts and other payables	(9,077)	(3,962)	(7,614)	(20,653)
Increase (decrease) in accrued liabilities	943	17	(2,666)	(1,706)
Increase (decrease) in accrued expenses		(4,165)	449	(3,716)
Increase (decrease) in accrued payroll and related expenses			3,181	3,181
Increase (decrease) in due to/from other governments	58			58
Net cash provided (used) by operating activities	<u>\$ (27,568)</u>	<u>\$ 291,280</u>	<u>\$ (170,930)</u>	<u>\$ 92,782</u>
Supplemental disclosures of noncash investing and capital related financing activities				
Interest capitalized on loan	<u>\$</u>	<u>\$</u>	<u>\$ 1,911</u>	<u>\$ 1,911</u>
Transfers of land to other State agencies	<u>\$</u>	<u>\$</u>	<u>\$ 21,674</u>	<u>\$ 21,674</u>

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005
(Expressed in thousands)

	<u>Pension Trust Funds</u>	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
Assets			
Cash and cash equivalents	\$ 6,192	\$ 12	\$ 23,954
Receivables:			
Employer contributions	5,639		
Member contributions	1,985		
Other receivables			24,704
Investments, at fair value:			
Domestic fixed income	1,079,668	4,382	
Domestic equities	1,653,990	6,715	
Pooled equity & fixed income	1,687,511	6,851	
Alternative investments	612,614	2,488	
Short term investments	223,814	906	9,817
Foreign equities	633,768	2,573	
Total assets	<u>5,905,181</u>	<u>23,927</u>	<u>58,475</u>
Liabilities			
Accounts payable			58,475
Benefits payable	774		
Accrued administrative expenses	330		
Total liabilities	<u>1,104</u>		<u>58,475</u>
Net Assets			
Assets held in trust for pension benefits and pool participants	<u>\$ 5,904,077</u>	<u>\$ 23,927</u>	<u>\$</u>

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, 2005
(Expressed in thousands)

	Pension Trust Funds	Investment Trust Funds
Additions		
Contributions:		
Employer contributions	\$ 137,718	
Transfer of assets from outside the system	2,546	\$ 7,115
Member contributions	43,421	
Other	37	
Total contributions	<u>183,722</u>	<u>7,115</u>
Investments:		
Investment earnings	84,543	343
Net increase in fair value of investments	458,956	1,281
Total investment earnings	<u>543,499</u>	<u>1,624</u>
Less investment manager/advisor/custody fees	(18,495)	(76)
Less investment administrative expenses	(321)	(1)
Net investment earnings	<u>524,683</u>	<u>1,547</u>
Total additions	<u>708,405</u>	<u>8,662</u>
Deductions		
Transfer of assets outside the system	2,224	
Pension payments	296,092	
Refunds of contributions to members	2,819	
Group life payments	4,601	
Administrative expenses	4,554	
Total deductions	<u>310,290</u>	
Change in net assets	398,115	8,662
Net assets - beginning of year	<u>5,505,962</u>	<u>15,265</u>
Net assets - end of year	<u>\$ 5,904,077</u>	<u>\$ 23,927</u>

See Accompanying Notes to the Financial Statements

**STATE OF DELAWARE
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2005**
(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	\$ 167	\$ 3,449	\$ 3,379	\$ 18,972	\$ 81	\$ 10,274	\$ 36,322
Cash and cash equivalents - restricted		13,638	121			793	14,552
Investments	34,730			2,257	2,121		39,108
Investments - restricted					3,048		3,048
Accounts and other receivables, net	19,875	3,183	213	4,916		461	28,648
Loans and notes receivable, net	13,100				2		13,102
Inventories		539					539
Prepaid items	3,006	375	24			87	3,492
Deferred bond issuance costs	379						379
Other current assets				9,086	15	99	9,200
Total current assets	71,257	21,184	3,737	35,231	5,267	11,714	148,390
Noncurrent Assets:							
Long-term investments	143,030		4,738				147,768
Long-term investments - restricted			9,583	13,760	61		23,404
Accounts and other receivables, net	3,068						3,068
Loans and notes receivable, net	382,168		2,060	394			384,622
Capital assets - non-depreciable	6,420	28,887	49,811	50,338		250	135,706
Capital assets - depreciable, net	15,819	121,578	20,354	116,247		34,485	308,483
Deferred bond issuance costs	4,619			209			4,828
Other restricted assets					2,765		2,765
Other noncurrent assets			3,112	3,950		642	7,704
Total noncurrent assets	555,124	150,465	89,658	184,898	2,826	35,377	1,018,348
Total assets	626,381	171,649	93,395	220,129	8,093	47,091	1,166,738
LIABILITIES							
Current liabilities:							
Accounts payable	5,552	179	4,516	6,918		902	18,067
Accrued liabilities	1,251	2,575	165	5,629		4,257	13,877
Deferred revenue	134	143	89			20	386
Current portion - capital leases		32					32
Compensated absences	11						11
Escrow deposits			4			106	110
Notes payable	2,283	2,985		100			5,368
Current portion of revenue bonds	7,752		240	1,350			9,342
Current portion of other long-term debt			205	545		1,812	2,562
Total current liabilities	16,983	5,914	5,219	14,542		7,097	49,755
Noncurrent liabilities:							
Compensated absences	866						866
Escrow deposits	32,610						32,610
Notes payable	555	48,120		333			49,008
Revenue bonds	333,992		4,740	64,295			403,027
Long-term debt			6,907	1,814		26,117	34,838
Other noncurrent liabilities	515						515
Total noncurrent liabilities	368,538	48,120	11,647	66,442		26,117	520,864
Total liabilities	385,521	54,034	16,866	80,984		33,214	570,619
NET ASSETS							
Invested in capital assets, net of related debt	22,240	99,328	58,073	103,631		9,155	292,427
Restricted							
Federal and state regulations	158,282			4,628	5,892		168,802
Bond covenants	27,982						27,982
Capital projects		13,638	9,213	13,569			36,420
Other	10,816			12,262		1,525	24,603
Unrestricted	21,540	4,649	9,243	5,055	2,201	3,197	45,885
Total net assets	\$ 240,860	\$ 117,615	\$ 76,529	\$ 139,145	\$ 8,093	\$ 13,877	\$ 596,119

* Fiscal year end December 31, 2004

See Accompanying Notes to Financial Statements

**STATE OF DELAWARE
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2005**
(Expressed in Thousands)

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Component Units:				
Delaware State Housing Authority	\$ 71,041	\$ 30,299	\$ 47,538	\$ 498
Diamond State Port Corporation	28,251	27,744		15,989
Riverfront Development Corporation	8,818	947	7,100	13,382
Delaware State University	75,215	26,425	22,082	10,506
Delaware Technical & Community College (DTCC) Educational Foundation	694	58	737	
Delaware Charter Schools	53,233	1,701	4,324	75
Total component units	<u>\$ 237,252</u>	<u>\$ 87,174</u>	<u>\$ 81,781</u>	<u>\$ 40,450</u>

General Revenues

Payments from primary governments
Investment earnings (loss)
Gain (Loss) on sale of assets
Impairment 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, 2004

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
\$ 7,294						\$ 7,294
	\$ 15,482					15,482
		\$ 12,611				12,611
			\$ (16,202)			(16,202)
				\$ 101		101
					\$ (47,133)	(47,133)
						(27,847)
			26,245		47,034	73,279
4,632	(2,103)	287	656	144	240	3,856
				65		65
		719	(1,741)		805	(217)
4,632	(2,103)	1,006	25,160	209	48,079	76,983
11,926	13,379	13,617	8,958	310	946	49,136
228,934	104,236	62,912	130,187	7,783	12,931	546,983
\$ 240,860	\$ 117,615	\$ 76,529	\$ 139,145	\$ 8,093	\$ 13,877	\$ 596,119

See Accompanying Notes to the Financial Statements